



## Avon Pension Fund

Review for period to 31 December 2014



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# 1 Executive Summary

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

This version of the report has been prepared for the Investment Panel, based on initial manager data. A full version of this report will be reported to the full Committee meeting once the final WM data has been received.

## Fund performance

- The value of the Fund's assets increased by £102m over the fourth quarter of 2014 to £3,642m.

## Strategy

- Global equities continued to generally rise over the quarter. As last quarter, the best region was the US (+8.9%), partly driven by a strengthening of the US Dollar relative to Sterling, and European equities fell (-1.4%) as the annual inflation rate in the Eurozone turned negative in December 2014.
- The fall in the oil price and commodity prices affected Emerging Market equities, which returned 0.4%. Frontier Markets were the worst performing equity region (-9.0%), which could be seen as a part correction of the returns earlier in the year, as despite this fall their one-year return was 13.9%.
- The twelve month equity returns in each of the major regions were all positive apart from European equities (-1.4%). Other developed equity returns were quite disperse, ranging from 20.3% from the US down to 1.2% from the UK.
- Three year developed equity returns have remained reasonably stable, as the equity market rebound of Q4 2011 has been replaced by positive returns over the last quarter, and returns remain ahead of the assumed strategic return.
- The three-year emerging market equity return fell to 4.3% p.a., remaining below the assumed strategic return.
- Gilts produced a positive return, as yields fell sharply. Corporate bonds were also positive, but with a lower return than gilts as the yield gap widened. Three-year gilt and corporate bond returns remained ahead of the assumed strategic return.
- The Overseas Fixed Interest return remains negative at -1.4% p.a. over three years, affected by rising US yields.
- Hedge funds returns continue to steadily improve but remain below the assumed strategic returns although the three year return showed further improvement this quarter. The Property return has moved further ahead of the assumed strategic return to stand at 10.6% p.a.
- The strengthening of the US dollar against Sterling meant that the overall impact of currency hedging has had a detrimental impact, as the majority of the hedging was in US Dollars, offsetting some of the positive impact of the Dollar movement. Currency hedging was beneficial in Euros and Yen, which both weakened against Sterling.
- A 50% hedge on each currency would have had an overall detrimental impact because the US Dollar strengthened and the positive effect of this movement would be offset. However, Record maintained a low Dollar hedge ratio and a high Yen hedge ratio which meant that they outperformed against a 50% hedge and also produced a small positive return in absolute terms.

## Managers

- Over the quarter, absolute manager returns were all positive, apart from SSgA Europe and Genesis in equities, which were affected by their respective markets (although Genesis also underperformed their benchmark over the quarter), and hedge funds Signet and Gottex.
- The developed equity managers, Schroder and Invesco, produced the highest returns (both 5.8%). RLAM's return was 4.2% as yields continued to fall, and property continued to perform well as the Schroder property return was 4.1%.
- Over one-year, the highest return came from Schroder Property (18.0%). In line with markets, most funds produced a positive return over one year, the exceptions being except SSgA Europe and Signet. Only TT, Schroder Equity, Stenham and the hedge funds underperformed their one-year benchmarks.
- Over three years, all funds produced a positive return and only Schroder Equity and Signet underperformed their benchmark, albeit marginally for Schroder (0.1%). Each of the outperforming managers also met their outperformance target, apart from TT which was 0.2% below.
- The three year performance of Genesis was below its strategic assumed returns – this was mainly market-related as they outperformed their target. In hedge funds, Stenham's three year performance has improved to just over the assumed strategic return, with Gottex just below and Signet significantly below.

## Key points for consideration

- The price of a barrel of oil fell from over \$100 in June to \$57 at the end of the year.
  - » This was the result of weakness in demand worldwide combined with some oil producers refusing to cut supply for geo-political reasons.
  - » Lower oil prices are the equivalent of a tax cut for many countries and a boost to growth, but also adds to the falling inflation being seen almost everywhere in the developed world.
  - » Some companies will benefit from lower oil prices (eg lower transportation costs) whereas others lose out, particularly energy and commodity-related stocks and those in the emerging and frontier markets which are more reliant on commodities/equities.
  - » The direct effect on the Fund was mixed, as TT benefited from being underweight in energy stocks whereas Schroders were overweight, and the Fund's emerging market equity managers were affected. The overall effect on the Fund is difficult to quantify as many stocks will have indirectly benefited from the lower oil price.
  - » The impact going forward will be more related to the uncertainty of the oil price rather than the absolute price, as companies re-negotiate their terms. In this environment we strongly advocate an active approach to equities, particularly in emerging markets.
- The Fund's asset allocation is currently overweight in equities and underweight in DGF and Infrastructure. The Fund agreed to appoint the Standard Life Global Absolute Return Strategies Fund as its second DGF manager. The Fund has appointed IFM as infrastructure manager, whose allocation is expected to be met from equities over time, thus reducing the current overweight position.
- The recent election result in Greece brings to a head the fact that the current austerity programme has either failed or, at best, that it is not fit to restore a sustainable economy in Greece.
- At present the ECB, Germany (as the main driver of Eurozone growth) and the new Greek government appear determined to find a solution whereby Greece remains in the Euro, or so markets are currently pricing in:

- » But the risk of sovereign default and expulsion from the Euro remain real possibilities;
- » This has led to somewhat of a return to risk on / risk off characteristics to equity markets;
- » Bond yields have plunged and could fall further in “safe havens” such as the UK and Germany.
- The massive stimulus announced in January by the ECB has further led to falling bond yields in the Eurozone and the UK (where the announcement impacts considerations on short term interest rates).

## 2 Market Background

The figures below cover the three months, 1 year and 3 years to the end of December 2014.

### Market Statistics

Yields as at 31 December 2014	% p.a.
UK Equities	3.37
UK Gilts (>15 yrs)	2.42
Real Yield (>5 yrs ILG)	-0.77
Corporate Bonds (>15 yrs AA)	3.41
Non-Gilts (>15 yrs)	3.74

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.03	0.09	-0.15
UK Gilts (>15 yrs)	-0.56	-1.16	-0.52
Index-Linked Gilts (>5 yrs)	-0.40	-0.80	-0.52
Corporate Bonds (>15 yrs AA)	-0.42	-1.01	-1.27
Non-Gilts (>15 yrs)	-0.41	-0.89	-1.08

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.2	26.1	6.9
Index-Linked Gilts (>5 yrs)	9.4	21.4	7.1
Corporate Bonds (>15 yrs AA)	6.7	18.9	9.3
Non-Gilts (>15 yrs)	6.6	19.0	10.2

\* Subject to 1 month lag

Source: Thomson Reuters and Bloomberg

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.6	1.2	11.1
Overseas Equities	4.9	12.2	15.1
USA	8.9	20.3	20.4
Europe	-1.4	-1.4	12.8
Japan	1.6	2.7	9.9
Asia Pacific (ex Japan)	3.2	10.0	9.4
Emerging Markets	0.4	7.9	4.3
Frontier Markets	-9.0	13.9	13.8
Property	4.5	19.9	10.2
Hedge Funds	0.8	5.7	7.4
Commodities	-24.8	-28.9	-13.0
High Yield	1.5	6.1	8.7
Emerging Market Debt	-0.6	7.4	6.1
Senior Secured Loans	-0.1	2.3	7.4
Cash	0.1	0.5	0.5

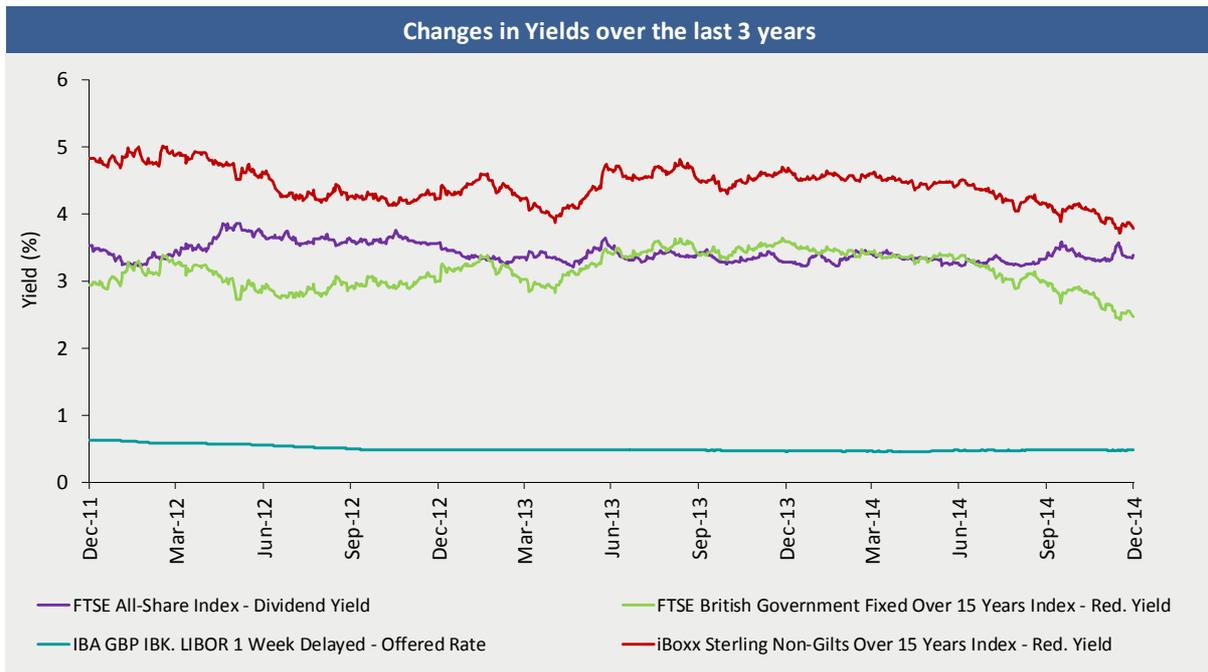
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.8	-5.9	0.1
Against Euro	0.4	7.2	2.5
Against Yen	5.1	7.4	16.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.0	1.6	2.5
Price Inflation – CPI	-0.2	0.5	1.7
Earnings Inflation *	0.4	1.6	1.2

## Market Summary Charts



The graph above shows the market returns for the last three years; both the medium term trend and short term volatility.



The trend between December 2011 and April 2013 shows falling corporate bond yields whilst the dividend yield and gilt yield remained at similar levels, albeit these yields fluctuate in the period between these two dates. Bond yields rose in the second half of 2013 but declined through the year 2014 whilst the dividend yield has remained relatively flat since April 2013.

The table below compares general market returns (i.e. not achieved Fund returns) to 31 December 2014, with assumptions about returns made in the Investment Strategy agreed in 2013.

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities	8.25	15.8	Significantly ahead of the assumed strategic return, as returns have been strong throughout the three year period. This return is slightly lower than that reported last quarter (16.9% p.a.) as the very strong equity market rebound of Q4 2011 has fallen out of the analysis.
Emerging Market Equities	8.75	4.3	The 3-year return from emerging market equities has improved over the last year but has fallen from 6.1% p.a. to 4.3% p.a. over the last quarter. The fall in the oil price resulted in a small negative Emerging Market Equity return in the latest quarter, whereas, as with Developed Equities, the quarter falling out of the analysis was one where markets rebounded.
Diversified Growth	Libor + 4% / RPI + 5%	4.7 / 7.6	DGFs are expected to produce an equity-like return over the long term – this is the basis for the Libor and RPI based benchmarks. Low cash rates means that the Libor based benchmark has significantly underperformed the inflation (RPI) based benchmark and the long term expected return from equity. During periods of very strong equity returns, such as the recent three year period, we would expect DGF to underperform equities but deliver a return close to the long term equity assumed strategic return.
UK Gilts	4.5	6.9	Bond returns remain above the long term strategic assumed return. Yields have fallen sharply over the last quarter, leading to strong positive returns, and increasing the three year gilt and corporate bond returns.
Index Linked Gilts	4.25	7.0	
UK Corporate Bonds	5.5	8.6	
Overseas Fixed Interest	5.5	-1.4	Well behind the assumed strategic return and remaining negative due to increases in US yields, however a positive return in the latest quarter has improved the three year return from -2.2% p.a. reported last quarter.
Fund of Hedge Funds	6.0	5.1	Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Returns continue to steadily improve as hedge funds increase equity exposure and credit markets have provided some positives.
Property	7.0	10.6	Property returns continue to increase above the expected returns, driven by the economic recovery in the US and the UK.

Source: Statement of Investment Principles, Thomson Reuters.

See appendix 1 for economic data and commentary.

### 3 Fund Valuations

The table below shows the asset allocation of the Fund as at 31 December 2014, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets “ring fenced” for investment in property) split between the relevant asset classes.

