HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2015

AUGUST 2015

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- 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.
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CONTENTS

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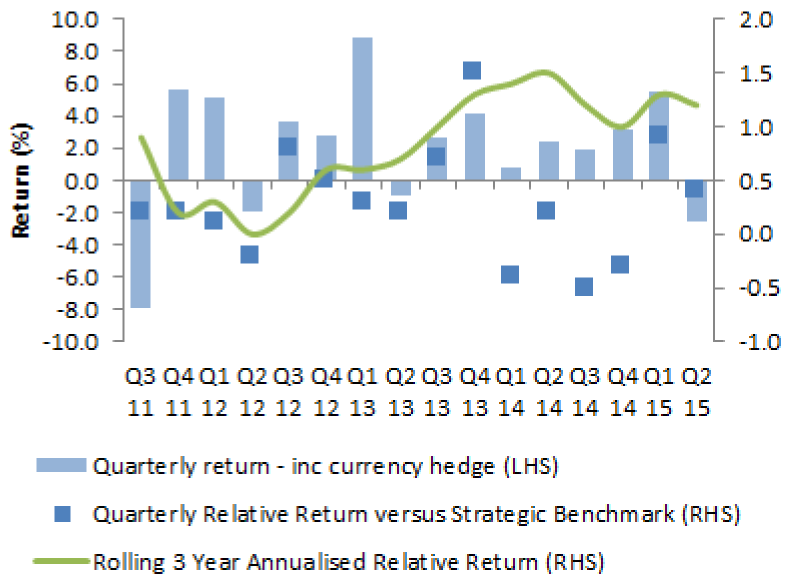
SECTION 1
EXECUTIVE SUMMARY

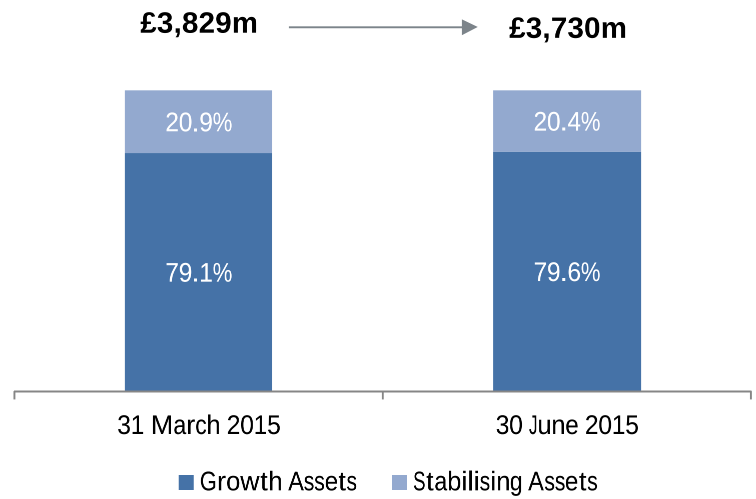
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-2.6	7.9	10.9
Total Fund (ex currency hedge)	-3.0	7.6	10.5
Strategic Benchmark (no currency hedge)	-2.5	8.1	9.7
Relative (inc currency hedge)	**-0.1**	**-0.2**	**+1.2**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) decreased from £3,829m (31 March 2015) to £3,730m.

This decrease was due to the negative performance from most asset managers, as both equity and bond markets fell over the quarter.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes with the exception of developed market equities which are overweight (although their overweight allocation will be reduced once the infrastructure investments are drawn down).

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund (“the Fund”), to assess the performance and risks of the Fund’s investments.

Funding level

- The estimated funding level decreased by c. 1% over the second quarter of 2015, primarily due to negative asset returns over the quarter, despite a rise in the valuation discount rate (decreasing liabilities).

Fund performance

- The value of the Fund’s assets decreased by £99m over the quarter, to £3,730m at 30 June 2015. The Fund’s assets returned -2.6% over the quarter (-3.0% excluding the Record currency hedging mandate, given the appreciation of sterling over the quarter), as a result of falls in both equities and bonds. This underperformed the strategic benchmark return of -2.5% (although note that the strategic benchmark has a 10% allocation to hedge funds, which outperformed the overall benchmark over the quarter).

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.

Strategy (continued)

- 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.
- 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.

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EXECUTIVE SUMMARY

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%. 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 Pyrford, 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.

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EXECUTIVE SUMMARY

Key points for consideration

- Over the coming months the Fund will be reviewing its policies on rebalancing, the use of opportunistic assets / tactical asset allocation and currency hedging, together with reviewing the alignment of the Fund's assets and liabilities, and ways to better manage liability risk.

- 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).

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.

