HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2015

NOVEMBER 2015

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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 £129m over the quarter, to £3,601m at 30 September 2015.

Strategy

- Global (developed) equity returns over the last three years at 11.3% 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 fallen back into negative territory at -2.2% p.a. from 5.0% p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns were affected by negative sentiment from fears of slowing growth in China and uncertainty created by the threat of US interest rates being hiked. 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 September 2015 remain above the long term strategic assumed returns (with fixed interest gilts returning 6.7% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 9.4% 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 returned 5.1% p.a. over the three year period, falling behind their assumed return of 5.5% p.a., while property returns of 13.7% continue to be above the assumed strategic return of 7% p.a., driven by the economic recovery in the US and the UK.
- 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. The same also applies to assets that are able to provide a relatively secure source of income (e.g. Infrastructure, Property and Credit), as the overall return is less dependent on capital appreciation.

EXECUTIVE SUMMARY

Managers

- Absolute returns over the quarter were mixed but generally negative as equities produced negative returns over the quarter. Bond markets remained resilient over the quarter, with RLAM returning 0.8%. The lowest absolute return was from Genesis, at -13.1%, however this was a positive relative return of 1.7% as emerging markets fell significantly over the quarter on the back of Chinese concerns and the strong US dollar.
- Returns over the year were more positive. The Fund's global equity mandates in particular fared well, however emerging market returns were still very negative, with Genesis and Unigestion returning -14.1% and -12.9% respectively against a benchmark of -13.4%.
- Over three years, all funds we have performance data for produced positive absolute returns (with the exception of Genesis), with Partners and Gottex failing to beat their benchmarks (although see comments on the measurement of Partners Group's performance later). In addition, Schroder failed to achieve its three-year performance objectives despite beating their benchmark. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- The hedge fund of funds transition into JP Morgan is ongoing, with £60m invested by 30 September 2015 (with a further £60m invested on 1 October 2015). Stenham has been completely sold down, with £58.4m remaining in Gottex and £38.9m remaining in Signet.

- Global and most regional equity markets produced negative performance over the quarter, hitting the Fund's asset level. This negative experience was compounded by positive performance from bond markets, meaning the present value of the liabilities is expected to have increased.

- After the end of the third quarter, global equity markets rebounded significantly. The FTSE All World fell 5.8% in Q3, but over Q4 to date at the time of writing (29 October) has returned +6.8% in sterling terms.

- Emerging Markets saw significantly negative performance over the quarter, as fears over China's growth slowing (and whether it had ever been as high as has been stated in the past) took their toll. This, combined with uncertainty created by the US Federal Reserve's potential interest rate hike, caused a significant sell off.

- Property continues its strong performance, despite other growth assets falling over the quarter.

- The Fund is in the process reviewing the Stabilising Asset portfolio.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	27
Jupiter	UK Equities	-	✓	✓	28
TT International	UK Equities	-	✓	✓	29
Schroder	Global Equities	✓	-	-	30
Genesis	Emerging Market Equities	✓	✕	✓	31
Unigestion	Emerging Market Equities	-	-	N/A	32
Invesco	Global ex-UK Equities	✓	✕	✓	33
SSgA	Europe ex-UK	-	✓	✓	34
SSgA	Pacific inc. Japan Equities	-	✓	✓	35
Record Currency Management	Dynamic Currency Hedging	-	N/A	N/A	36
Pyrford	DGF	-	✕	N/A	37
Standard Life	DGF	✓	N/A	N/A	38

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

- Apart from the passive funds recategorisation explained in detail on page 27, 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	-	✕	✕	*40*
Gottex	Fund of Hedge Funds	-	✕	✕	*41*
JP Morgan	Fund of Hedge Funds	✓	N/A	N/A	*42*
Schroder	UK Property	-	✕	✓	*43*
Partners*	Global Property	✓	✕	✕	*45*
RLAM	Bonds	✓	-	✓	*46*

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

- Schroders announced the departure of three Real Estate Portfolio Managers: Jennifer Murray, Tony Doherty and Keeran Kang. See page 43 for detail.
- Partners' performance relative to benchmark is explained in more detail on page 45.
- Apart from the passive funds recategorisation explained in detail on page 27, there were no changes to any ratings over the quarter.

* Performance shown to 30 June 2015 as data to 30 September 2015 was unavailable at the time of writing.

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Growth assets continued their downward trend in Q3 as market volatility spiked. In August 2015, intraday equity market volatility rose to levels not seen since the global financial crisis. The sharp sell-off in risk assets was largely attributed to a surprise devaluation of the Chinese Yuan in August 2015. Global equities posted negative returns of 8.1% and 5.8% respectively in local currency and sterling terms over the quarter, with the relative depreciation of sterling partially offsetting the losses of un-hedged investors. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, underperformed the broader market over the quarter, returning -10.8% and -7.4% in local currency and sterling terms, respectively.

Emerging Markets were the worst performing sector, returning -13.2% and -15.6% in local currency and sterling terms, with Latin American and Asian economies leading much of this negative performance. Brazil, in particular, looks set for a deep recession following deteriorating macroeconomic conditions and a downgrade in its credit rating status to junk over the quarter. Within developed market equities, Japanese equities underperformed the broader market following aggressive net selling by foreign investors, returning -13.3% in local currency terms (-8.0% in sterling terms). This underperformance followed the release of mixed economic data which showed Japan falling into deflation in August 2015 (for the first time since April 2013) in spite of improving consumer spending and corporate earnings.

In the United Kingdom, the FTSE All-Share Index fell by 5.7% over the quarter. The FTSE 100 returned -6.1% and continued to underperform the smaller segments of the market represented by the FTSE 250 and FTSE Small Cap indices, largely due to the ongoing weakness of resource-led stocks which constitute a significantly larger proportion of the FTSE 100.

Bond Market Review

Bond yields fell across all maturities over the quarter, resulting in positive returns for investors.

