HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2015

JUNE 2015

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- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund ("the Fund"), to assess the performance and risks of the investment managers of the Fund.

Fund performance

- The value of the Fund's assets increased by £187m over the quarter, to £3,829m at 31 March 2015.

Strategy

- Global (developed) equity returns over the last three years at 14.2% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We are neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest looking ahead over the next three years.

- The three year return from emerging market equities has fallen to 3.7% p.a. from 4.8% p.a., with the Q1 2012 performance (which dropped out of the period) being significantly higher than the Q1 2015 return. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening US$ on many emerging economies. Emerging markets have, however, rallied modestly post 31 March 2015 as sentiment gradually improves. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 31 March 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 10.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 8.9% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remained insatiable. Whilst from an absolute return perspective, government bonds remain unattractive due to the low yields available, their value in the context of the overall portfolio is important from a liability risk management perspective.

Strategy (continued)

- The strong returns from gilts also means the present value of the Fund's liabilities will have increased significantly over the three year period as a result of the falling bond yields (which will have resulted in a lower discount rate).
- UK Corporate bonds also performed strongly, returning 8.8% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns of 11.4% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- Looking forward, our medium term view for the prospects for corporate bonds remains unattractive, and we are encouraging clients to consider ways of expanding credit mandates (potentially via multi-asset credit).
- We have moved our rating for UK property from attractive to neutral over the year given the drop in yields and signs that the market is potentially moving beyond fair value in some parts (with ultra-prime central London assets in particular aggressively priced and rents back to pre-financial crisis levels).
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect 'alpha' driven investments such as Hedge Funds and DGF to play an increasingly important role in return generation over the coming three years, particularly if 'beta' (i.e. market-driven) returns are lower looking forward.

Managers

- Absolute returns over the quarter were all positive, with strong overseas equity returns across the board meaning that performance from the SSgA Pacific ex Japan and Europe ex-UK Equity funds was particularly strong (returning 12.8% and 11.1%, respectively). The lowest absolute returns were from the Signet fund of hedge funds portfolio, at 0.6%.

- Absolute returns over the year were mixed, but generally positive in light of buoyant markets. The Fund's global equity mandates in particular fared well, with Invesco returning 21.6% (1.3% above benchmark), and SSgA's enhanced indexation Pacific Rim mandate returning 21.3% (against a benchmark of 19.4%). Weakest performance over the year was from the Fund of Hedge Fund mandates, with Signet returning -4.1% in a challenging environment for hedge funds.

- Over three years, all funds produced positive returns (with the exception of Signet), with Partners and Signet both failing to beat their benchmarks (although see comments on the measurement of Partner's performance later). In addition, despite producing returns at least in line with benchmark, Schroder (Global Equity), and TT International (UK Equity) failed to achieve their three-year performance objectives (with the remainder of the active managers achieving their objectives).

Key points for consideration

- Over the last year, the Fund disinvested from the Barings Dynamic Asset Allocation Fund, following the departure of the leading portfolio managers (Percival Stanion, Andrew Cole and Shaniel Ramjee) to join Pictet.
  - Proceeds from the disinvestment were invested in the BlackRock multi-asset portfolio in such a way as to broadly replicate the underlying asset allocation of the DAAF.
  - In February 2015, the proceeds were invested in a new Diversified Growth mandate with Standard Life.
- The Fund has also reviewed its hedge fund allocations, and is in the process of confirming the appointment of one manager (JPMorgan) to replace the existing three mandates.
- Despite strong performance in Q1, since inception of their mandate the Schroder Global Equity mandate continues to underperform its performance objective and also its benchmark. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity). The portfolio's performance has begun to improve (outperforming its benchmark by 1% over the last quarter), and Mercer have upgraded their rating of the strategy from B to B+ (see page 28 for more detail, and Appendix 4 for a guide to Mercer's ratings.
- Disappointing performance from TT over the quarter and year (although ahead of benchmark over the three year period). Keep under review.
- The absolute performance of the Partners Property investment may be misleading given the significant cashflows, and the net internal rate of return (9.3% p.a. since inception) is a more meaningful measure.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	25
Jupiter	UK Equities	-	✓	✓	26
TT International	UK Equities	-	✕	-	27
Schroder	Global Equities	✓	-	-	28
Genesis	Emerging Market Equities	✓	✕	✓	29
Unigestion	Emerging Market Equities	-	✓	N/A	30
Invesco	Global ex-UK Equities	✓	✓	✓	31
SSgA	Europe ex-UK	-	✓	✓	32
SSgA	Pacific inc. Japan Equities	-	✓	✓	33
Record Currency Management	Dynamic Currency Hedging	-	N/A	N/A	34
Pyrford	DGF	-	✓	N/A	35
Standard Life	DGF	✓	N/A	N/A	36
Signet	Fund of Hedge Funds	-	✕	✕	38
Stenham	Fund of Hedge Funds	-	✓	✓	39

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- The CEO of SSgA retired during the quarter – no ratings changes are proposed. See pages 32 and 33 for detail.
- Schroder Global Equity was upgraded from B to B+ over the quarter – see page 28 for more details.
- There were no changes to any of the other ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
Gottex	Fund of Hedge Funds	-	✕	✓	40
Schroder	UK Property	✓	-	✓	42
Partners	Global Property	✓	✕	✕	43
RLAM	Bonds	✓	-	✓	44

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Partners' performance relative to benchmark is explained in more detail on page 43.
- At RLAM, senior fund manager Sajiv Vain resigned to pursue a role at Fidelity – we are not proposing a ratings change. More detail is provided on page 44.
- There were no changes to any of the other ratings over the quarter.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Global equity markets continued to post positive performance over the quarter, returning 7.7% in sterling and 5.0% in local currency terms. Small cap stocks, as measured by the FTSE World Small Cap Index, returned 9.7% in sterling terms, outperforming the wider market.

US Equities generally lagged the broader market, largely driven by lower expected corporate earnings due to the stronger US dollar. While UK Equities also underperformed, they participated in the global rally and managed to break out to new all-time highs over the quarter. Japanese equities performed strongly, returning 16.4% in sterling terms and 10.8% in local currency terms, driven by some initial signs of economic recovery following a technical recession triggered by the value-added tax hike in 2014. European equities returned 10.6% in sterling and 14.6% in local euro terms. The long awaited announcement regarding quantitative easing surpassed market expectations, which caused the euro to depreciate.

Within emerging markets, Chinese equities benefited from an interest rate cut in March and reduction of the required reserve ratio by 50 basis points. In India, two interest rates cuts helped support equity markets as did the budget announcements which were viewed as pro-business. Russia rebounded as oil prices stabilised whilst Brazil posted the largest negative returns as ongoing corruption allegations in relation to Petrobras continued to surface.

Bond Market Review

Bond market yields fell further over the quarter, particularly at the longer end of the yield curve. Nominal 10 year gilt yields fell from 1.8% to 1.7% over the first three months of the year. As a result, UK bond markets posted positive returns, with over 15 year gilts returning 4.1% over the period.

Global credit returned 4.1% in sterling terms and -0.9% in local currency terms, whilst Eurozone government bonds returned 4.3% in local currency terms, which translates to -2.7% in sterling due to the weakening euro. Over the quarter, the real yield curve fell across most of the tenors resulting in over 5 year index-linked gilts posting a return of 3.3%.

In a broader risk-on environment, credit spreads tightened over the quarter, which in combination with falling gilt yields resulted in a total return of 3.3% for the UK corporate bonds.

Currency Market Review

In spite of occasional pullbacks, the US dollar continued to rally against most currencies over the quarter, while the euro remained on its downward trajectory. Sterling fell by 4.8% against both the US dollar and the Japanese yen over the quarter.

Commodity Market Review

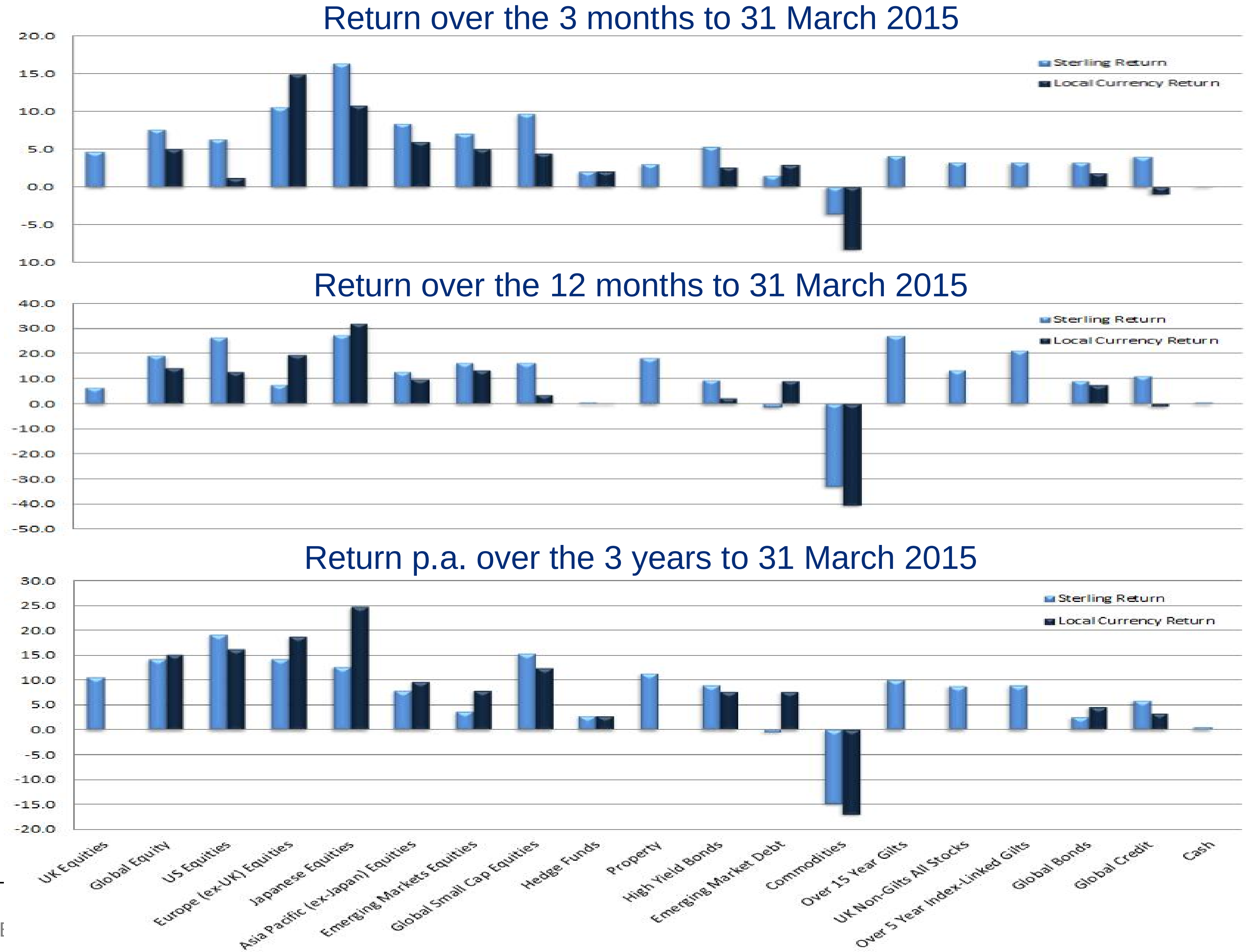
Agriculture led the quarter's fall in the commodity index, with coffee, sugar and wheat all falling in value.

Geopolitical events such as the Yemen bombing had some impact on energy prices, but they continue to be dominated by US supply, available storage, and global demand projections.

Gold prices rose in January but fell back over February and March ending the quarter at relatively similar levels to the start of the quarter at c. $1,188 per ounce.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



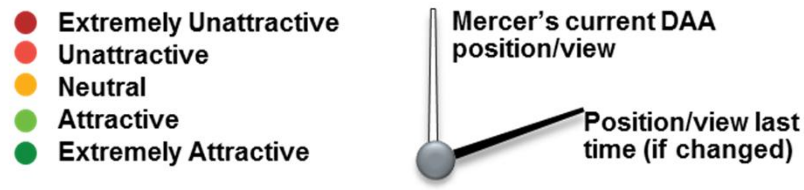
Source: Thomson Reuters Datastream.

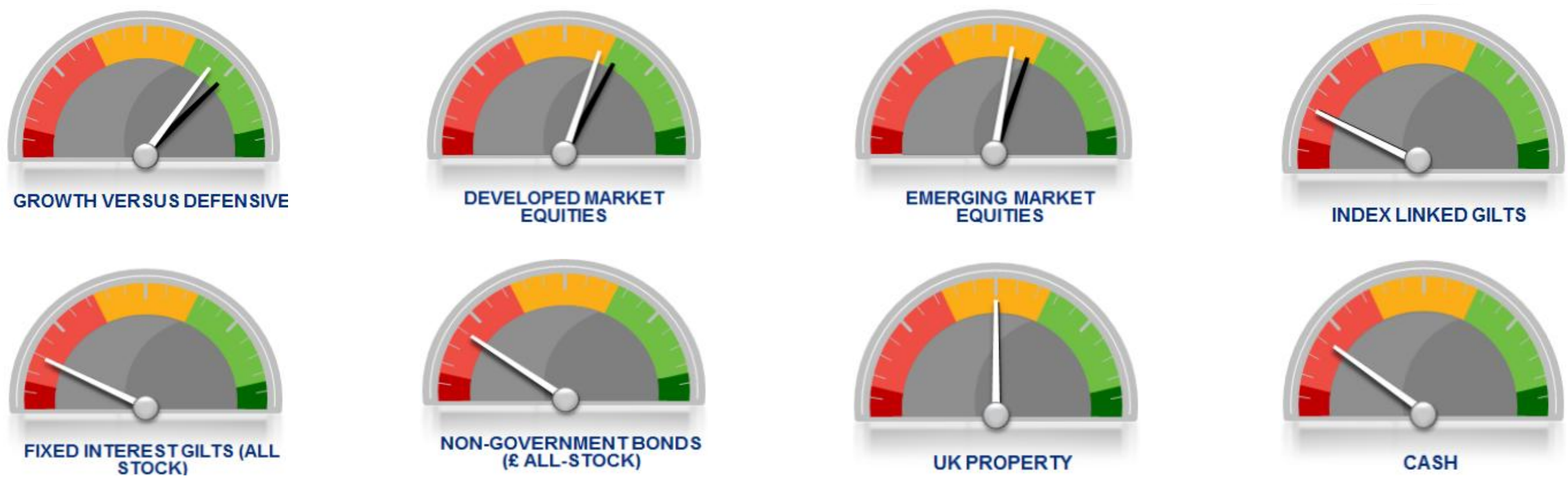
SECTION 3
STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	15.4	*Significantly ahead of the assumed strategic return.* *This has decreased from 17.5% p.a. last quarter as the relatively strong equity returns of Q1 2012 are no longer part of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	3.7	*The 3-year return from emerging market equities has fallen significantly from 7.2% p.a. last quarter with the Q1 2012 performance (which dropped out of the index) being higher than the Q1 2015 return. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 7.2	*DGFs are expected to produce an equity like return over the long term but with lower volatility – 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.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	10.0	*Bond returns remain above the long term strategic assumed return as the fragile nature of the global markets has encouraged investors to overweight fixed income.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	8.9	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	8.8	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	1.0	*Well behind the assumed strategic return (but three-year performance has moved into positive territory this quarter as result of the fall in global yields).*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	2.9	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but recent returns have improved slightly as hedge funds increase equity exposure.*
Property (IPD UK Monthly)	7.0	11.4	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q1 2015





These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation								
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**		**Difference (%)**
Developed Market Equities	1,806,517	1,769,396	49.6	46.2	40.0	35 -	45	+6.2
Emerging Market Equities	332,124	351,961	9.1	9.2	10.0	5 -	15	-0.8
Diversified Growth Funds	121,263	368,177	3.3	9.6	10.0	5 -	15	-0.4
Fund of Hedge Funds	160,243	162,792	4.4	4.3	5.0	0 -	7.5	-0.7
Property	304,782	306,177	8.4	8.0	10.0	5 -	15	-2.0
Infrastructure	-	-	-	-	5.0	0 -	7.5	-5.0
Bonds	829,133	798,547	22.8	20.9	20.0	15 -	35	+0.9
Cash (including currency instruments)	87,515	71,606	2.4	1.9	-	0 -	5	+1.9
Total	**3,641,647**	**3,828,656**	**100.0**	**100.0**	**100.0**			**0.0**

Source: WM Performance Services. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets increased over the quarter by £187m. Over the quarter, the developed market equity allocation has been reduced but remains over weight and outside of tolerance ranges; this overweight will be used to fund drawdowns for the infrastructure allocation over the coming year. The investment in Standard Life GARS has brought the DGF allocation back close to the target weight.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Passive Multi-Asset	1,350,008	-205,613	1,216,557	37.1	31.8
Jupiter	UK Equities	166,170	1,082	175,562	4.6	4.6
TT International	UK Equities	187,070	1,517	194,929	5.1	5.1
Schroder	Global Equities	235,975	579	256,314	6.5	6.7
Genesis	Emerging Market Equities	152,336	-	160,236	4.2	4.2
Unigestion	Emerging Market Equities	179,789	360	191,725	4.9	5.0
Invesco	Global ex-UK Equities	269,440	-	291,423	7.4	7.6
SSgA	Europe ex UK & Pacific inc. Japan Equities	110,939	-	124,517	3.0	3.3
Record Currency Management	Dynamic Currency Hedging	353	-1,732	0	0.0	0.0
Record Currency Management	Overseas Equities (to fund currency hedge)	32,369	-14,772	20,608	0.9	0.5
Pyrford	DGF	121,263	-	124,700	3.3	3.3

Source: WM Services, Avon. Totals may not sum due to rounding.

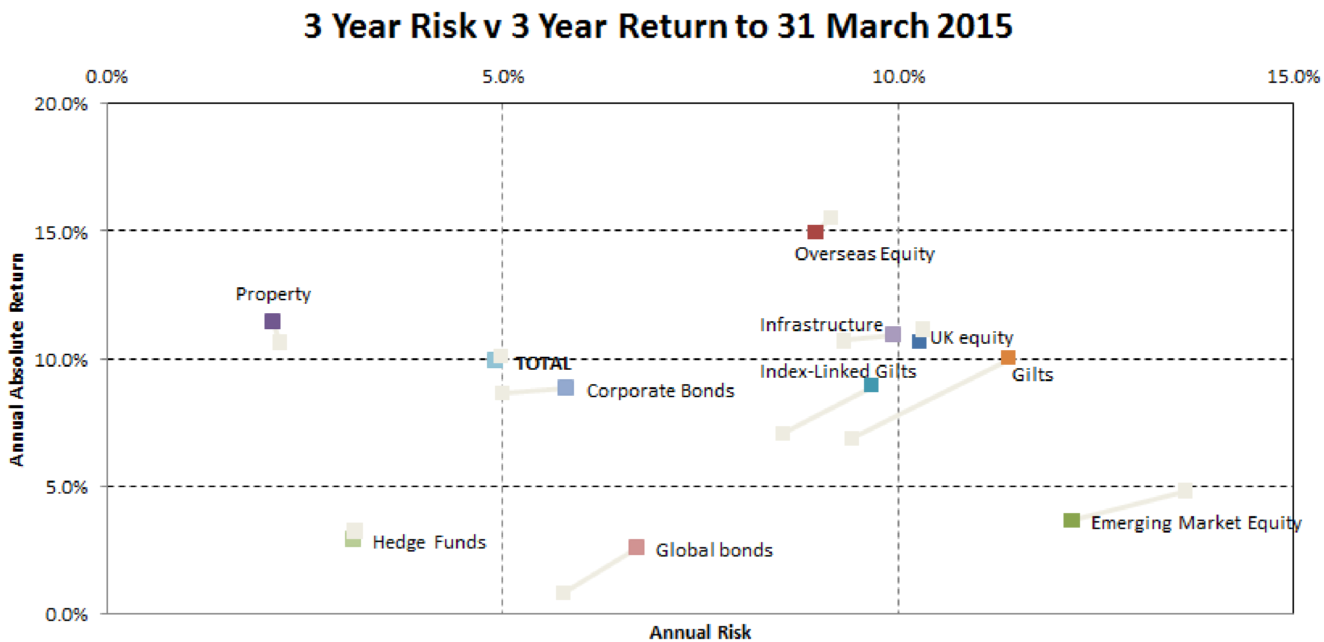
FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Standard Life	DGF	-	240,000	243,477	0.0	6.4
MAN	Fund of Hedge Funds	587	-	549	0.0	0.0
Signet	Fund of Hedge Funds	63,082	-	63,441	1.8	1.7
Stenham	Fund of Hedge Funds	38,225	-	39,661	1.0	1.0
Gottex	Fund of Hedge Funds	58,349	7	59,141	1.6	1.5
Schroder	UK Property	173,341	1,788	177,723	4.8	4.6
Partners	Property	137,559	5,613	136,985	3.8	3.6
RLAM	Bonds	299,072	59	308,883	8.2	8.1
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	15,728	-16,322	0	0.4	0.0
Internal Cash	Cash	49,992	-7,767	42,224	1.4	1.1
Total		**3,641,647**	**4,799**	**3,828,656**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding..

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

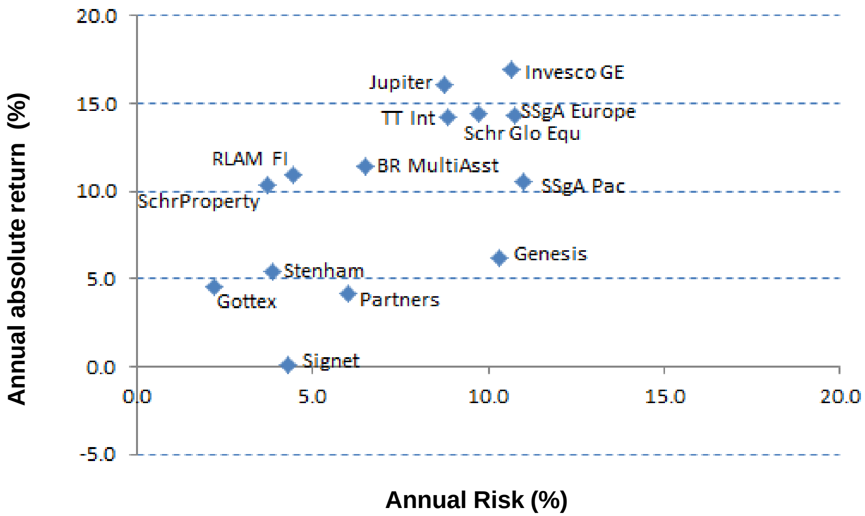
Comments

- *The most significant asset class change over the quarter was fixed interest gilts, which saw a significant increase in both backward looking return and risk. Index-Linked Gilts and global bonds moved in a similar fashion but to a lesser extent.*

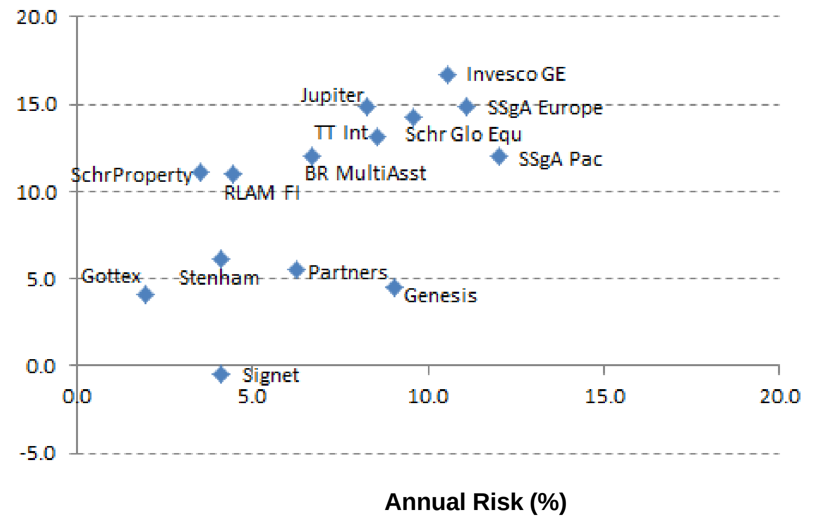
- *UK and Overseas Equity were broadly unmoved, however Emerging Market Equity saw a reduction in both backward looking return and risk.*

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 December 2014



3 year Risk vs 3 year Return to 31 March 2015



Comments

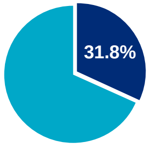
In general there was not a significant change in the three year risk and return profile of the funds over the quarter, although Genesis's risk and return both dropped noticeably with the strong performance of Q1 2012 dropping out of the three year figures.

MANAGER MONITORING
MANAGER PERFORMANCE – RELATIVE RETURNS TO BENCHMARK (TO 31 MARCH 2015)

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	-0.1	0.0	0.1	Target met
Jupiter	0.8	2.0	4.1	Target met
TT International	-0.6	-1.6	2.5	Target not met
Schroder Equity	1.0	0.0	0.0	Target not met
Genesis	-2.2	-2.8	1.2	Target met
Unigestion	-0.8	2.2	NA	NA
Invesco	0.4	1.2	1.2	Target met
SSgA Europe	0.4	0.6	1.5	Target met
SsgA Pacific	-0.1	1.9	1.6	Target met
Pyrford	1.8	1.2	NA	NA
Signet	-0.3	-7.7	-4.1	Target not met
Stenham	2.9	1.7	2.4	Target met
Gottex	0.4	-1.8	0.2	Target met
Schroder Property	-0.3	0.7	1.6	Target met
Partners Property	-0.3	-10.1	-3.1	Target not met
RLAM	0.1	0.2	2.2	Target met
Internal Cash	0.0	0.1	0.1	NA

Source: WM Services, Avon.

SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)

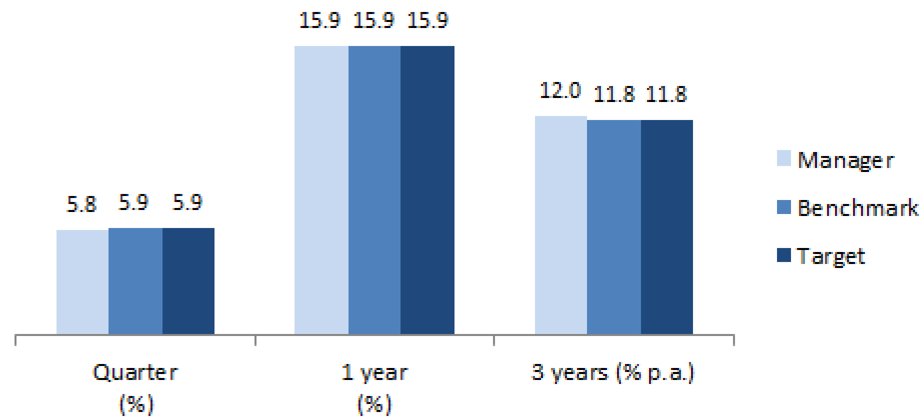
£1,216.6M END VALUE (£1,350.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	Preferred Provider (no change over period under review)
Performance Objective *In line with the benchmark*	●	Outperformed by 0.1% p.a. over three years (12.0% p.a. versus a benchmark of 11.9% p.a.- the difference is rounding)

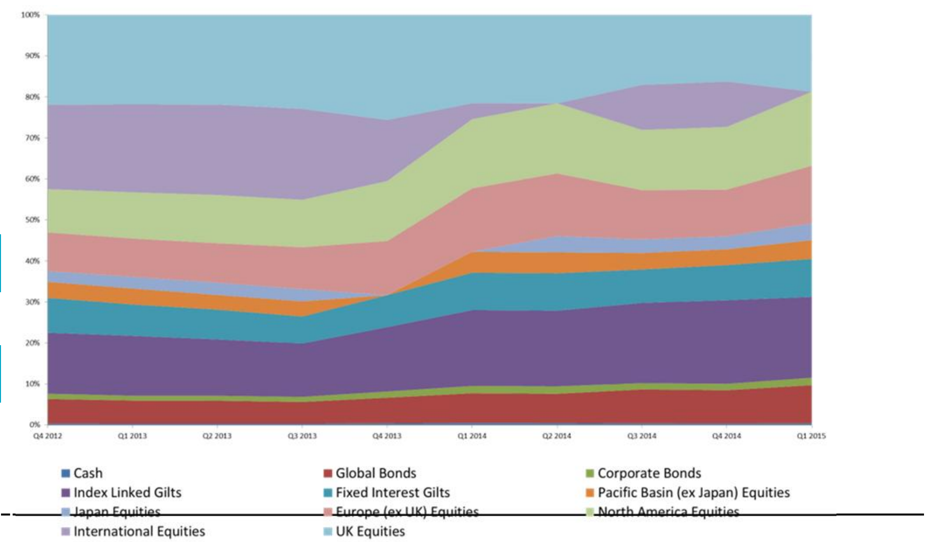
Manager Research and Developments

- Returns have been in line with benchmark over the quarter, as expected for a passive mandate with a benchmark based on monthly mean fund weights.
- Returns over the quarter and year have been particularly strong as a result of strong returns from both equities and bonds.
- The exposure to the international equity fund was sold down by mid 2014 in order to fund the emerging market equity allocation managed by Unigestion (see page 30), but then subsequently increased with the proceeds of the disinvestment from Barings (and since sold down again to fund the investment in Standard Life GARS – see page 36).

Performance



Asset Allocation

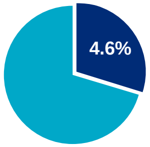


Reason for investment

To provide asset growth as part of diversified portfolio

Reason for manager

- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£175.6M END VALUE *(£166.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	●	Outperformed benchmark by 4.1% p.a. over three years
Tracking error was 3.6% p.a. (Q4: 3.6%) – *source: Jupiter*		Number of stocks: 58

Manager Research and Developments

- The strategy has no holdings in oil stocks, and this contributed heavily to outperformance as shares in Shell (who make up almost 7% of the index) fell by 10%.
- Cash holdings remain relatively high at 5.4% (as a result of accumulated dividends).
- Tracking error remains reasonably high as a result of the fund's concentration and divergence from the index (in particular, its underweight position to large cap stocks and overweight holdings in mid cap).

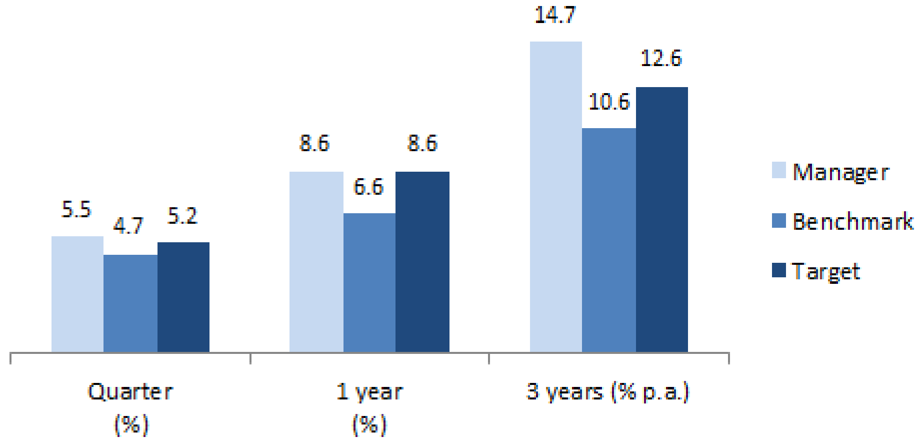
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

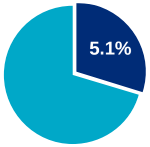
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns

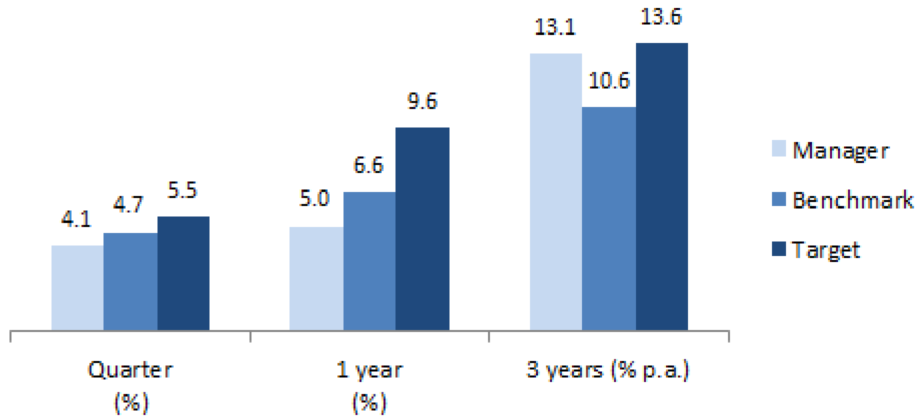
Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15



TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£194.9M END VALUE (£187.0M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review)
Performance Objective *Benchmark +3-4% p.a.*	●	Outperformed benchmark by 2.5% p.a. over three years, but lagged target
Historic tracking error was 3.5% p.a. (Source: Mercer)		Number of stocks: 56

Performance

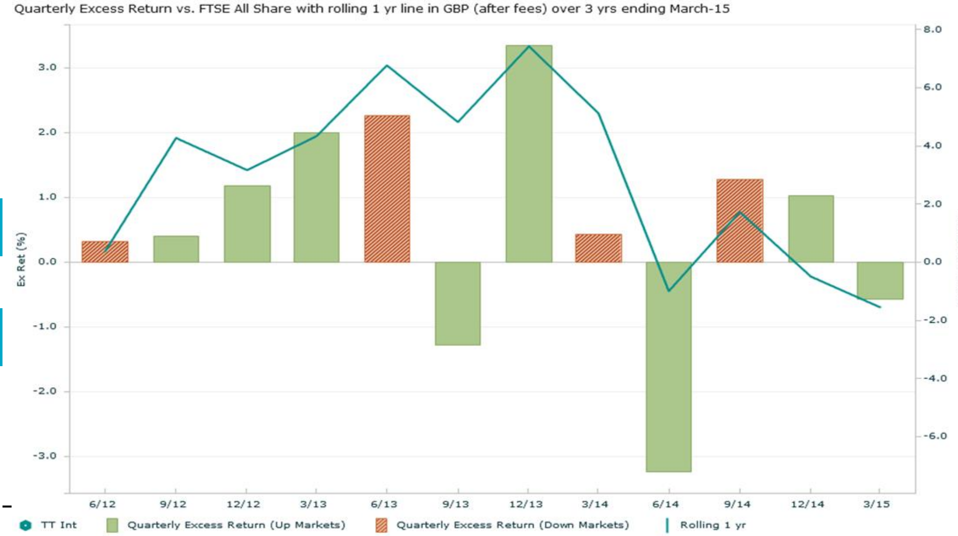


Manager Research and Developments

- TT underperformed their benchmark by 0.6% over the quarter, and 1.6% over the year to 31 March 2015.
- This underperformance over the quarter was largely due to stock selection decisions, in particular in the telecoms and heath care sectors.
- The holding in cash (4.4% at the start of the quarter) also detracted from performance in rising markets.
- Turnover increased significantly from 24.9% in Q4 to 44.7% in Q1 2015 (179% annualised), while the three year tracking error (a proxy for risk relative to benchmark) rose from 2.9% to 3.5%.
- Three-year Information ratios have decreased over the quarter, partly as a result of rising tracking error.
- Assets under management in TT's UK equity strategies increased slightly over the quarter, at c. £496m at the end of the quarter (compared to £477m in December 2014, £491m in March 2014 and £667m in March 2012). This is still a significant decrease over the three year period and should be kept under review.

Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15

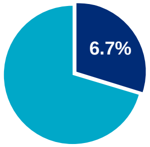


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)

£256.3M END VALUE *(£236.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B+ (upgraded from B)
Performance Objective *Benchmark +4% p.a.*	●	Performed in line with benchmark over three years, but lagged target
Historic tracking error was 1.9% p.a (Source: Mercer)		

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, largely through stock selection, especially in North America and the UK (and particularly in the technology sector).
- On a sector basis, underweight allocations to energy and healthcare, and overweight holdings in consumer discretionary all contributed positively to performance.
- Schroder's active share (the percentage of stock holdings in a manager's portfolio that differ from the benchmark index) remains high at around 90%, but while performance from stock selection and asset allocation has been positive over the last few months, longer term performance remains relatively disappointing.
- Over the quarter our researchers met with Schroders and improved the strategy's rating from B to B+, in light of Alex Tedder's introduction of changes to the strategy to emphasise top-down themes, and explicit opportunistic holdings.

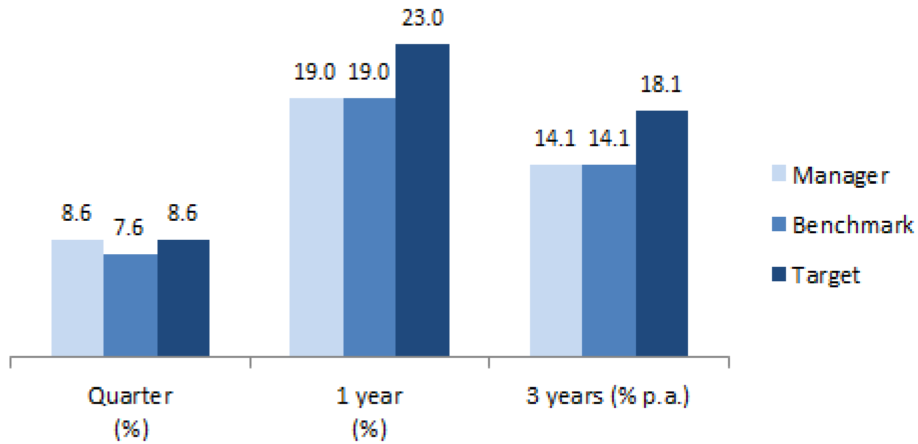
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

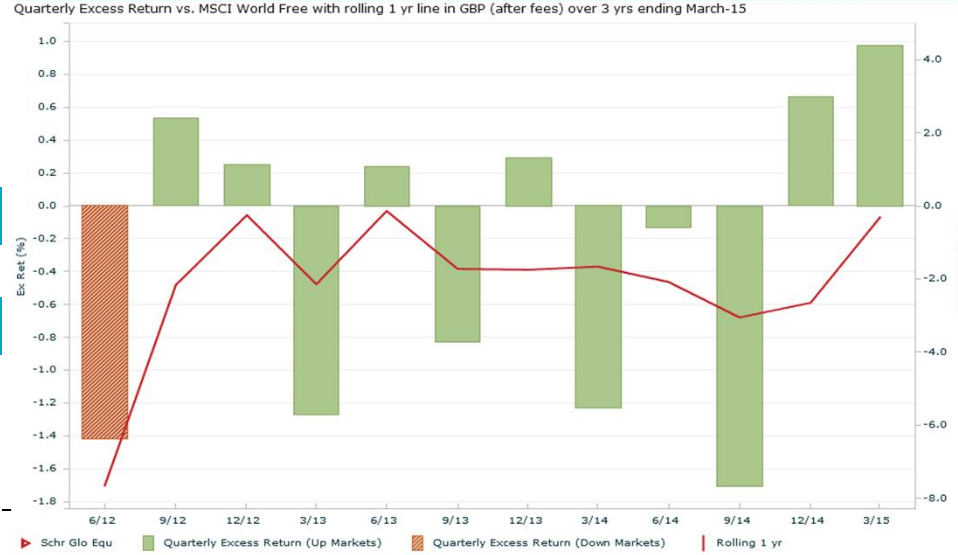
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

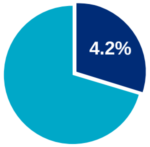
Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI World Free with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15

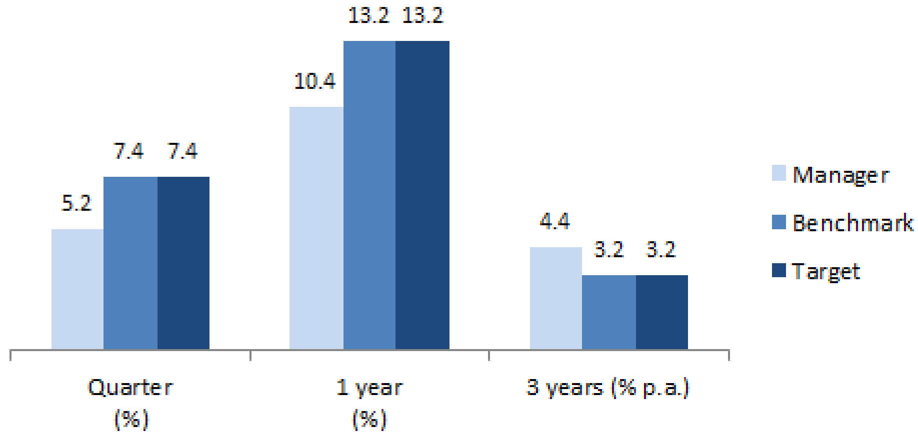




GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£160.2M END VALUE (£152.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark*	●	Outperformed benchmark by 1.2% p.a. over three years
Three year tracking error was 3.3% p.a. (Q4: 3.3%) – *source: Genesis*		Number of stocks: 155

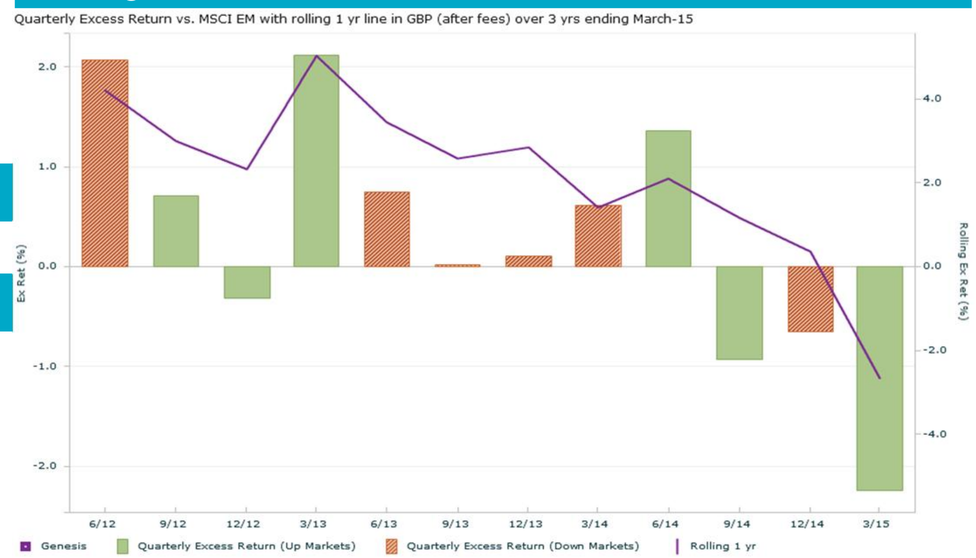
Performance



Manager Research and Developments

- Despite strong returns from Indian stocks over the quarter, the fund underperformed its benchmark by 2.2% over the quarter (the three biggest detractors came from the commodity sector – Anglo American and First Quantum Minerals each fell by around 15% while Tullow Oil lost 35%, and in part reflect Genesis' long-term overweight position in South Africa. (As the process is "bottom up", any country positions relative to benchmark are as a result of the underlying stock picks rather than a position on the country).
- The impact of this underperformance is to bring one-year returns below benchmark, although three year returns are still ahead of target. Some short-term volatility relative to benchmark is to be expected given their long-term approach of identifying under-priced companies and investing with a five year time horizon.

Rolling relative returns

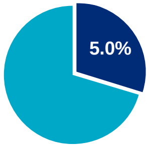


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management



UNIGESTION – EMERGING MARKET EQUITIES

(POOLED – SUB-FUND)

£191.7M END VALUE *(£179.8M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	●	Outperformed benchmark by 2.2% over the year
Historic tracking error since inception was 4.2% p.a (Source: Unigestion)		Number of stocks: 86

Manager Research and Developments

- The Fund underperformed by 0.8% over the quarter, but strong performance in mid 2014 has meant that performance over the year to 31 March 2015 is 2.2% p.a. above benchmark.
- This underperformance largely occurred in February, where the fund returned -0.7% against a benchmark return of 0.2% in very volatile markets (in particular, with the Minsk summit and subsequent Ukraine ceasefire in the middle of the month.
- Volatility since inception is 11.0%, lower than the index (at 12.6%) and consistent with their objectives (and the strategy's bias towards quality and large- or mega-cap stocks).

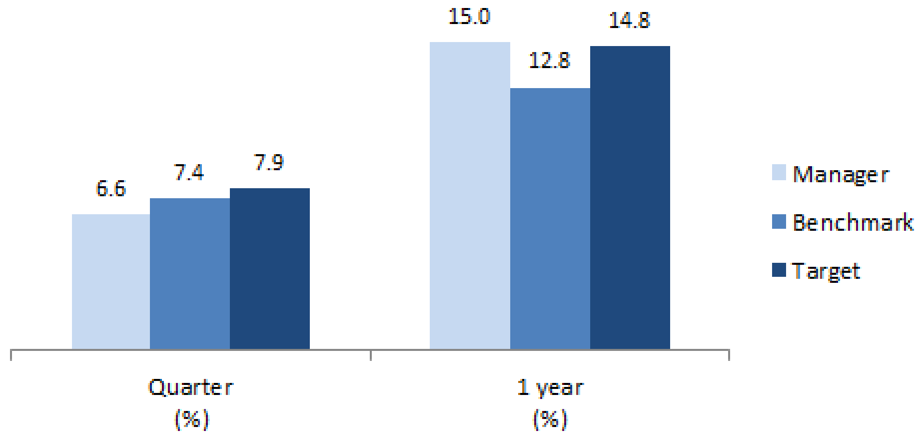
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

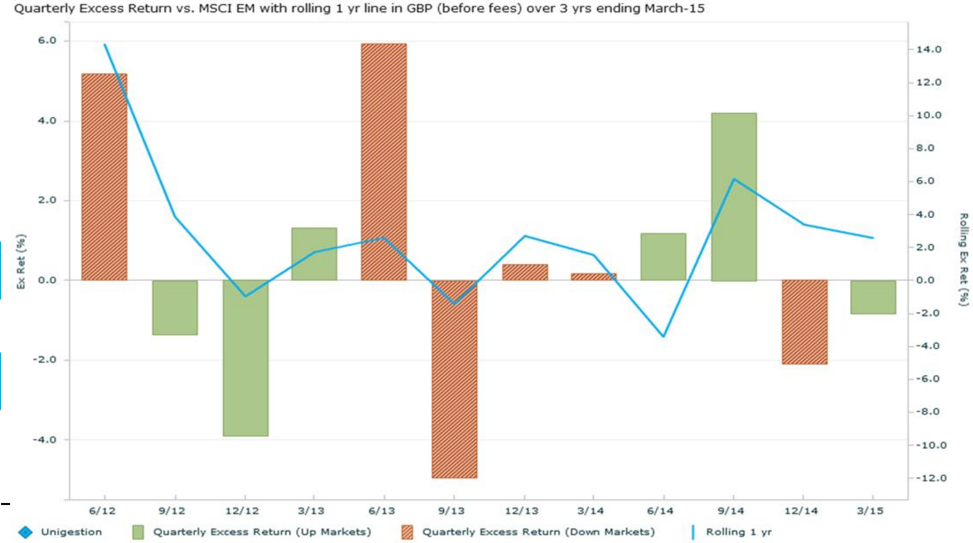
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

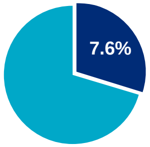


Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 yr line in GBP (before fees) over 3 yrs ending March-15



Note: Chart includes pooled fund performance history prior to inception



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£291.4M END VALUE (£269.4M START VALUE)

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 1.2% p.a. over three years
Tracking error since inception was 1.5% p.a - *source: Invesco*	Number of stocks: 392

Manager Research and Developments

- The fund outperformed its benchmark by 0.4% over the last quarter, and is ahead of its outperformance target over 3 years.
- The outperformance over the quarter was generated through stock selection, with Invesco's highest rated stocks slightly outperforming the market, while the less attractive stocks underperformed the market.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.2% of benchmark weightings, as would be expected for an enhanced indexation product.
- Karl Georg Bayer, Global Head of Research for Invesco Quantitative Strategies, is transitioning to a new role supporting Invesco's global investment platform in an advisory capacity. Mr. Bayer will hand over his research responsibilities to Michael Fraikin during an interim period; Michael remains the named fund manager alongside Alex Uhlmann for the enhanced indexation strategy Avon is invested in (which is run on a team based approach).

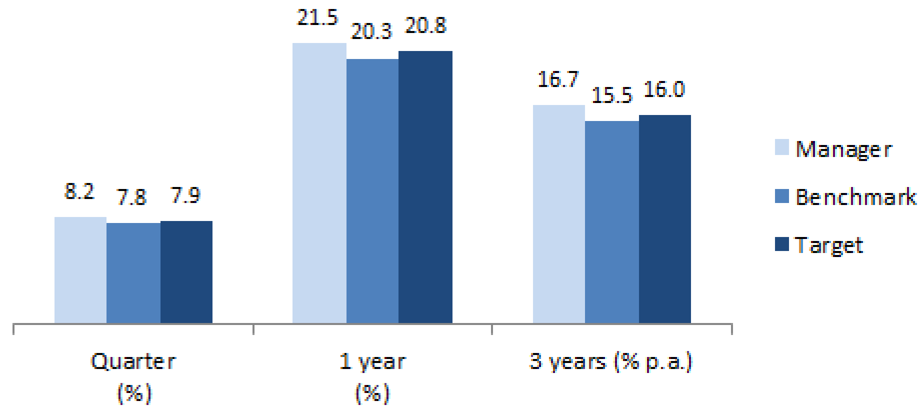
Reason for investment

To provide asset growth as part of diversified equity portfolio

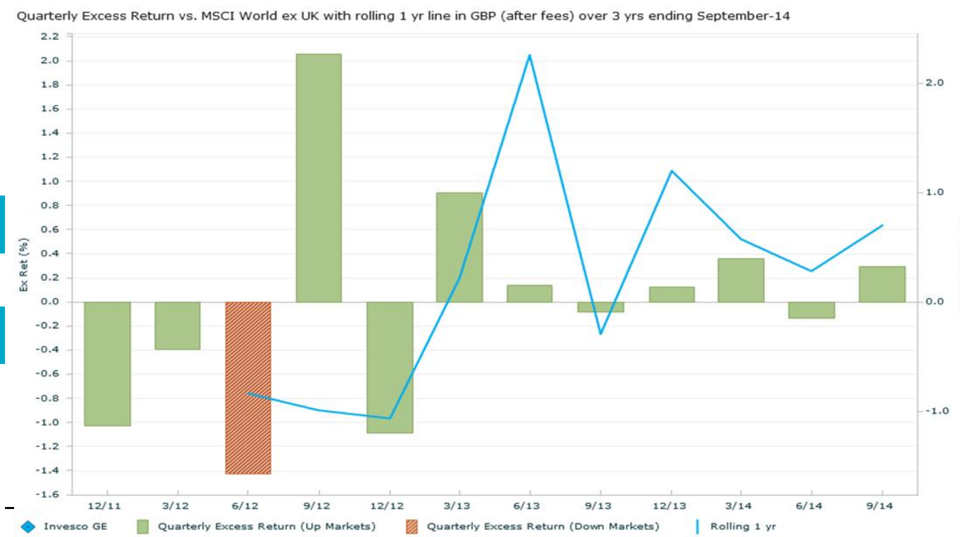
Reason for manager

- 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
- One of few to offer a Global ex UK pooled fund

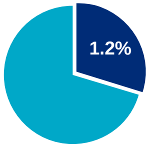
Performance



Rolling relative returns



Note: MSCI World NDR ex UK index not currently available.