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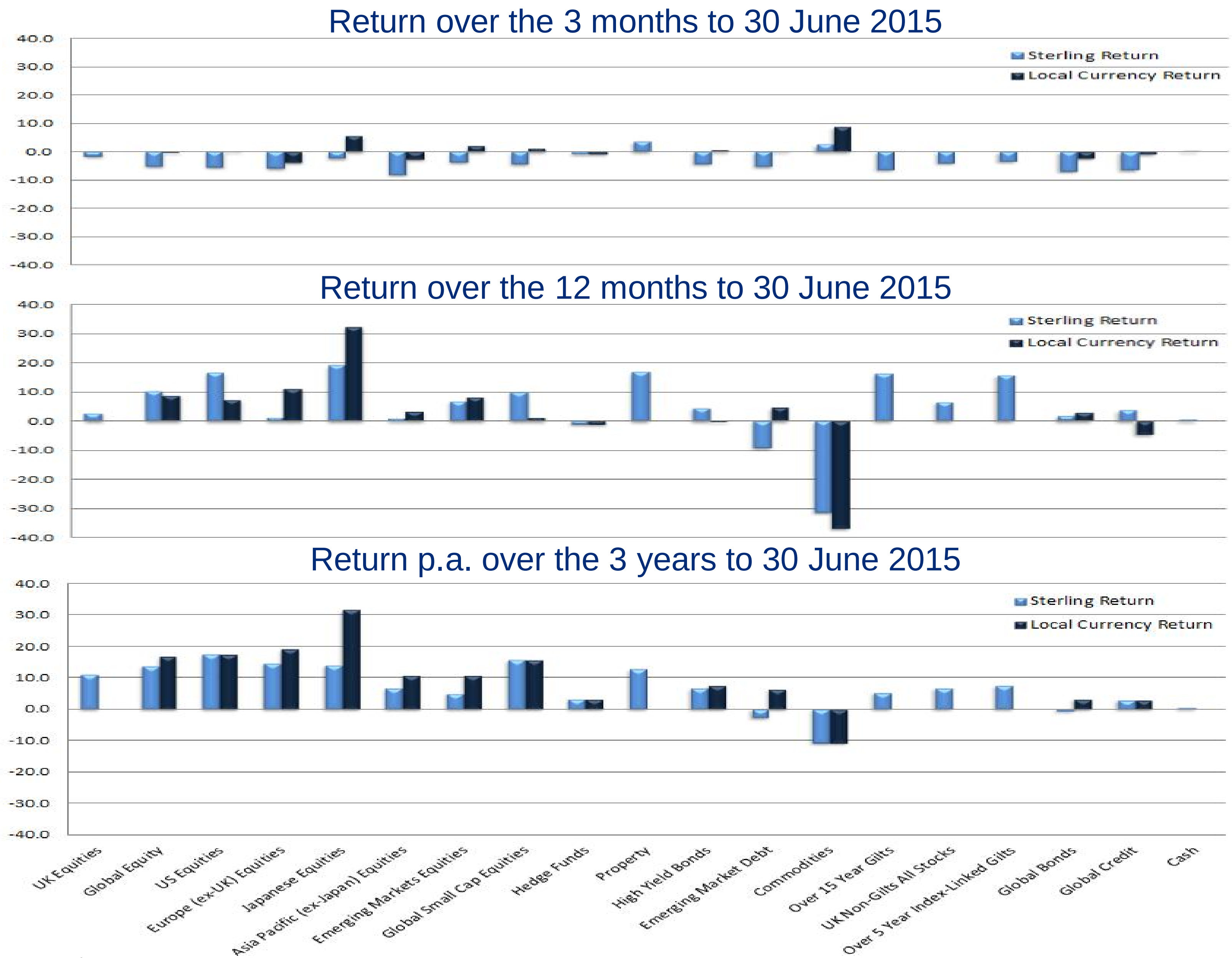
MARKET BACKGROUND
INDEX PERFORMANCE

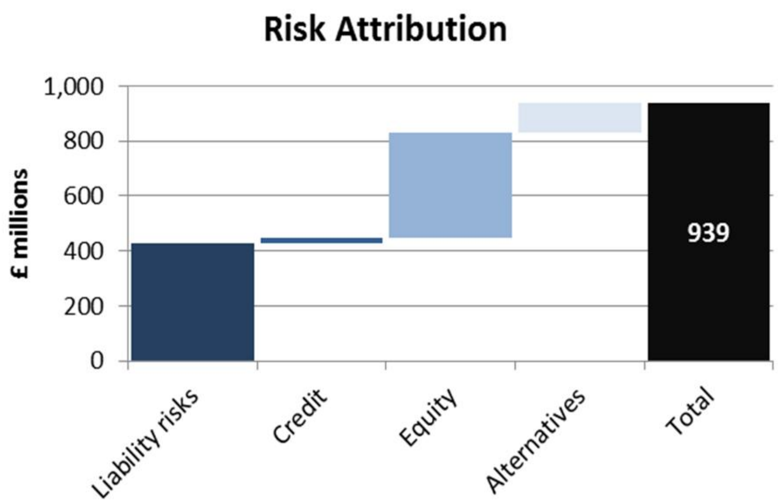


Source: Thomson Reuters Datastream.