Nominal gilt yields decreased across all maturities during the third quarter, resulting in a return of 5.1% for Over 15 Year Gilts Index.

The real yield curve also moved down, although by less than nominal yields, resulting in a degree of normalization of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly gain of 2.3%, as measured by the Over 5 Year Index-Linked Gilts index.

Total returns from global credit were +3.0% in the third quarter in sterling terms, with a moderate loss of 0.8% in local currency terms. Credit spreads widened slightly in the UK, but yields still fell overall, resulting in a 1.0% total return on All Stocks UK corporate bonds.

Currency Market Review

Sterling depreciated by 3.7%, 3.9% and 5.7% respectively against the US dollar, euro and yen. The depreciation of sterling against its major counterparts was driven by safe haven demand which lifted the dollar and the unwinding of leveraged currency positions which bolstered the euro and the yen. The rise in the yen over the quarter erased most of its depreciation over the last 12 months.

Commodity Market Review

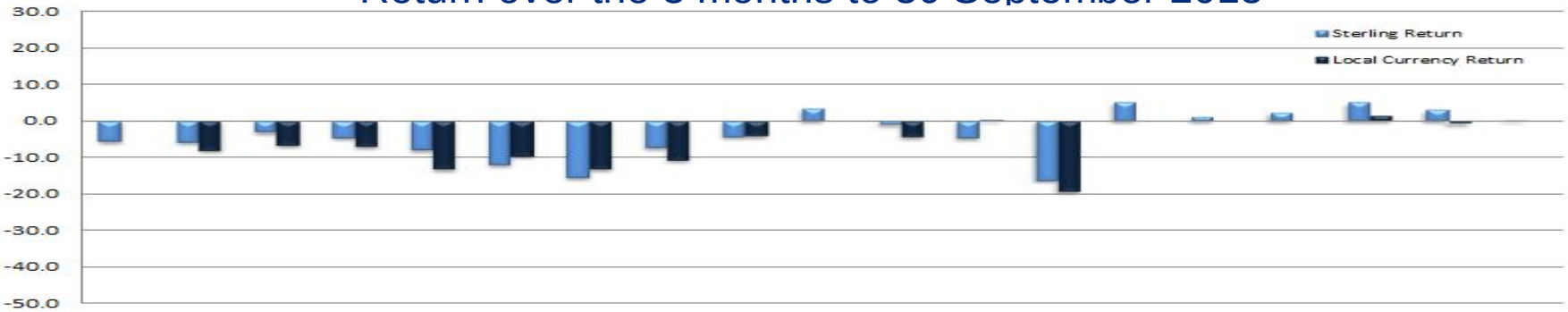
Energy prices led commodity prices lower, returning -24.4% over the quarter, as oil prices reached a six year low in August 2015 on the back of increased stockpiles in the United States and concerns that a slowing Chinese economy would adversely impact global demand.

Gold prices fell over the period by 4.7%. The negative price impact from the stronger Dollar was partially offset by safe haven demand on the back of increased global market volatility.

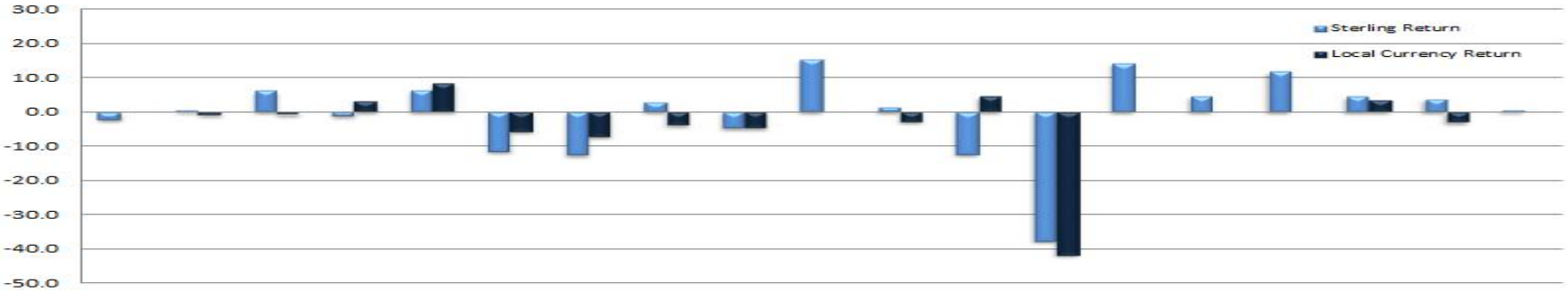
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