Asset Class	30 September 2014		31 December 2014		Strategic Benchmark Weight %
	Value £'000	Proportion of Total %	Value £'000	Proportion of Total %	
Developed Market Equities	1,740,605	49.2	1,806,587	49.6	40.0
Emerging Market Equities	339,745	9.6	332,124	9.1	10.0
Diversified Growth Funds	118,799	3.4	121,263	3.3	10.0
Bonds	778,076	22.0	829,133	22.8	20.0
Fund of Hedge Funds	163,610	4.6	160,243	4.4	5.0
Infrastructure	-	-	-	-	5.0
Cash (including currency instruments)	103,242	2.9	87,515	2.4	-
Property	295,202	8.3	304,782	8.4	10.0
<b>TOTAL FUND VALUE</b>	<b>3,539,279</b>	<b>100.0</b>	<b>3,641,647</b>	<b>100.0</b>	<b>100.0</b>

Source: Data provided by WM Performance Services

- The value of the Fund's assets increased by £102m over the fourth quarter of 2014 to £3,642m.
- The changes in asset allocation over the quarter are predominantly due to market movements, as there have only been relatively small investments/disinvestments.
- Bonds and Developed Market Equities produced the highest returns over the quarter, with their allocations increasing by 0.8% and 0.4% respectively. The Emerging Market Equity allocation reduced by 0.5%, similarly mainly due to the performance of the market.
- The positions continue to reflect the decision to fully disinvest from the Barings Dynamic Asset Allocation Fund in Q3 2014 following the departure of the lead fund managers. Almost all proceeds from this sale were invested in the BlackRock Multi Asset portfolio, and the remainder in Cash.
- The Fund has appointed IFM as infrastructure manager, whose allocation is expected to be met from equities over time, thus reducing the current overweight position.
- The allocation to equities and bonds is expected to fall and the allocation to DGF increase as the Standard Life Global Absolute Return Strategies Fund investment is initiated over Q1 2015.

Manager	Asset Class	30 September 2014		Net new money £'000	31 December 2014	
		Value	Proportion of Total		Value	Proportion of Total
		£'000	%		£'000	%
Jupiter	UK Equities	163,669	4.6	-	166,170	4.6
TT International	UK Equities	183,858	5.2	-	187,070	5.1
Schroder	Global Equities	222,855	6.3	-	235,975	6.5
Genesis	Emerging Market Equities	154,408	4.4	-	152,336	4.2
Unigestion	Emerging Market Equities	185,337	5.2	-	179,789	4.9
Invesco	Global ex-UK Equities	254,766	7.2	-	269,440	7.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	110,065	3.1	-	110,939	3.0
Pyrford	DGF	118,799	3.4	-	121,263	3.3
Barings	DGF	0	0.0	-	0	0.0
MAN	Fund of Hedge Funds	706	0.0	-	587	0.0
Signet	Fund of Hedge Funds	65,940	1.9	-	63,082	1.8
Stenham	Fund of Hedge Funds	38,038	1.1	-	38,225	1.0
Gottex	Fund of Hedge Funds	58,926	1.7	-	58,349	1.6
BlackRock	Passive Multi- asset	1,288,341	36.4	-4,363	1,350,008	37.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	14,913	0.4	-	15,728	0.4
RLAM	Bonds	287,071	8.1	-	299,072	8.2
Schroder	UK Property	166,655	4.7	-	173,341	4.8
Partners	Property	139,147	3.9	-	137,559	3.8
Record Currency Mgmt	Dynamic Currency Hedging	1,130	0.0	-	353	0.0
Record Currency Mgmt 2	Overseas Equities (to fund currency hedge)	30,851	0.9	-	32,369	0.9
Internal Cash	Cash	53,805	1.5	4,363	49,992	1.4
Rounding		0	0.0	-	0	0.0
<b>TOTAL</b>		<b>3,539,279</b>	<b>100.0</b>	<b>0</b>	<b>3,641,647</b>	<b>100.0</b>

Source: Avon Pension Fund Data provided by WM Performance Services

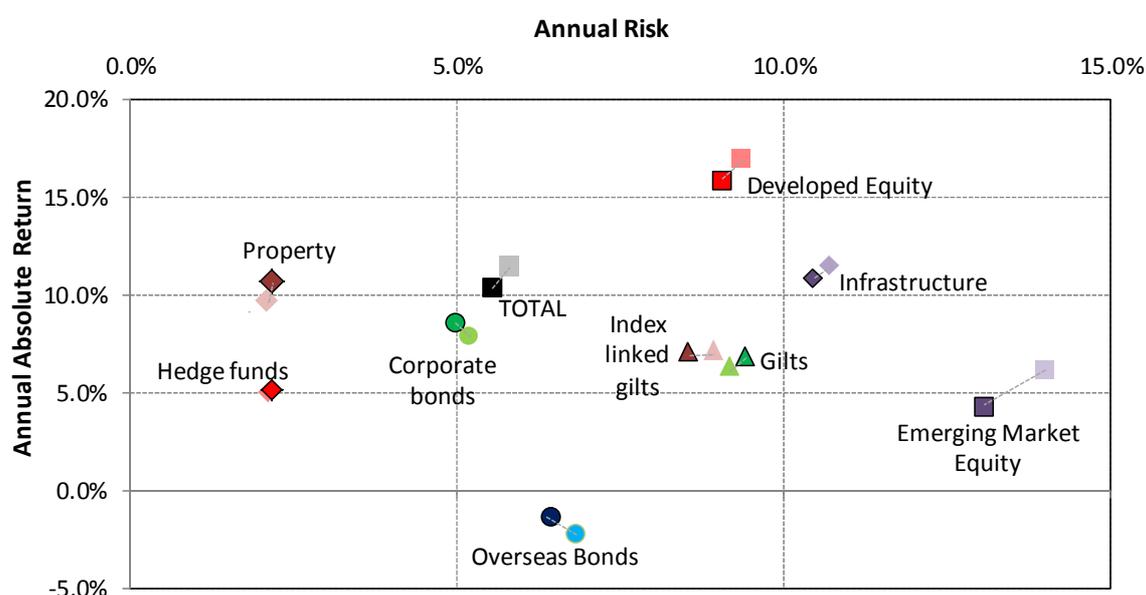
## 4 Performance Summary

### Risk Return Analysis

The chart below shows the 3 year absolute return (“Annual Absolute Return”) against the 3 year volatility of absolute returns (“Annual Risk”), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2014 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark. We also show the position as at last quarter, as shadow points.

This chart can be compared to the 3 year risk vs return managers' chart on page 11.

**3 Year Risk v 3 Year Return to 31 December 2014**

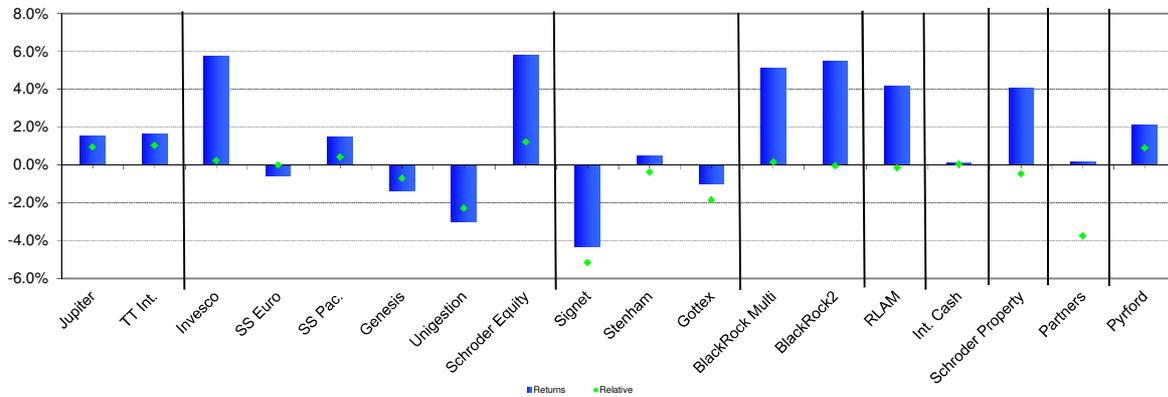


- Overall there has been little change in the three-year risk/return characteristics over the last quarter compared to the previous quarter, other than in Emerging Market Equity.
- Developed equity produced the best 3-year return, of 15.8% p.a. This is slightly lower than as at September 2014 because a very strong quarter has fallen out of the analysis as equity markets rebounded at the end of 2011.
- The next highest returns were Infrastructure (10.8% p.a.) and Property (10.6% p.a.), the same asset classes as last quarter.
- The three year bond returns (Gilts, Index-linked and Corporates) appear stable, however the underlying story is of falling yields and high returns in both the last quarter and Q4 2011.
- The three-year Overseas Bond return has improved, although the absolute return remains negative.
- The falling oil price has affected Emerging Market Equity returns this quarter and hence the three-year return is down from 6.1% p.a. to 4.3% p.a.
- In terms of risk, the three-year volatility has fallen slightly each asset class in the above chart apart from Gilts and Property.
- The three-year return on Developed Equities, Property, Gilts, Index-linked Gilts and Corporate Bonds remain above their assumed strategic return. Hedge funds remain below their assumed strategic return, with emerging market equities and overseas bonds well below.

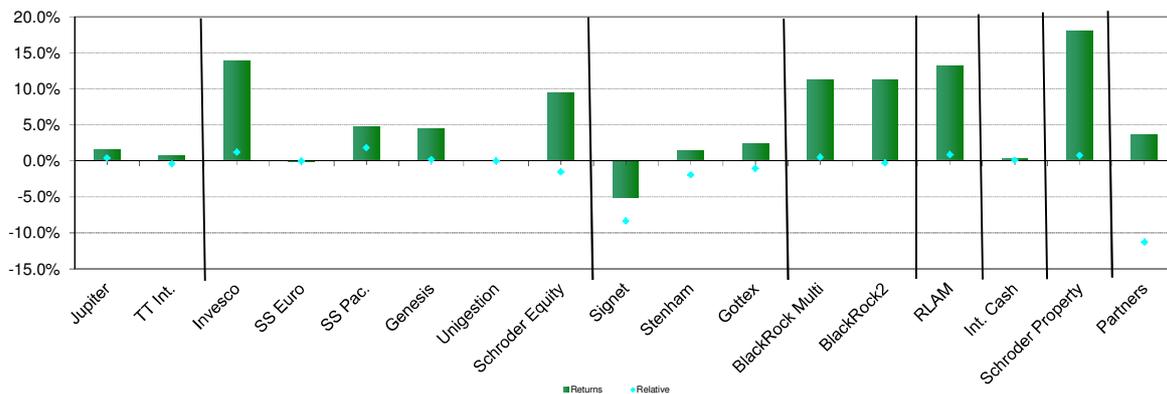
## Aggregate manager performance

The charts below show the absolute return for each manager over the quarter, one year and three years to the end of December 2014. The relative quarter, one year and three year returns are marked with green and blue dots respectively.

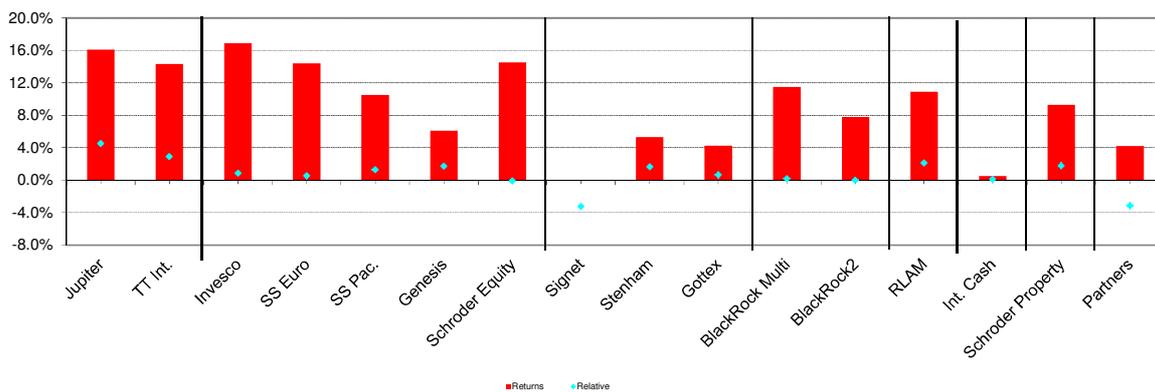
Absolute and relative performance - Quarter to 31 December 2014



Absolute and relative performance - Year to 31 December 2014



Absolute and relative performance - 3 years to 31 December 2014



Source: Data provided by WM Performance Services

The table below shows the relative returns of each of the funds over the quarter, one year and three years to the end of December 2014. Returns in blue text are returns which outperformed the respective benchmarks, red text shows an underperformance, and black text represents performance in line with the benchmark.