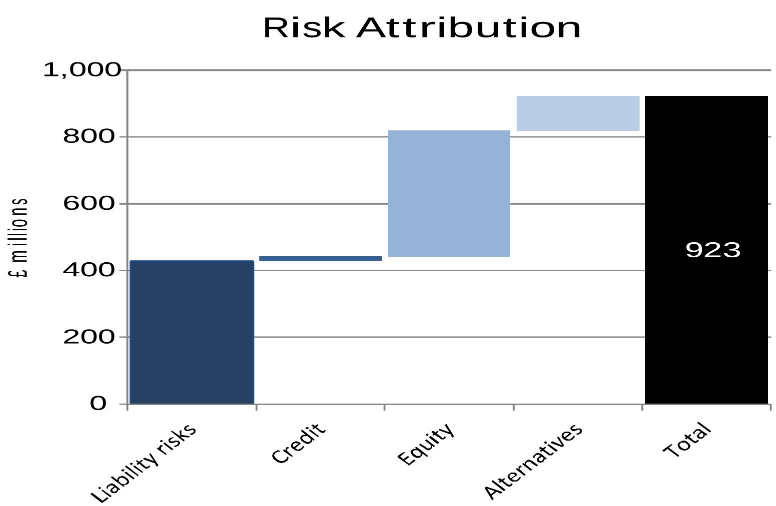
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

31 March 2015



30 June 2015



The two charts to the left illustrate not only the main risks the Fund is exposed to (which is why the funding position is volatile) but also the size of these risks in the context of the deficit position.

The purpose of showing these charts is not to alarm, rather to ensure there is an awareness of the risks faced and how they change over time and to initiate debate on an ongoing basis, around how to best manage these risks, so as not to lose sight of the "big picture".

The black column on the right hand side of each chart shows the estimated 95th percentile Value at Risk figure over a one-year period. In other words, if we consider the worst case outcome which has a 1 in 20 chance of occurring, what would be the impact on the deficit relative to our "best estimate" of what the deficit would be in one years time.

If we focus on the chart at 30 June 2015, the chart shows that if a 1 in 20 "downside event" occurred, we would expect that in one year's time, the deficit would increase by an additional **£923m** on top of the current deficit.

Each bar to the left of the black bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads, volatility of equity markets and alternative assets and increasing longevity).

The two charts show a decrease in one-year risk over the quarter of c£16m from **£939m** to **£923m**, largely as a result of the decrease in the size of the liabilities.

The contributions to the total risk from the various return drivers have as expected, changed little. Liability risks (i.e. interest rate) and equity market risk dominate.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