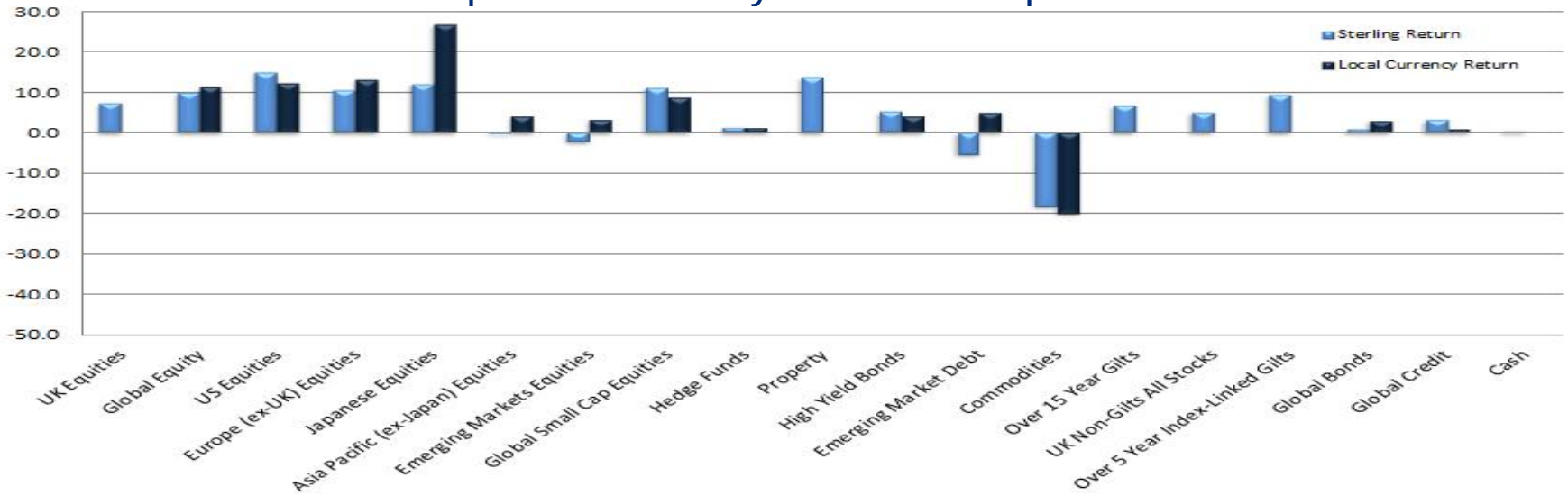
Return over the 3 months to 30 September 2015



Return over the 12 months to 30 September 2015



Return p.a. over the 3 years to 30 September 2015



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

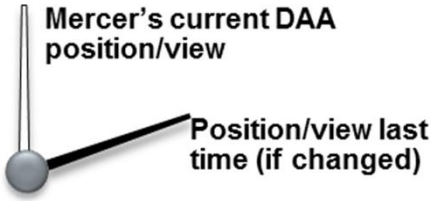
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

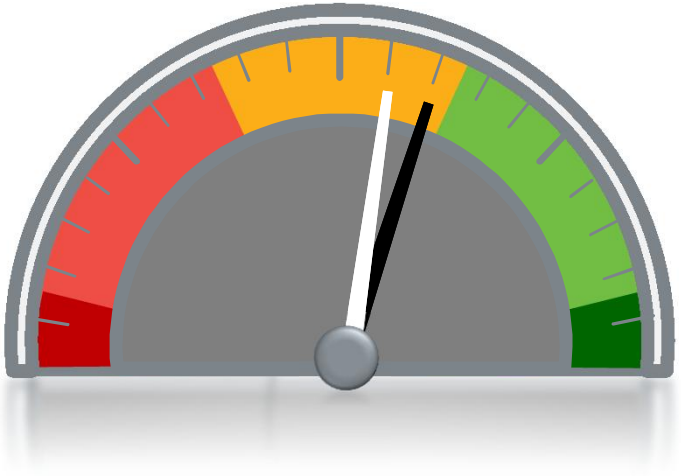
Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	11.3	*Remains significantly ahead of the assumed strategic return.* *This has decreased from 14.6% p.a. last quarter as the latest quarter's return of -4.8% was lower than the 3.9% return of Q3 2012, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	-2.2	*The 3 year return from emerging market equities has fallen from 5.0% p.a. last quarter, driven by a negative return of -15.6% experienced last quarter, which was considerably lower than the quarter that fell out (+4.6%). The 3 year return remains below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.5 / 7.1	*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 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	6.7	*UK gilt returns remain above the long term strategic assumed return as yields remain depressed relative to historic averages. Returns have increased compared to the previous quarter as a result of the fall in yields (and hence negative total returns) experienced in the last quarter. On the other hand, corporate bond returns have reduced this quarter, and looking back over three years are now below the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	9.4	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	5.1	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	-0.6	*The 3 year performance remains in negative territory despite positive returns this quarter as a result of the fall in global bond yields.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	1.3	*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	13.7	*Property returns continue to be above the expected returns, driven by the economic recovery in the US and the UK.*

Source: Thomson Reuters Datastream.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2015

- Extremely Unattractive
- Unattractive
- Neutral
- Attractive
- Extremely Attractive





DEVELOPED MARKET EQUITIES

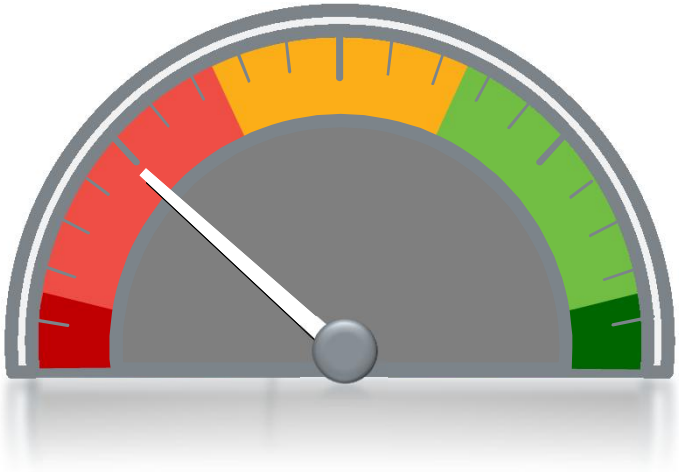
- ✓ Monetary policies remain generally supportive of equity markets
- ✓ Valuations have fallen closer to historical averages following price deterioration
- ! Slowdown in global growth has led to a deterioration in market sentiment and increased volatility

EMERGING MARKET EQUITIES

- ✓ Valuations significantly below long-term averages, though vary by region and country
- ! Decline in investor sentiment with added uncertainty over prospect of a Fed rate rise
- ! Interrelated headwinds include slowing Chinese growth, weak commodity prices and risk of further currency depreciation

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.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2015