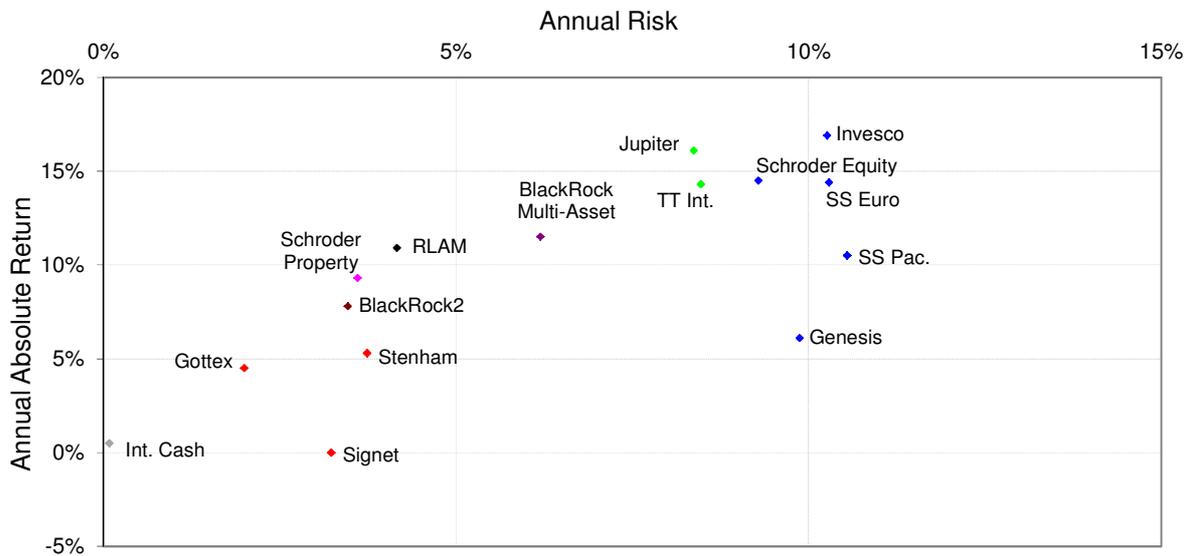
Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year performance versus target
Jupiter	+0.9	+0.4	+4.5	Target met
TT International	+1.0	-0.6	+2.8	Target not met
Invesco	+0.2	+1.2	+0.9	Target met
SSgA Europe	+0.0	+0.5	+0.5	Target met
SsgA Pacific	+0.4	+1.9	+1.3	Target met
Genesis	-0.7	+0.2	+1.7	Target met
Unigestion	-2.3	N/A	N/A	N/A
Schroder Equity	+1.2	-2.0	-0.1	Target not met
Signet	-5.2	-8.4	-3.5	Target not met
Stenham	-0.4	-1.9	+1.6	Target met
Gottex	-1.8	-1.1	+0.6	Target met
BlackRock Multi - Asset	+0.1	+0.3	+0.2	Target met
BlackRock 2	0.0	+0.1	+0.1	Target met
RLAM	-0.2	+0.9	+2.1	Target met
Internal Cash	0.0	+0.1	+0.1	N/A
Schroder Property	-0.5	+0.7	+1.5	Target met
Partners Property	-3.7	-11.2	-3.2	Target not met
Pyrford	+0.9	-2.1	NA	N/A

Source: Data provided by WM Performance Services

### Manager and Total Fund risk v return

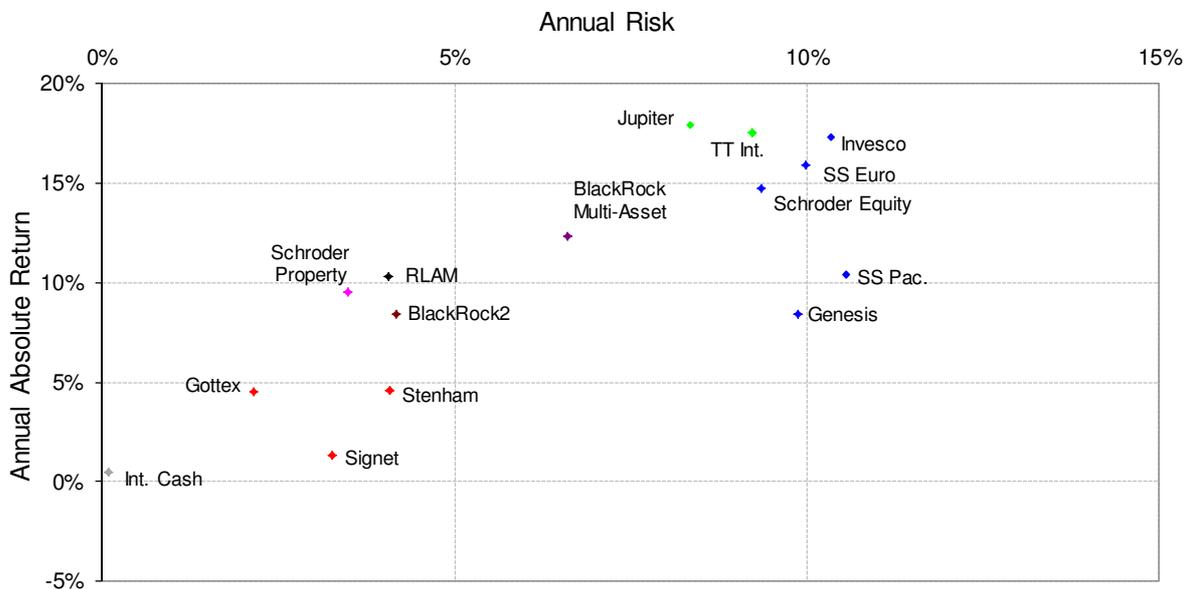
The chart below shows the 3 year absolute return (“Annual Absolute Return”) against the 3 year volatility of absolute returns (“Annual Risk”), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2014 of each of the funds. We also show the same chart, but with data to 30 September 2014 for comparison.

**3 Year Risk v 3 Year Return to 31 December 2014**



Source: Data provided by WM Performance Services

**3 Year Risk v 3 Year Return to 30 September 2014**



Source: Data provided by WM Performance Services

The managers are colour coded by asset class, as follows:

- » Green: UK equities
- » Red: fund of hedge funds
- » Maroon: multi-asset
- » Grey: internally managed cash
- » Green Square: total Fund
- Blue: overseas equities
- Black: bonds
- Brown: BlackRock No. 2 portfolio
- Pink: Property

- As with the markets' risk/return chart on page 8, overall there has been little change in the three-year risk/return characteristics of the funds over the last quarter compared to the previous quarter.
- The Developed Equity managers continue to produce the highest three-year returns, with each manager producing a double-digit return; the highest returns were from Invesco (16.9% p.a.) and Jupiter (16.1% p.a.). Genesis' three-year return has fallen from 8.4% p.a. to 6.1% p.a., but this is market-driven and they remain ahead of their benchmark and target.
- A double-digit three-year return was also seen from RLAM bonds, increasing from 10.3% p.a. to 10.9% p.a.
- The three-year risk figures have generally fallen slightly over the fourth quarter, with largest decrease from TT (-0.8%). The SSgA risk figure increased slightly (by 0.3%) but remains similar to the Fund's other equity managers. As would be expected, the equity-based funds have the highest volatility and hedge funds, property and fixed interest the lowest.
- Jupiter, TT, Invesco, the two SSgA funds, Schroder Property and RLAM bonds have all outperformed the assumed strategic return and also outperformed their benchmarks. Apart from TT (who are only 0.2% behind), all have also outperformed their targets.
- Schroder Equity has outperformed the assumed strategic return, but is below its individual benchmark and target.
- Stenham's three-year return has improved so that it now has also outperformed the assumed strategic return for hedge funds and also outperformed its benchmark. Gottex are slightly behind the assumed strategic return but ahead of benchmark, and Signet are well behind with a return close to zero over three years.

## 5 Individual Manager Performance

This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix 3, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix 4, which shows the benchmark and outperformance target for each fund.

### Key points for consideration

- The price of a barrel of oil fell from over \$100 in June to \$57 at the end of the year.
  - » This was the result of weakness in demand worldwide combined with some oil producers refusing to cut supply for geo-political reasons.
  - » Lower oil prices are the equivalent of a tax cut for many countries and a boost to growth, but also adds to the falling inflation being seen almost everywhere in the developed world.
  - » Some companies will benefit from lower oil prices (eg lower transportation costs) whereas others lose out, particularly energy and commodity-related stocks and those in the emerging and frontier markets which are more reliant on commodities/equities.
  - » The direct effect on the Fund was mixed, as TT benefited from being underweight in energy stocks whereas Schroders were overweight, and the Fund's emerging market equity managers were affected. The overall effect on the Fund is difficult to quantify as many stocks will have indirectly benefited from the lower oil price.
  - » The impact going forward will be more related to the uncertainty of the oil price rather than the absolute price, as companies re-negotiate their terms. In this environment we strongly advocate an active approach to equities, particularly in emerging markets).
- The Fund's asset allocation is currently overweight in equities and underweight in DGF and Infrastructure. The Fund agreed to appoint the Standard Life Global Absolute Return Strategies Fund as its second DGF manager. The Fund has appointed IFM as infrastructure manager, whose allocation is expected to be met from equities over time, thus reducing the current overweight position.
- The recent election result in Greece brings to a head the fact that the current austerity programme has either failed or, at best, that it is not fit to restore a sustainable economy in Greece.
- At present the ECB, Germany (as the main driver of Eurozone growth) and the new Greek government appear determined to find a solution whereby Greece remains in the Euro, or so markets are currently pricing in:
  - » But the risk of sovereign default and expulsion from the Euro remain real possibilities;
  - » This has led to somewhat of a return to risk on / risk off characteristics to equity markets;
  - » Bond yields have plunged and could fall further in "safe havens" such as the UK and Germany.
- The massive stimulus announced in January by the ECB has further led to falling bond yields in the Eurozone and the UK (where the announcement impacts considerations on short term interest rates).

## 5.1 Jupiter Asset Management - UK Equities (Socially Responsible Investing)

Mandate	Benchmark	Outperformance Target	Inception Date
UK equities (Socially Responsible Investing)	FTSE All Share	+2%	April 2001
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>■ Clear and robust approach to evaluating SRI factors within the investment process</li> <li>■ Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities</li> <li>■ Corporate commitment to SRI investment approach within a more mainstream investment team</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£166,170	4.6	3.8%	N/A
Relative returns #1		Tracking error, Information ratio, Turnover #4	
Performance			
	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.5	1.6	16.1
Benchmark	0.6	1.2	11.1
Relative	+0.9	+0.4	+4.5

Source: Data provided by WM Performance Services, and Jupiter.

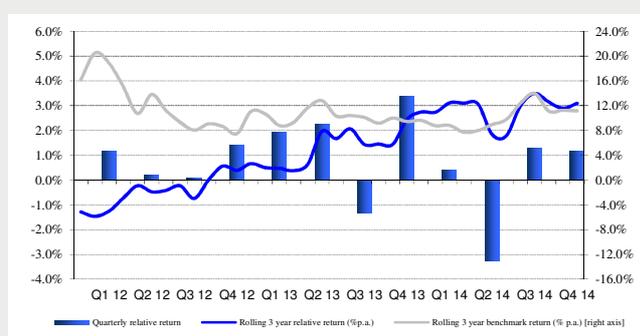
### Comments:

- Jupiter continues to significantly outperform the 3 year performance target. Due to the nature of the portfolio (as outlined below), we would expect the fund return to exhibit differences relative to the FTSE All Share Index return and we have no concern over the risk taken by the fund.
- The industry allocation has continued to remain considerably different to the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (tracking error) is expected to be high. At 31 December 2014, Jupiter remained significantly underweight in Oil & Gas, Consumer Goods and Basic Materials, with significant overweight positions in Consumer Services, Telecommunications and Industrials.
- The information ratio has improved from 1.04 to 1.38 in Q4 mainly due to an improvement in the three year performance.