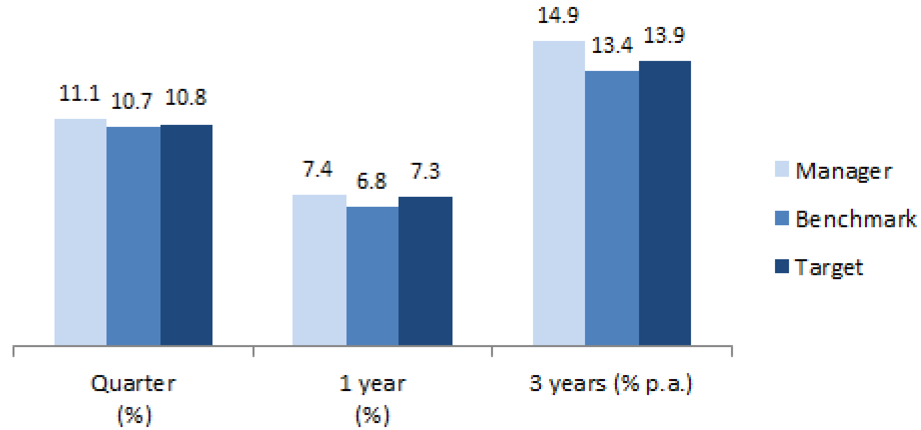


SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)

£44.3M END VALUE *(£39.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 1.5% p.a. over three years
Historic tracking error was 0.9% p.a (Source: Mercer)	Number of stocks: 211

Performance



Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 31 March 2015 was £44.4m. 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.
- The CEO of State Street Global Advsors retired over the quarter and was replaced by Ronald O'Hanley in April. O'Hanley has over 30 years of leadership experience in the industry and most recently was President of Asset Management & Corporate Services at Fidelity.
- No ratings change has been proposed as a result of this change. O'Hanley has good experience and we would not expect this senior role change to materially impact SSgA investment strategies.

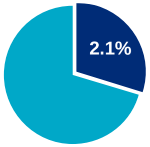
Rolling relative returns

Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities



SSGA – PACIFIC INCL. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£80.3M END VALUE *(£71.1M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.6% p.a. over three years
Historic tracking error was 0.8% p.a (Source: Mercer)		Number of stocks: 394

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The pooled fund size is £80.3m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor

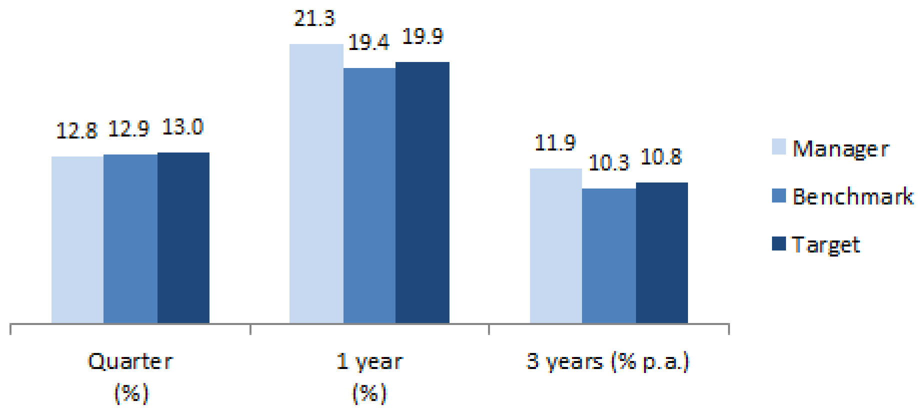
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

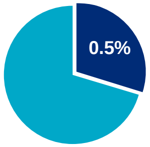
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE AW Developed Asia Pac with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-15



RECORD – ACTIVE CURRENCY HEDGING (SEGREGATED) £20.6M END VALUE (£32.4M START VALUE)

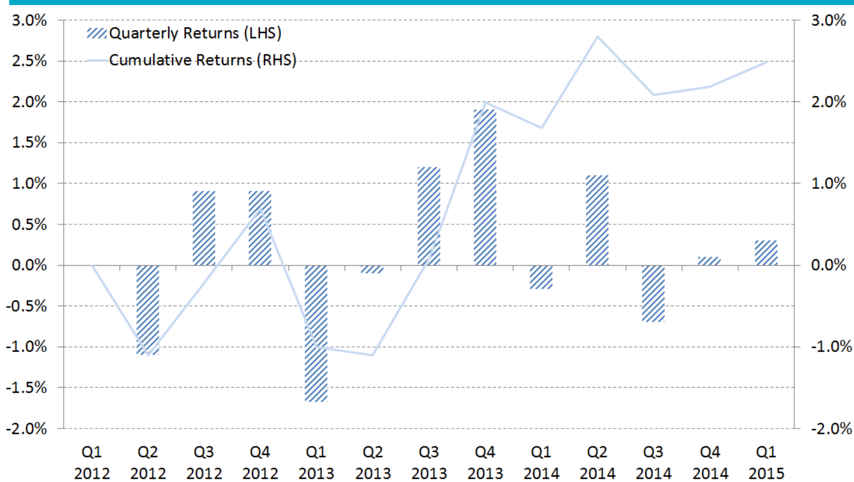
Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	Outperformed benchmark by 0.4% p.a. over three years

Manager Research and Developments

Over the quarter, the US dollar and the Yen strengthened significantly against Sterling whereas the Euro weakened.

A 50% hedge on each currency would have had an overall negative return because the positive effect of the US Dollar and Yen movements would be offset. However, Record maintained a low Dollar hedge ratio which meant that they outperformed against a 50% hedge.

Hedging Return



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (%)
Record Hedge	0.31	0.80	0.84
50% Illustrative Hedge	-1.22	-1.80	0.48
Relative	**+1.53**	**+2.60**	**+0.36**

Currency Hedging 3 Month Performance (£ terms)

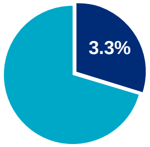
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	608,836,010	559,047,385	5.04%	-2.54%	-0.59%	4.44%
EUR	200,594,821	207,358,854	(6.78%)	3.57%	6.23%	-0.83%
JPY	138,935,384	147,838,770	5.01%	-2.59%	-4.46%	0.78%
Total	**948,366,215**	**914,245,009**	**2.38%**	**-1.22%**	**0.31%**	**2.74%**

Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not reply on human intervention
- Strong IT infrastructure and currency specialists



PYRFORD – DGF (POOLED)
£124.7M END VALUE (£121.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Outperformed benchmark by 1.2% p.a. over one year

Manager Research and Developments

- The fund has outperformed the benchmark over the quarter (+1.7%) and year (+1.2%)
- The asset allocation of the fund remained the same over the quarter at 30% equities, 67% bonds and 3% cash.
- The equity country allocation has remained the same, with no allocation to UK and European banks. The portfolio focusses 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 2.2 years.

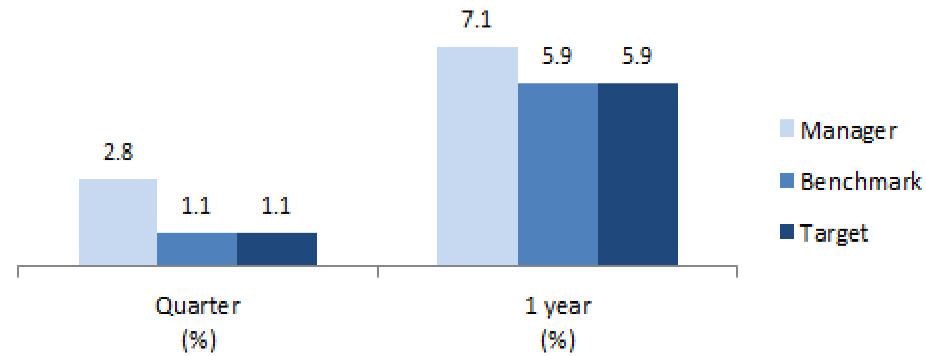
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

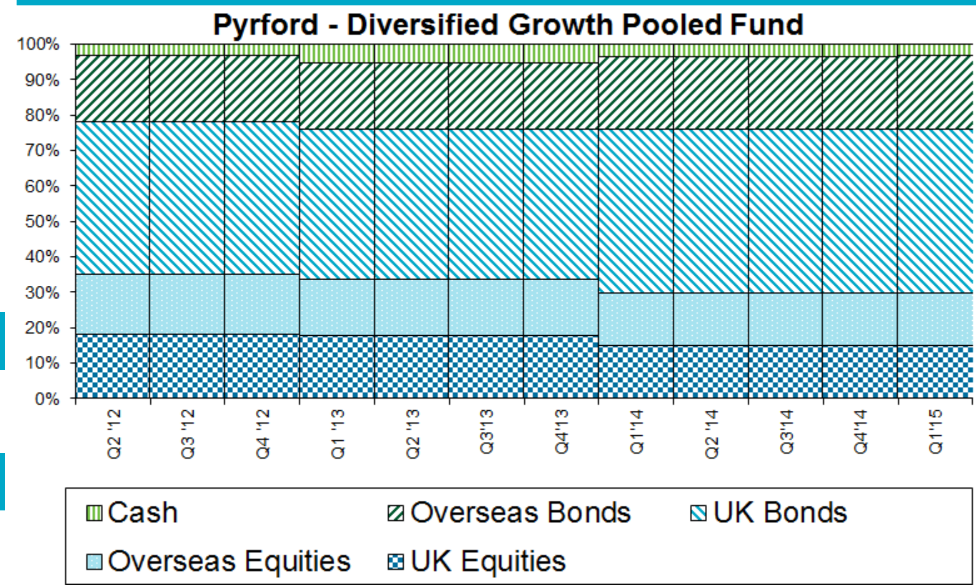
Reason for manager

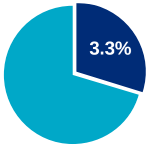
- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

Performance



Asset Allocation/Risk Exposure





STANDARD LIFE – DGF (POOLED)
£243.5M END VALUE *(£0.0M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Cash +5% p.a.*	●	Not invested for full quarter

Manager Research and Developments

- The Fund invested £240m in Standard Life GARS during the quarter.
- The charts to the right (and overleaf) provide analysis of the performance of the pooled fund (net of fees) over the three years to 31 March 2015, illustrating that while returns have slightly lagged the median DGF manager, the risk taken to produce these returns has been significantly lower and as a result risk adjusted returns are attractive.
- More in depth analysis will be provided in future reports when there is a longer track record
- Over the quarter, our researchers met with Standard Life and retained their B+ rating . Although we have no major concerns at this point, we believe that capacity management is a key issue for Standard Life's multi-asset business, and as a result in particular of the growth of the strategy assets under management, we conclude this strategy does not merit our highest rating.

Reason for investment

To provide equity like return over the long term but with a lower level of volatility

Reason for manager

- Diversification from equities
- Exposure to market-neutral trades, and different approach to Pyford's asset allocation approach.

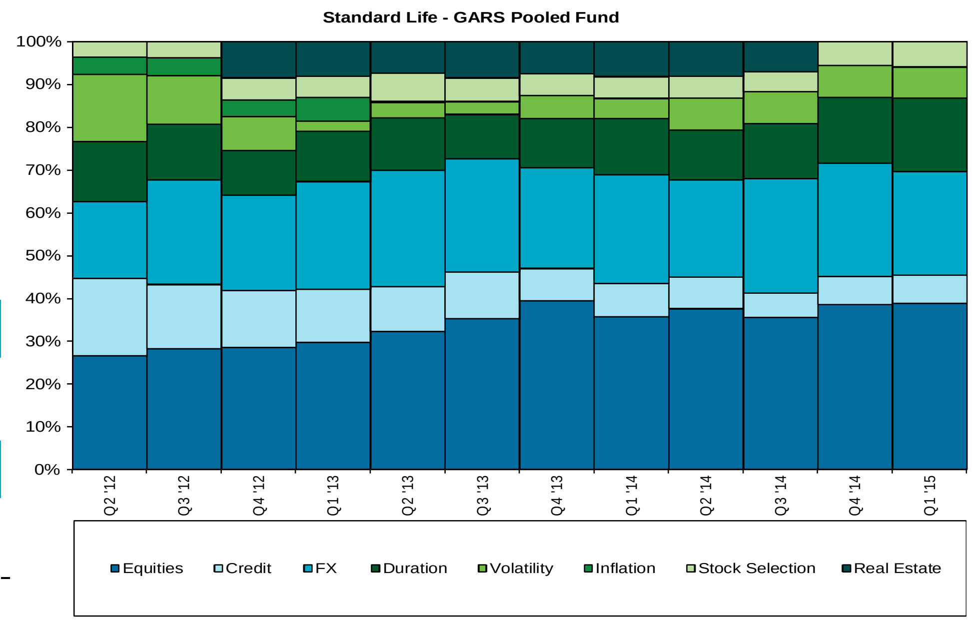
Performance

Performance characteristics vs. Zero Benchmark in GBP (after fees) over 3 yrs ending March-15 (quarterly calculations)

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)

	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▼ SLI GARS	6.4 *(22)*	3.9 *(26)*	1.6 *(15)*	3.9 *(26)*	1.6 *(15)*
95th Percentile	10.2	6.7	2.0	6.7	2.0
Upper Quartile	8.6	5.6	1.7	5.6	1.7
Median	7.1	4.9	1.6	4.9	1.6
Lower Quartile	6.1	4.1	1.2	4.1	1.2
5th Percentile	4.3	3.4	1.0	3.4	1.0
Number	31	31	31	31	31

Asset Allocation/Risk Exposure



DGF MANDATES

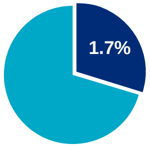
Performance characteristics vs. BofAML LIBOR 3 month average UK in GBP (after fees) over 1 yr ending March-15 (quarterly calculations)

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	7.1 *(31)*	1.9 *(36)*	3.5 *(13)*
▼ SLI GARS	10.0 *(18)*	3.1 *(24)*	3.1 *(17)*
95th Percentile	15.0	5.5	4.2
Upper Quartile	12.3	4.0	3.6
Median	9.9	3.3	2.9
Lower Quartile	7.5	2.4	2.0
5th Percentile	2.8	1.0	1.0
Number	39	39	39

Commentary

- Over the year to 31 March 2015, the Standard Life GARS pooled fund outperformed Pyrford by 2.9%.
- This placed Standard Life above the median International Multi-Asset manager for performance, whilst Pyrford were in the bottom quartile. It should be noted that this universe is very diverse in styles.
- This however was achieved whilst taking significantly more risk, with Standard Life's standard deviation standing at 3.1% against Pyrford's 1.9%.
- Pyrford were in the bottom quartile for risk and Standard Life were just below the median, meaning they both took less risk than the average manager in the universe.
- Both managers' information ratios over this period were above the median manager for the universe.
- Note that this is a short time-frame over which to measure risk, and reflects the limited period the Fund has been invested for. More telling analysis will emerge as the track record grows.



SIGNET – FUND OF HEDGE FUNDS
£63.4M END VALUE *(£63.1M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Underperformed benchmark by 4.1% p.a. over three years

Item	
Number of funds	31

Strategy	Approximate Contribution over to Performance over the Quarter (%)
Long-Biased Credit	+0.60
Long-Short Credit	+0.37
Long Only Credit	+0.39
Recovery Plays	+0.36
Global Rates and FX	-0.11
Mortgaged Backed Securities	+0.07
Event Driven and Special Situations Fund	-0.73

Source: Signet, Mercer. Approximate calculations based on largest holdings.

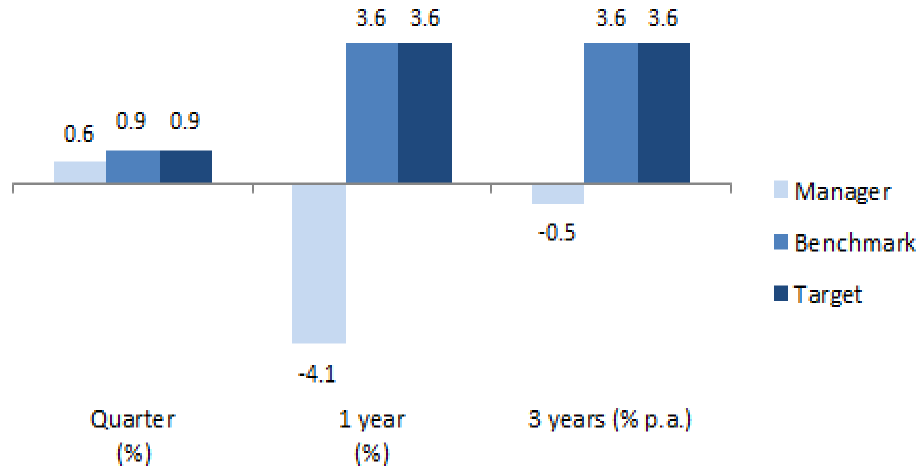
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

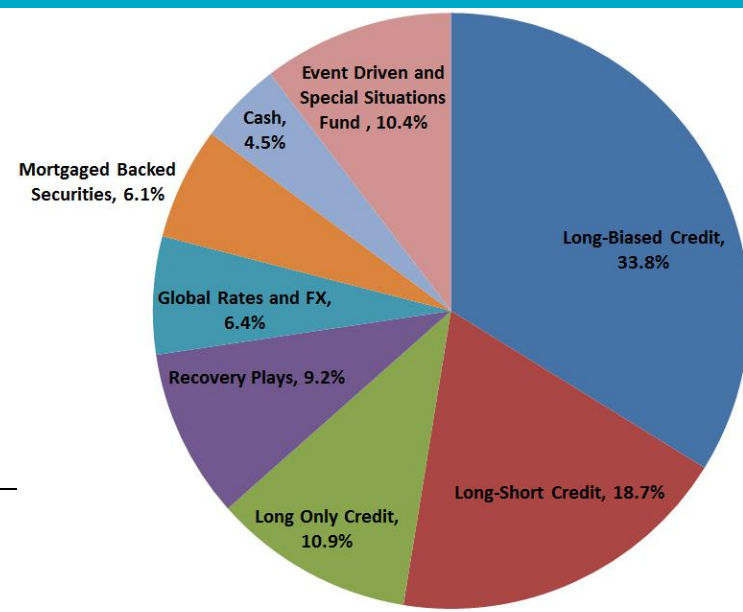
Reason for manager

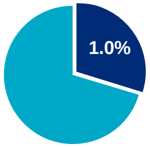
- Niche fixed income strategy focus
- Established team with strong track record
- Complemented other funds in the portfolio

Performance



Allocation





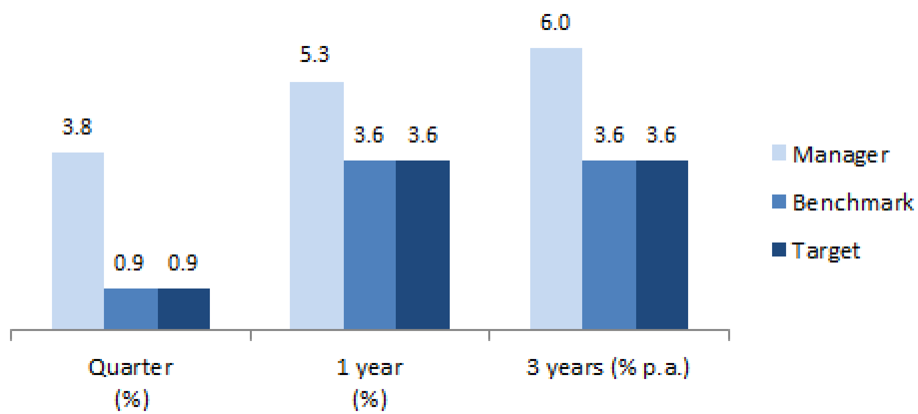
STENHAM – FUND OF HEDGE FUNDS
£39.7M END VALUE *(£38.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 2.4% p.a. over three years

Item	
Number of funds	20

Strategy	Gross Contribution over to Performance over the Quarter (%)
Market Directional/Trading	1.1
Equity Bias	2.4
Event Driven	0.7
Credit	0.0

Performance



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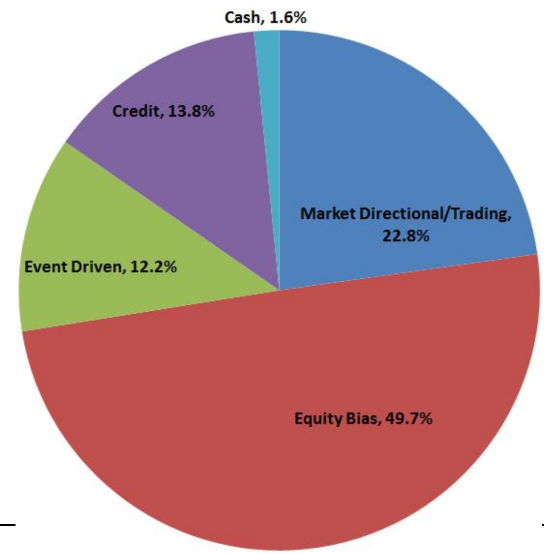
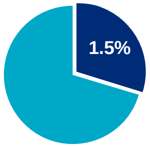


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies
- Established team, strong track record at selecting managers
- Complemented other funds in the portfolio



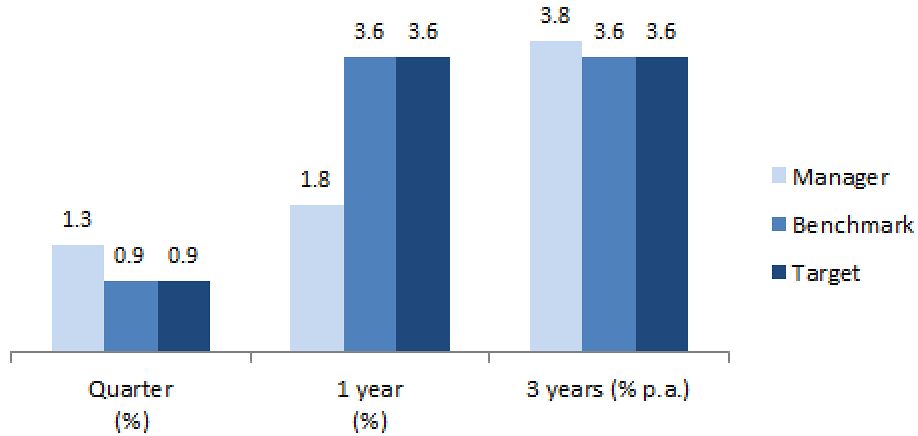
GOTTEX– FUND OF HEDGE FUNDS
£59.1M END VALUE *(£58.3M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 0.2% p.a. over three years

Item	
Number of funds	Not Available

Top 5 most significant contributing strategies	Gross Contribution over to Performance over the Quarter (%)
Fundamental MN Equity	+0.45
Quantitative MN Equity	+0.42
Asset-Backed Securities	+0.31
Event Driven Equity	+0.24
MBS Strategies	+0.19

Performance



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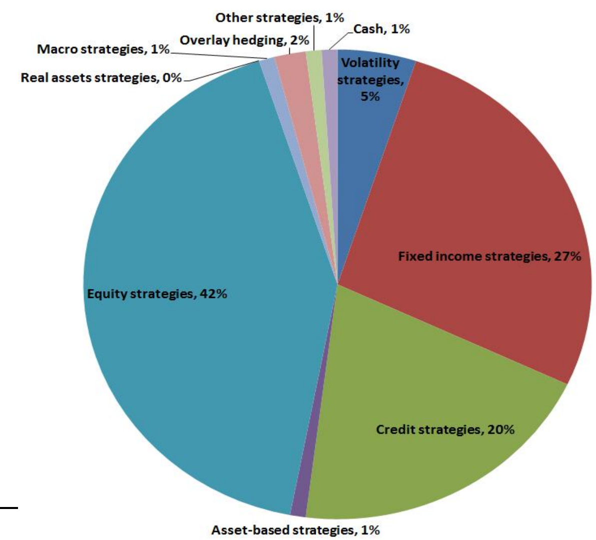


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

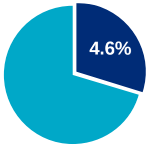
Reason for manager

- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

FUND OF HEDGE FUND MANDATES

The Fund is in the process of divesting from all three managers listed above, with the allocation to be managed by JPMorgan in a bespoke fund of funds vehicle.

Manager	31 March 2015 holding	Comments
Signet	£63.4m	Signet saw significant underperformance over the year, which led to a negative overall contribution to relative performance. This stemmed from the underperformance of their illiquid holdings in the Event Driven & Special Situations Fund (with the main holdings in the Global Fixed Income strategy returning +0.1% over the twelve month period).
Stenham	£39.7m	Stenham's long/short equity and global macro approach fared well over the year, outperforming its benchmark by 1.7% (outperforming their benchmark by 2.9% in Q1 2015 alone, as a result of strong equity returns across most markets and the US in particular).
Gottex	£59.1m	Gottex's market neutral approach underperformed over the year with poor returns in Q4 2014, but generated positive performance over the three-years to 31 March 2015.