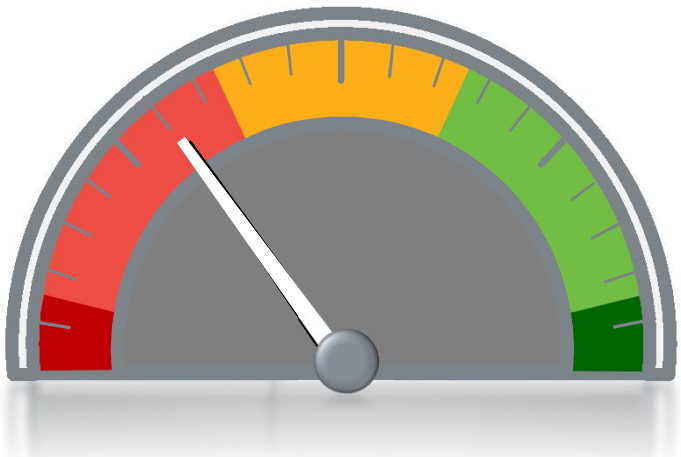
FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy continues to restrain yield moves
- ! Disappointing growth and inflation data reports led to long dated yields drifting lower over the quarter
- ! Eventual policy rate hikes in the US could hurt performance of fixed income assets

INDEX-LINKED GILTS

- ✓ Real yields have remained broadly stable over the quarter despite a decline in nominal yields
- ✓ Breakeven inflation has fallen to cyclical lows
- ! Real yields remain historically low

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2015



NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads have increased over the quarter and provide reasonable compensation against current default rates
- Credit yields remain historically low and prospective returns are limited
- Lack of trading liquidity has led to risk of increased volatility in credit markets

UK PROPERTY

- Yields look reasonable relative to other assets, despite a small decrease in Q3
- Supply side imbalances remain with regions outside London starting to see a pickup in rental growth
- Cautious of opportunistic strategies, and of London market over-heating

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	1,700,572	1,568,521	45.6	43.6	40.0	35 - 45	+3.6
Emerging Market Equities	333,534	293,957	8.9	8.2	10.0	5 - 15	-1.8
Diversified Growth Funds	362,564	357,914	9.7	9.9	10.0	5 - 15	-0.1
Fund of Hedge Funds	162,952	157,291	4.4	4.4	5.0	0 - 7.5	-0.6
Property	314,626	327,832	8.4	9.1	10.0	5 - 15	-0.9
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	759,781	761,311	20.4	21.1	20.0	15 - 35	+1.1
Cash (including currency instruments)	96,070	133,923	2.6	3.7	-	0 - 5	+3.7
Total	**3,730,099**	**3,600,749**	**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 £129m due to negative returns across major asset classes. At the start of the quarter, developed equities were overweight relative to benchmark (and outside the range in the SIP); at 30 September 2015 they remained overweight but within the agreed tolerance ranges.

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	1,155,704	-40,000	1,099,762	31.0	30.5
Jupiter	UK Equities	178,108	-	168,771	4.8	4.7
TT International	UK Equities	198,482	-	193,736	5.3	5.4
Schroder	Global Equities	242,720	-	232,442	6.5	6.5
Genesis	Emerging Market Equities	152,092	-	132,393	4.1	3.7
Unigestion	Emerging Market Equities	181,442	-	161,564	4.9	4.5
Invesco	Global ex-UK Equities	273,939	-	260,036	7.3	7.2
SSgA	Europe ex UK & Pacific inc. Japan Equities	118,061	-	109,756	3.2	3.0
Record Currency Management	Overseas Equities (to fund currency hedge)	34,093	-	3,430	0.9	0.1
Pyrford	DGF	121,530	-	120,916	3.3	3.4
Standard Life	DGF	241,035	-	236,999	6.5	6.6

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

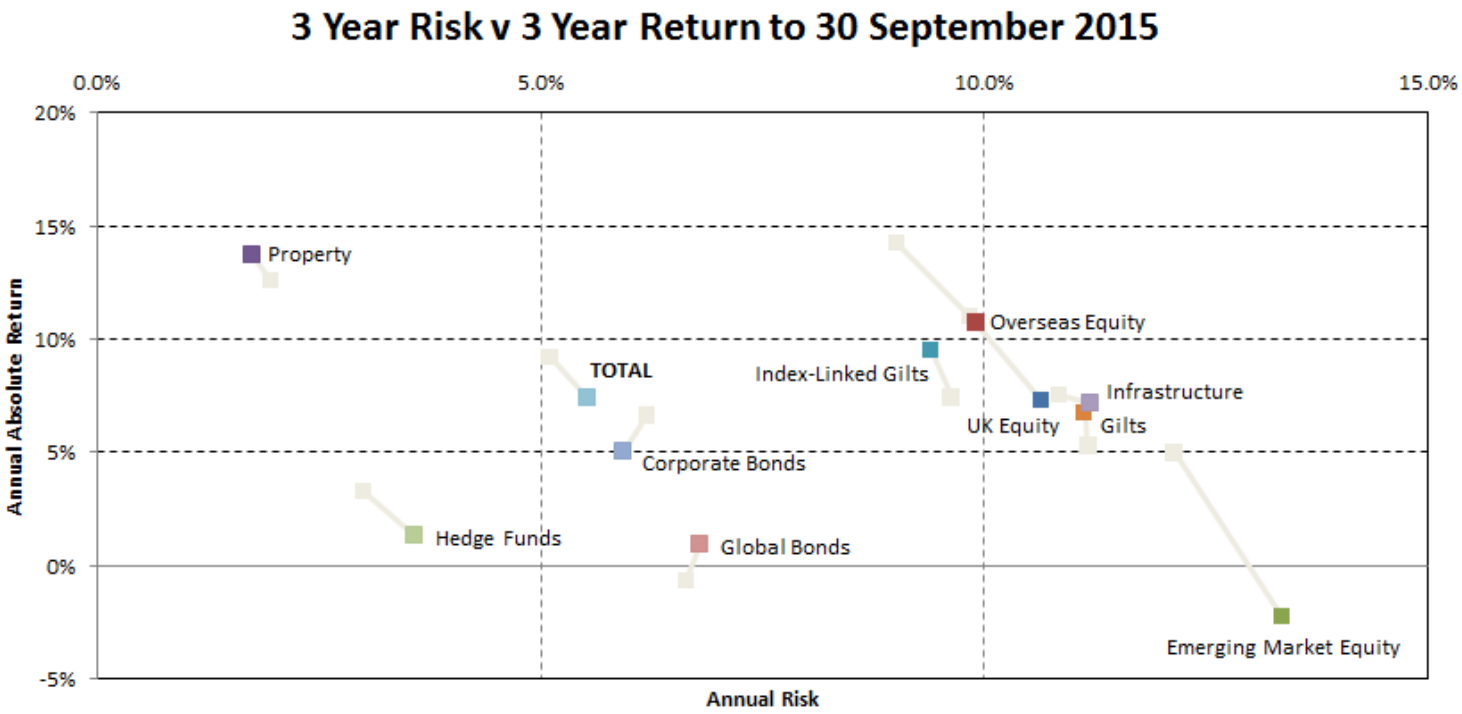
FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
MAN	Fund of Hedge Funds	549	-	593	0.0	0.0
Signet	Fund of Hedge Funds	63,153	-22,611	38,877	1.7	1.1
Stenham	Fund of Hedge Funds	39,745	-39,927	-	1.1	-
Gottex	Fund of Hedge Funds	59,505	-	58,405	1.6	1.6
JP Morgan*	Fund of Hedge Funds	-	59,879	59,416	-	1.7
Schroder	UK Property	183,792	-	189,410	4.9	5.3
Partners	Property	140,391	-	150,487	3.8	4.2
RLAM	Bonds	298,655	-20,000	281,004	8.0	7.8
Internal Cash	Cash	47,103	62,659	102,710	1.3	2.9
Total		**3,730,099**	**-**	**3,600,749**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* £59,611k tranche to be invested on 1 October included in cash.