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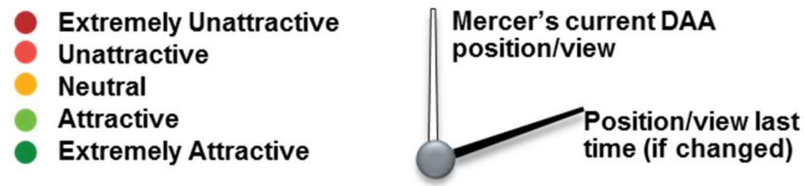
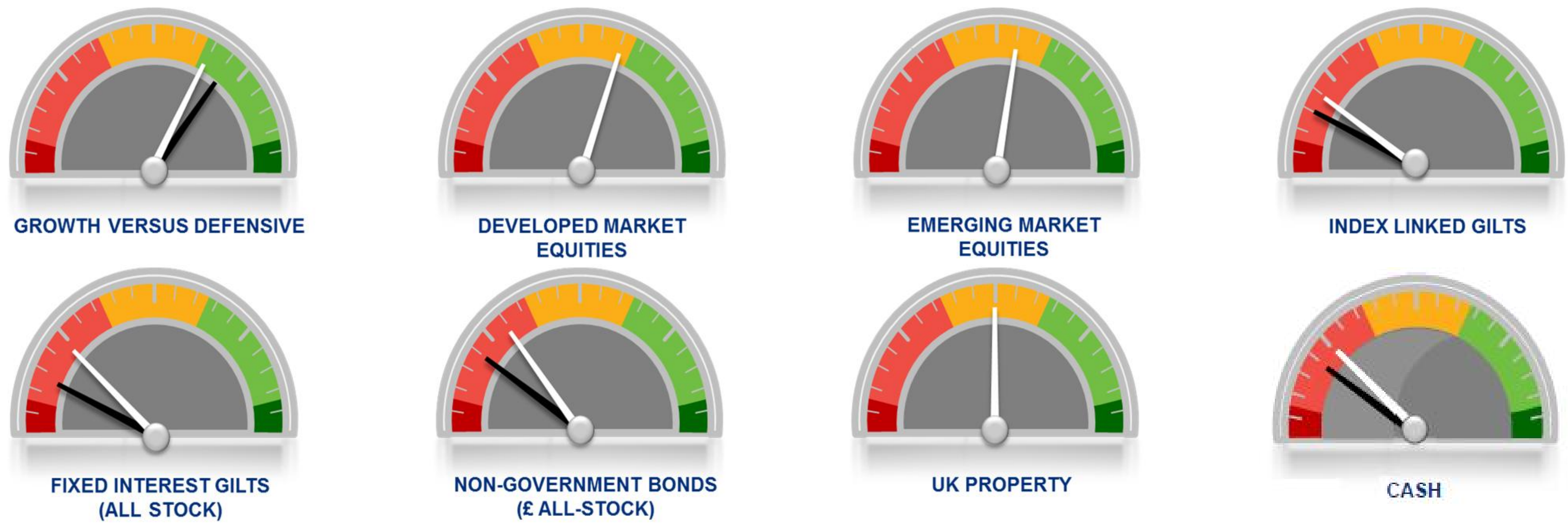
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

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



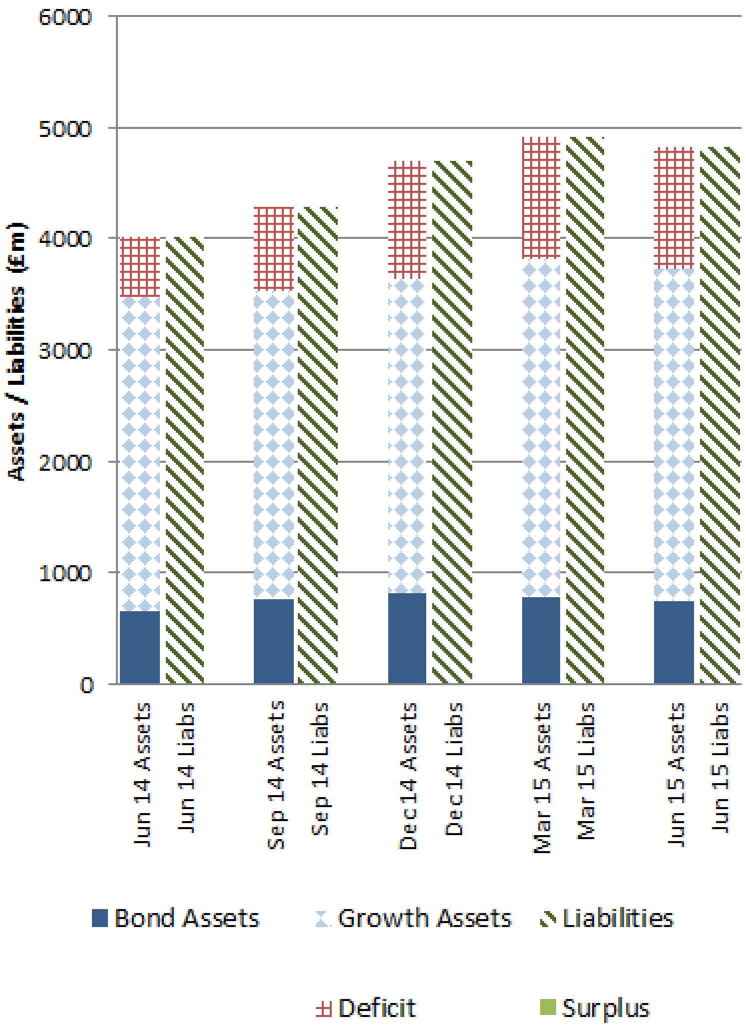


These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent 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

CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level decreased by c. 1% over the second quarter of 2015, all else being equal. This was driven by:
  - A negative asset return
  - A positive effect from the liabilities, as the discount rate increased, decreasing the value placed on the liabilities (offset to some extent by an increase in the inflation assumption used to value inflation-linked liabilities).
- At the valuation date, 31 March 2013, the Scheme was 78% funded. Since then financial market movements, actual cashflows, and investment returns are expected to have decreased the overall funding level to 77%. This reduction has come mainly from the increase in the present value of the liabilities over the period (due to the falling discount rate).