SCHRODER – UK PROPERTY FUND OF FUNDS
£177.7M END VALUE (£173.3M START VALUE)

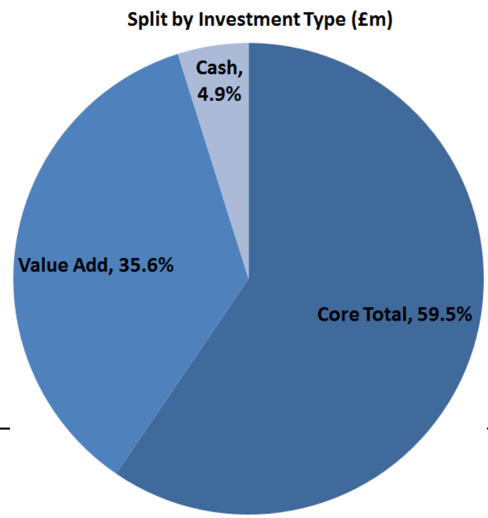
Item Monitored		Outcome
Mercer Rating	● (red)	B (no change over quarter)
Performance Objective *Benchmark +1% p.a.*	● (green)	Outperformed benchmark by 1.6% p.a. over three years

Manager Research and Developments

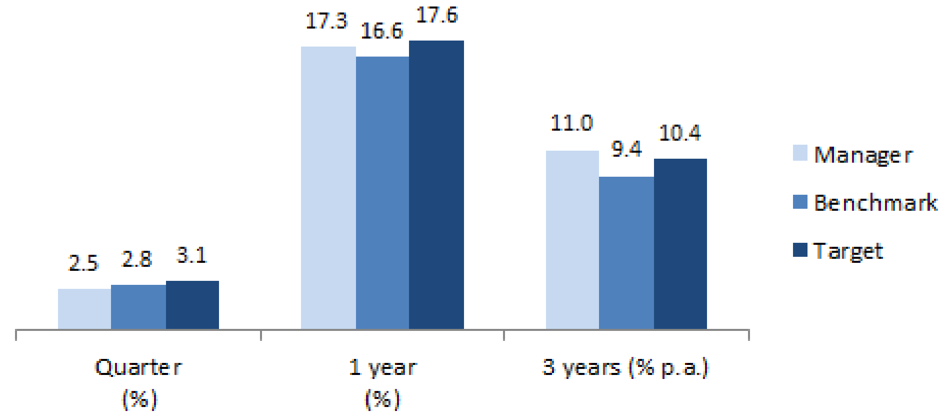
- The fund underperformed the benchmark over the quarter by 0.3%, as the Core strategy detracted from relative performance.
- Over the three year period, the fund has outperformed its target by 0.6% p.a., largely due to strong performance from Value Add strategies (i.e. alternative or less mainstream assets (with low industrial and central London exposure).
- The fund purchased c. £6.0m of units over the quarter; £4.0m in the L&G Managed Property Fund and £2.0m in the Industrial Property Investment Fund. £6.2m in proceeds were received from the West End of London Property Trust and £0.7m from the Threadneedle Strategic Property Fund IV Trust.

Manager and Investment type splits

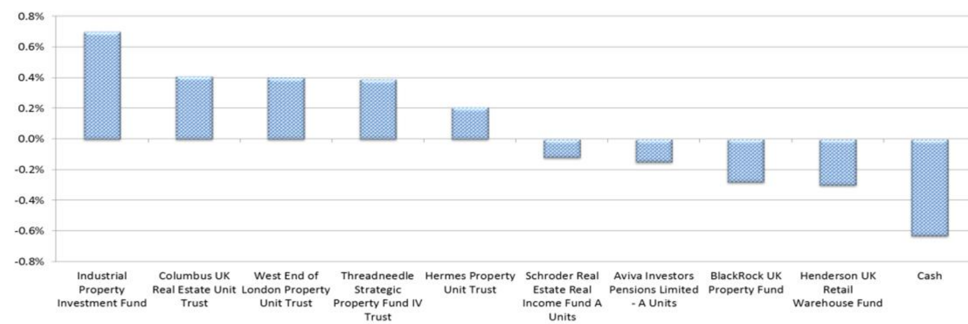
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	13.3
L&G Managed Property Fund	13.0
Standard Life Pooled Pension Property Fund	10.0
Aviva Investors Pensions	9.5
Industrial Property Investment Fund	9.4



Performance



Top 5 Contributing and Detracting Funds

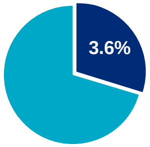


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



PARTNERS – OVERSEAS PROPERTY
£137.0M END VALUE *(£137.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟢	B+ (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	🔴	Underperformed benchmark by 3.1% p.a. over three years (see note below).

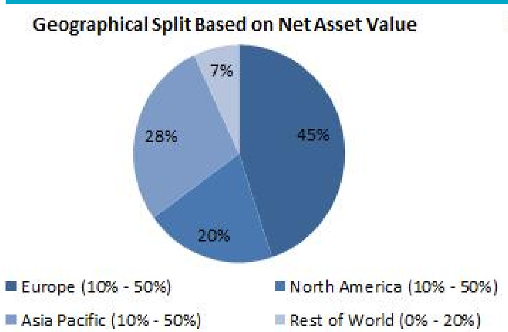
Manager Research and Developments

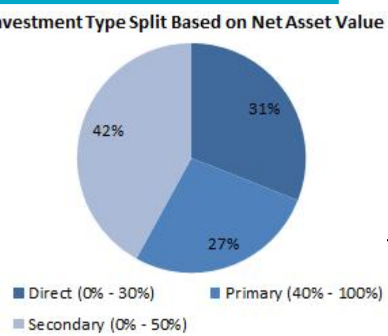
- Over the quarter, the fund has underperformed the benchmark by 0.3% , and 3.1% over the three year period.
- **Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2015 at 10.1% p.a. is in line with their target of 10% p.a.**
- Over Q1, the allocation to Europe has increased (from 41% to 45%) while Asia Pacific and North America both fell slightly (from 30% to 28%, and 22% to 20% respectively. These remain within the guidelines.
- The exposure to Secondary has fallen this quarter (from 46% to 42%), with Direct increasing by 4% and Primary unchanged at 27%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Portfolio update

Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (31 Mar 2015) (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	14.04	24.85	9.2
Real Estate Secondary 2009	19.01	3.42	20.03	14.6
Asia Pacific and Emerging Market Real Estate 2009	14.48	4.66	14.18	6.8
Distressed US Real Estate 2009	14.75	11.16	10.00	9.8
Global Real Estate 2011	24.70	4.01	24.49	13.0
Direct Real Estate 2011	10.80	1.07	13.25	9.4
Real Estate Secondary 2013	3.90	0.00	4.71	27.7
Global Real Estate 2013	29.29	0.00	27.44	5.1
Real Estate Income 2014	7.85	0.00	7.24	1.6
Total	**156.46**	**38.35**	**146.82**	**10.1**

Geographical and Investment type splits



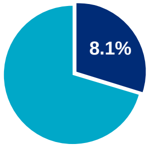


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- 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

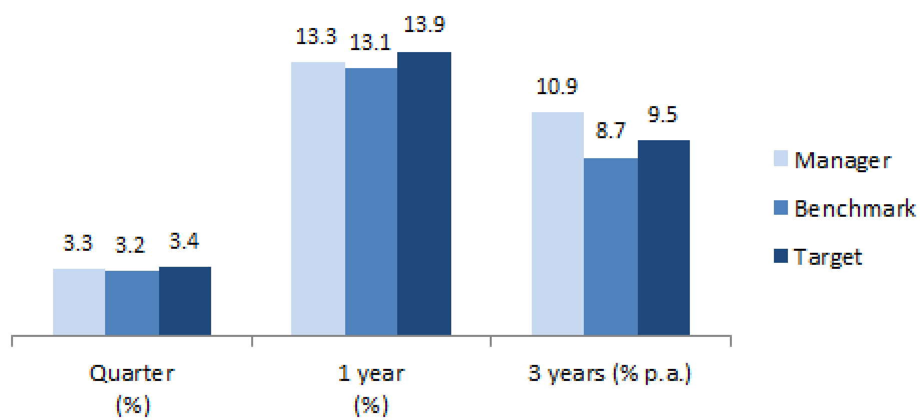


ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

£308.9M END VALUE (£299.1M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark +0.8% p.a.*	●	Outperformed benchmark by 2.2% p.a. over three years

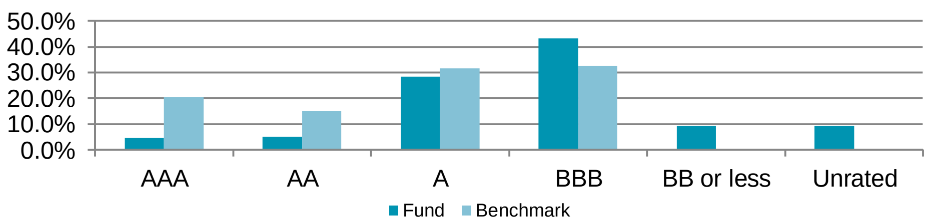
Performance



Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.
- Over the quarter, Sajiv Vaid (Senior Fund Manager) resigned to pursue a new role at Fidelity. Co-portfolio manager and Head of Fixed Interest Jonathan Platt will assume full portfolio management responsibility for the strategies until a replacement is found.
- We do not see it as any reflection on the team at RLAM, which we continue to view as highly skilled and collegiate, rather the opportunity was too good to turn down. We are not proposing any changes to ratings as a result of this news.

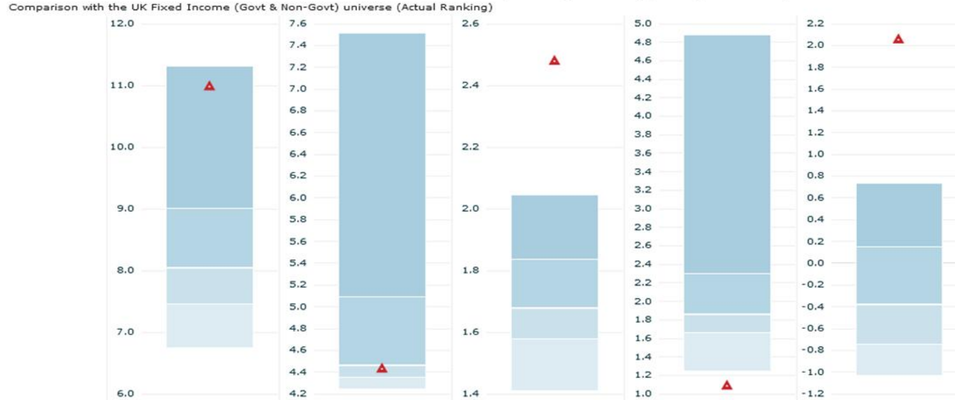
Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.8*	*7.6*

Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending March-15 (quarterly calculations)
Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▲ RLAM FI	11.0 *(3)*	4.4 *(19)*	2.5 *(1)*	1.1 *(32)*	2.1 *(1)*
95th Percentile	11.3	7.5	2.0	4.9	0.7
Upper Quartile	9.0	5.1	1.8	2.3	0.2
Median	8.0	4.5	1.7	1.9	-0.4
Lower Quartile	7.5	4.4	1.6	1.7	-0.7
5th Percentile	6.7	4.2	1.4	1.2	-1.0
Number	32	32	32	32	32

Reason for investment

To maintain stability in the Fund as part of a diversified fixed income portfolio

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a “niche” where price inefficiencies are more prevalent. Product size means can be flexible within market

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
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%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI + 5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
BlackRock	Overseas Property Account	Customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2
MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

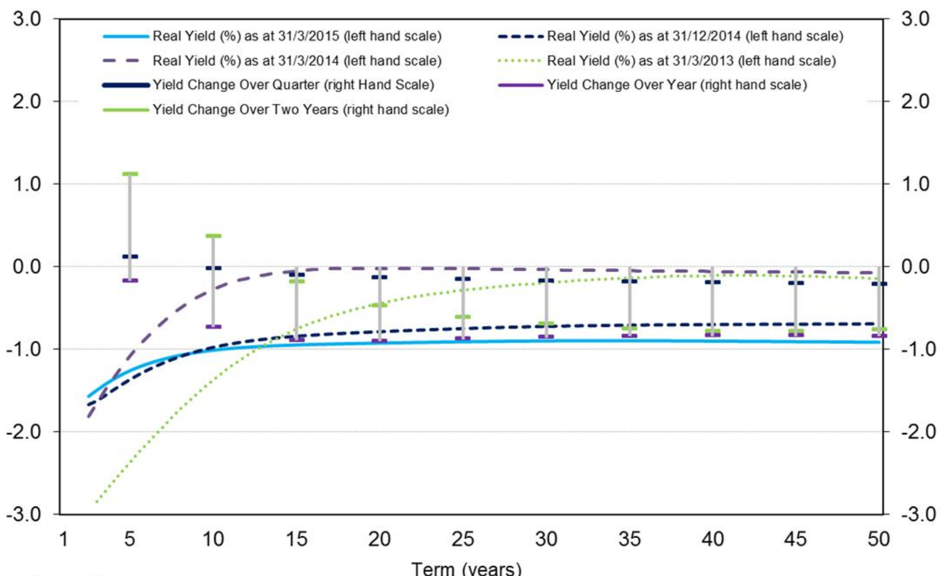
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 March 2015	31 December 2014	31 March 2014	31 March 2013
UK Equities	3.33	3.37	3.41	3.35
Over 15 Year Gilts	2.23	2.42	3.43	3.02
Over 5 Year Index-Linked Gilts	-0.91	-0.75	-0.08	-0.41
Sterling Non Gilts	2.65	2.99	3.69	3.28

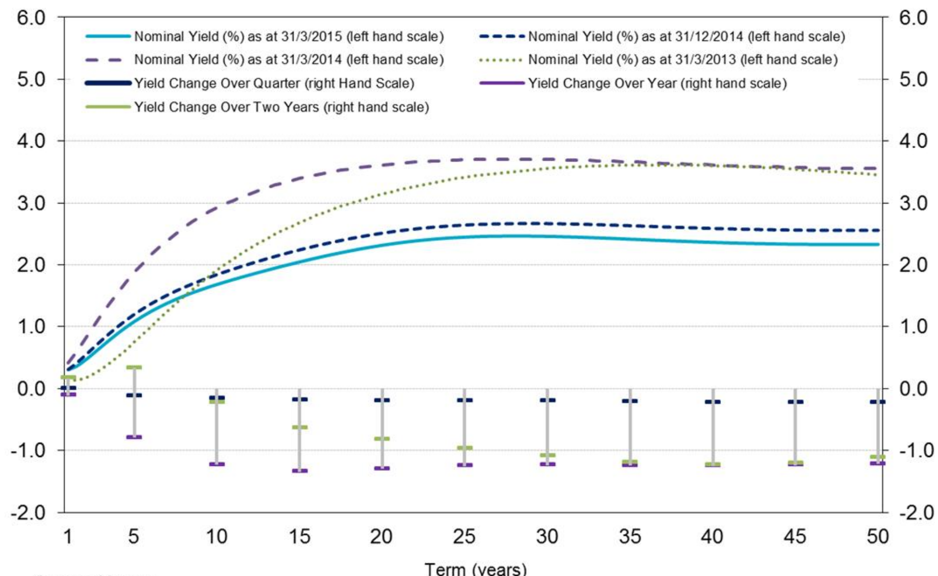
- Bond market yields fell further over the quarter, particularly at the longer end of the yield curve. Nominal 10 year gilt yields fell from 1.8% to 1.7% over the first three months of the year. As a result, UK bond markets posted positive returns.
- Over the quarter, the real yield curve also fell across most durations, resulting in over 5 year index-linked gilts posting a return of 3.3%.
- Credit spreads also tightened over the quarter, which in combination with falling gilt yields resulted in a total return of 3.3% for the UK corporate bonds.

Nominal yield curves.



Source: Mercer.

Real yield curves.



Source: Mercer.

HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2015

AUGUST 2015

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Please also note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Where the investment is via a fund of funds the investment manager typically has to rely on the underlying managers for valuations of the interests in their funds.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

CONTENTS

SECTION 1
EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report has been prepared for the Investment Panel of the Avon Pension Fund ("the Fund"), to assess the performance and risks of the investment managers of the Fund.

Fund performance

- The value of the Fund's assets decreased by £99m over the quarter, to £3,730m at 30 June 2015.

Strategy

- Global (developed) equity returns over the last three years at 14.6% p.a. have been significantly ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain neutral in our medium term outlook for developed market equities (over the next one to three years), and expect returns to be more modest over the next three years.

- The three year return from emerging market equities has risen to 5.0% p.a. from 3.7% p.a. last quarter. The three year return remains below the assumed strategic return (of 8.75% p.a.) as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme, together with the negative impact of the strengthening US$ on many emerging economies. As for developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 30 June 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 5.3% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 7.4% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high. Whilst from an absolute return perspective government bonds remain unattractive due to the low yields available, we continue to believe that their value in the context of the overall portfolio is important from a liability risk management perspective.

Strategy (continued)

- UK Corporate bonds also performed strongly, returning 6.6% p.a. over the three year period against the assumed return of 5.5% p.a., while property returns of 12.6% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- Looking forward, our medium term view for the prospects for corporate bonds remains unattractive. Given the fall in liquidity in bond markets in recent years, as a result of increased regulation, subdued lending and central bank quantitative easing, bond markets in the short term are likely to be volatile. We believe this presents opportunities for more active “absolute return” or multi-asset credit managers.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates. With most listed assets looking close to fully valued if not fully valued, we would expect ‘alpha’ driven investments such as hedge funds and dynamic multi-asset strategies to play an increasingly important role in return generation over the coming three years, particularly if ‘beta’ (i.e. market-driven) returns are lower looking forward.

Managers

- Absolute returns over the quarter were mixed but generally negative as equities and bonds both produced negative returns over the quarter, although both Jupiter and TT International generated positive returns in the face of the falling UK equity market. The Schroder UK Property fund's return for the quarter was strong as the property market continued to improve. The lowest absolute returns were from the SSgA Europe ex-UK Enhanced Indexation fund, at -6.3%.

- Returns over the year were more positive. The Fund's global equity mandates in particular fared well, with Invesco returning 11.8% (0.5% above benchmark), and Schroder returning 10.0% (0.1% below benchmark). Schroder UK Property produced the highest absolute return at 15.2% over the year, whilst the weakest performance was from the Genesis Emerging Market Equities mandate which returned -0.1%.

- Over three years, all funds produced positive returns (with the exception of Signet), with Partners Group and Signet failing to beat their benchmarks (although see comments on the measurement of Partners Group's performance later). In addition, Schroder (Global Equity) failed to achieve its three-year performance objective despite beating their benchmark. The remainder of the active managers achieved their objectives.

Key points for consideration

- The Schroder Global Equity mandate continues to underperform its performance objective over three years, and over three months and one year has lagged its benchmark. Performance should continue to be monitored to assess the impact of the changes implemented following the departure of Virginnie Maisonneuve (former portfolio manager and head of Global Equity).

- The absolute performance of the Partners Group global property investment may be misleading given the long-term, value-add and opportunistic approach they take, and the up front costs incurred from investments of this nature - the net internal rate of return (which is in line with expectations) is a more meaningful measure.

- Pyrford's performance since inception has lagged its return objective. This is due to the manager's very defensive positioning (see page 35).

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	25
Jupiter	UK Equities	-	✓	✓	26
TT International	UK Equities	-	✓	✓	27
Schroder	Global Equities	✓	✕	-	28
Genesis	Emerging Market Equities	✓	✕	✓	29
Unigestion	Emerging Market Equities	-	-	N/A	30
Invesco	Global ex-UK Equities	✓	✓	✓	31
SSgA	Europe ex-UK	-	-	✓	32
SSgA	Pacific inc. Japan Equities	-	✓	✓	33
Record Currency Management	Dynamic Currency Hedging	-	N/A	N/A	34
Pyrford	DGF	-	✕	N/A	35
Standard Life	DGF	✓	N/A	N/A	36

Meets criteria	✓	A or B+ rating; achieved performance target
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target
Does not meet criteria	✕	C rating; did not achieve benchmark

Focus Points

- Bruce Campbell, founder and Investment Chairman of Pyrford has decided to retire. His responsibilities will be assumed by Tony Cousins, CIO and CEO of Pyrford – we are not proposing a ratings change. More detail is provided on page 35.
- David Nish will be stepping down from the role of Chief Executive of Standard Life Group. Keith Skeoch, currently Chief Executive of Standard Life Investments (SLI), will succeed Nish. In addition, SLI has announced that Gerry Fowler has joined their Multi-Asset investing team as Investment Director for Idea Generation – no ratings changes are proposed. See page 36 for detail.
- There were no changes to any ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
Signet	Fund of Hedge Funds	-	✕	✕	38
Stenham	Fund of Hedge Funds	-	✓	✓	39
Gottex	Fund of Hedge Funds	-	✕	✓	40
Schroder	UK Property	✓	✕	✓	42
Partners	Global Property	✓	✕	✕	43
RLAM	Bonds	✓	-	✓	44
Meets criteria	✓	A or B+ rating; achieved performance target			
Partially meets criteria	-	B, N or R rating; achieved benchmark return but not performance target			
Does not meet criteria	✕	C rating; did not achieve benchmark			

Focus Points

- Partners' performance relative to benchmark is explained in more detail on page 43.
- There were no changes to any ratings over the quarter.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Global equities were roughly flat, returning -0.2% in local currency terms. However, for unhedged sterling investors, the outcome was a negative return of -5%, driven by the sharp appreciation of sterling. Global small cap stocks, as measured by the FTSE World Small Cap Index, posted a local currency return of 1.3% with a corresponding fall of 4.4% in sterling terms, outperforming the broader market over the quarter.

Asia Pacific was the worst performing region, delivering a loss of 8% in sterling terms and 2.7% in local currency terms. European equities detracted by almost 6% in sterling terms (-3.8% in local currency), a fall that has mostly been attributed to investors' concern about Greece and potential spillovers. Compared to the other key regions, the Japanese market continued to deliver the highest returns over the year to date. In the second quarter it posted a return of 5.6% in yen terms (a 2.3% fall in sterling terms), against the backdrop of continued extraordinary monetary stimulus, government pension fund rebalancing into equities, and government's commitment to structural reforms.

In the UK, the FTSE All-Share index fell by 1.6% over the quarter, dragged down by the FTSE 100 index which fell by 2.8%. The underperformance of large cap stocks was offset by the FTSE 250 and FTSE Small Cap indices, which delivered positive total returns of 3.6% and 2.6%, respectively.

Bond Market Review

After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities, resulting in negative returns for investors.

UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.

The real yield curve also shifted up, although by less than the nominal curve, resulting in a degree of normalisation of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 Year Index-Linked Gilts index.

Total returns from global credit were -6.4% in the second quarter in sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

Currency Market Review

The European Central Bank continued to inject money into the financial system, while the Bank of Japan remained dedicated to its Quantitative Easing program. This caused sterling to appreciate over the quarter against the yen and the euro by 8.1% and 2.1%, respectively. Sterling appreciated against the US dollar by 5.9%, fuelled by weaker than expected economic data in the US.

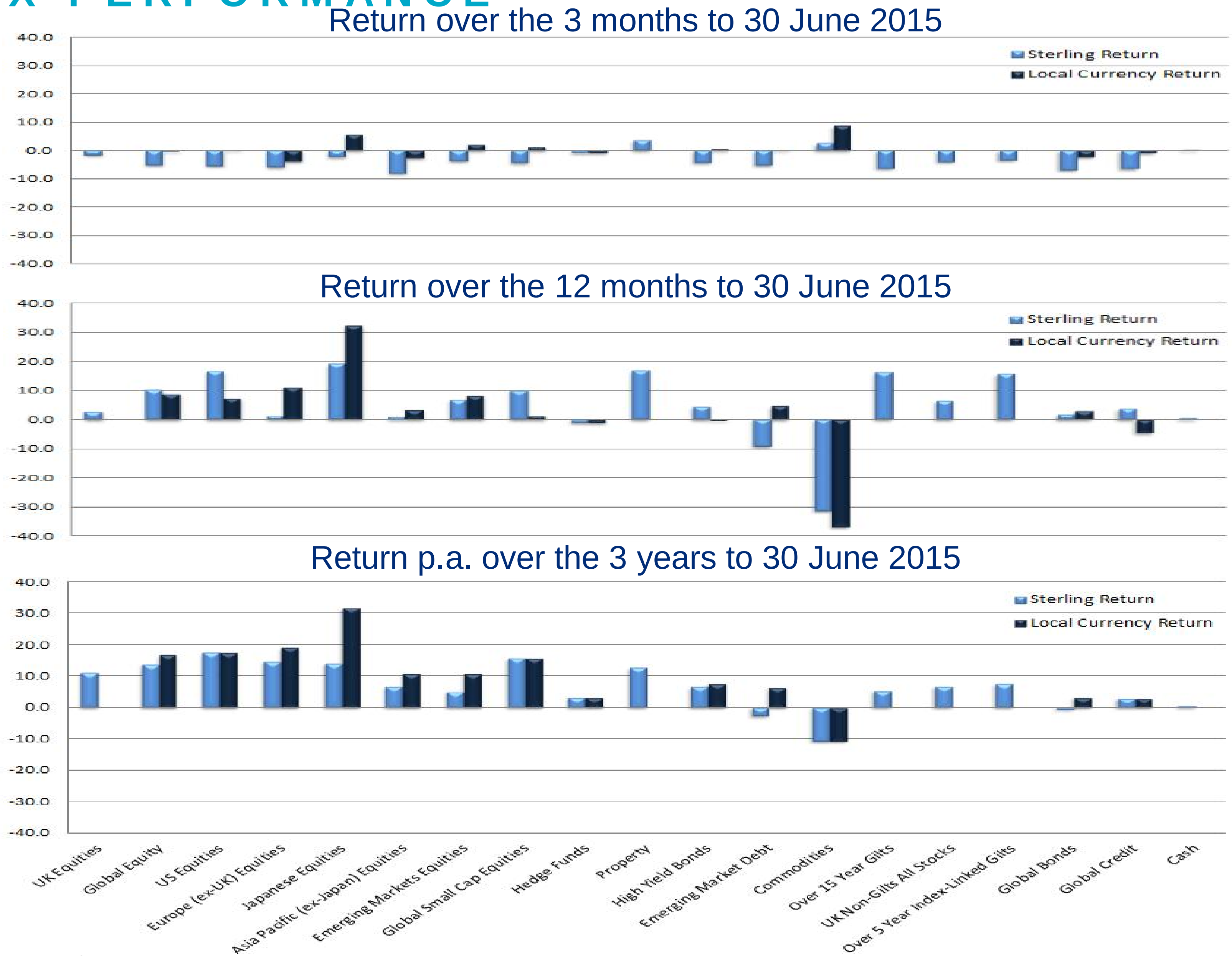
Commodity Market Review

The energy sector (followed by agriculture) led the quarter's rebound in commodities, which posted a return of 8.7%. Total returns from Industrial & Precious Metals returned -5.5% and -1.7% respectively.