SECTION 5
PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



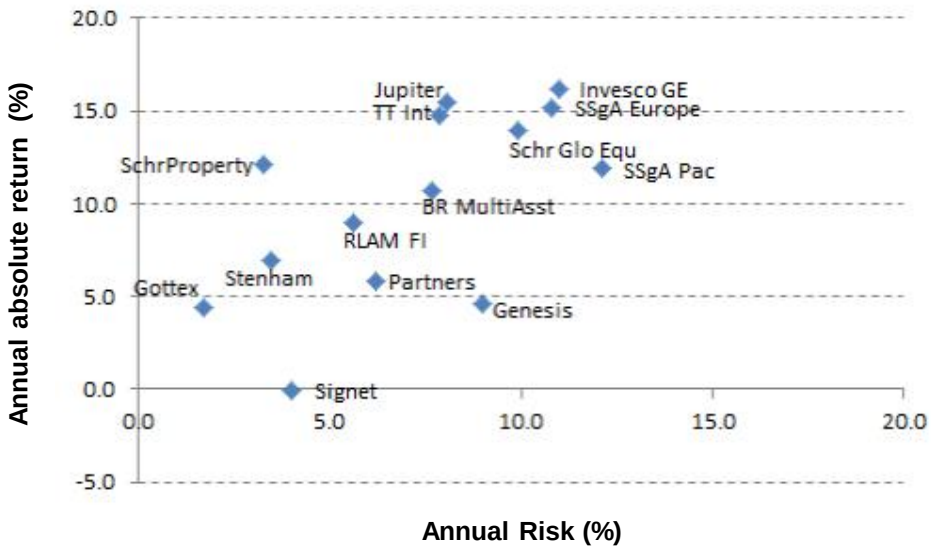
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

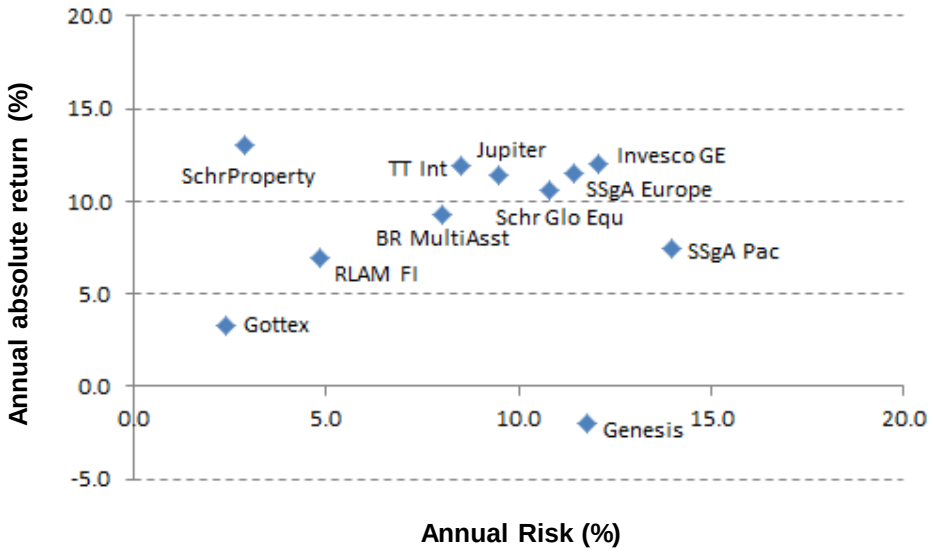
- *The most significant movement seen over the quarter was emerging market equity, which saw a significant decrease in three-year trailing return, driven by Latin American and Asian economies (with similar – albeit less pronounced – movements seen for UK and overseas equities).*
- *Index-linked gilts and property saw absolute returns rise and experienced volatility fall over the quarter.*