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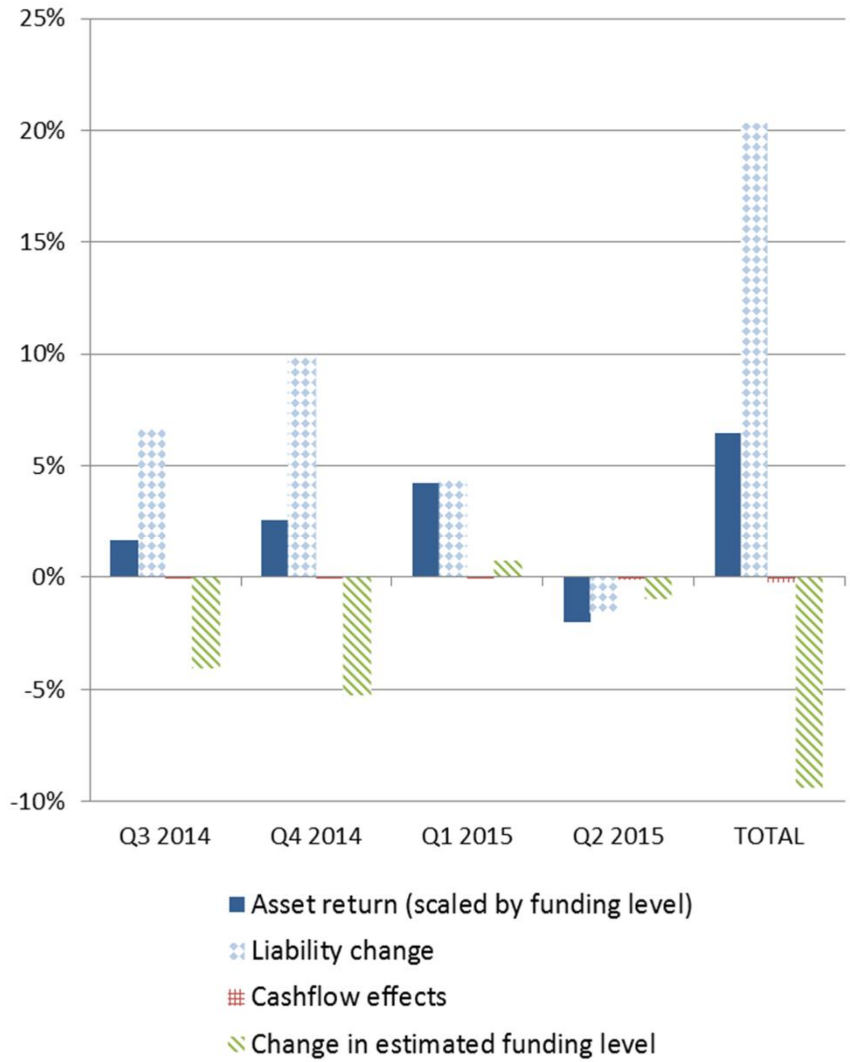
CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets, scaled to take into account the estimated funding level, produced an absolute return of -2.0%, over the last quarter.
- However, the Fund's estimated liabilities decreased by 1.6% (primarily due to an increase in the discount rate, offset to some extent by an increase in the inflation assumption used to value inflation-linked liabilities and accruing benefits).
- Over this quarter, the "cashflow effect" from contributions was negligible.
- Overall, the combined effect has led to a decrease in the estimated funding level to 77% (from 78% at 31 March 2015).

SECTION 5
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 £99m 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.

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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.

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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.
* Interest payments into the Fund are not included as cashflows.

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SECTION 6
PERFORMANCE SUMMARY