Gold prices fell marginally during each of the three months in the second quarter. After a sharp sell-off in the second half of 2014 and early 2015, oil prices stabilised and traded around the $60 mark per barrel for most of the second quarter of this year.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



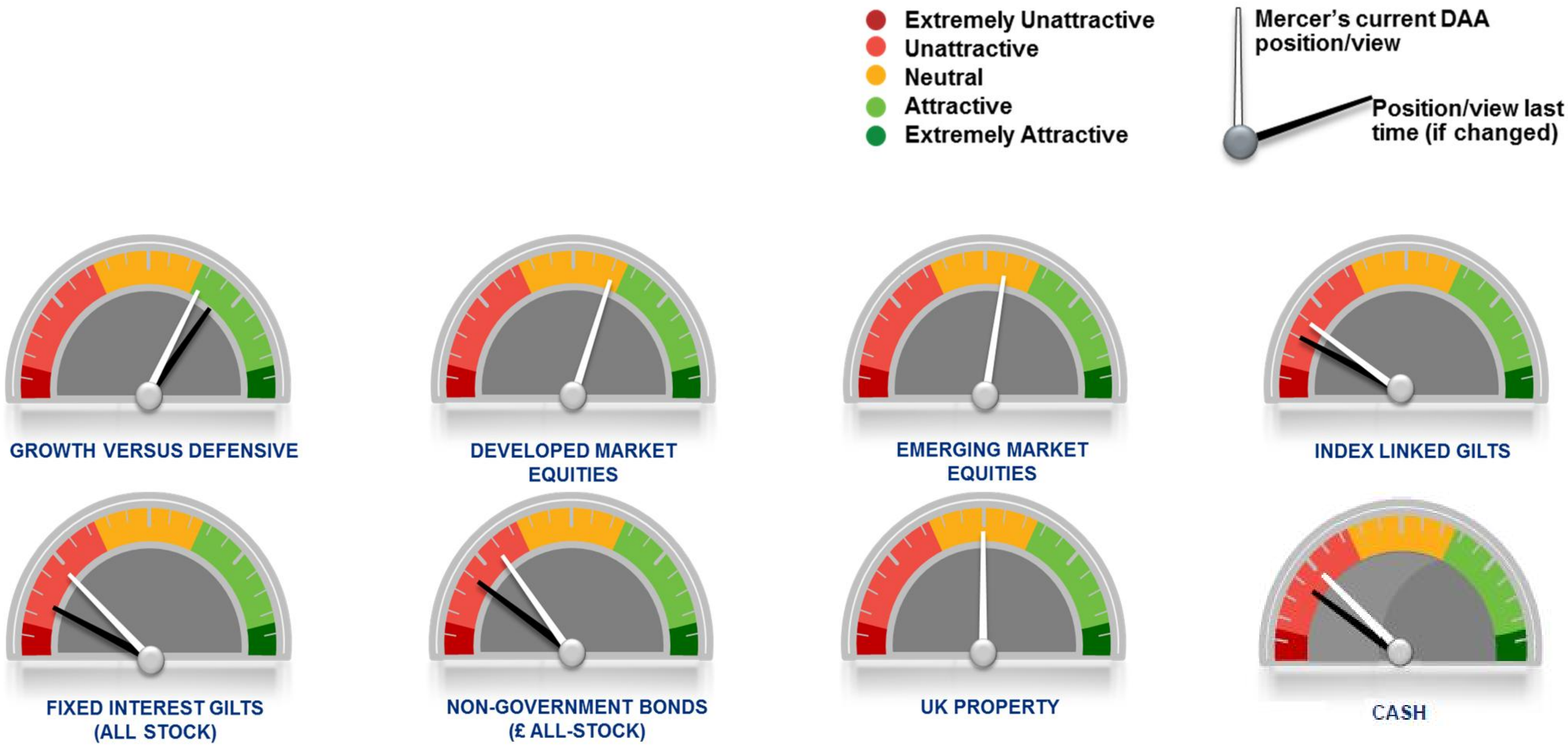
Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	14.6	*Remains significantly ahead of the assumed strategic return.* *This has decreased from 15.4% p.a. last quarter as the latest quarter's return of -5.2% was lower than the -3.1% return of Q2 2012, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	5.0	*The 3-year return from emerging market equities has risen from 3.7% p.a. last quarter with the Q2 2012 performance (which dropped out of the index) being -7.3%, significantly lower than the Q2 2015 return. The 3 year return remains below the assumed strategic return as 2013 returns were affected by negative sentiment from slowing growth and the tapering of the US asset purchase programme.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 7.3	*DGFs are expected to produce an equity like return over the long term but with lower volatility – 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.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	5.3	*Bond returns remain above the long term strategic assumed return as yields remain depressed relative to historic averages. Returns have reduced compared to the previous quarter as a result of the rise in yields (and hence negative total returns) experienced in the last quarter.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	7.4	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	6.6	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	-2.6	*Well behind the assumed strategic return and three-year performance has moved back into negative territory this quarter as result of the rise in global bond yields.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	3.3	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. Volatility remains low but recent returns have improved slightly given signs of volatility emerging.*
Property (IPD UK Monthly)	7.0	12.6	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2015



These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

SECTION 4
FUND VALUATIONS

FUND VALUATIONS
VALUATION BY ASSET CLASS

Asset Allocation								
Asset Class	**Start of Quarter (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**	**Target Strategic Benchmark (%)**	**Ranges (%)**		**Difference (%)**
Developed Market Equities	1,769,396	1,700,572	46.2	45.6	40.0	35 -	45	+5.6
Emerging Market Equities	351,961	333,534	9.2	8.9	10.0	5 -	15	-1.1
Diversified Growth Funds	368,177	362,564	9.6	9.7	10.0	5 -	15	-0.3
Fund of Hedge Funds	162,792	162,952	4.3	4.4	5.0	0 -	7.5	-0.6
Property	306,177	314,626	8.0	8.4	10.0	5 -	15	-1.6
Infrastructure	-	-	-	-	5.0	0 -	7.5	-5.0
Bonds	798,547	759,781	20.9	20.4	20.0	15 -	35	+0.4
Cash (including currency instruments)	71,606	96,070	1.9	2.6	-	0 -	5	+2.6
Total	**3,828,656**	**3,730,099**	**100.0**	**100.0**	**100.0**			**0.0**

Source: WM Performance Services, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

Invested assets decreased over the quarter by £98m due to negative returns across many major asset classes. Developed equities remain overweight relative to benchmark, although this overweight position reduced slightly over the quarter. This will be used to fund draw downs for the infrastructure allocation over the coming year.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
BlackRock	Passive Multi-Asset	1,216,557	-	1,155,704	31.8	31.0
Jupiter	UK Equities	175,562	-	178,108	4.6	4.8
TT International	UK Equities	194,929	-	198,482	5.1	5.3
Schroder	Global Equities	256,314	-	242,720	6.7	6.5
Genesis	Emerging Market Equities	160,236	-	152,092	4.2	4.1
Unigestion	Emerging Market Equities	191,725	-	181,442	5.0	4.9
Invesco	Global ex-UK Equities	291,423	-	273,939	7.6	7.3
SSgA	Europe ex UK & Pacific inc. Japan Equities	124,517	-	118,061	3.3	3.2
Record Currency Management	Overseas Equities (to fund currency hedge)	20,608	-	34,093	0.5	0.9
Pyrford	DGF	124,700	-	121,530	3.3	3.3

Source: WM Services, Avon. Totals may not sum due to rounding.

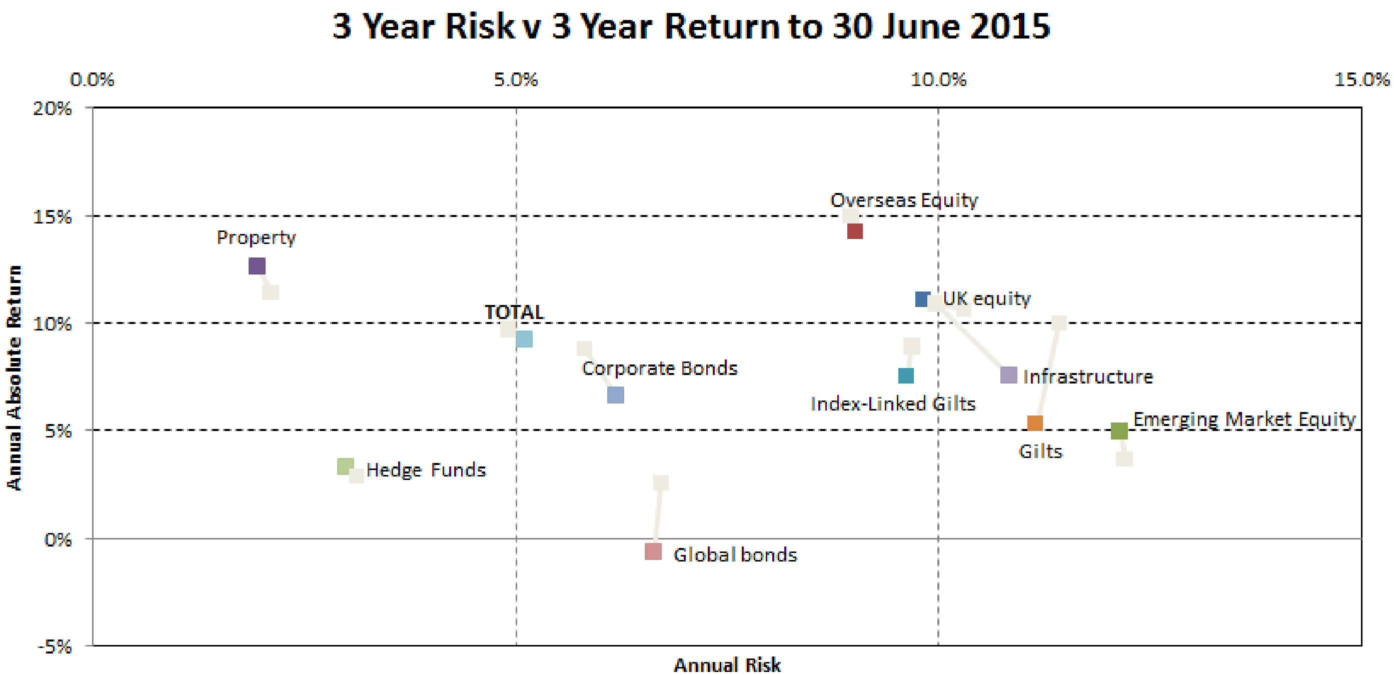
FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
Standard Life	DGF	243,477	-	241,035	6.4	6.5
MAN	Fund of Hedge Funds	549	-	549	0.0	0.0
Signet	Fund of Hedge Funds	63,441	-	63,153	1.7	1.7
Stenham	Fund of Hedge Funds	39,661	-	39,745	1.0	1.1
Gottex	Fund of Hedge Funds	59,141	-	59,505	1.5	1.6
Schroder	UK Property	177,723	-	183,792	4.6	4.9
Partners	Property	136,985	-	140,391	3.6	3.8
RLAM	Bonds	308,883	-	298,655	8.1	8.0
Internal Cash	Cash	42,224	-*	47,103	1.1	1.3
Total		**3,828,656**	**-***	**3,730,099**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* Income payments into the Fund are not included as cashflows.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS

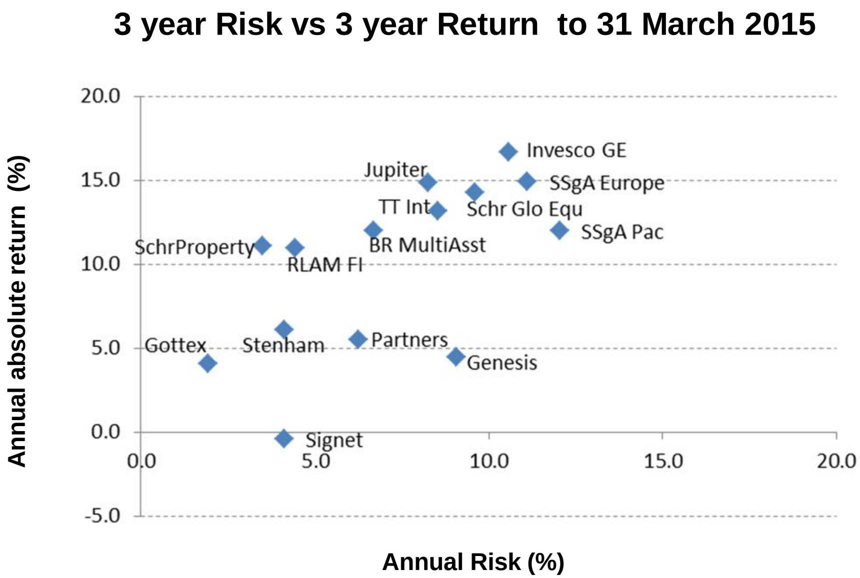


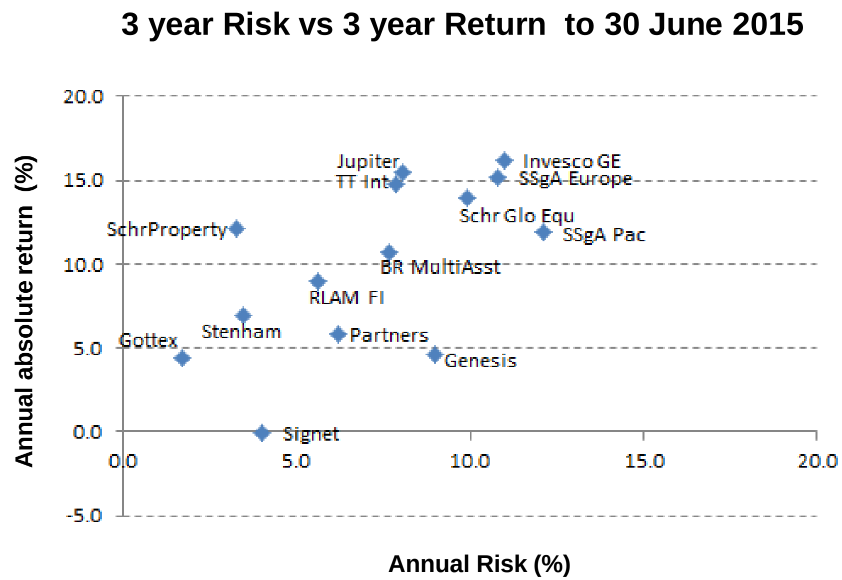
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

Comments

- *The most significant movement seen over the quarter was Fixed Interest Gilts, which saw a significant decrease in three-year trailing return given the rise in yields experienced over the quarter (with similar movements seen for index-linked gilts and corporate bonds).*
- *Sterling returns for infrastructure also fell, as a result of negative returns experienced in June 2015.*

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

In general there was not a significant change in the three year risk and return profile of the funds over the quarter, although the absolute returns for both Jupiter and TT rose in light of positive returns in Q2 2015 (while volatility also rose).

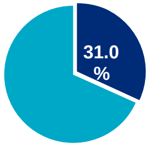
MANAGER MONITORING

MANAGER PERFORMANCE – RELATIVE RETURNS TO BENCHMARK (TO 30 JUNE 2015)

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi - Asset	0.0	-0.1	0.1	Target met
Jupiter	2.9	5.7	4.6	Target met
TT International	3.4	5.5	3.8	Target met
Schroder Equity	-0.3	-0.1	0.3	Target not met
Genesis	0.1	-3.6	0.6	Target met
Unigestion	-0.7	0.5	NA	NA
Invesco	-0.5	0.6	1.3	Target met
SSgA Europe	0.1	0.4	0.6	Target met
SsgA Pacific	0.2	1.4	1.4	Target met
Pyrford	-4.5	-2.9	NA	NA
Standard Life	-2.3	NA	NA	NA
Signet	-2.0	-9.4	-3.8	Target not met
Stenham	-0.8	0.8	3.2	Target met
Gottex	-0.3	-2.1	0.6	Target met
Schroder Property	0.1	-0.3	1.5	Target met
Partners Property	-1.8	-13.4	-3.5	Target not met
RLAM	0.6	0.4	2.6	Target met
Internal Cash	0.0	0.0	0.1	NA

Source: WM Services, Avon.
Returns in blue text exceeded their respective benchmarks, those in red underperformed, and black text shows performance in line with benchmark.

SECTION 6
MANAGER PERFORMANCE

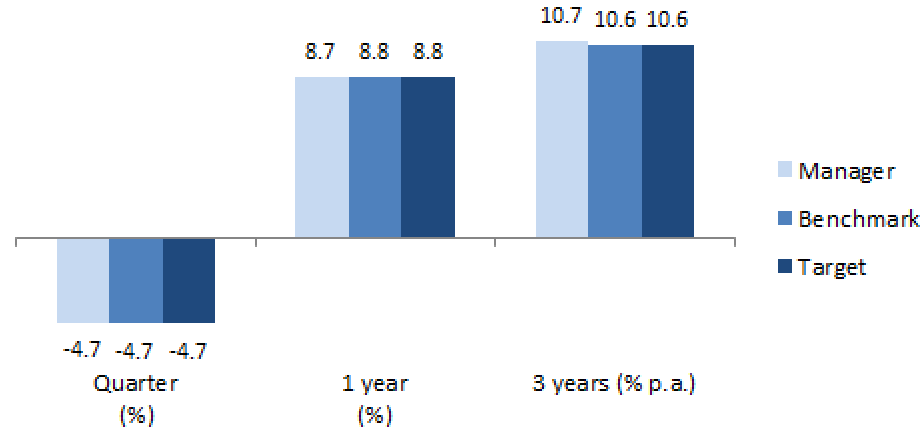


BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)

£1,155.7M END VALUE (£1,216.6M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	Preferred Provider (no change over period under review)
Performance Objective *In line with the benchmark*	●	Outperformed benchmark by 0.1% p.a. over three years

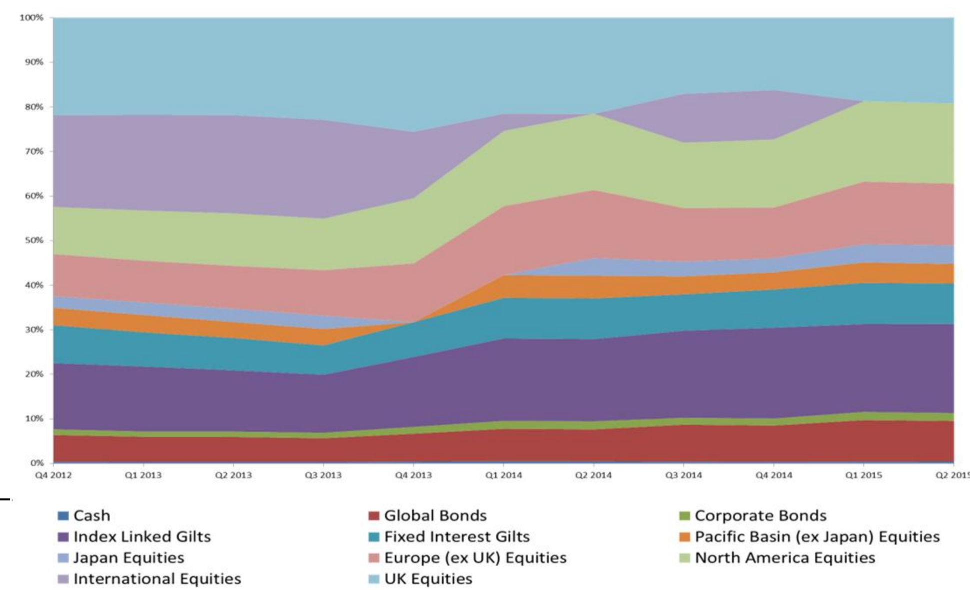
Performance



Manager Research and Developments

- Returns have been in line with benchmark over the quarter, as expected for a passive mandate with a benchmark based on monthly mean fund weights.
- The exposure to the international equity fund was sold down by mid 2014 in order to fund the emerging market equity allocation managed by Unigestion (see page 30), but then subsequently increased with the proceeds of the disinvestment from Barings (and since sold down again to fund the investment in Standard Life GARS – see page 36).
- Current holdings in UK and overseas government bonds are approximately £461m, or 12% of the total Fund – these assets could be used as part of any liability risk management framework.

Asset Allocation

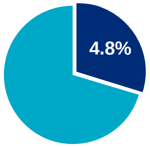


Reason for investment

To provide asset growth as part of diversified portfolio

Reason for manager

- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)

£178.1M END VALUE *(£175.6M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	●	Outperformed benchmark by 4.6% p.a. over three years
Tracking error was 3.5% p.a. (Q1: 3.6%) – *source: Jupiter*		Number of stocks: 58

Manager Research and Developments

- A significant contributor to the portfolio was Shell's approach to acquire BG as the Fund held a 2.6% in BG (relative to 1.3% in the benchmark), which performed strongly on the news, contributing +0.3% to total performance. The portfolio also benefited from having no holdings in Shell, which saw a fall in share price as a result of the news.
- Another major contributor to performance was the UK general election result, with positive returns coming from Cranswick (UK food producer), Microfocus (US IT firm) and WS Atkins (UK engineering firm).
- The fund's natural overweight to mid and smaller cap stocks was of an overall benefit to performance.
- Cash holdings remain relatively high at 5.6%.
- Tracking error remains reasonably high as a result of the fund's concentration and divergence from the index (in particular, its underweight position to large cap stocks and overweight holdings in mid cap).

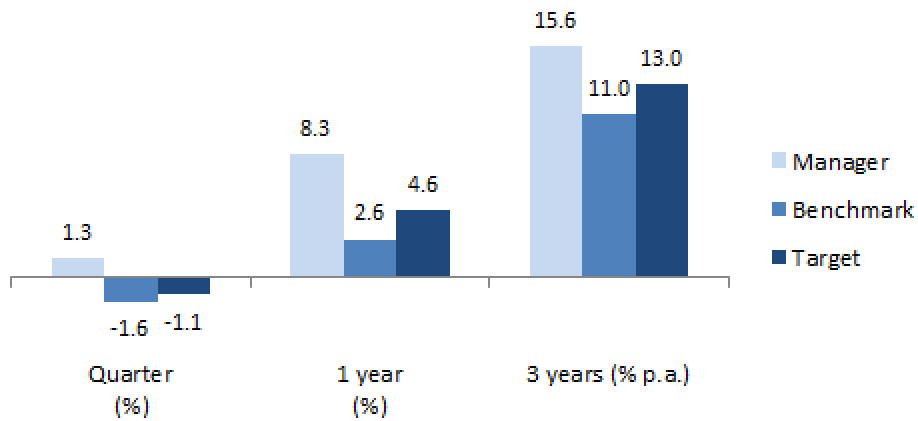
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

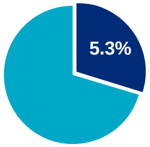
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15



TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£198.5M END VALUE *(£194.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review)
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 3.8% p.a. over three years
Historic tracking error was 3.8% p.a. (Source: Mercer)	Number of stocks: 53

Manager Research and Developments

- TT significantly outperformed their benchmark by 3.4% over the quarter, and 5.5% over the year to 30 June 2015.
- This outperformance over the quarter was largely due to strong stock selection in the Industrials, Health Care, Financials and Consumer Services sectors (adding 2.8% to returns in total)
- In terms of sector positioning, the fund gained from being underweight Basic Materials and overweight Telecoms. It also benefited from a higher than normal cash holding (at 5%) in a time of falling markets.
- Turnover decreased significantly from 44.7% in Q1 to 28.9% in Q2 2015 (although Q1 was higher than typical) while the three year tracking error (a proxy for risk relative to benchmark) rose from 3.5% to 3.8%.
- Three-year information ratios have increased over the quarter, as a result of the positive returns achieved.
- Assets under management in TT's UK equity strategies increased slightly over the quarter given the positive performance to c. £506m (compared to £496m in March 2015, £472m in June 2014 and £558m in June 2012). This is still a significant decrease over the three year period and should be kept under review.