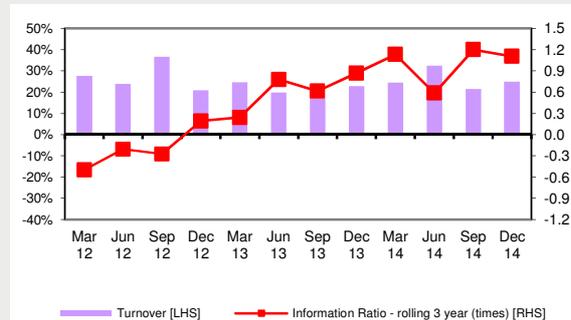
## 5.2 TT International – UK Equities (Unconstrained)

Mandate	Benchmark	Outperformance Target	Inception Date
UK equities (unconstrained)	FTSE All Share	+3-4%	July 2007
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>■ Favoured the partnership structure that aligns managers and Fund's interests.</li> <li>■ Focussed investment activity and manages its capacity</li> <li>■ Clear, robust stock selection and portfolio construction process</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£187,070	5.1	2.5%	54

Relative returns #1



Information ratio and Turnover #4



### Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.6	0.6	14.2
Benchmark	0.6	1.2	11.1
Relative	+1.0	-0.6	+2.8

Source: Data provided by WM Performance Services, and TT International.

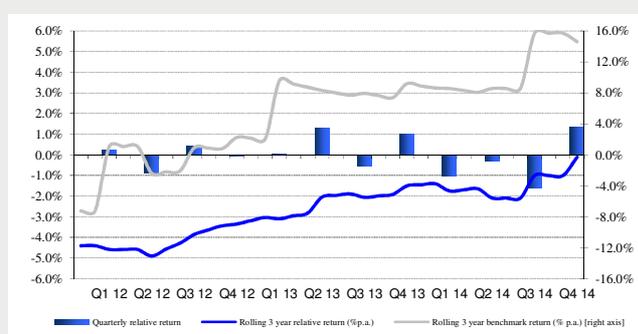
### Comments:

- The Fund outperformed its benchmark over the quarter and 3 year period. It was marginally behind its performance target over 3 years.
- The Fund held an overweight position in Consumer Goods and Telecommunications by 5.8% and 1.3% respectively, whilst being underweight in Financials, Utilities, Industrials and Oil & Gas by 5.0%, 3.5%, 3.7% and 2.1% respectively, at the end of the quarter.
- Turnover, over the fourth quarter, increased to 24.9% compared to the previous quarter's number of 21.5%.
- The 3 year tracking error (proxy for risk relative to the benchmark) has decreased in Q4 2014, from 2.56% to 2.52%.
- The 3 year information ratio has decreased from 1.20 to 1.11, as the three-year relative return reduced slightly +3.2% p.a. to + 2.8% p.a.

### 5.3 Schroder – Global Equity Portfolio (Unconstrained)

Mandate	Benchmark	Outperformance Target	Inception Date
Global Equities (Unconstrained)	MSCI AC World Index Free	+4%	April 2011
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>■ Clear philosophy and approach</li> <li>■ Long term investment philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process</li> <li>■ Evidence of ability to achieve the Fund's performance target</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£235,975	6.5	2.9%	N/A

Relative returns #1



Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.8	9.1	14.5
Benchmark	4.5	11.2	14.6
Relative	+1.2	-2.0	-0.1

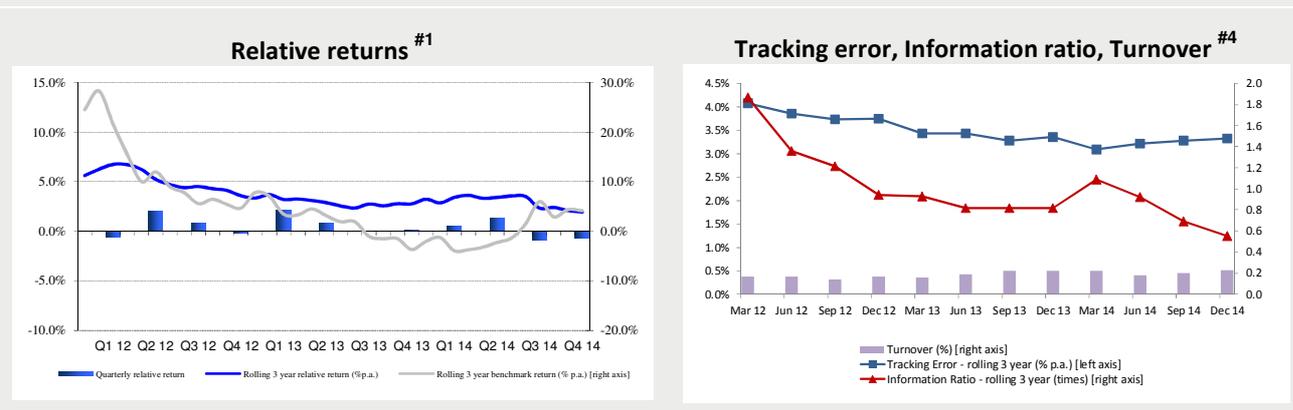
Source: Data provided by WM Performance Services, and Schroder.

#### Comments:

- The return was above the benchmark over the quarter, producing a 5.8% return against a benchmark return of 4.5%. Over the 1 and 3 year periods, the fund underperformed its benchmark (albeit marginally over three years).
- The main contributor over the quarter was stock selection within the consumer, healthcare and industrials sectors. As last quarter, Walgreens Boots Alliance was the top contributor, as shares gained following an announcement of a change in management.
- Energy stocks were detrimental to performance following the fall in the oil price: Statoil, BG Group, Marathon Oil, Cimarex and Schlumberger all detracted. Schroder sold out of BG Group over the quarter.
- By region, stock selection in North America, the UK and Emerging Markets was positive, with Europe detrimental.
- Schroder see a number of uncertainties in 2015, but in aggregate expect earnings growth to be supportive of high single digit equity returns. Concerns are whether the US can sustain its current growth, the risk of deflation in Europe, Japan's structural imbalances and a negative outlook for some emerging markets.

## 5.4 Genesis Asset Managers – Emerging Market Equities

Mandate	Benchmark	Outperformance Target	Inception Date
Emerging Market equities	MSCI EM IMI TR	-	December 2006
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of a diversified equity portfolio	<ul style="list-style-type: none"> <li>Long term investment approach which takes advantage of evolving growth opportunities</li> <li>Niche and focussed expertise in emerging markets</li> <li>Partnership structure aligned to delivering performance rather than growing assets under management</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£152,336	4.2	3.3%	156



### Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.3	4.5	6.1
Benchmark	-0.6	4.3	4.3
relative	-0.7	+0.2	+1.7

Source: Data provided by WM Performance Services, and Genesis.

### Comments:

- Despite underperforming this quarter, Genesis has achieved material outperformance of the benchmark over 3 years in volatile markets.
- The Fund is overweight to India and South Africa, while underweight to China, South Korea and Brazil, although note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The three year tracking error (proxy for risk relative to the benchmark) remained flat at 3.3% in Q4 2014. The three year information ratio (risk adjusted return), has decreased from 0.7 to 0.5.
- The allocation to Cash (1.2%) remained stable compared to the previous quarter.
- On an industry basis, the Fund is overweight Consumer Staples (+10.4%), Materials (+7.7%), Health Care (+2.4%) and Financials (+0.9%). The Fund is underweight to Consumer Discretionary (-6.0%), Telecom Services (-5.5%), Energy (-3.5%) and Industrials (-3.2%).

## 5.5 Unigestion – Emerging Market Equities

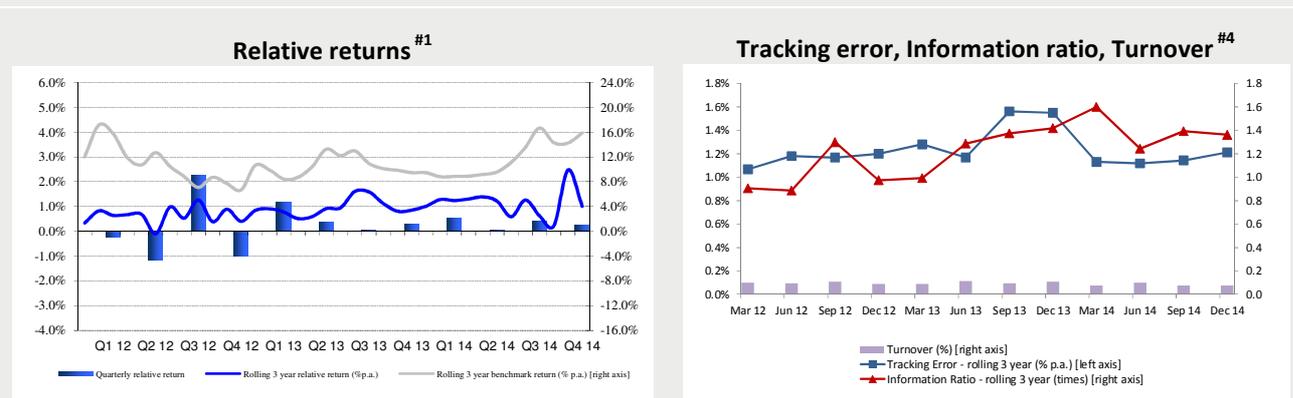
Mandate	Benchmark	Outperformance Target	Inception Date																
Emerging Market equities	MSCI EM NET TR	+2-4%	January 2014																
Reason in Portfolio	Reason Manager Selected																		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>■ Risk-based active management approach</li> <li>■ Aim for a lower volatility than the MSCI Emerging Markets Index</li> <li>■ Combine fundamental and quantitative analysis</li> </ul>																		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings																
£179,789	4.9	4.1%	92																
Relative returns <sup>#1</sup>		Performance																	
<p>Quarterly relative return</p>		<table border="1"> <thead> <tr> <th></th> <th>3 months (%)</th> <th>1 year (%)</th> <th>3 years (% p.a.)</th> </tr> </thead> <tbody> <tr> <td>Fund</td> <td>-3.0</td> <td>NA</td> <td>NA</td> </tr> <tr> <td>Benchmark</td> <td>-0.7</td> <td>NA</td> <td>NA</td> </tr> <tr> <td>relative</td> <td>-2.3</td> <td>NA</td> <td>NA</td> </tr> </tbody> </table>			3 months (%)	1 year (%)	3 years (% p.a.)	Fund	-3.0	NA	NA	Benchmark	-0.7	NA	NA	relative	-2.3	NA	NA
	3 months (%)	1 year (%)	3 years (% p.a.)																
Fund	-3.0	NA	NA																
Benchmark	-0.7	NA	NA																
relative	-2.3	NA	NA																
Source: Data provided by WM Performance Services, and Unigestion																			

### Comments:

- The Fund underperformed by 2.3% over the quarter, although outperformance has offset this over the previous two quarters. From an industry perspective, the asset allocation effect was -1.2% and stock selection effect was -0.4%.
- The Fund underperformed due to its bias towards quality, low risk stocks, in particular in the media, retailing and bank sectors during the first two months of the quarter. In December, the Fund's downside was limited due to an underweight exposure to Russia and Brazil.
- Over the last three quarters as a whole, the fund has outperformed by 2.7%, returning 7.9% against the benchmark of 5.0%.
- The scale of the quarterly out- and underperformance to date is not unexpected given the large divergence between returns from the different emerging markets and Unigestion's bias for quality stocks which take into account macro factors.
- The fund could experience periods of underperformance if and when there is a rally in the higher risk stocks but Unigestion would expect to meet the outperformance target by remaining consistent with the investment philosophy.
- On 31 December, the fund was overweight in Taiwan, South Korea, Mexico and Malaysia
- The Fund is overweight Consumer Staples (+12.4%), Telecom Services (+9.5%) and Utilities (+8.4%). The Fund is underweight to Financials (-15.5%), Information Technology (-9.1%), Industrials (-4.1%) and Materials (-3.7%).

## 5.6 Invesco – Global ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Global ex-UK equities enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%	December 2006
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis</li> <li>One of few to Offer a Global ex UK pooled fund</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£269,440	7.4	1.2%	392



Performance			
	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.8	13.9	16.9
Benchmark	5.5	12.5	15.9
relative	+0.2	+1.2	+0.9

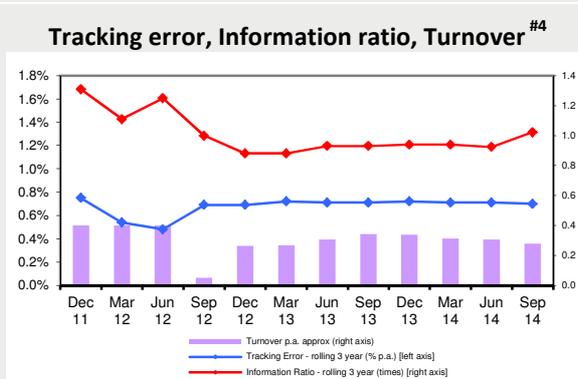
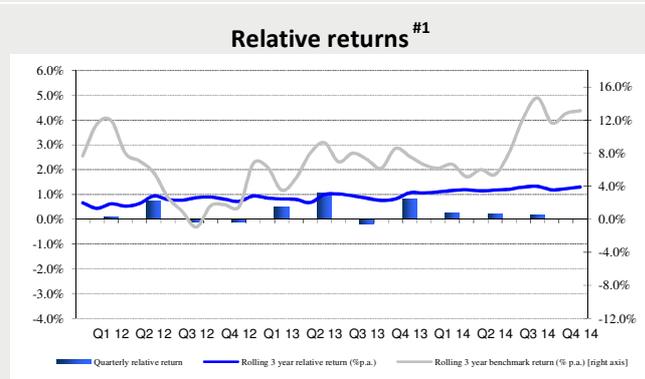
Source: Data provided by WM Performance Services, and Invesco.