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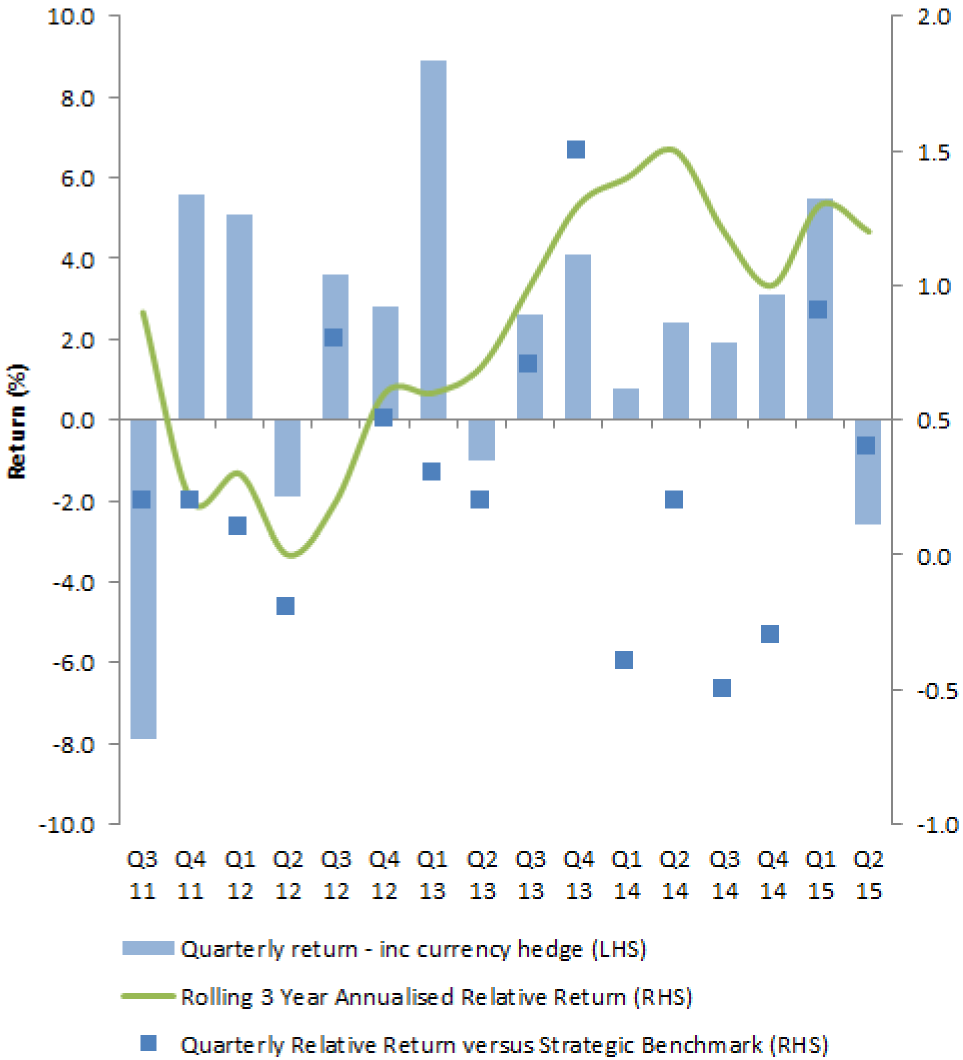
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-2.6	7.9	10.9
Total Fund (ex currency hedge)	-3.0	7.6	10.5
Strategic Benchmark (no currency hedge)	-2.5	8.1	9.7
Relative (inc currency hedge)	**-0.1**	**-0.2**	**+1.2**

- Over Q2 2015, the Fund underperformed its Strategic Benchmark by 0.1% when including the currency hedge, and by 0.5% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 0.2% but outperformed over the three year period by 1.2% p.a.
- The latest quarter's underperformance has reduced the rolling twelve month outperformance from +0.3% p.a. to -0.2% p.a.
- The largest component of the quarter's underperformance was the overweight holding in equities (which fell in value) and the underweight holdings in hedge funds as they outperformed the strategic benchmark. This was somewhat offset by strong stock selection in UK equities and the currency hedge as sterling appreciated over the quarter.