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 June 2015



3 year Risk vs 3 year Return to 30 September 2015



Comments

- *In general absolute returns of the funds decreased over the quarter, whilst volatility increased. Genesis was the fund where this impact was most noticeable given the significantly negative returns delivered by emerging market equities.*

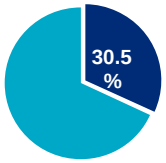
MANAGER MONITORING

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

Manager / fund	3 months (%)	1 year (%)	3 years (% p.a.)	3 year versus performance target
BlackRock Multi-Asset	0.1	0.1	0.2	Target met
Jupiter	0.5	5.5	4.0	Target met
TT International	3.5	7.8	4.5	Target met
Schroder Equity	1.7	3.4	0.8	Target not met
Genesis	1.7	-0.9	0.9	Target met
Unigestion	4.3	0.7	NA	NA
Invesco	-0.3	-0.2	0.5	Target met
SSgA Europe	1.0	0.9	0.8	Target met
SsgA Pacific	0.5	1.1	1.3	Target met
Pyrford	-1.7	-3.3	NA	NA
Standard Life	-3.2	NA	NA	NA
Signet*	-2.0	-9.0	-3.6	Target not met
Gottex	-2.7	-4.3	-0.5	Target not met
JP Morgan	NA	NA	NA	NA
Schroder Property	0.1	-0.6	1.2	Target met
Partners Property*	-1.8	-11.5	-3.2	Target not met
RLAM	-0.1	0.4	1.9	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.
In the table above, and throughout this report, relative returns have been calculated geometrically (i.e. the portfolio return is divided by the benchmark return) rather than arithmetically (where the benchmark return is subtracted from the portfolio return).
* Performance shown to 30 June 2015 as data to 30 September 2015 was unavailable at the time of writing.

SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,099.8M END VALUE *(£1,155.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (recategorised from Preferred Provider)
Performance Objective *In line with the benchmark*	Outperformed benchmark by 0.2% p.a. over three years

Manager Research and Developments

- Returns have been broadly 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 32), but then subsequently increased with the proceeds of the disinvestment from Barings (and since sold down again to fund the investments in Standard Life GARS and JP Morgan – see pages 38 and 42 respectively).
- Current holdings in UK and overseas government bonds are approximately £457m, or 13% of the total Fund – these assets could be used as part of any liability risk management framework.
- We previously assigned "Preferred Provider" status to strategies we rated highly where the primary goal is not outperformance of a benchmark - for example, passively managed funds and cash funds. Going forwards, we will no longer be using the "Preferred Provider" rating, and will give these strategies ratings on our A-C scale reflecting our degree of confidence in a manager's ability to achieve a strategy's stated aims. These changes of rating do not represent an upgrade, rather the change of the rating scale applied to these strategies.

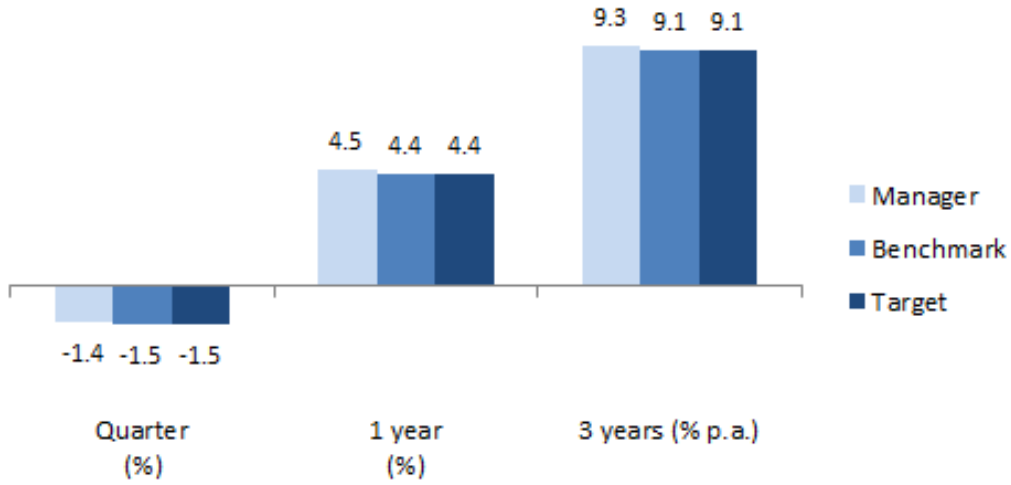
Reason for investment

To provide asset growth as part of diversified portfolio

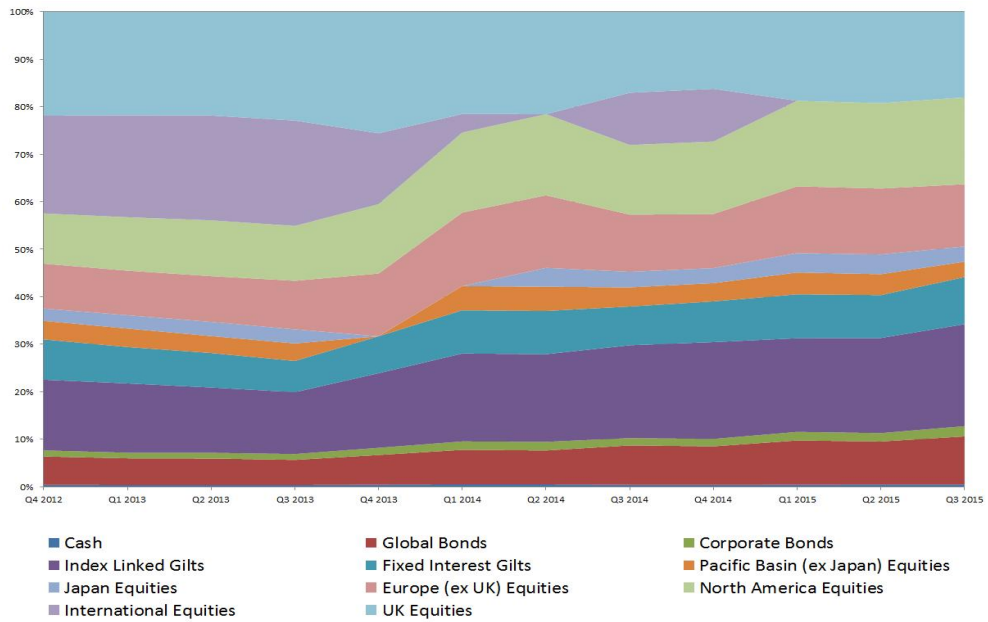
Reason for manager

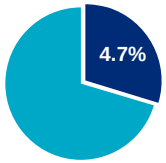
- To provide low cost market exposure across multi asset classes
- Provide efficient way for rebalancing between bonds and equities within a single portfolio