### Comments:

- The Fund has outperformed over the last quarter and is in line with its outperformance target over 3 years.
- The absolute volatility over 1 year has increased to 12.5% at the end of the fourth quarter of 2014 when compared to 8.1% at the end of the previous quarter.
- The turnover for this quarter of 7.8% has remained the previous quarter. The number of stocks (392) increased compared to the previous quarter. It remains an appropriate number for the enhanced indexation approach.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings.

## 5.7 SSgA – Europe ex-UK Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Europe ex-UK equities (enhanced indexation)	FTSE AW Europe ex UK	+0.5%	December 2006
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>Strength of their quantitative model and process, and ongoing research to develop the model.</li> <li>Historical performance met the risk return parameters the Fund was seeking.</li> <li>2 Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£39,860	1.1	1.8	208



### Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-0.6	-0.3	14.4
Benchmark	-0.6	-0.8	13.8
Relative	0.0	+0.5	+0.5

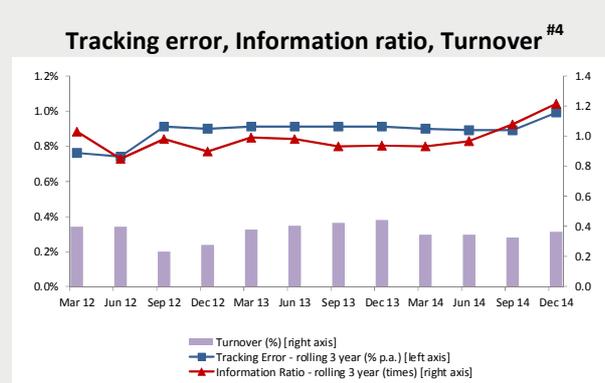
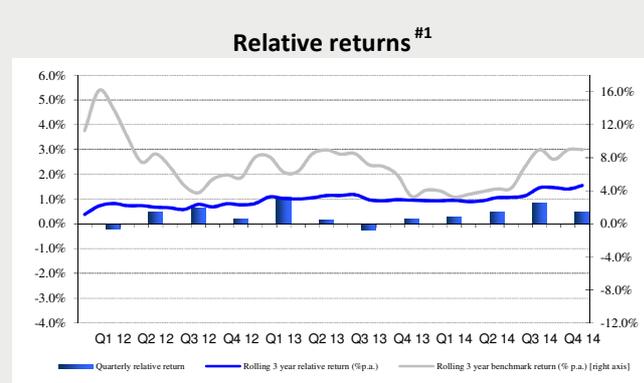
Source: Data provided by WM Performance Services, and SSgA.

### Comments:

- The Fund's return has met its performance target over 3 years.
- France, Germany and Switzerland make up over 60% of the fund's benchmark – the allocation to all three countries is similar to the benchmark allocation.
- The largest sector is financials, at 22.6% of the portfolio.
- The total pooled fund size on 31 December 2014 was £39.94m. This means that the Fund is practically the only investor, although the Panel has previously concluded that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- Turnover has increased from 27.9% to 34.2%, but remains consistent with levels previously seen.
- Not that the tracking error above is to 30 September 2014 due to availability of information at the time of writing.

## 5.8 SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

Mandate	Benchmark	Outperformance Target	Inception Date
Pacific inc. Japan equities	FTSE AW Dev Asia Pacific	+0.5%	December 2006
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified equity portfolio	<ul style="list-style-type: none"> <li>Strength of their quantitative model and process, and ongoing research to develop the model.</li> <li>Historical performance met the risk return parameters the Fund was seeking.</li> <li>2 Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities</li> </ul>		
Value (£'000)	% Fund Assets	Tracking Error	Number of Holdings
£71,079	2.0	1.0	387



### Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	1.5	4.5	10.5
Benchmark	1.1	2.6	9.1
Relative	+0.4	+1.9	+1.3

Source: Data provided by WM Performance Services, and SSgA.

### Comments:

- The Fund's return is exceeding the performance target over 3 years.
- In terms of country allocation, there are no significant deviations away from the benchmark. Just over half of the fund (56.6%) is invested in Japan, increasing from 56.5% last quarter but 0.1% under the benchmark.
- The pooled fund size is £71.17m of which Avon hold £71.08m. As with the European fund, the conclusion has been that the Fund could be sustained even if the Avon Pension Fund was the only investor.
- The fund outperformed over the quarter and it remains ahead of the performance target over the one and three year periods as well.
- Turnover has increased to 36.5% following a decrease in the previous quarter.
- The information ratio (+1.22) has increased compared to the previous quarter (+1.08).
- The tracking error of the fund has increased slightly compared to the last quarter.

## 5.9 Record – Active Currency Hedging

Mandate	Benchmark	Outperformance Target	Inception Date			
Dynamic Currency Hedge (US\$, Yen and Euro equity exposure)	N/A	N/A	July 2011			
Reason in Portfolio	Reason Manager Selected					
To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging.	<ul style="list-style-type: none"> <li>■ Straightforward technical (ie based on price information) process</li> <li>■ Does not rely on human intervention</li> <li>■ Strong IT infrastructure and currency specialists</li> </ul>					
Hedging Return		Hedging Ratios				
Performance (Total Hedging Portfolio)						
	3 months (%)	1 year (%)	3 years (% p.a.)			
Record Hedge	0.07	0.21	1.01			
50% Illustrative Hedge	-0.78	-0.41	1.44			
Relative	+0.85	+0.62	-0.43			
Currency Hedging 3 Month Performance in Sterling Terms						
	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	565,569,255	608,836,010	3.97	-1.92	-0.46	3.51
EUR	198,035,939	200,594,821	-0.40	0.23	-0.53	-0.93
JPY	136,434,306	138,935,384	-4.88	2.57	3.15	-1.74
<b>Total</b>	<b>900,039,500</b>	<b>948,366,215</b>	<b>1.66</b>	<b>-0.78</b>	<b>0.07</b>	<b>1.73</b>
Source: Record Currency Management. Returns are estimated by JLT.						

### Comments:

- Over the quarter, the US dollar strengthened significantly against Sterling whereas the Euro and Yen weakened.
- A 50% hedge on each currency would have had an overall detrimental impact because the positive effect of the US Dollar movement would be offset. However, Record maintained a low Dollar hedge ratio and a high Yen hedge ratio which meant that they outperformed against a 50% hedge and also produced a small positive return in absolute terms.
- The overall hedging ratio has decreased due to a significant fall in the Dollar ratio, which was zero at the end of the quarter. The Euro ratio also decreased whereas the Yen ratio increased.

## 5.10 Pyrford – DGF

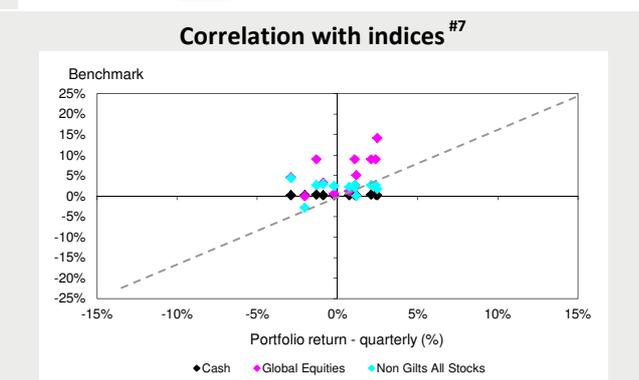
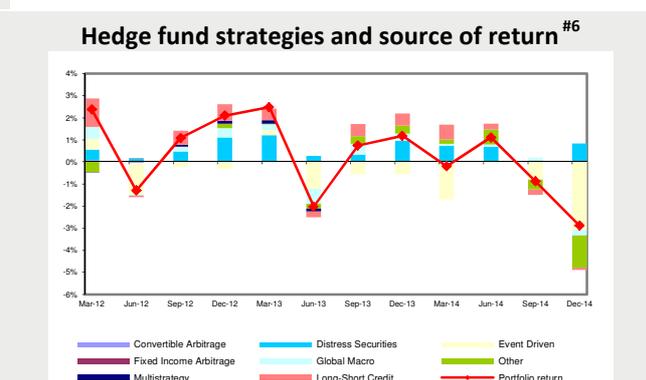
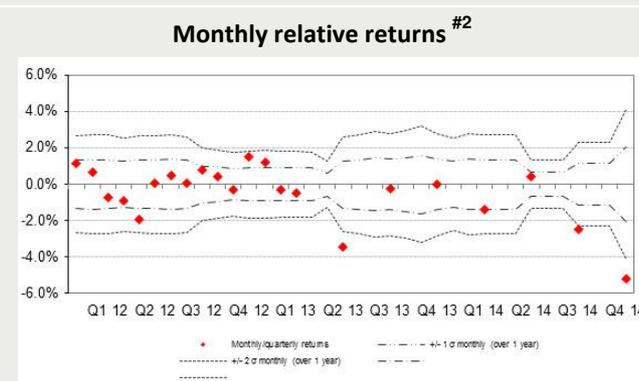
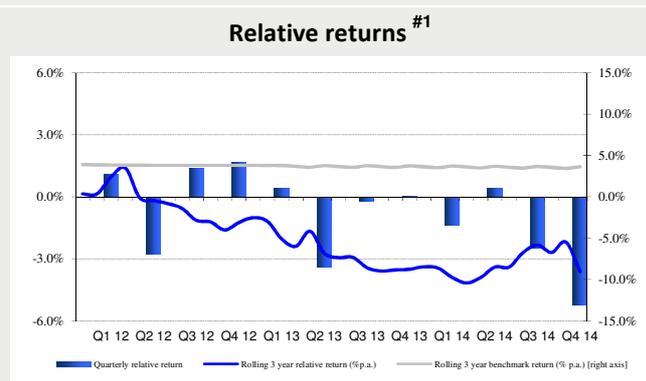
Mandate	Benchmark	Outperformance Target	Inception Date																	
DGF	RPI + 5% p.a.	0%	19 November 2013																	
Reason in Portfolio	Reason Manager Selected																			
To provide an equity like return over the long term but with a lower level of volatility.	■	Asset allocation skill between equities, bonds and cash																		
	■	Fundamental approach to stock selection																		
Value (£'000)	% Fund Assets																			
£121,263	3.3																			
Relative returns <sup>#1</sup>		Performance																		
<p>Quarterly relative return</p>		<table border="1"> <thead> <tr> <th></th> <th>3 months (%)</th> <th>1 year (%)</th> <th>3 years (% p.a.)</th> </tr> </thead> <tbody> <tr> <td>Fund</td> <td>2.1</td> <td>4.4</td> <td>NA</td> </tr> <tr> <td>Benchmark</td> <td>1.2</td> <td>6.6</td> <td>NA</td> </tr> <tr> <td>relative</td> <td>+0.9</td> <td>-2.1</td> <td>NA</td> </tr> </tbody> </table>				3 months (%)	1 year (%)	3 years (% p.a.)	Fund	2.1	4.4	NA	Benchmark	1.2	6.6	NA	relative	+0.9	-2.1	NA
	3 months (%)	1 year (%)	3 years (% p.a.)																	
Fund	2.1	4.4	NA																	
Benchmark	1.2	6.6	NA																	
relative	+0.9	-2.1	NA																	
Source: Data provided by WM Performance Services, and Pyrford																				

### Comments:

- The Fund produced a positive return over the both the quarter and one year. The one-year return is below the long term target of RPI + 5% p.a., however this is a short period against which to measure performance.
- Over the final quarter of the year the portfolio's UK equities outperformed against their underlying index. UK equities finished the year up over 5.0% relative, the portfolio's overseas equities also produced positive absolute returns despite underperforming the underlying benchmark due to the large underweight to US equities.
- The Fund's overseas bond allocation added to performance over the quarter, outperforming its underlying index. Like Q3 2014, the gain is largely attributed to US Dollar strength over the quarter as the portfolio now only holds, UK, US and Canadian Bonds.
- After reducing equities towards the end of Q3 2014, there was no further change to the asset allocation of the portfolio in Q4 2014. The model allocation is now: equities 30%; fixed income 67%; and cash 3%. The portfolio is now back to the same equity weighting as it was going into the financial crisis in 2008. This reflects the view that there is very little fundamental value in either equities or longer duration quality sovereign bonds and that capital market valuations do not discount the significant structural economic problems and material risks that exist.
- The equity portfolio remains defensively positioned with a zero weighting in UK and European banks and limited exposure to more cyclical sectors such as capital good and materials. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value.
- Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the quarter the modified duration of the fixed income portfolio was 2.4 years. There were no changes to the geographical allocation of the fixed income portion of the portfolio during the quarter.