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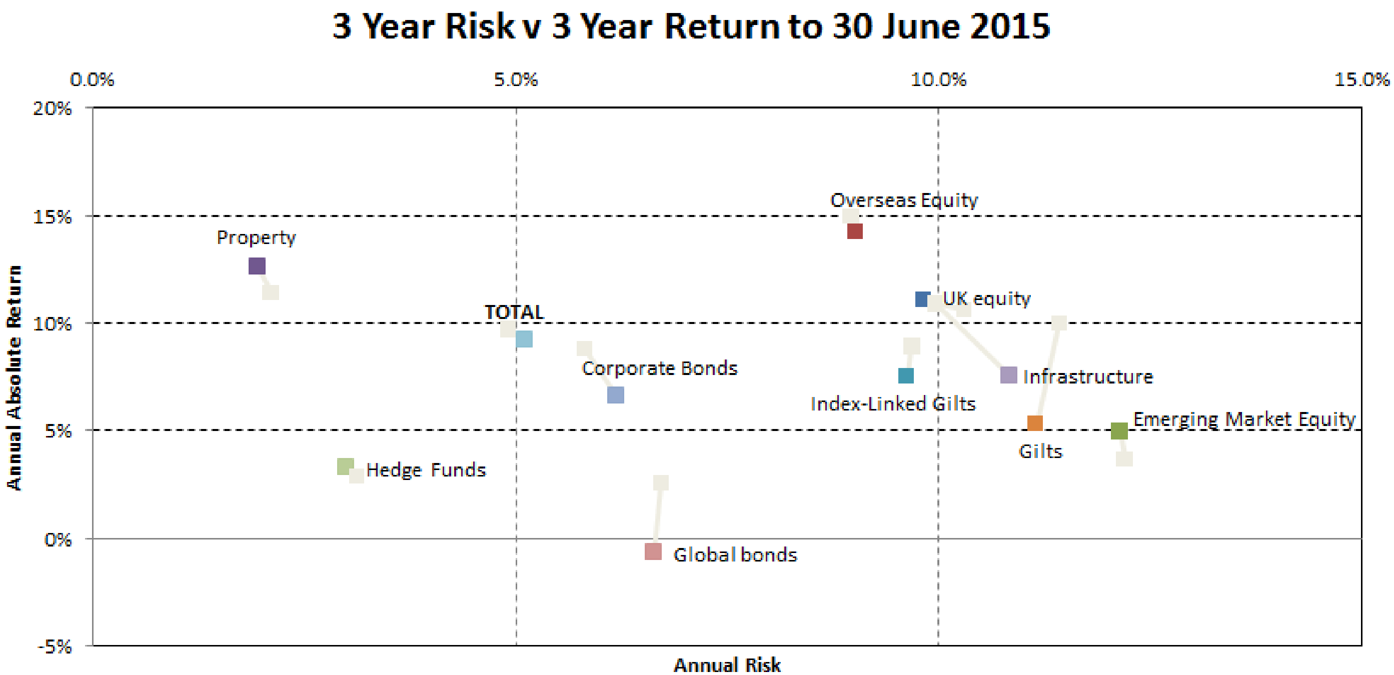
RISK RETURN ANALYSIS

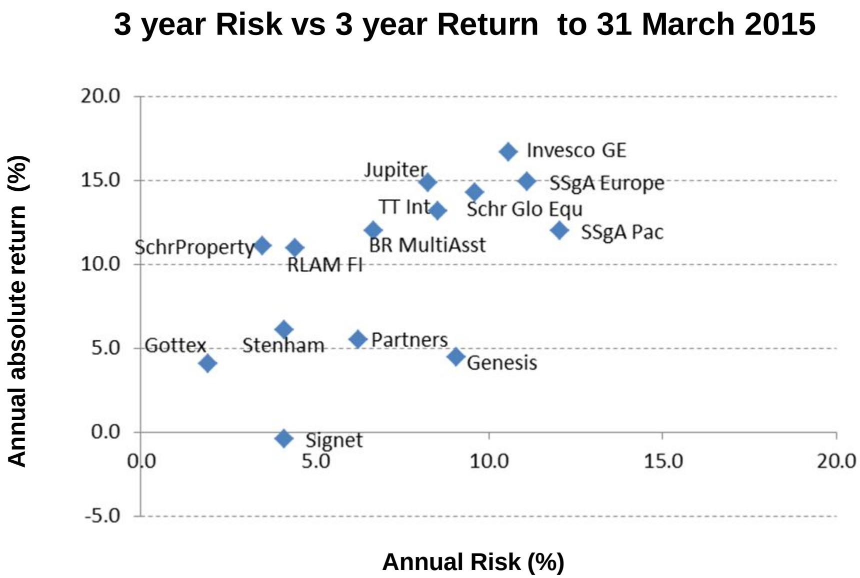


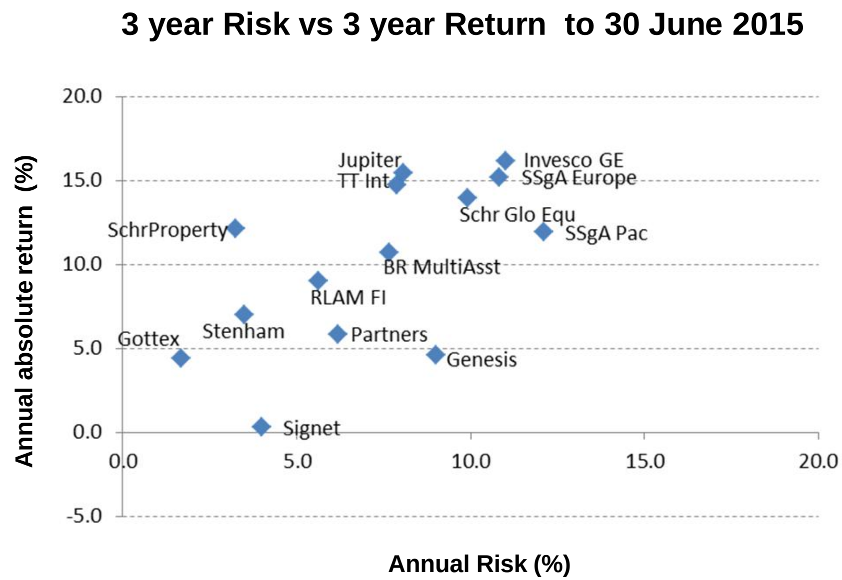
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark 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.