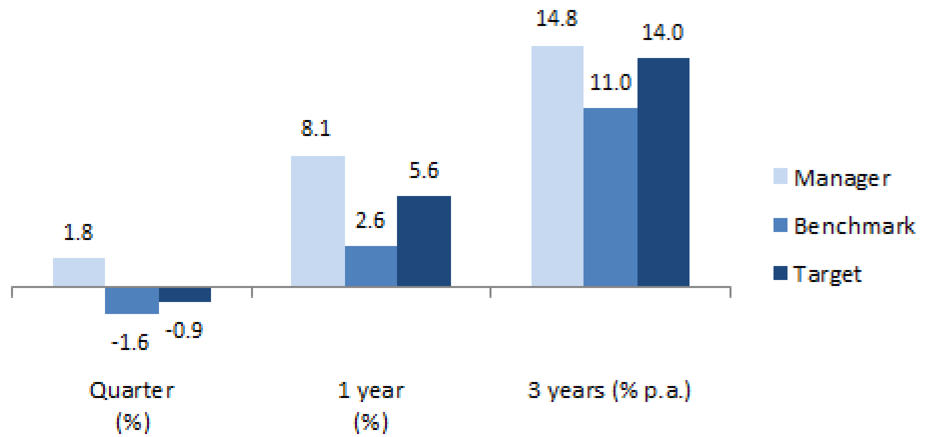
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

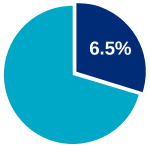
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15



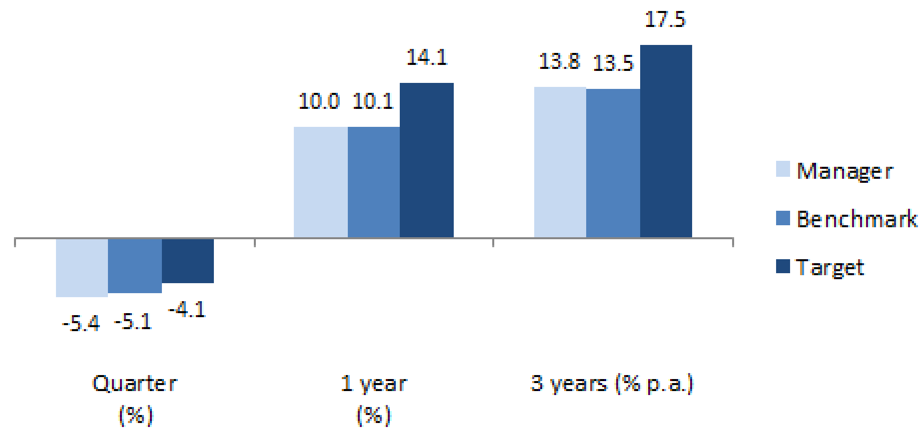
SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)

£242.7M END VALUE (£256.3M START VALUE)

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Benchmark +4% p.a.*	Outperformed benchmark by 0.3% p.a. over three years, but lagged target

Historic tracking error was 1.9% p.a. (Source: Mercer)

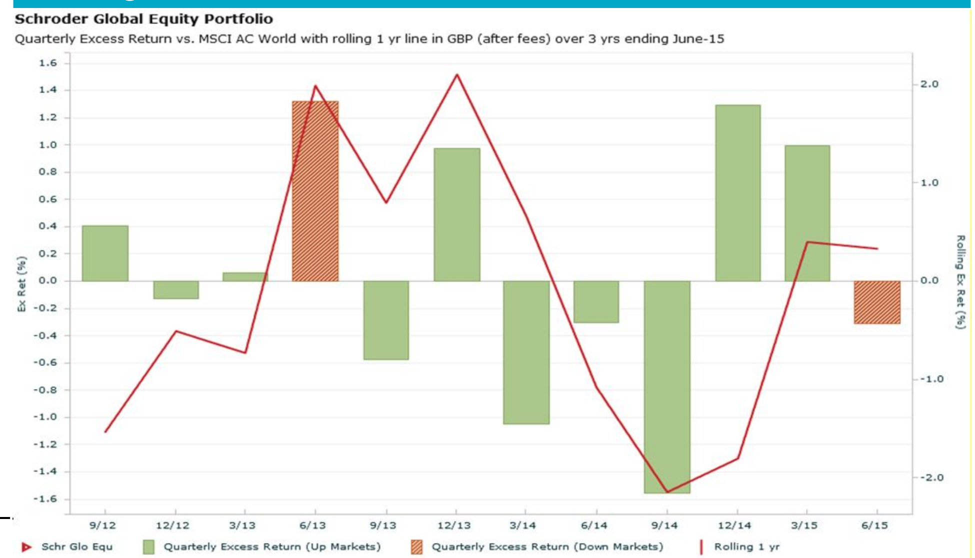
Performance



Manager Research and Developments

- The fund underperformed the benchmark over the quarter, largely through stock selection in healthcare and consumer discretionary, although there were gains from stock selection in financials and consumer staples.
- Looking on a region by region basis, stock selection in Europe detracted from performance whilst holdings in North America and Pacific (ex Japan) also hurt relative returns. The fund gained from stock selection in the emerging markets and the UK.
- The largest detractor over the quarter was Japanese pharmaceutical company Astellas, as shares fell on the release of worse than expected Q1 earnings. This position has since been liquidated.
- Schroder's active share (the percentage of stock holdings in a manager's portfolio that differ from the benchmark index) remains high at around 89%.

Rolling relative returns

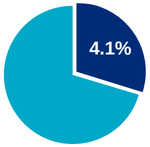


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

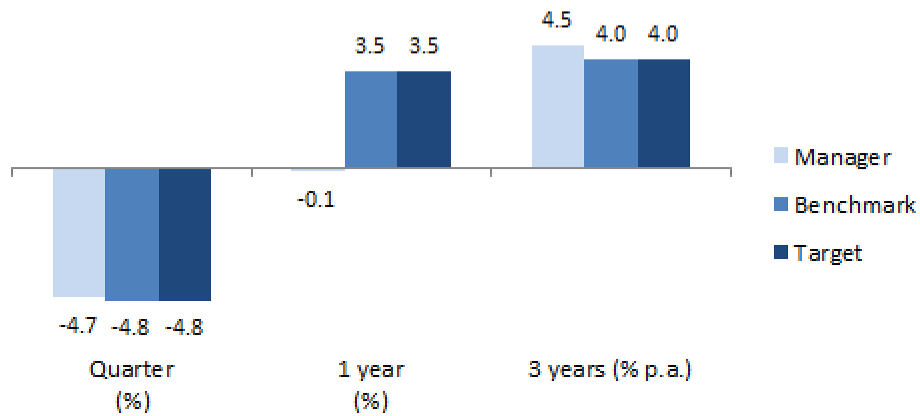
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target



GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£152.1M END VALUE *(£160.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark*	●	Outperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 3.5% p.a. (Q1: 3.3%) – *source: Genesis*		Number of stocks: 158

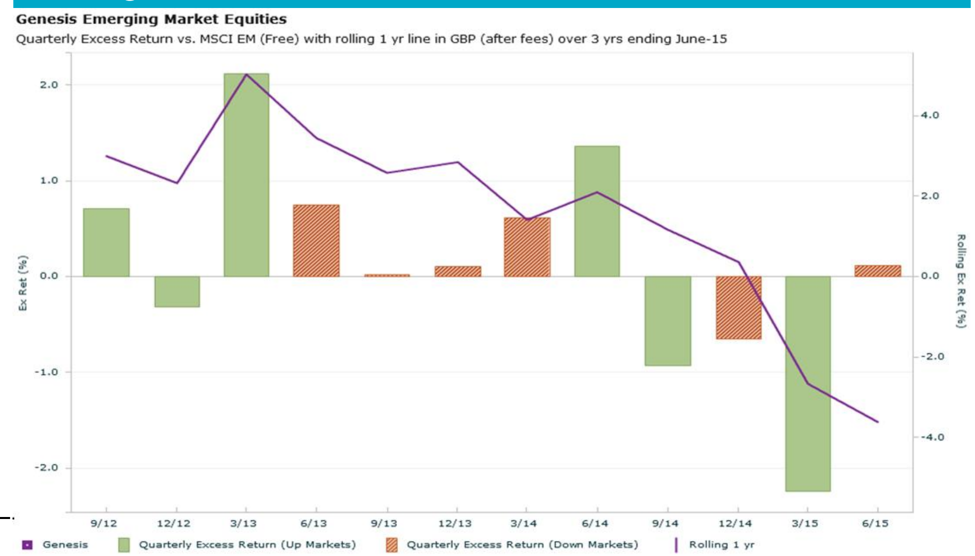
Performance



Manager Research and Developments

- The fund slightly outperformed its benchmark by 0.1% over the quarter. Relative to the index, the portfolio benefited from underweight positions in the weak Indonesian and South Korean markets. On the other hand, losses were incurred from India, Thailand and Brazil. Value was also added from stock selection in China, but the underweighting in this country held back the portfolio.
- The biggest contributor was Novatek (Russia) whilst the biggest detractor was Sun Pharmaceutical (India). Turnover over the quarter was 25%, approximately half of which related to trading in Chinese equities given volatility in that market.
- The portfolio one-year returns are 3.6% below benchmark, although three year returns are still ahead of target. Some short-term volatility relative to benchmark is to be expected given their long-term approach of identifying under-priced companies and investing with a five year time horizon.
- After meeting with Genesis in May 2015, we decided to maintain the A rating for this strategy, as we retain our confidence in the team's ability to continue to generate value adding ideas that they can hold for the long term.

Rolling relative returns

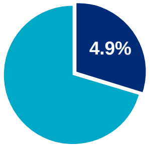


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management



UNIGESTION – EMERGING MARKET EQUITIES
(POOLED – SUB-FUND)
£181.4M END VALUE (£191.7M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	●	Outperformed benchmark by 0.5% over the year but lagged target
Historic tracking error since inception was 4.3% p.a. (Source: Unigestion)		Number of stocks: 87

Manager Research and Developments

- The Fund underperformed by 0.7% over the quarter, but performance over the year to 30 June 2015 is 0.5% p.a. ahead of benchmark (albeit lagging target).
- This underperformance largely occurred in April, where the fund returned 2.2% against a benchmark return of 4.0%, as a result of the underperformance of defensive stocks in “risk on” markets; some of this underperformance was recovered in May as markets fell but Unigestion’s defensive positioning provided some protection.
- Volatility since inception is 11.4%, lower than the index (at 13.2%) and consistent with their objectives (and the strategy’s bias towards quality and large- or mega-cap stocks).

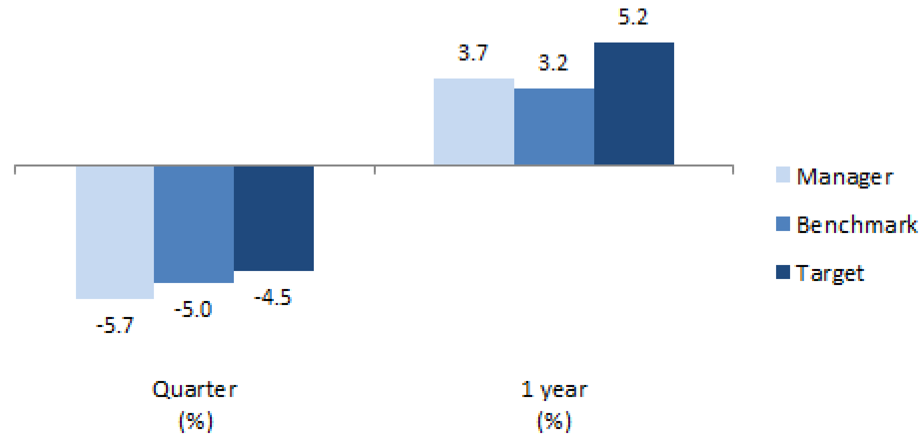
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

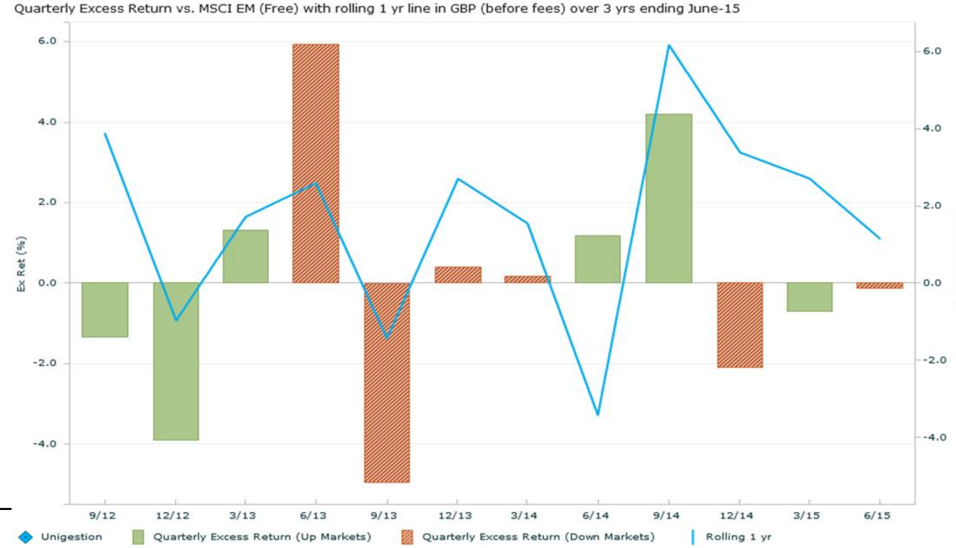
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

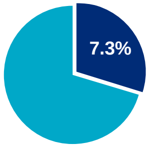


Rolling relative returns

Quarterly Excess Return vs. MSCI EM (Free) with rolling 1 yr line in GBP (before fees) over 3 yrs ending June-15



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£273.9M END VALUE (£291.4M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.3% p.a. over three years
Tracking error since inception was 1.4% p.a. – *source: Invesco*		Number of stocks: 407 (up from 392)

Manager Research and Developments

- The fund underperformed its benchmark by 0.5% over the last quarter (source: WM), and is ahead of its outperformance target over 3 years. Beta remains near to one, as expected.
- The outperformance over the quarter was generated through stock selection, helped by their overweight position in financials but offset slightly by underweight holdings in energy.
- The sector and country allocations were broadly in line with the benchmark. All industry and country allocations were within +/- 1.1% of benchmark weightings, in line with general expectations for an enhanced indexation product.

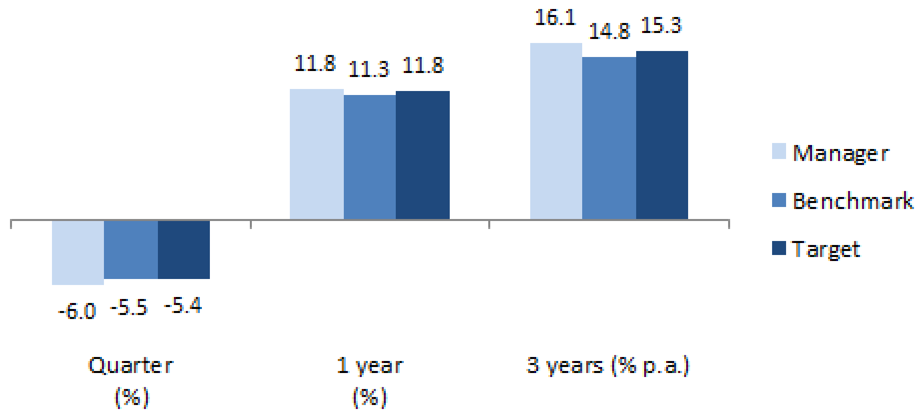
Reason for investment

To provide asset growth as part of diversified equity portfolio

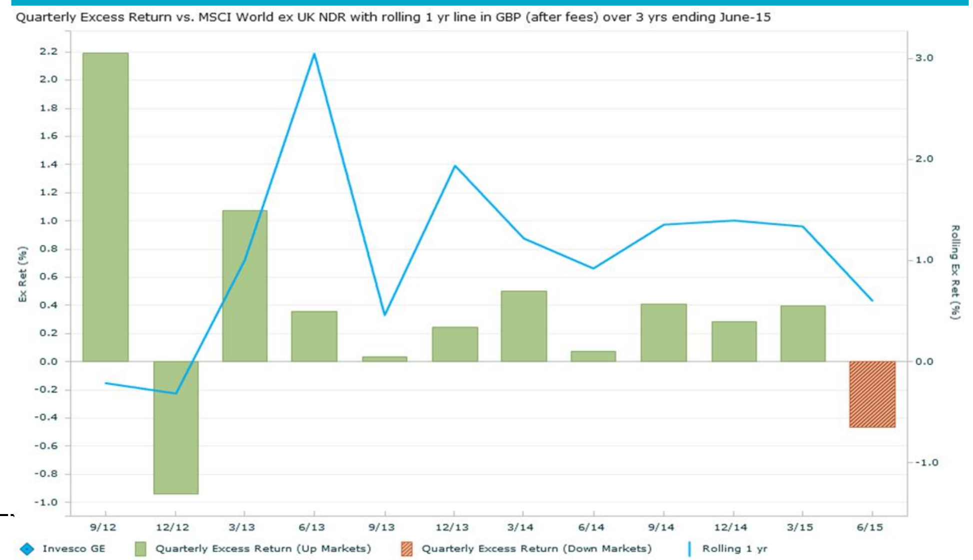
Reason for manager

- 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
- One of few to offer a Global ex UK pooled fund

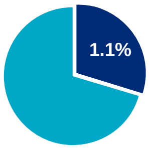
Performance



Rolling relative returns



Note: MSCI World NDR ex UK index not currently available.



SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£41.5M END VALUE (£44.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 0.6% p.a. over three years
Historic tracking error was 0.8% p.a. (Source: Mercer)		Number of stocks: 210

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 30 June 2015 was £41.6m. 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.
- The fund holds 210 out of 383 stocks in the index, around 54%, within the expected range of 35-65%. Beta over three years is as expected at around 1.01%.

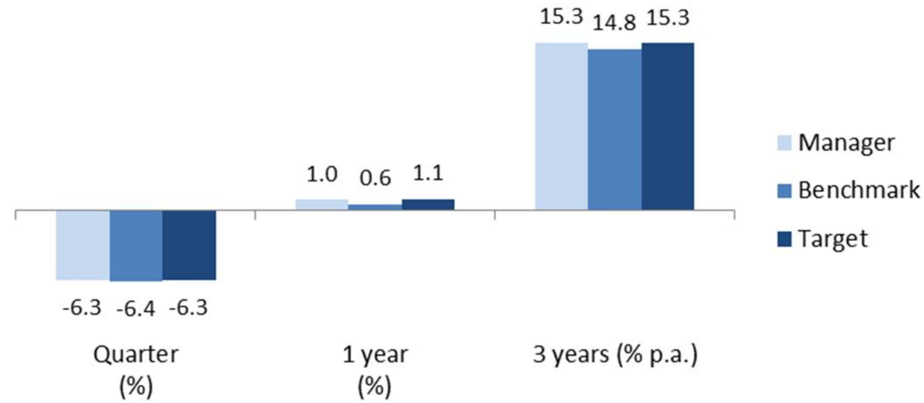
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

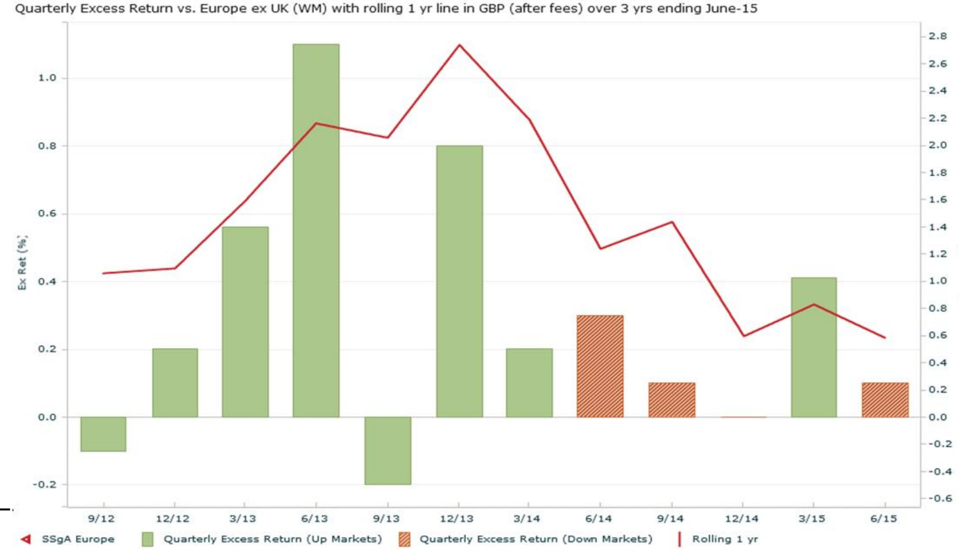
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

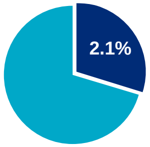
Performance



Rolling relative returns

Quarterly Excess Return vs. Europe ex UK (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15

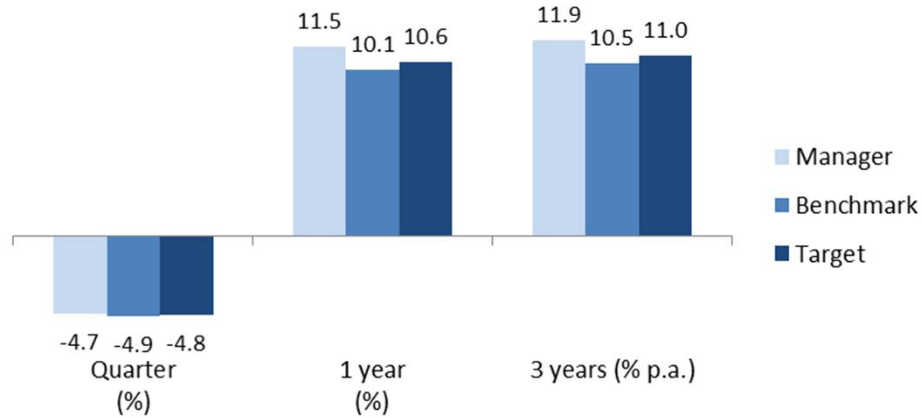




SSGA – PACIFIC INCL. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£76.5M END VALUE (£80.3M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	●	Outperformed benchmark by 1.4% p.a. over three years
Historic tracking error was 0.8% p.a. (Source: Mercer)		Number of stocks: 410

Performance

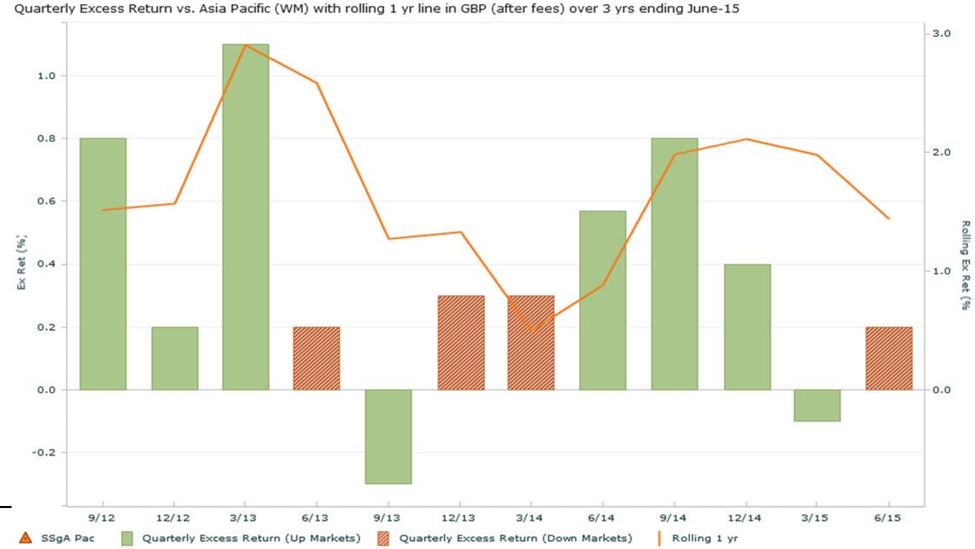


Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 30 June 2015 was £76.6m. As with the European fund, the conclusion has been that the Fund could be sustained even with the Avon Pension Fund as the only investor.
- As with the European fund, Beta is around 1.0 (i.e. broadly in line with a market cap approach).

Rolling relative returns

Quarterly Excess Return vs. Asia Pacific (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending June-15

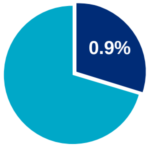


Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities



RECORD – ACTIVE CURRENCY HEDGING (SEGREGATED)
£34.1M END VALUE (£20.6M START VALUE)

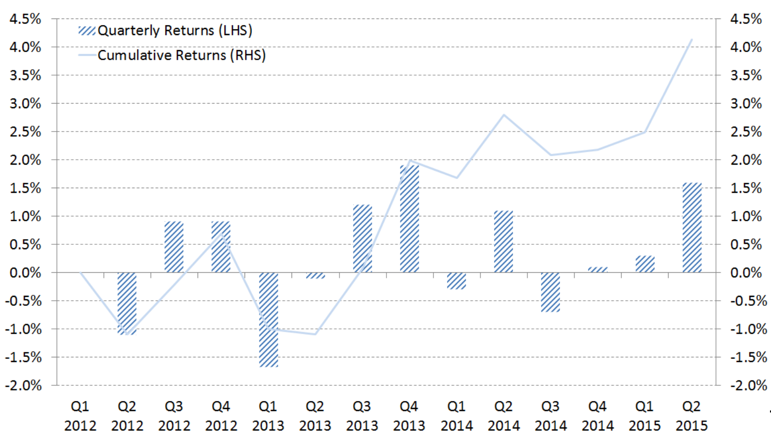
Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *N/A*	●	Outperformed a 50% passive hedge by 0.1% p.a. over three years

Manager Research and Developments

Over the quarter, the US dollar, the euro and the yen all weakened relative to sterling.

A 50% hedge on each currency would have had an overall positive return as some of the depreciation of the three currencies would have been protected against. Record maintained a higher hedge ratio against the euro and yen, which helped relative performance. However their low dollar hedge ratio (which started the quarter at 0%) more than counteracted this and so they underperformed the 50% hedge in aggregate (as the dollar exposure makes up the majority of the portfolio – see right).