## 5.11 Signet – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	4.8%	August 2007
Reason in Portfolio		Reason Manager Selected	
To reduce the volatility of the Growth portfolio and increase diversification		<ul style="list-style-type: none"> <li>■ Niche fixed income strategy focus</li> <li>■ Established team with strong track record</li> <li>■ Complemented other funds in portfolio</li> </ul>	
Value (£'000)	% Fund Assets	Number of Funds	
£64,000	1.8	23	



Performance			
	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-4.3	-5.1	0.0
Benchmark	0.9	3.5	3.6
relative	-5.2	-8.4	-3.5

Source: Data provided by WM Performance Services, and Signet.

### Comments:

- Signet has underperformed over the quarter, 1 year and 3 years.
- In particular, the rolling 3 year performance has remained behind the benchmark since Q2 2012.
- Only one strategy contributed positively to Signet’s performance, Distressed Securities (0.84%). The worst contribution came from Event Driven strategies (-3.06%) over the quarter.
- There is little correlation between this Fund and cash or non-gilt bonds, but a weak correlation with global equities. This suggests that this Fund acts as a good diversifier to other asset classes.

## 5.12 Stenham – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	3.5%	August 2007
Reason in Portfolio	Reason Manager Selected		
To reduce the volatility of the Growth portfolio and increase diversification	<ul style="list-style-type: none"> <li>Focused multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies</li> <li>Established team, strong track record at selecting managers</li> <li>Complemented other funds in portfolio</li> </ul>		
Value (£'000)	% Fund Assets	Number of Funds Over The Period	
£38,225	1.0	22	
Relative returns #1			
Monthly relative returns #2			
Hedge fund strategies and source of return #6			
Correlation with indices #7			
Performance			
	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	0.5	1.5	5.3
Benchmark	0.9	3.5	3.6
Relative	-0.4	-1.9	+1.6

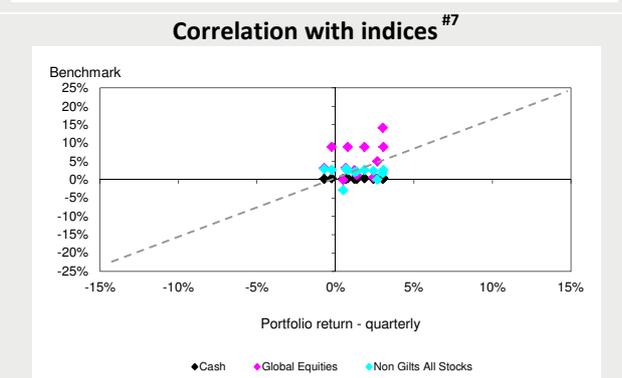
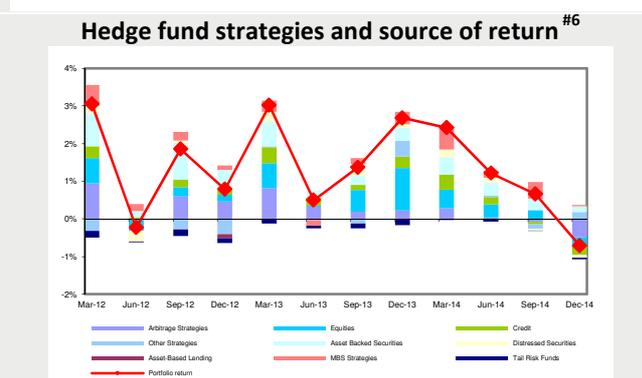
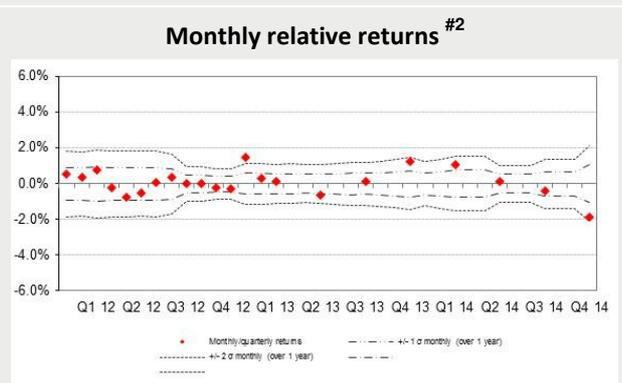
Source: Data provided by WM Performance Services, and Stenham.

## Comments:

- Stenham has outperformed their target over three years.
- The three year performance has improved from 4.6% p.a. to 5.3% p.a. and remains ahead of the benchmark.
- Positive contributions to the quarterly absolute return came from Long/Short Equity (1.3%). Event Driven and Relative Value contributed negatively.
- The allocation to the Long / Short Equity makes up 48.3% of the total Fund allocation, with Global Macro and Event Driven at approximately 20% each. The allocation to Cash remained stable over the quarter.
- The number of funds increased by three to 22.
- There is no clear correlation between this Fund and cash, global equities or non-gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

## 5.13 Gottex – Fund of Hedge Funds

Mandate	Benchmark	Portfolio Volatility (3 yr p.a.)	Inception Date
Fund of Hedge Funds	3 month LIBOR +3.0%	2.5%	August 2007
Reason in Portfolio		Reason Manager Selected	
To reduce the volatility of the Growth portfolio and increase diversification		<ul style="list-style-type: none"> <li>■ Niche market neutral investment strategy</li> <li>■ Established team, strong track record</li> <li>■ Complemented other funds in portfolio</li> </ul>	
Value (£'000)	% Fund Assets	Number of Funds	
£58,349	1.6	Not available	



**Performance**

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	-1.0	2.4	4.3
Benchmark	0.9	3.5	3.6
Relative	-1.8	-1.1	+0.6

Source: Data provided by WM Performance Services, and Gottex.

### Comments:

- The Fund has a diverse range of strategy exposures, Asset Backed Securities is the largest exposure at 13.1%, with Fundamental MN Equity, Event Driven, Long-Short Credit and Mortgage Backed Securities each over 10%.
- Exposure to Fundamental Equity was reduced by 2.9% in favour of asset-backed and -options arbitrage strategies.
- Gottex remain above target 3 years despite the most recent quarter's underperformance.
- There is no clear correlation between this Fund and cash or non-gilt bonds, and a weak correlation with global equities. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

## 5.14 Schroder – UK Property

Mandate	Benchmark	Outperformance Target	Inception Date																
UK property	IPD UK pooled	+1.0%	February 2009																
Reason in Portfolio	Reason Manager Selected																		
To reduce the volatility of the Growth portfolio and increase diversification	<ul style="list-style-type: none"> <li>■ Demonstrable track record of delivering consistent, above average performance.</li> <li>■ Team though small is exclusively dedicated to UK multi-manager property management but can draw on the extensive resources of the Schroders direct property team.</li> <li>■ Well structured and research orientated investment process.</li> </ul>																		
Value (£'000)	% Fund Assets	Tracking Error	Number of Funds																
£173,341	4.8	Not available	15																
Relative returns #1		Asset Allocation #5																	
Contribution to relative return #6		Performance																	
		<table border="1"> <thead> <tr> <th></th> <th>3 months (%)</th> <th>1 year (%)</th> <th>3 years (% p.a.)</th> </tr> </thead> <tbody> <tr> <td>Fund</td> <td>4.1</td> <td>18.0</td> <td>10.3</td> </tr> <tr> <td>Benchmark</td> <td>4.6</td> <td>17.2</td> <td>8.6</td> </tr> <tr> <td>relative</td> <td>-0.5</td> <td>+0.7</td> <td>+1.5</td> </tr> </tbody> </table>			3 months (%)	1 year (%)	3 years (% p.a.)	Fund	4.1	18.0	10.3	Benchmark	4.6	17.2	8.6	relative	-0.5	+0.7	+1.5
	3 months (%)	1 year (%)	3 years (% p.a.)																
Fund	4.1	18.0	10.3																
Benchmark	4.6	17.2	8.6																
relative	-0.5	+0.7	+1.5																
		Source: Data provided by WM Performance Services, and Schroders.																	

## Comments:

- Schroder were appointed to manage UK Property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Over the quarter, the fund underperformed the benchmark as value add holdings and cash detracted from returns. Core style funds made a slight positive contribution.
- Funds that held alternative or less mainstream assets (with low industrial and central London exposure) underperformed the benchmark, affected by the market conditions characterised by falling yields.
- A strong contributor continued to be the Industrial Property Investment Fund (IPIF), alongside other funds which hold central London assets such as Hermes PUT and Standard Life Investments Pooled Pensions Property Fund.
- Continuing from the last quarter, value add funds made the largest contribution over 12 months.
- The three year performance remains strong, exceeding the benchmark by 1.5% per annum.
- Schroder have invested cash to increase their industrial exposure, investing in Industrial Property Investment Fund and Multi-Let Industrial PUT.
- Schroder expect property returns of 15% in 2015, led by offices and industrials. The risks are potential interest rate rises and the uncertainty around the general election in May.

## 5.15 Partners – Overseas Property

Reason in Portfolio	Reason Manager Selected
To reduce the volatility of the Growth portfolio and increase diversification	<ul style="list-style-type: none"> <li>■ Depth of experience in global property investment and the resources they committed globally to the asset class.</li> <li>■ The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements.</li> </ul>

- The mandate awarded to Partners by the Fund commenced in August 2009, although draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested.
- Partners invest in direct, primary and secondary private real estate investments on a global basis.

### Portfolio update

To date, Partners have drawn down approximately £151 million. A total of £0.1 million net was drawn down over the quarter. The draw downs commenced in September 2009.

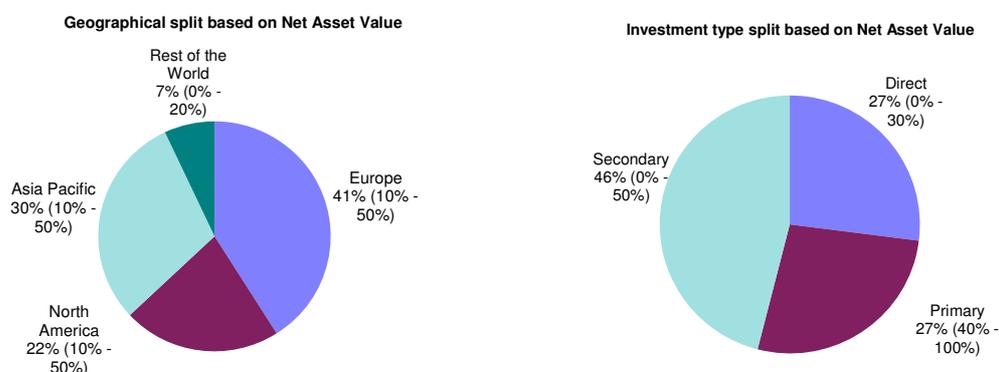
The funds invested to date have been split by Partners as follows:

Partners Fund	Total Drawn Down (£ Million)	Net Asset Value as at 31 December 2014 (£ Million)	Since Inception Net IRR
Real Estate Secondary 2009	18.54	20.03	13.0
Global Real Estate 2008	31.00	24.31	8.4
Asia Pacific and Emerging Market Real Estate 2009	14.49	13.54	7.2
Distressed US Real Estate 2009	14.75	10.62	10.0
Global Real Estate 2011	23.32	22.86	10.7
Direct Real Estate 2011	10.49	12.26	9.1
Real Estate Secondary 2013	3.24	3.90	23.0
Global Real Estate 2013	26.95	25.91	0.1
Real Estate Income 2014	7.85	7.71	0.8
<b>Total</b>	<b>150.62</b>	<b>141.14</b>	<b>9.3</b>

Source: Partners

The Net IRR is as expected, and in line with the mandate expectation. It is calculated using the net asset value, cash returned and the amount drawn down.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 2014, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.



Source: Partners

This quarter, the allocation to Europe has decreased (from 43% to 41%) with increases in Asia Pacific (from 29% to 30%) and the Rest of the World (from 6% to 7%). These remain within the guidelines.