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

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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.

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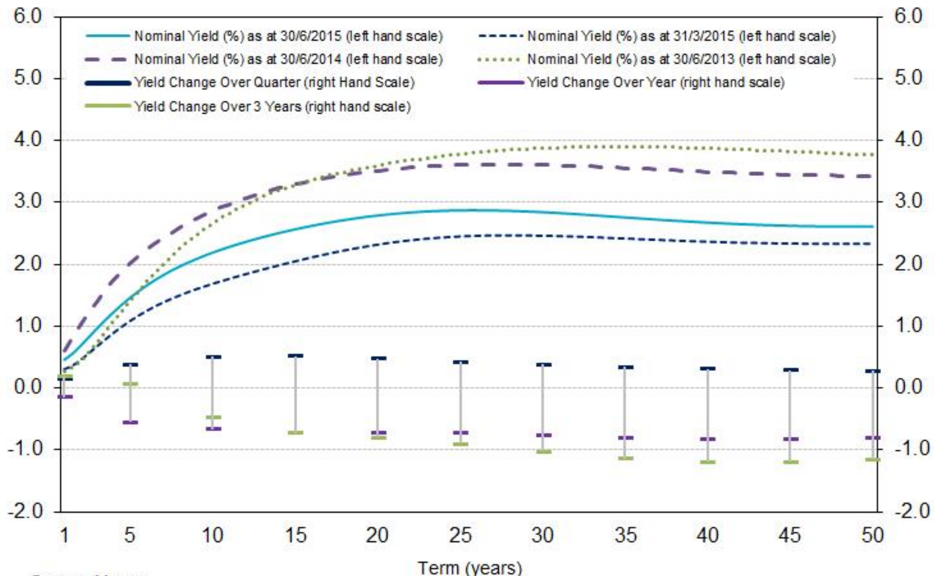
APPENDIX 3
CHANGES IN YIELDS

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

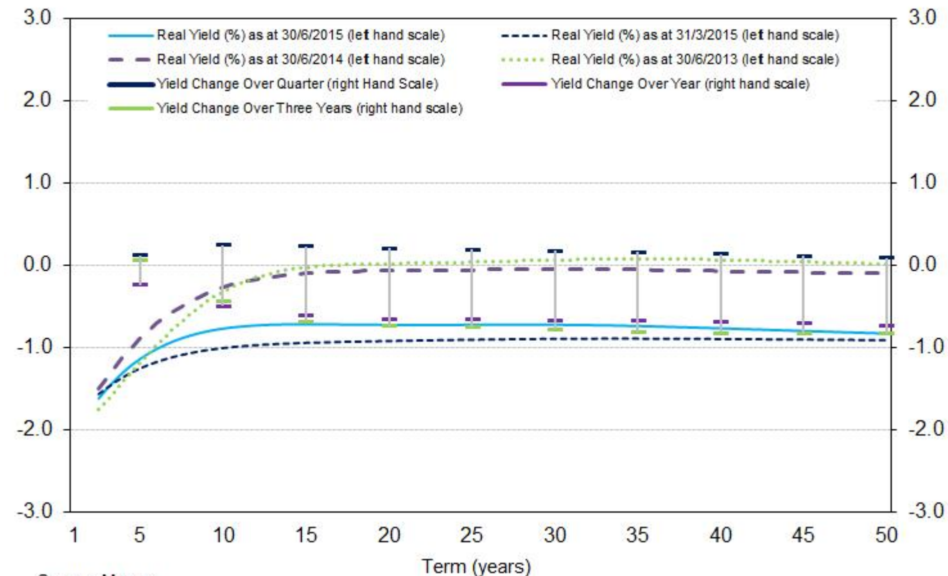
- After reaching extremely low levels earlier this year, bond yields rose sharply across all maturities over the quarter, resulting in negative returns for investors.
- UK government bonds did not escape the global sell-off in the fixed income market. Nominal gilt yields jumped across all maturities 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.

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