Hedging Return



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (% p.a.)
Record Hedge	1.57	1.28	1.73
50% Illustrative Hedge	2.66	-0.44	1.60
Relative	**-1.09**	**+1.72**	**+0.13**

Currency Hedging 3 Month Performance (£ terms)

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	559,047,385	512,547,836	(5.61%)	2.88%	0.54%	(5.03%)
EUR	207,358,854	200,472,608	(2.07%)	1.13%	1.52%	(0.55%)
JPY	147,838,770	144,091,744	(7.49%)	3.98%	5.45%	(2.31%)
Total	**914,245,009**	**857,112,188**	**(5.10%)**	**2.66%**	**1.57%**	**(3.57%)**

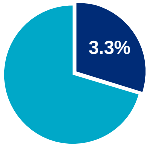
Reason for investment

To manage the volatility arising from overseas currency exposure, whilst attempting to minimise negative cashflows that can arise from currency hedging

Reason for manager

- Straightforward technical (i.e. based on price information) process
- Does not reply on human intervention
- Strong IT infrastructure and currency specialists

PYRFORD – DGF (POOLED)
£121.5M END VALUE (£124.7M START VALUE)



Item Monitored		Outcome
Mercer Rating	●	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	●	Underperformed benchmark by 2.9% p.a. over one year

Manager Research and Developments

- The fund has underperformed the benchmark over the quarter and year by 4.4% and 2.9% respectively.
- The asset allocation of the fund remained nearly unchanged over the quarter at 29% equities, 67% bonds and 4% cash.
- Performance in Q2 was disappointing, with a return of -2.5% as both equities and bonds produced negative returns.
- 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 c2 years.
- Bruce Campbell, the founder and Investment Chairman of Pyrford, has decided to retire after 28 years with the firm. His responsibilities as Chairman of Investment Strategy Committee (ISC) will be assumed by Tony Cousins, CIO and CEO of Pyrford International. Campbell will remain closely involved with Pyrford as Strategic Investment Advisor and a member of Investment Strategy Committee. Campbell's influence on decisions had undoubtedly reduced and we believe he will remain involved in the new role. This change does not, in our view, significantly negatively impact the Pyrford strategies.

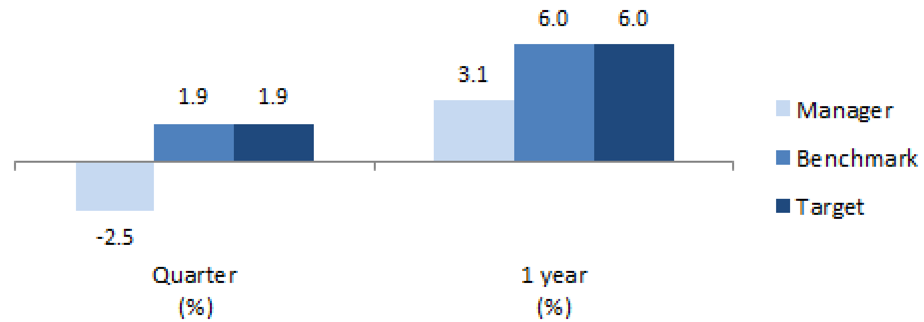
Reason for investment

To provide equity like return over the long term but with a lower level of volatility

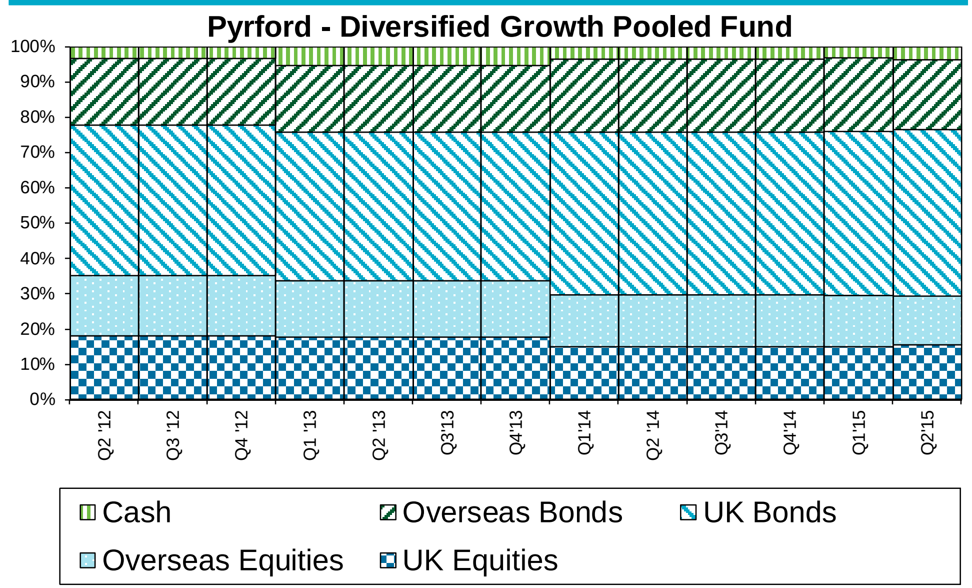
Reason for manager

- Asset allocation skill between equities, bonds and cash
- Fundamental approach to stock selection

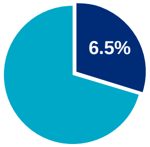
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£241.0M END VALUE (£243.5M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Cash +5% p.a.*	●	Underperformed benchmark by 2.3% p.a. over the quarter
	●	Outperformed benchmark since inception by 0.6% (0.9% vs 0.3%)

Manager Research and Developments

- Over the quarter the Fund returned -1.0% against a benchmark of 1.3%, benefiting from a short exposure to US duration (offset by other directional and relative value trades).
- The charts to the right (and overleaf) provide analysis of the performance of the pooled fund (net of fees) over the three years to 30 June 2015, illustrating that while returns have slightly lagged the median DGF manager, the risk taken to produce these returns has been significantly lower and as a result risk adjusted returns are attractive.
- David Nish will be stepping down from the role of Chief Executive of Standard Life Group. Keith Skeoch, currently Chief Executive of SLI will succeed Nish. Given that Skeoch is retaining his role as Chief Executive of SLI for the time being, we are not proposing any rating changes as a result of this news. However, we do intend to discuss this development at future research meetings with SLI.
- SLI has announced that Gerry Fowler has joined their Multi-Asset investing team as Investment Director for Idea Generation. Fowler, who has 14 years' experience, was previously Global Head of Equity and Derivatives strategy with BNP Paribas

Reason for investment

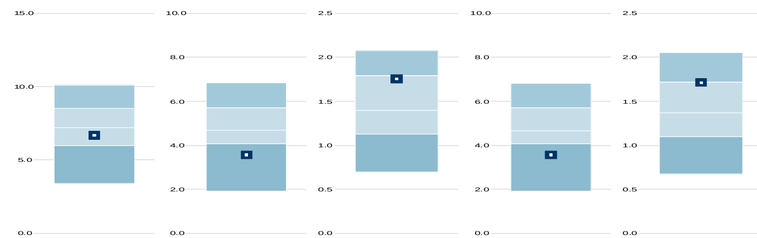
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

- Diversification from equities
- Exposure to market-neutral trades, and different approach to Pyford's asset allocation approach.

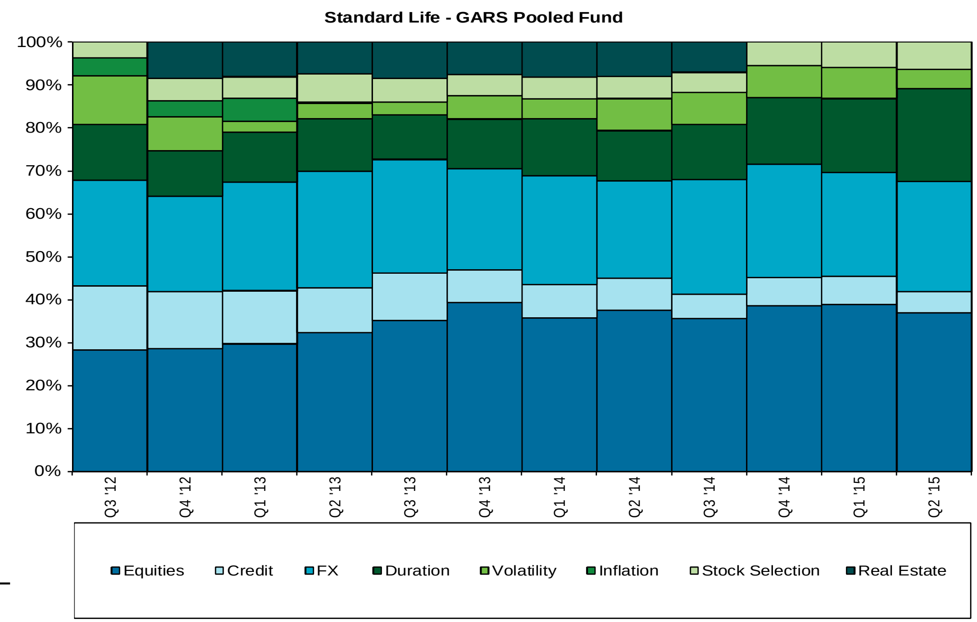
Performance

Performance characteristics vs. 3 Month Sterling LIBOR (after fees) over 3 years ending
Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)



Name	Ret (% p	Std Dev (%	Sharp	TE (% p	IR
Standard Life	6.7 (15)	3.6 (23)	1.8 (8)	3.6 (23)	1.7 (7)
95th Percentile	10.1	6.8	2.1	6.8	2.1
Upper Quartile	8.5	5.7	1.8	5.7	1.7
Median	7.2	4.7	1.4	4.7	1.4
Lower Quartile	6.0	4.1	1.1	4.1	1.1
5th Percentile	3.4	1.9	0.7	1.9	0.7
Number of Funds	24	24	24	24	24

Asset Allocation/Risk Exposure



DGF MANDATES

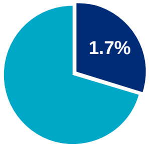
Performance characteristics vs. BofAML LIBOR 3 month average UK in GBP (after fees) over 1 yr ending June-15

Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking) (quarterly calculations)

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	2.9 *(32)*	4.9 *(27)*	0.5 *(33)*
▼ SLI GARS	7.2 *(10)*	5.0 *(23)*	1.3 *(8)*
95th Percentile	10.5	9.6	1.8
Upper Quartile	7.0	6.5	1.3
Median	5.7	5.4	0.9
Lower Quartile	3.2	4.4	0.6
5th Percentile	0.9	2.9	0.1
Number	40	40	40

Commentary

- Over the year to 30 June 2015, the Standard Life GARS pooled fund outperformed Pyrford by 4.3% (however the Fund has only been invested since January 2015).
- This placed Standard Life in the upper quartile of the DGF universe for performance, whilst Pyrford were in the bottom quartile. It should be noted that this universe is very diverse in styles.
- This however was achieved whilst taking very similar levels of risk, with Standard Life's volatility standing at 5.0% against Pyrford's 4.9%.
- Both managers were below the median manager for risk, meaning they took less risk than most managers in the universe.
- As a result, Pyrford's information ratio (a measure of risk adjusted returns) was in the bottom quartile while Standard Life's was in the top quartile of the universe.
- Note that this is a short time-frame over which to measure risk, and reflects the limited period the Fund has been invested for. More telling analysis will emerge as the track record grows.



SIGNET – FUND OF HEDGE FUNDS
£63.2M END VALUE *(£63.4M START VALUE)*

Item Monitored		Outcome
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Underperformed benchmark by 3.8% p.a. over three years

Item	
Number of funds	30

Strategy	Approximate Contribution over to Performance over Q1 2015 (%)
Long-Biased Credit	+0.60
Long-Short Credit	+0.37
Long Only Credit	+0.39
Recovery Plays	+0.36
Global Rates and FX	-0.11
Mortgaged Backed Securities	+0.07
Event Driven and Special Situations Fund	-0.73

Source: Signet, Mercer. Approximate calculations based on largest holdings.

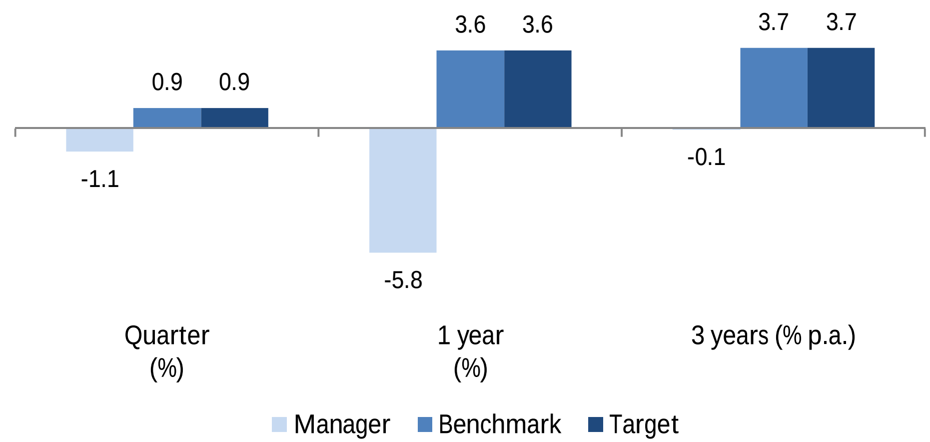
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

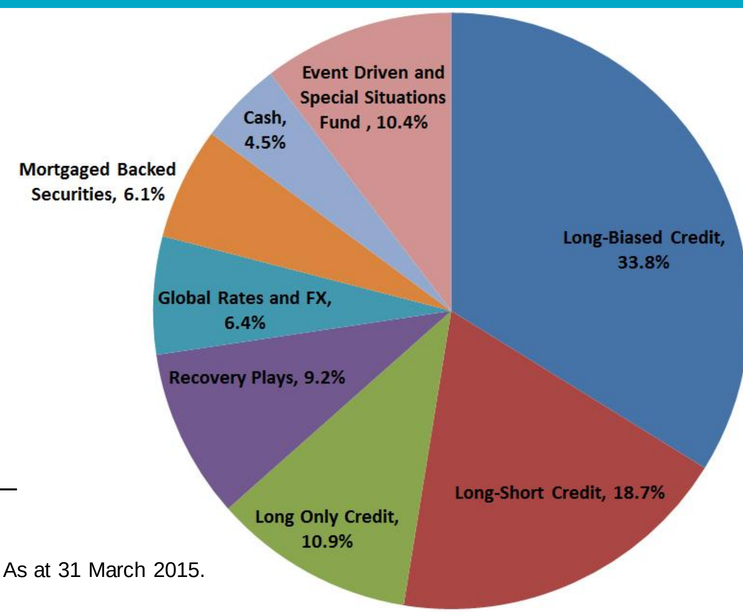
Reason for manager

- Niche fixed income strategy focus
- Established team with strong track record
- Complemented other funds in the portfolio

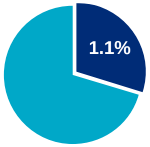
Performance



Allocation



As at 31 March 2015.



STENHAM – FUND OF HEDGE FUNDS £39.7M END VALUE (£39.7M START VALUE)

Item Monitored	Outcome	
Mercer Rating	●	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 3.2% p.a. over three years

Item	
Number of funds	18

Strategy	Gross Contribution over to Performance over the Quarter (%)
Market Directional/Trading	-0.8
Equity Bias	+1.2
Event Driven	0.0
Credit	-0.2

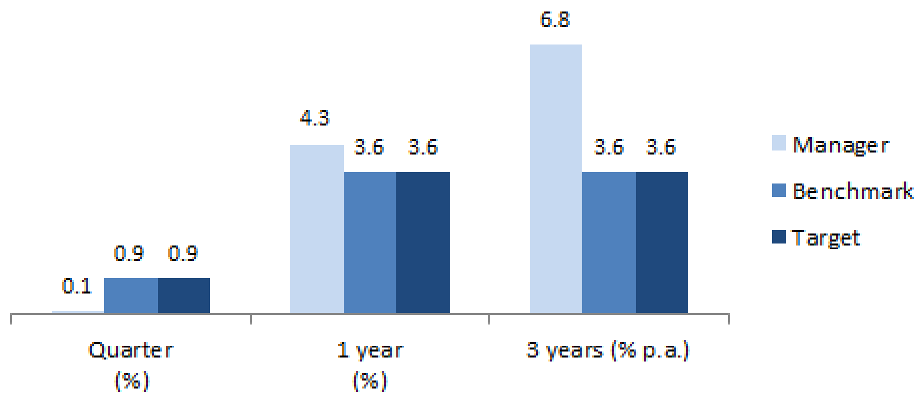
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

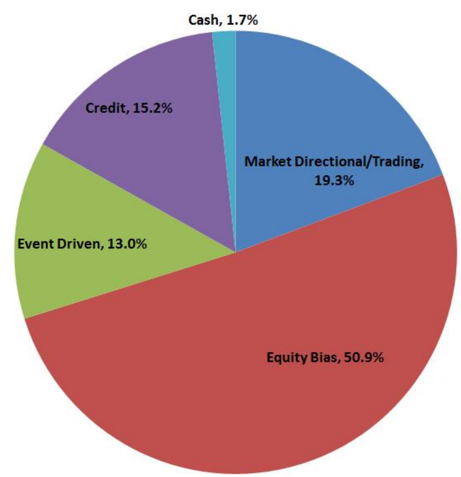
Reason for manager

- Focussed multi-strategy approach, concentrating on long / short equity, global macro and event driven strategies
- Established team, strong track record at selecting managers
- Complemented other funds in the portfolio

Performance

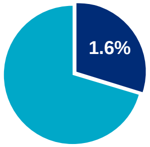


Allocation



As at 30 June 2015

GOTTEX – FUND OF HEDGE FUNDS
£59.5M END VALUE *(£59.1M START VALUE)*



Item Monitored	Outcome	
Mercer Rating	●	R (no change over period under review)
Performance Objective *Cash +3% p.a.*	●	Outperformed benchmark by 0.6% p.a. over three years

Item	
Number of funds	Not Available

Top 5 most significant contributing strategies	Gross Contribution over to Performance over the Quarter (%)
Fundamental MN Equity	+0.43
Distressed Securities	+0.36
Asset-Backed Securities	+0.23
Long/Short Equity	+0.20
Long/Short Credit	+0.19

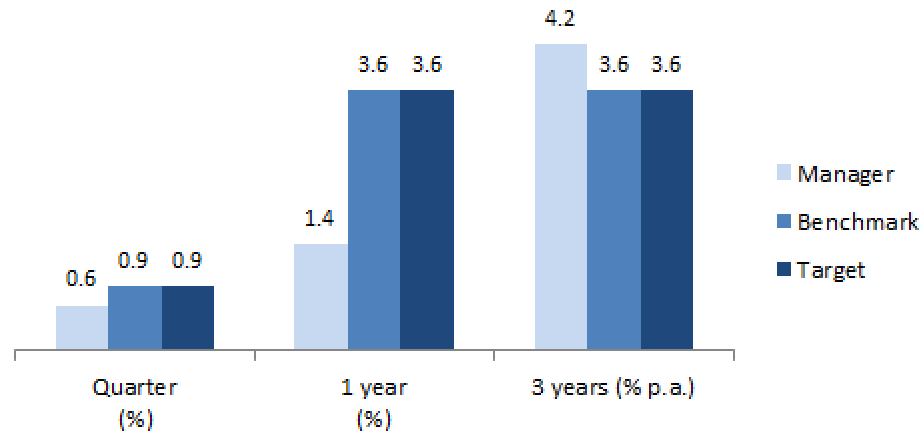
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

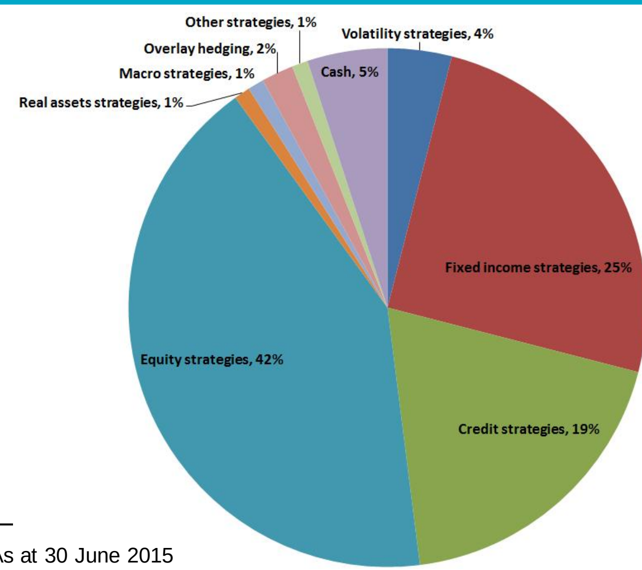
Reason for manager

- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance



Allocation

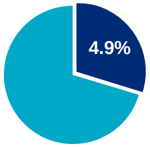


As at 30 June 2015

FUND OF HEDGE FUND MANDATES

The Fund is in the process of divesting from all three managers listed below, with the allocation to be managed by JPMorgan in a bespoke fund of funds vehicle.

Manager	30 June 2015 holding	Comments
Signet	£63.2m	Signet saw significant underperformance over the year, which led to a negative overall contribution to relative performance. This stemmed from the underperformance of their illiquid holdings in the Event Driven & Special Situations Fund (with the main holdings in the Global Fixed Income strategy returning +03% over the twelve month period to 31 May 2015).
Stenham	£39.7m	Stenham's long/short equity and global macro approach outperformed its benchmark by 0.7% over the year to 30 June 2015, although last quarter's performance lagged the benchmark by 0.8% as a result of weak returns from market directional holdings (which constitute 19% of the allocation).
Gottex	£59.5m	Gottex's market neutral approach underperformed over the year (with poor returns in Q4 2014 in particular, and relatively weak returns in Q2 2015), but generated positive performance over the three-years to 30 June 2015.



SCHRODER – UK PROPERTY FUND OF FUNDS
£183.8M END VALUE *(£177.7M START VALUE)*

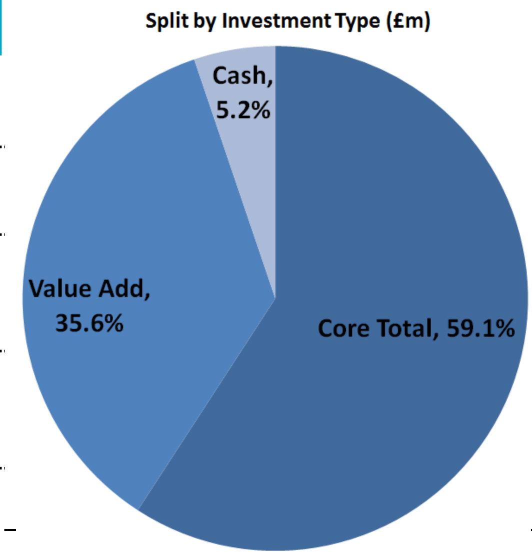
Item Monitored		Outcome
Mercer Rating	● (red)	B (no change over quarter)
Performance Objective *Benchmark +1% p.a.*	● (green)	Outperformed benchmark by 1.5% p.a. over three years

Manager Research and Developments

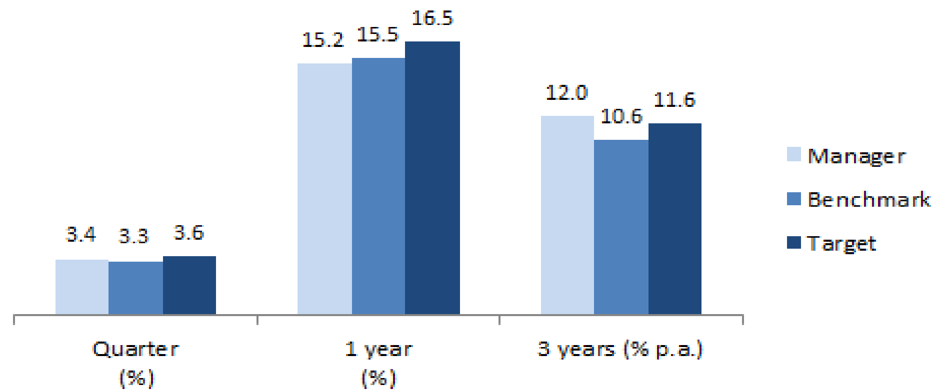
- The fund slightly outperformed the benchmark over the quarter by 0.1%.
- Over the three year period, the fund has outperformed its target by 0.4% p.a., largely due to strong performance from Value Add strategies (i.e. alternative or less mainstream assets with low industrial and central London exposure), offset by the performance lag introduced in rising markets by the cash allocation.
- The fund purchased c. £0.4m of units over the quarter; all in the Multi-Let Industrial Property Unit Trust.