Performance



Asset Allocation





JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£168.8M END VALUE *(£178.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	Outperformed benchmark by 4.0% p.a. over three years
Tracking error was 3.5% p.a. (Q2: 3.5%) – *source: Jupiter*	Number of stocks: 58

Manager Research and Developments

- The fund achieved its target over the quarter, year and three year periods.
- The outperformance over the quarter was generated from the fund's underweight position in oil and gas and mining sector companies, which underperformed the wider market.
- However, the fund's natural underweight in tobacco detracted from relative performance, as defensive stocks outperformed the wider market over the quarter.
- The fund made two key stock purchases over the quarter. The first was a new holding in Thomas Cook (1% of the portfolio) due to Jupiter's view of long-term plans, which they expect to deliver debt reduction. The second was an addition to Centrica (2.2% of the portfolio) due to Jupiter's growing confidence around their operational performance. Jupiter sold all holdings in Rexam to realise recent profits.
- Tracking error remains reasonably high as a result of the fund's concentration and divergence from the index (in particular, its underweight to large cap stocks and overweight in mid cap).

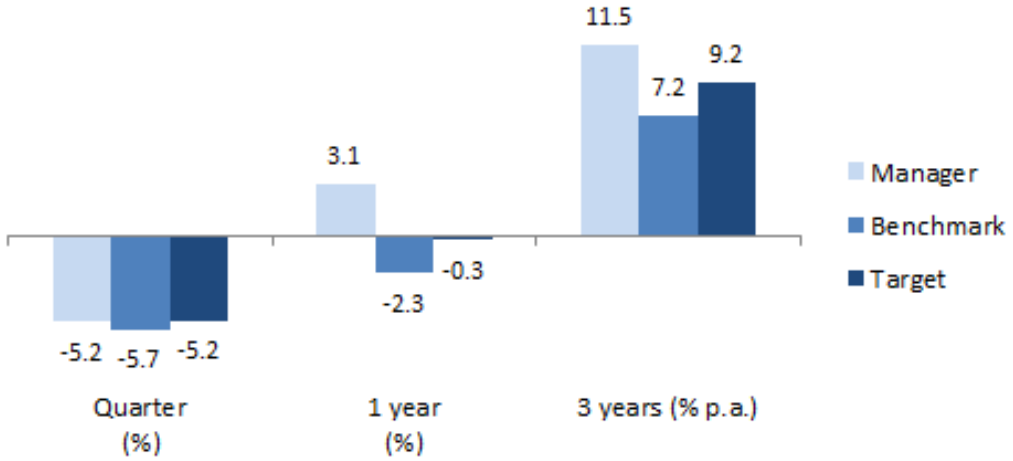
Reason for investment

To provide asset growth as part of diversified equity portfolio

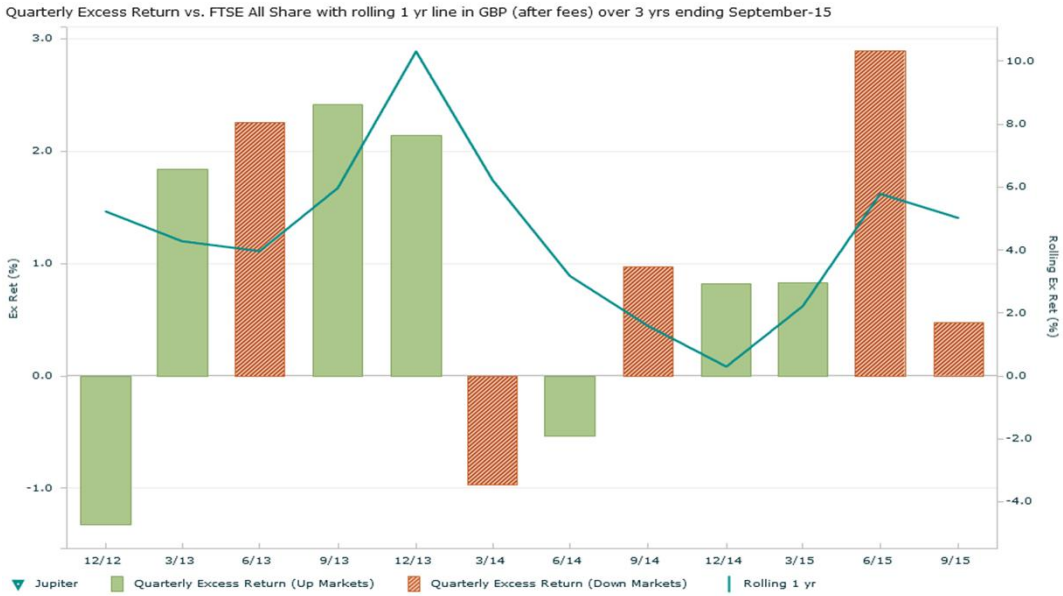
Reason for manager

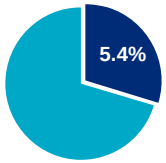
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£193.7M END VALUE *(£198.5M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review)
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 4.5% p.a. over three years
Historic tracking error was 4.0% p.a. (Source: Mercer)	Number of stocks: 51