The exposure to Secondary has increased this quarter (from 41% to 46%), with Direct decreasing by 3% and Primary decreasing by 2%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is below target, and we do not believe the current positioning to be of concern.

## Performance

Distributions since inception total £36.8m, with distributions worth £5.2m over the most recent quarter.

Performance of Partners is lagged by 1 quarter. Over Q3 2014, the manager produced a return of 0.1% compared to the benchmark of 4.0%. However, note that the net IRR quoted on the previous page is a better measure of performance than the quarterly WM return.

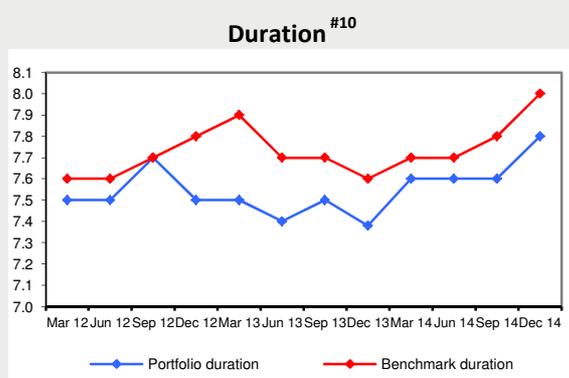
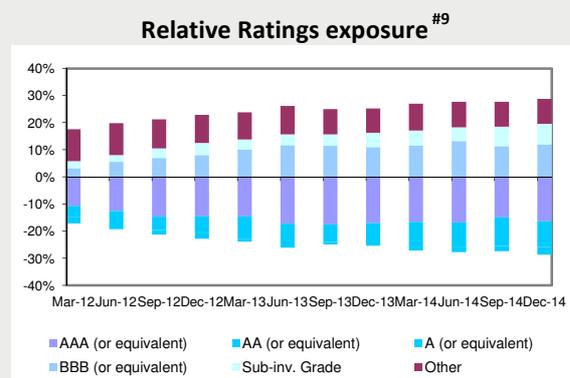
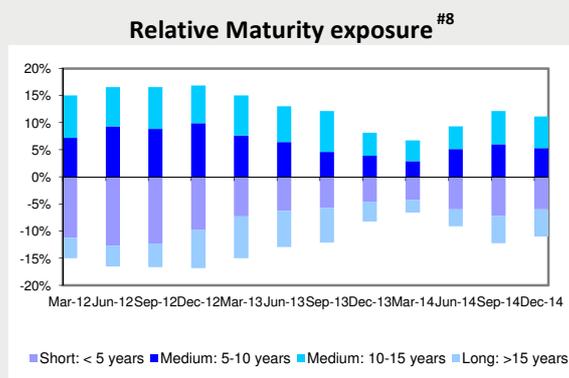
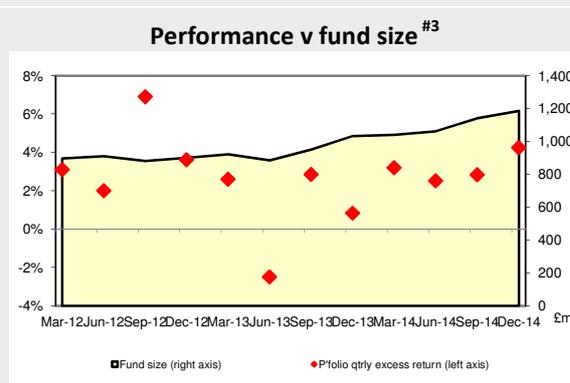
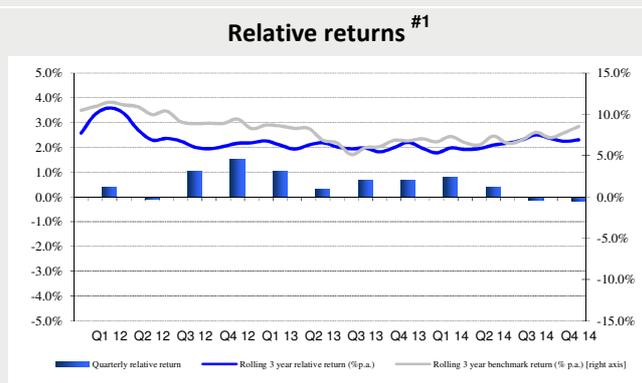
For this type of mandate a more appropriate measure of performance is the net IRR rather than the index due to the longer term value-add and opportunistic strategies of the Partners mandate when compared to a more 'core' buy and hold approach represented by the index.

In particular, the impact of timing of distributions is reflected within the net IRR. In addition, short term figures can be distorted as the nature of the portfolio generally results in greater costs up front for each individual investment and performance being realised once the investment is sold. This can either enhance or subdue short term performance depending on if there is any bias over that period to distributions or investments.

There will also be differences between IRR and the index because the geographies and strategies are different to the benchmark, currency fluctuations and the dilution effect of new money being invested.

## 5.16 Royal London Asset Management – Fixed Interest

Mandate	Benchmark	Outperformance Target	Inception Date
UK Corporate Bonds	iBoxx £ non-Gilts all maturities	+0.8%	July 2007
Reason in Portfolio		Reason Manager Selected	
To maintain stability in the Fund as part of a diversified fixed income portfolio		<ul style="list-style-type: none"> <li>■ Focused research strategy to generate added value</li> <li>■ Focus research on unrated bonds provided a “niche” where price inefficiencies more prevalent</li> <li>■ Product size means can be flexible within market</li> </ul>	
Value (£'000)	% Fund Assets	Number of Holdings	
£299,072	8.2	n/a	



### Performance

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	4.2	13.2	10.9
Benchmark	4.4	12.2	8.6
relative	-0.2	+0.9	+2.1

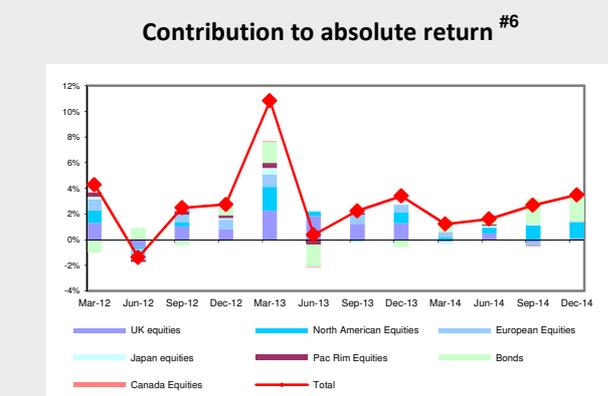
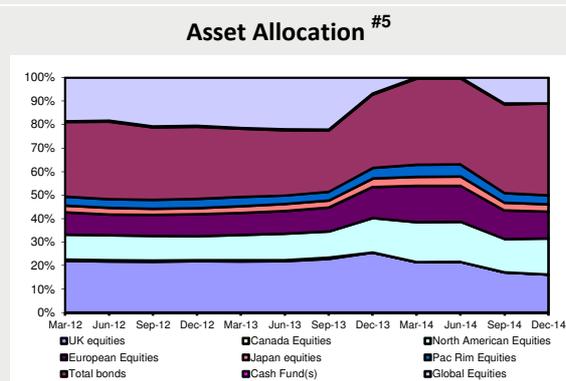
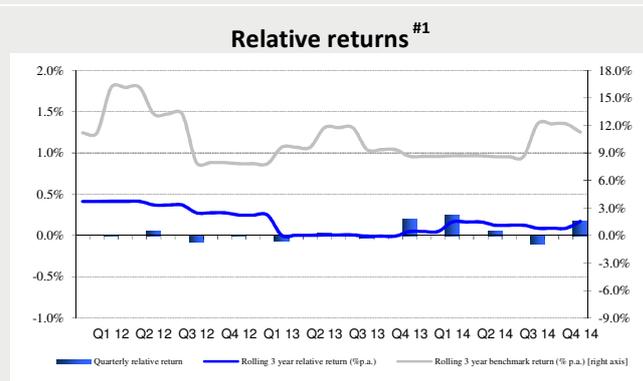
Source: Data provided by WM Performance Services, and RLAM

## Comments:

- RLAM have maintained a consistent philosophy for some time – to be significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds. This has benefited performance and resulted in significant outperformance at the high end of expectations for a mandate of this type.
- Under this philosophy, the fund has outperformed over one year and three year periods.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

## 5.17 BlackRock – Passive Multi-Asset

Mandate	Benchmark	Outperformance Target	Inception Date
Passive multi-asset	In line with customised benchmarks using monthly mean fund weights	0%	April 2003
Reason in Portfolio	Reason Manager Selected		
To provide asset growth as part of diversified portfolio	<ul style="list-style-type: none"> <li>To provide low cost market exposure across multi asset classes</li> <li>Provide efficient way for rebalancing between bonds and equities within a single portfolio</li> </ul>		
Value (£'000)	% Fund Assets		
£1,350,008	37.1		



**Performance**

	3 months (%)	1 year (%)	3 years (% p.a.)
Fund	5.1	11.2	11.5
Benchmark	5.1	10.8	11.3
relative	+0.1	+0.3	+0.2

Source: Data provided by WM Performance Services, and BlackRock

### Comments:

- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The positive absolute return was the result of both equities and bonds rising over quarter.
- The magnitude of the relative volatility in the portfolio remains small.

## 5.18 BlackRock No.2 – Property account (“ring fenced” assets)

Mandate	Benchmark	Outperformance Target	Inception Date																	
Overseas property	Customised benchmarks using monthly mean fund weights	0%	September 2009																	
Reason in Portfolio	Reason Manager Selected																			
This portfolio was created to hold the assets intended for investment into Property.	■ BlackRock were the Fund’s passive provider and ‘swing fund’ and offered the most efficient solution at the time the portfolio was created.																			
Value (£'000)	% Fund Assets																			
£15,728	0.4																			
Relative returns #1		Performance																		
		<table border="1"> <thead> <tr> <th></th> <th>3 months (%)</th> <th>1 year (%)</th> <th>3 years (% p.a.)</th> </tr> </thead> <tbody> <tr> <td>Fund</td> <td>5.5</td> <td>11.1</td> <td>7.8</td> </tr> <tr> <td>Benchmark</td> <td>5.5</td> <td>11.0</td> <td>7.7</td> </tr> <tr> <td>relative</td> <td>0.0</td> <td>+0.1</td> <td>+0.1</td> </tr> </tbody> </table>				3 months (%)	1 year (%)	3 years (% p.a.)	Fund	5.5	11.1	7.8	Benchmark	5.5	11.0	7.7	relative	0.0	+0.1	+0.1
	3 months (%)	1 year (%)	3 years (% p.a.)																	
Fund	5.5	11.1	7.8																	
Benchmark	5.5	11.0	7.7																	
relative	0.0	+0.1	+0.1																	
Source: Data provided by WM Performance Services, and BlackRock																				

### Comments:

- On 31 December 2014, the asset allocation of the Fund was 39.0% UK Equity Futures, 52.7% UK Gilts and 8.3% Cash.
- The positive quarterly return was mainly due to UK Gilts, which returned 11.2% and, being approximately half of the fund, contributed +5.6%. UK Equity Futures fell slightly and contributed -0.1% to the absolute return.