Manager and Investment type splits

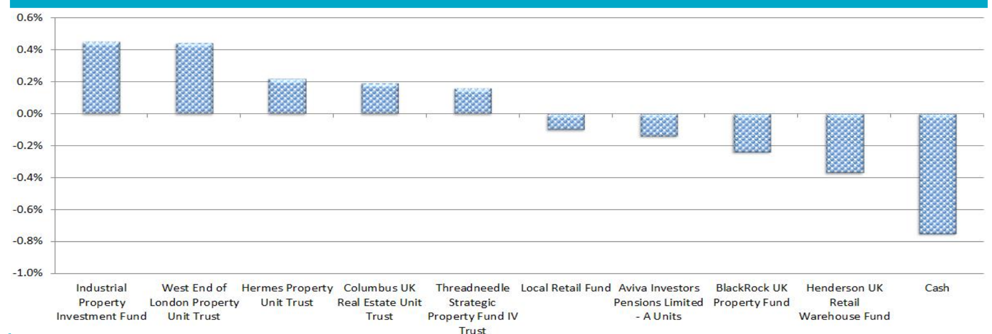
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	13.1
L&G Managed Property Fund	13.0
Standard Life Pooled Pension Property Fund	10.0
Industrial Property Investment Fund	9.4
Aviva Investors Pensions	9.4



Performance



Top 5 Contributing and Detracting Funds over 12 Months

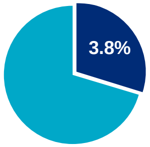


Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Demonstrable track record of delivering consistent above average performance
- Team though small is exclusively dedicated to UK multi-manager property management but can draw on extensive resources of Schroder's direct property team
- Well structured and research orientated investment process



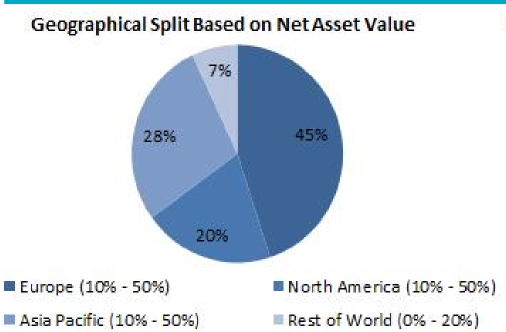
PARTNERS – OVERSEAS PROPERTY £140.4M END VALUE *(£137.0M START VALUE)*

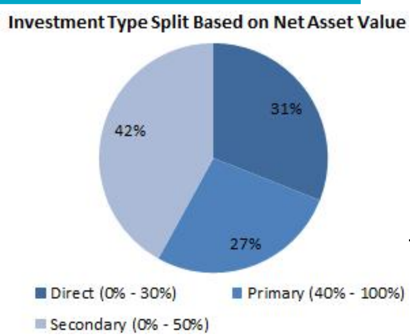
Item Monitored		Outcome
Mercer Rating	●	B+ (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	●	Underperformed benchmark by 3.5% p.a. over three years to 30 June 2015

Manager Research and Developments

- Over Q2 2015, the fund has underperformed the benchmark by 1.8% , and 3.5% p.a. over the three year period.
- **Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2015 at 10.1% p.a. is in line with their target of 10% p.a.**
- Over Q1, the allocation to Europe increased (from 41% to 45%) while Asia Pacific and North America both fell slightly (from 30% to 28%, and 22% to 20% respectively. These remain within the guidelines.
- Exposure to Secondary opportunities fell during the first quarter (from 46% to 42%), with Direct increasing by 4% and Primary unchanged at 27%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines are expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits





As at 31 March 2015

Portfolio update as at 31 March 2015

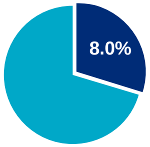
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (31 Mar 2015) (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	14.04	24.85	9.2
Real Estate Secondary 2009	19.01	3.42	20.03	14.6
Asia Pacific and Emerging Market Real Estate 2009	14.48	4.66	14.18	6.8
Distressed US Real Estate 2009	14.75	11.16	10.00	9.8
Global Real Estate 2011	24.70	4.01	24.49	13.0
Direct Real Estate 2011	10.80	1.07	13.25	9.4
Real Estate Secondary 2013	3.90	0.00	4.71	27.7
Global Real Estate 2013	29.29	0.00	27.44	5.1
Real Estate Income 2014	7.85	0.00	7.24	1.6
Total	**156.46**	**38.35**	**146.82**	**10.1**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

- Depth of experience in global property investment and the resources they committed globally to the asset class
- 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



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)

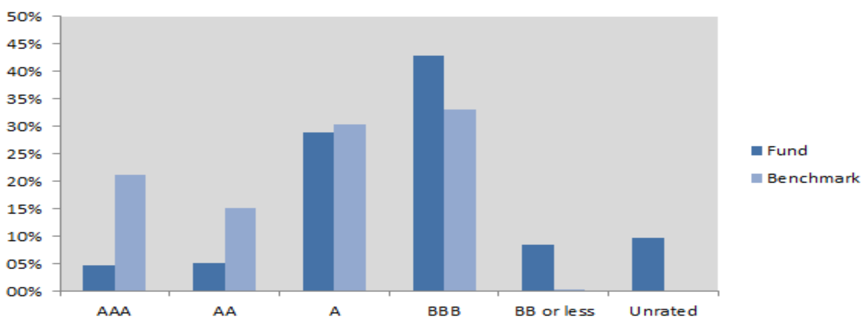
£298.7M END VALUE (£308.9M START VALUE)

Item Monitored		Outcome
Mercer Rating	●	A (no change over period under review)
Performance Objective *Benchmark +0.8% p.a.*	●	Outperformed benchmark by 2.6% p.a. over three years

Manager Research and Developments

- Royal London remain underweight AAA-A bonds, and overweight BBB-unrated, a strategy which has performed strongly over the three year period.

Credit Rating Allocation



Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.6*	*7.5*
Benchmark	*8.2*	*7.8*

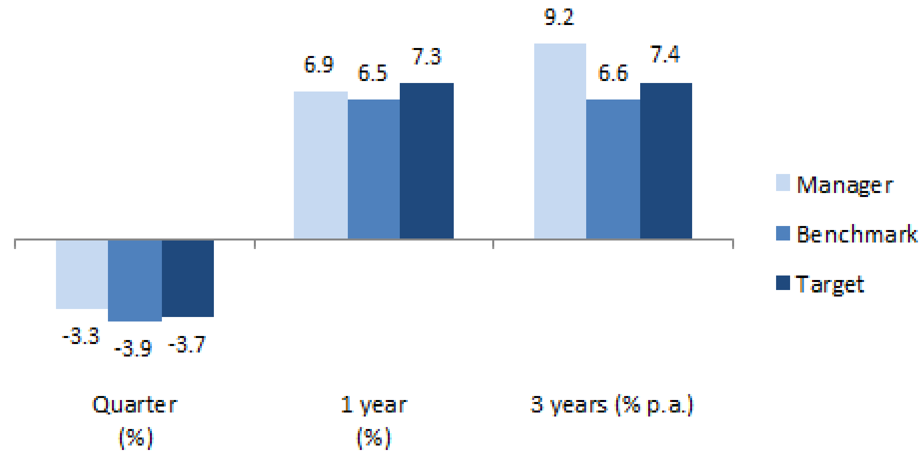
Reason for investment

To maintain stability in the Fund as part of a diversified fixed income portfolio

Reason for manager

- Focussed research strategy to generate added value
- Focus on unrated bonds provided a "niche" where price inefficiencies are more prevalent. Product size means can be flexible within market

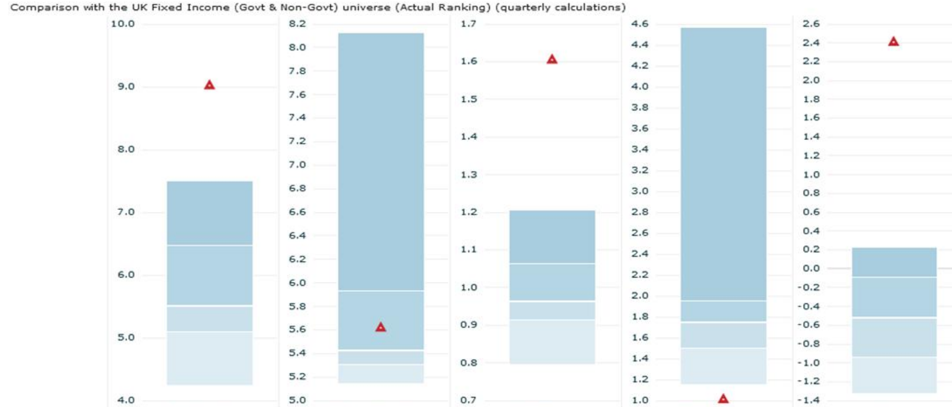
Performance



Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending June-15

Comparison with the UK Fixed Income (Govt & Non-Govt) universe (Actual Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	Ret/SD	TE (%pa)	IR
▲ RLAM FI	9.0 *(1)*	5.6 *(12)*	1.6 *(1)*	1.0 *(25)*	2.4 *(1)*
95th Percentile	7.5	8.1	1.2	4.6	0.2
Upper Quartile	6.5	5.9	1.1	2.0	-0.1
Median	5.5	5.4	1.0	1.7	-0.5
Lower Quartile	5.1	5.3	0.9	1.5	-0.9
5th Percentile	4.2	5.1	0.8	1.2	-1.3
Number	25	25	25	25	25

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter Asset Management	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+4%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Unigestion	Emerging Market Equities	MSCI EM NET TR	+2-4%
Invesco	Global ex-UK Equities (Enhanced Indexation)	MSCI World ex UK NDR	+0.5%
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%
Record	Active Currency Hedging	N/A	-
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	3 Month LIBOR +5% p.a.	-
Signet	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Stenham	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	IPD Global Pooled	+2%
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2
MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

Asset Class	Index
UK Equities	FTSE All-Share
Global Equity	FTSE All-World
Overseas Equities	FTSE World ex UK
US Equities	FTSE USA
Europe (ex-UK) Equities	FTSE W Europe ex UK
Japanese Equities	FTSE Japan
Asia Pacific (ex-Japan) Equities	FTSE W Asia Pacific ex Japan
Emerging Markets Equities	FTSE AW Emerging
Global Small Cap Equities	FTSE World Small Cap
Hedge Funds	HFRX Global Hedge Fund
High Yield Bonds	BofA Merrill Lynch Global High Yield
Emerging Market Debt	JP Morgan GBI EM Diversified Composite
Property	IPD UK Monthly Total Return: All Property
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

These are the indices used in this report for market commentary; individual strategy returns are shown against their specific benchmarks.

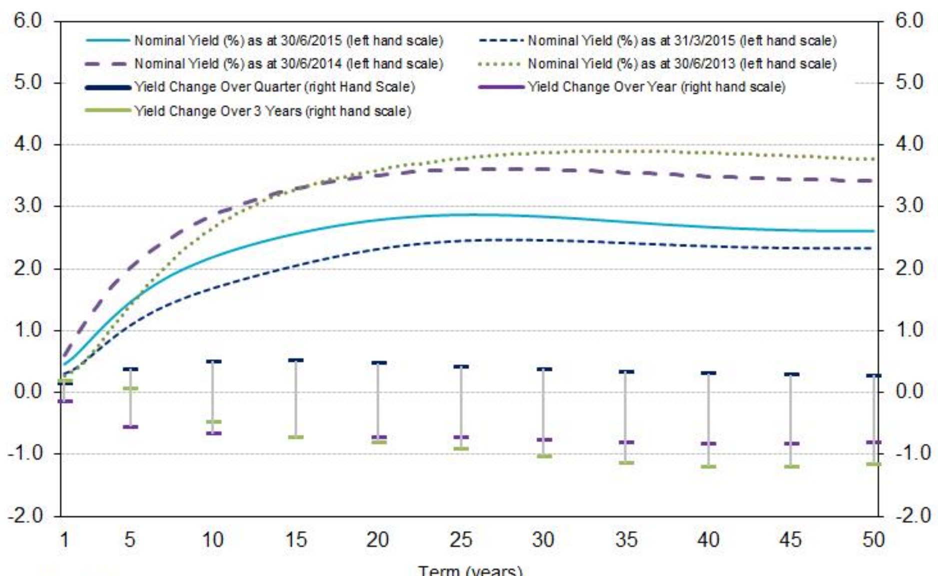
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2015	31 March 2015	30 June 2014	30 June 2013
UK Equities	3.46	3.33	3.27	3.53
Over 15 Year Gilts	2.63	2.23	3.34	3.43
Over 5 Year Index-Linked Gilts	-0.75	-0.91	-0.10	-0.02
Sterling Non Gilts	3.15	2.65	3.59	3.73

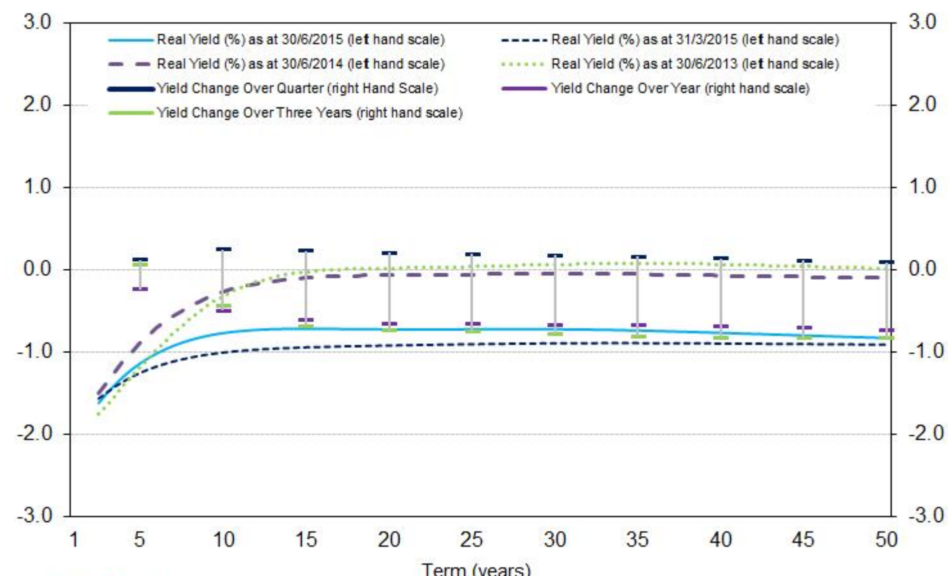
- After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities over the quarter, resulting in negative returns for investors.
- UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities during the second quarter, resulting in a return of -6.3% for Over 15 Year Gilts Index.
- The real yield curve also shifted up, although by less than nominal yields, resulting in a degree of normalization of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly loss of 3.3%, as measured by the Over 5 year Index-Linked Gilts index.
- The total returns from global credit fell by 6.4% in the second quarter in Sterling terms, with a moderate loss of 0.9% in local currency terms. Credit spreads rose slightly in the UK, resulting in a -3.9% total return on All Stocks UK corporate bonds.

Nominal yield curves.



Source: Mercer.

Real yield curves.



Source: Mercer.

APPENDIX 4
GUIDE TO MERCER RATINGS

GUIDE TO MERCER RATINGS

INTRODUCTION

This is a guide to the investment strategy research ratings (herein referred to as rating[s]) produced by Mercer's Investments business (herein referred to as Mercer). It describes what the ratings are intended to mean and how they should and should not be interpreted.

If you have any questions or would like more information about specific topics after reading this guide, please contact your Mercer consultant or click "Contact us" on our website www.mercer.com.

WHAT DO MERCER'S RATINGS SIGNIFY?

Mercer's ratings signify Mercer's opinion of an investment strategy's prospects for outperforming a suitable benchmark over a time frame appropriate for that particular strategy (herein referred to as outperformance). The rating is recorded in the strategy's entry on Mercer's Global Investment Manager Database (GIMD™) at www.mercergimd.com.

Mercer's ratings are assigned to investment strategies rather than to specific funds or vehicles. In this context, the term "strategy" refers to the process that leads to the construction of a portfolio of investments, regardless of whether the strategy is offered in separate account format or through one or more investment vehicles.

WHAT DO MERCER'S RATINGS NOT SIGNIFY?

This section contains important exclusions and warnings; please read it carefully.

Past Performance

The rating assigned to a strategy may or may not be consistent with its past performance. While the rating reflects Mercer's expectations on future performance relative to a suitable benchmark over a time frame appropriate for the particular strategy, Mercer does not guarantee that these expectations will be fulfilled.

Creditworthiness

Unlike those of credit rating agencies, Mercer's ratings are not intended to imply any opinions about the creditworthiness of the manager providing the strategy.

Vehicle-Specific Considerations

As Mercer's ratings are normally assigned to strategies rather than to specific investment vehicles, potential investors in specific investment vehicles should consider not only the Mercer ratings for the strategies being offered through those investment vehicles but also any investment vehicle-specific considerations. These may include, for example, frequency of dealing dates and any legal, tax, or regulatory issues relating to the type of investment vehicle and where it is domiciled. Mercer's ratings do not constitute individualized investment advice.

Management Fees

To determine ratings, Mercer does not generally take investment management fees into account. The rationale for this is that, due to differing account sizes, differing inception dates, or other factors, the fees charged for a specific strategy will vary among clients. Potential investors in a specific strategy should therefore consider not only the Mercer rating for that strategy but also the competitiveness of the fee schedule that they have been quoted. The area of Alternative Investments is an exception — Mercer follows market practice for "Alternatives" and rates strategies on a net of fees basis.

Operational Assessment

Mercer's research process and ratings do not include an evaluation of a manager's custodian, prime brokerage, or other vendor relationships, or an assessment of the manager's back office operations, including any compliance, legal, accounting, or tax analyses of the manager or the manager's investment vehicles. Research is generally limited to the overall investment decision-making process used by managers. In forming a rating, Mercer's investment researchers do not generally perform corporate-level operational infrastructure due diligence on a manager and do not perform financial or criminal background checks on investment management staff. Unless Mercer's investment researchers are aware of material information to the contrary (such as a view expressed by a manager's auditors or Mercer Sentinel®; see section 7), they assume that the manager's operational infrastructure is reasonable. Operational weaknesses that Mercer's investment researchers discover during their analysis of the four factors outlined in section 4 will be noted and, where appropriate, taken into account in determining ratings.

FACTORS CONSIDERED IN FORMING A RATING

In order to determine the rating for a particular strategy, Mercer's investment researchers review the strategy on the basis of four specific factors — idea generation, portfolio construction, implementation, and business management — each of which is assigned one of four scores: negative (-), neutral (=), positive (+), or very positive (++).

Mercer believes that idea generation, portfolio construction, and implementation are the main components of every investment process. These factors are defined as:

Idea generation encompasses everything that the investment manager (herein referred to as manager) does to determine the relative attractiveness of different investments.

Portfolio construction refers to the manner in which the manager translates investment ideas into decisions on which investments to include in a portfolio and what weightings to give to each of these investments.

Implementation refers to the capabilities surrounding activities that are required to achieve the desired portfolio structure.

Mercer believes that managers that do these activities well should have above-average prospects of outperformance. However, Mercer also believes that to remain competitive over longer periods, managers must be able to maintain and enhance their capabilities in these three areas. To do this, managers need to have significantly strong business management, which is the fourth factor Mercer assesses.

Business management refers to the overall stability of the firm, firm resources, and overall operations.

A strategy's overall rating is not determined as a weighted average of the four factor scores, and no prescribed calculations are made to arrive at the four-factor score or the overall rating. Instead, for each strategy, Mercer's investment researchers identify which factors Mercer believes are most relevant to a manager's investment process and place weight on the factors accordingly. Example considerations include:

- Mercer's confidence in the manager's ability to generate value-adding ideas.
- Mercer's view on any specified outperformance target.
- The opportunities available in the relevant market(s) to achieve outperformance.
- An assessment of the risks taken to try to achieve outperformance.
- An assessment of the strategy relative to peer strategies.
- An assessment of the manager's business management and its impact on particular strategies.

GUIDE TO MERCER RATINGS

MERCER RATING SCALE

Ratings	Rationale
A	Strategies assessed as having “above average” prospects of outperformance
B+	Strategies assessed as having “above average” prospects of outperformance, but which are qualified by at least one of the following: There are other strategies that Mercer believes are more likely to achieve outperformance. Mercer requires more evidence to support its assessment.
B	Strategies assessed as having “average” prospects of outperformance
C	Strategies assessed as having “below average” prospects of outperformance
N/no rating	Strategies not currently rated by Mercer
R	The R rating is applied in three situations: ▪ Where Mercer has carried out some research, but has not completed its full investment strategy research process ▪ In product categories where Mercer does not maintain formal ratings but where there are other strategies in which we have a higher degree of confidence ▪ Mercer has in the past carried out its full investment-strategy research process on the strategy, but we are no longer maintaining full research coverage.

Strategies rated A are those which Mercer has the highest degree of conviction that outperformance may be achieved.

SUPPLEMENTAL INDICATORS

Provisional (P)

If the Mercer strategy rating is followed by a (P) - for example, A (P) or B+ (P) - the rating is "provisional" - that is, there is temporary uncertainty about the rating, but it is expected that this will soon be resolved. For example, should two managers announce a merger, but without further details, this uncertainty may be highlighted by modifying the rating strategies for one or both of those firms - for instance, from A to A (P). (P) indicators are intended to be temporary and should normally last for no more than two weeks. As soon as the temporary uncertainty has been resolved, or if it becomes apparent that this uncertainty is unlikely to be resolved quickly, the (P) indicator will be removed and the rating confirmed or changed, or the strategy will be assigned the indicator "watch" (W).

Watch (W)

If the Mercer strategy rating is followed by a (W) – for example, A (W) or B+ (W) - the rating is "watch" - there is some uncertainty about the rating and resolution is not expected soon, but Mercer believes there is a low probability that the resolution of this uncertainty will lead to a change in the strategy's rating. (W) indicators are typically issued when there is an expectation of long-term uncertainty surrounding the rating - for example, a change, or potential change, in a manager's ownership.

Specifically Assigning (P) and (W) Supplemental Indicators

(P) and (W) indicators are assigned - and removed - by the regular ratings review process described earlier; however, there are circumstances where organizational or reputational issues that affect a manager warrant the specific assignment of a (P) or (W) indicator to an existing rating. In such circumstances, the decision to apply - or remove - a (P) or (W) indicator is taken by two senior members of the leadership group of the Manager Research team. These occasions are rare, and the relevant investment researchers will contribute to any discussions before a (P) or (W) indicator is assigned or removed.

All other ratings decisions, including the awarding of a "Preferred Provider" designation, follow the process described in section "Ratings Review Committees".

High Tracking Error (T)

If the Mercer strategy rating is followed by a (T) — for example, A (T) or B+ (T) — the strategy is considered to have the potential to generate a tracking error substantially higher than the average for the relevant product category. In this context, "tracking error" refers to the variability of performance relative to the nominated benchmark for the strategy. A strategy may be assigned the (T) indicator because the potential for high tracking error has been demonstrated by the strategy's past performance and/or because the nature of the investment process is such that a significantly higher than average tracking error could be expected. The absence of a (T) following a rating does not guarantee that the strategy's tracking error will not be higher than the average for the relevant product category.

Preferred Provider Status

"Preferred Provider" status is assigned to strategies within product categories for which Mercer does not maintain formal ratings. This indicator normally applies to strategies for which the primary goal is not outperformance of a benchmark — for example, cash, passive, and liability-driven investment (LDI) strategies. Strategies assigned a Preferred Provider status may not have undergone a Rating Review Committee (RRC) review; however, they will have been reviewed by at least two suitably qualified investment researchers or consultants other than the researcher who recommended the status.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Environmental, Social and Corporate Governance ("ESG") ratings reflect Mercer's view on the extent to which ESG and active ownership practices (voting and engagement) are integrated into the fund manager's strategy. The ratings scale ranges from ESG1 to ESG4. ESG1 is the highest rating and is assigned to managers that are assessed as being 'leaders' in integrating ESG and active ownership into their core processes, with clear evidence that it is core to idea generation and portfolio construction. ESG2 indicates that ESG factors are part of decision making with a strong level of commitment made at the firm wide level and some indication that data and research is being taken into account by the fund managers in their valuations. An ESG3 rating is given to strategies where the manager has made some progress with respect to ESG integration and active ownership, but there is little evidence that ESG factors actually factor into valuations and investment processes. Strategies rated ESG4 have done very little with respect to ESG integration or active ownership.

ESG ratings are assigned by Mercer's manager research teams during their due diligence meetings with investment managers. ESG (RI) ratings are assigned by Mercer's specialist Responsible Investment ("RI") team, which typically occurs when the RI team undertake more focussed meeting with an investment manager on ESG issues, where we discuss in detail how ESG issues are integrated into the idea generation and portfolio construction process , and what voting and engagement activities have taken place. This detailed ESG research meeting will typically be accompanied by detailed ESG research notes.

Where an equity strategy is passively managed, Mercer applies an ESG-Passive "ESGp" rating scale. The ESGp ratings scale is designed to assess passive equity managers' commitment to voting, engagement, and industry collaboration on ESG issues. Mirroring our standard ESG ratings for actively managed strategies, the ESGp rating scale ranges from ESGp1 to ESGp4. ESGp1 is the highest rating and signifies our belief that a manger is a leader in its active ownership activities, for example undertaking voting and engagement activities at a global level rather than at just a regional level. ESGp2 typically indicates that the manager has made clear efforts to develop a process for its voting and engagement activities, but lags the best practices in some respect. ESGp3 indicates that the manager will have some dedicated resources in place but the primary focus is likely to be only on governance aspects of voting and engagement. ESGp4 signifies our belief that a manager has few dedicated ESG resources in place and will not have the same level of disclosure as a more highly rated manager.

OPERATIONAL RISK ASSESSMENTS

Mercer Sentinel, a division within Mercer, undertakes operational risk assessments (ORAs) on managers, most often on behalf of clients. These ORAs assess managers' operations and implementation risk profiles and cover some of the areas mentioned in section 3, as well as other areas related to operational risk. ORAs are undertaken separately from the Manager Research process; however, the results are shared with the Lead Researcher for the manager. A Mercer Sentinel ORA that concludes with an unsatisfactory rating (namely, a “Review” rating) for a manager will result in an immediate (P) rating for all that manager's relevant rated strategies. Discussions will follow and any subsequent change in investment rating will be ratified by the standard Manager Research process. Contact your Mercer consultant for more information.

RATINGS REVIEW COMMITTEES

Mercer has a process for reviewing and ratifying the ratings proposed by individual investment researchers. For most product categories, strategy ratings are reviewed regularly by one of several RRCs that operate within Mercer. These committees are composed of professionals from Mercer's investment research and consulting groups who draw on research carried out by Mercer investment researchers and consultants. The role of the RRCs is to review this research from a quality control perspective and ensure consistency of treatment across strategies within a product category.

For certain asset classes, ratings will not have been reviewed by an RRC; however, the rating will have been reviewed by at least two suitably qualified investment researchers or consultants other than the recommending researcher. An R rating will not necessarily have been reviewed by an RRC but will have been subject to Mercer's standard peer review process.

CONFIDENTIALITY OF MERCER'S RATINGS

Mercer's ratings, along with all other information relating to Mercer's opinions on managers and the investment strategies they offer, represent Mercer's confidential and proprietary intellectual property and are subject to change without notice. The information is intended for the exclusive use of the parties to whom it was provided by Mercer and may not be modified, sold, or otherwise provided, in whole or in part, to any other person or entity (including managers) without Mercer's prior written permission.

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