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# Appendix 1: Market Events

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>UK Equities</b>	<ul style="list-style-type: none"> <li>■ According to the Office of National Statistics (ONS), the annual GDP growth was revised down to 2.6% in Q3 2014 from the prior estimate of 3%. Despite the downward revision, the UK is still one of the fastest growing economies in the G7.</li> <li>■ The number of people in the UK claiming unemployment benefits fell by 26,900 in November, while the UK unemployment rate remained unchanged at 6% over the three months to October. Also, figures from the Office for National Statistics (ONS) indicate that wage growth in the UK is picking up, as average earnings excluding bonuses in the August-to-October 2014 period were up 1.6% from the year earlier.</li> </ul>	<ul style="list-style-type: none"> <li>■ The uncertainty around the outcome of the general election scheduled for May 2015 is likely to be a headwind for the equity market in the near term. The rise of the UK Independence, Scottish Nationalist and, to a lesser extent, Green parties has increased the range of possible election outcomes.</li> <li>■ The ONS figures indicate that the country's current account deficit further widened from 5.5% of GDP in Q2 2014 to 6.0% in Q3 2014.</li> </ul>
<b>Overseas Equities:</b>		
<b>North America</b>	<ul style="list-style-type: none"> <li>■ The US economy expanded at an annualised rate of 5% in Q3 2014, the fastest pace since 2003. This strong growth follows a 4.6% annualised expansion in Q2 2014. The US GDP has grown at an annualised pace of 3.5% or higher in four of the last five quarters.</li> <li>■ The US job market added 252,000 jobs in December, marking 2014 as the best year for employment growth since 1999. The unemployment rate stood at 5.6% as at the end of December 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The Federal Reserve ended the latest round of quantitative easing in October 2014 citing improvement in the labour market and a strengthening economy. The uncertainty around the timing of the first interest rate rise remains a headwind for the equity markets in the near term.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Europe</b>	<ul style="list-style-type: none"> <li>■ Mario Draghi's briefing in December 2014 indicated that the European Central Bank (ECB) has stepped up preparations to undertake additional stimulus measures to help revive growth in the fragile Eurozone economy. Drawing cues from the recent remarks by Mario Draghi, the market is now anticipating a full-fledged bond-buying program to be announced in Q1 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The tail end of Q4 2014 witnessed the resurfacing of talks about Greece leaving the Eurozone as the Greek parliament failed to elect a president, forcing an early election to take place at the end of January 2014.</li> <li>■ Inflation in the Eurozone turned negative in December 2014, as prices fell 0.2% year-on-year, marking the first time since 2009 that prices have dipped into negative territory. The slide into deflation, driven mainly by lower energy costs due to the plunging oil prices, is likely to intensify pressure on the ECB to take further action to stimulate the Eurozone's economy.</li> </ul>
<b>Japan</b>	<ul style="list-style-type: none"> <li>■ The Bank of Japan (BOJ), in a surprise move in October 2014, announced an increase in its asset purchase program from Yen 60-70 trillion per annum to Yen 80 trillion annually. The BOJ would also triple its annual purchase of exchange-traded funds and domestic real estate investment trusts. This was the first policy change since the program started in 2013.</li> <li>■ In October 2014, the government approved the revised asset allocation target for the Government Pension Investment Fund (GPIF). The new allocation would now target domestic and international equities of 25% each, up from 12% each earlier.</li> <li>■ Shinzo Abe's ruling Liberal Democratic Party (LDP) won the snap elections held in December 2014. After retaining a two-thirds majority, Mr Abe now plans to push through reform measures. The Prime Minister had dissolved the lower house of Parliament in November, a day after the data showed that the economy shrank in Q3 2014. The second round of tax increases was also delayed by 18 months to April 2017.</li> </ul>	<ul style="list-style-type: none"> <li>■ In Q3 2014, the Japanese economy contracted by 1.9% on an annualised basis, following a 7.3% contraction in Q2 2014, pushing the economy into a technical recession. The economy has been battling the negative impacts of the sales-tax hike for the last two quarters. Private consumption, which accounts for nearly 60% of the economy, has been particularly hit.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Asia Pacific</b>	<ul style="list-style-type: none"> <li>■ Asia Pacific (excluding Japan) equities ended Q4 2014 with a return of 3.2%, owing to strong performance by the Chinese equities and hopes of further stimulus measures by the ECB.</li> <li>■ South Korea recorded its 35th consecutive month of trade surplus owing to strong exports, which grew by 3.7% year-on-year in December 2014.</li> </ul>	<ul style="list-style-type: none"> <li>■ The Australian economy grew at a slower-than-expected pace of 0.3% quarter-on-quarter in Q3 2014, missing analysts' estimates of 0.7%. Impact of falling commodity prices and decline in mining investments were the biggest detractors to growth.</li> </ul>
<b>Emerging Markets</b>	<ul style="list-style-type: none"> <li>■ Chinese equities surged nearly 37% (in local currency terms) in Q4 2014 backed by growing expectations of a further policy stimulus. The launch of the Shanghai-Hong Kong Stock Connect program, allowing greater access of Chinese shares to foreigners, also contributed to this boost.</li> <li>■ Indian equities rallied 3.3% (in local currency terms) in Q4 2014 as expectations of falling inflation, driven by falling oil prices, raised hopes of interest rate cuts by the Reserve Bank of India.</li> </ul>	<ul style="list-style-type: none"> <li>■ Russian stocks plunged a little over 30% (in local currency terms) in Q4 2014 amidst fears of an economic collapse triggered by falling oil prices. With Russian oil and gas accounting for 70% of exports and 50% of tax receipts, a continued price slump could indicate big budget cuts for the energy-dependent nation. Moreover, the Russian parliament approved the 2015 budget in December 2014 assuming oil prices at \$100 a barrel.</li> <li>■ In December 2014, the Brazilian central bank sharply revised down its growth forecast for the year 2014 to 0.2% from 0.7% earlier. The central bank also raised the benchmark interest rate to 11.75% in December 2014 from 11.25% earlier amidst rising inflation and a weakening currency.</li> </ul>

Asset Class	What happened?	
	Positive Factors	Negative Factors
<b>Gilts</b>	<ul style="list-style-type: none"> <li>A slowdown in the pace of growth in the UK economy contributed to strong gilts performance over Q4 2014. The average reading for UK Markit/CIPS manufacturing purchasing managers' index (PMI) fell marginally from 53.1 in Q3 2014 to 53.0 in Q4 2014, the weakest reading since Q2 2013. Also, the PMI for service sector, which accounts for nearly 78% of the British economy, fell to 55.8 in December from 58.6 in November. Moreover, a reduction in global growth forecast by the International Monetary Fund (IMF) in October 2014 further boosted gilt prices.</li> </ul>	<ul style="list-style-type: none"> <li>UK Labour Productivity, as measured by output per hour, increased in Q3 2014 by 0.6% and 0.3% when compared to Q2 2014 and Q3 2013 respectively. Output per hour increased in all of the main industrial groupings in the Q3 2014, by 0.5% in the manufacturing sector and 0.6% in the services sector.</li> </ul>
<b>Index Linked Gilts</b>	<ul style="list-style-type: none"> <li>Limited issuance of new index-linked gilts compared with their demand drivers, i.e. pension liabilities, contributed to limited returns in the asset class in Q4 2014.</li> </ul>	<ul style="list-style-type: none"> <li>Performance of index-linked gilts was muted as compared with conventional gilts in Q4 2014. The decelerating pace of UK inflation resulted in subdued performance. The consumer price index (measure of inflation) grew by 1% in November 2014, down from 2% in December 2013, significantly below the Bank of England (BOE) target of 2%.</li> <li>Yields rose in the beginning of November as UK Debt Management Office auctioned £800 million worth of index-linked bonds in the first week of the month.</li> </ul>
<b>Corporate Bonds</b>	<ul style="list-style-type: none"> <li>Investment grade credit continues to be an attractive asset class. Central bank policies remain supportive, while regulatory action is forcing banks to improve their creditworthiness. Also, bond defaults remain low as corporates are increasingly reporting improved operational performance.</li> </ul>	<ul style="list-style-type: none"> <li>The downward revision of global growth forecast by the IMF and reduction in credit spreads over the past few months has left little room for any further contraction of spreads.</li> </ul>
<b>Property</b>	<ul style="list-style-type: none"> <li>UK commercial property values rose by 4.5% for three months ending November 2014 impacting property yields which continue to fall across all sectors. Industrials continue to outpace offices, while retail continues to lag behind.</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage approvals fell to 59,030 in November 2014 from 59,510 in October 2014, showing signs of an impact of tough new affordability tests.</li> <li>Construction PMI fell to 57.6 in December 2014 from 59.4 in November 2014. Although the reading remains above its long-run average of 54.5, it is well below economists' forecasts of 59.0.</li> </ul>

## Economic statistics

	Quarter to 31 December 2014			Year to 31 December 2014		
	UK	Europe <sup>(1)</sup>	US	UK	Europe <sup>(1)</sup>	US
Real GDP growth	0.5%	n/a	0.7%	2.7%	n/a	2.5%
Unemployment rate	6.0%	11.5%	5.6%	6.0%	11.5%	5.6%
Previous	6.3%	11.5%	5.9%	7.1%	11.1%	6.7%
Inflation change <sup>(2)</sup>	-0.2%	-0.3%	-1.4%	0.5%	-0.2%	0.8%
Manufacturing Purchasing Managers' Index	52.5	50.6	53.9	52.5	50.6	53.9
Previous	51.6	50.3	56.6	57.3	52.7	57.0

Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis. "Previous" relates to data as at the previous quarter or year end.

(1) EU changing composition area; (2) CPI inflation measure

## Appendix 2: Glossary of Terms

Term	Definition
Absolute Return	The actual return, as opposed to the return relative to a benchmark.
Annualised	Figures expressed as applying to 1 year.
Bond Assets	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth Assets	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded Liabilities	The value of benefits payable to members that can be paid from the existing assets of the plan (i.e. those liabilities that have assets available to meet them).
High Yield	A type of bond which has a lower credit rating than traditional investment grade corporate bonds or government bonds. These bonds pay a higher yield than investment grade bonds.
Market Statistics Indices	<p>The following indices are used for asset returns:</p> <p>UK Equities: FTSE All-Share Index</p> <p>Overseas Equities: FTSE AW All-World ex UK</p> <p>UK Gilts (&gt;15 yrs or &gt;20 yrs): FTSE Brit Govt Fixed Over 15 (or 20) Years Index</p> <p>Corporate Bonds(&gt;15 yrs AA): iBoxx £ Corp 15+ Years AA Index</p> <p>Non-Gilts (&gt;15 yrs): iBoxx £ Non-Gilts 15+ Years Index</p> <p>Index Linked Gilts (&gt;5yrs): FTSE Brit Govt Index Link Over 5 Years Index</p> <p>Hedge Funds: CS/Tremont Hedge Fund Index</p> <p>Commodities: S&amp;P GSCI Commodity GBP Total Return Index</p> <p>High Yield: Bank Of America Merrill Lynch Global High Yield Index</p> <p>Property: IPD Property Index (Monthly)</p> <p>Infrastructure: FTSE MACQ Global Infrastructure Index</p> <p>Cash: 7 day London Interbank Middle Rate</p> <p>Price Inflation: All Items Retail Price Index</p> <p>Earnings Inflation: UK Average Weekly Earnings Index - Whole Economy excluding Bonuses</p>
Market Volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

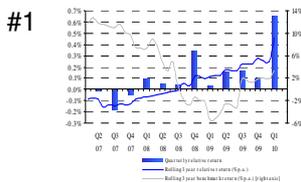
Term	Definition
Mercer Gilt Yield	An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks whose cashflows approximately match the Fund's estimated benefit cashflows
Money-Weighted Rate of Return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner Liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner Liability	The value of benefits payable to those who have already retired, irrespective of their age.
Relative Return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund less Return on Index or Benchmark.
Scheme Investments	Refers only to the invested assets, including cash, held by your investment managers.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Three-Year Return	The total return on the fund over a three year period expressed in percent per annum.
Time-Weighted Rate of Return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded Liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (Gross Redemption Yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

# Appendix 3: Glossary of Charts

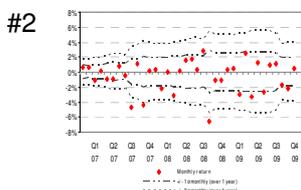
The following provides a description of the charts used in Section 6 and a brief description of their interpretation.

## Reference

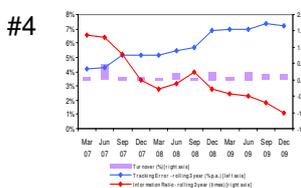
## Description



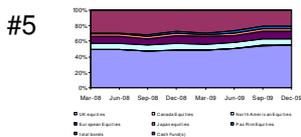
This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlaid to provide a context for relative performance, e.g. consistent underperformance in a falling market.



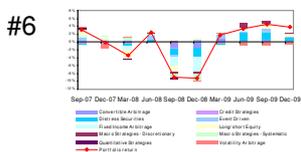
This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).



This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.

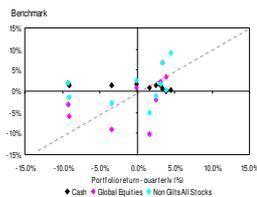


This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.



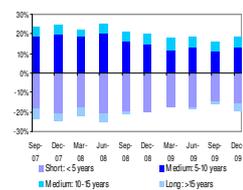
These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



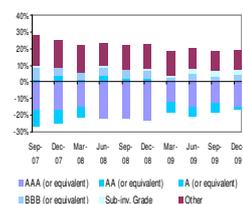
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8



This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10



This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

## Appendix 4: Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. Indexation)	MSCI World ex UK NDR	+0.5%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
SSgA	Europe ex-UK Equities (Enhanced Indexation)	FTSE AW Europe ex UK	+0.5%
SSgA	Pacific inc. Japan Equities (Enhanced Indexation)	FTSE AW Dev Asia Pacific	+0.5%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	-
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	-
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	-
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Pyrford	DGF	RPI + 5%	-
Cash	Internally Managed	7 day LIBID	



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