Manager Research and Developments

- TT significantly outperformed their benchmark by 3.5% over the quarter, and 7.8% over the year to 30 September 2015.
- This outperformance over the quarter was largely due to strong stock selection in the Consumer Services and Basic Materials sectors (adding 1.6% to returns in total).
- In terms of sector positioning, the fund gained from being underweight Basic Materials and overweight the Consumer sectors. It also benefited from a higher than normal cash holding (at 5.4% at the start of the quarter and 7.5% by the end) in a time of falling markets.
- Turnover decreased from 28.9% in Q2 to 25.2% in Q3 2015 while the three year tracking error (a proxy for risk relative to benchmark) rose from 3.8% to 4.0%.
- Three-year information ratios have increased over the quarter, as a result of the outperformance achieved.
- Assets under management in TT's UK equity strategies decreased slightly over the quarter given the negative performance to c. £495m (compared to £506m in June 2015, £474m in September 2014 and £576m in September 2012). This is a significant decrease over the three year period and should be kept under review.

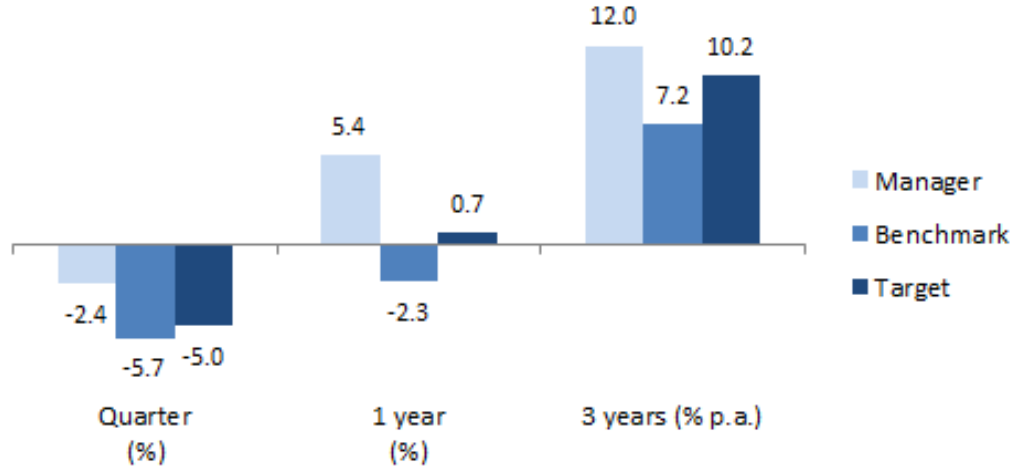
Reason for investment

To provide asset growth as part of diversified equity portfolio

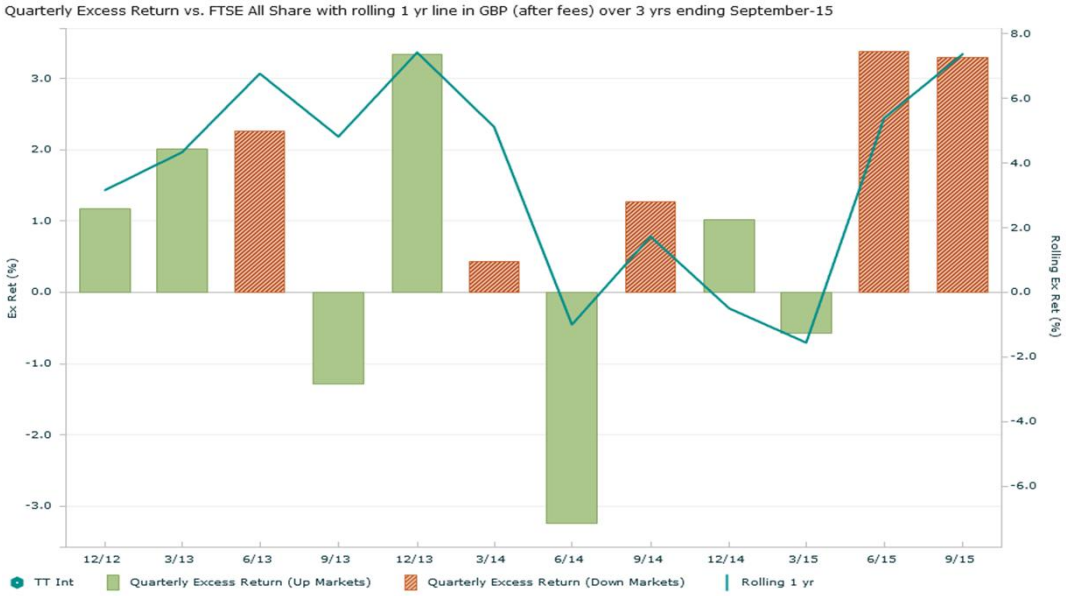
Reason for manager

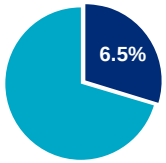
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance



Rolling relative returns





SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£232.4M END VALUE *(£242.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Benchmark +4% p.a.*	Outperformed benchmark by 0.8% p.a. over three years, but lagged target

Historic tracking error was 2.0% p.a. (Source: Mercer)

Manager Research and Developments

- The fund outperformed the benchmark over the quarter, largely through stock selection in technology, healthcare and materials. Being underweight materials and energy also helped as both sectors underperformed the wider market.
- Looking on a region by region basis, the fund gained the most from UK holdings, with stock selection in North America and Europe positive. The underweight exposure to Asia Pacific (ex Japan) also had a positive impact on performance. The main detractor, from a regional perspective, was stock selection in Japan.
- The largest contributor over the quarter was Google where shares rose to an all-time high on the back of strong Q2 earnings results.

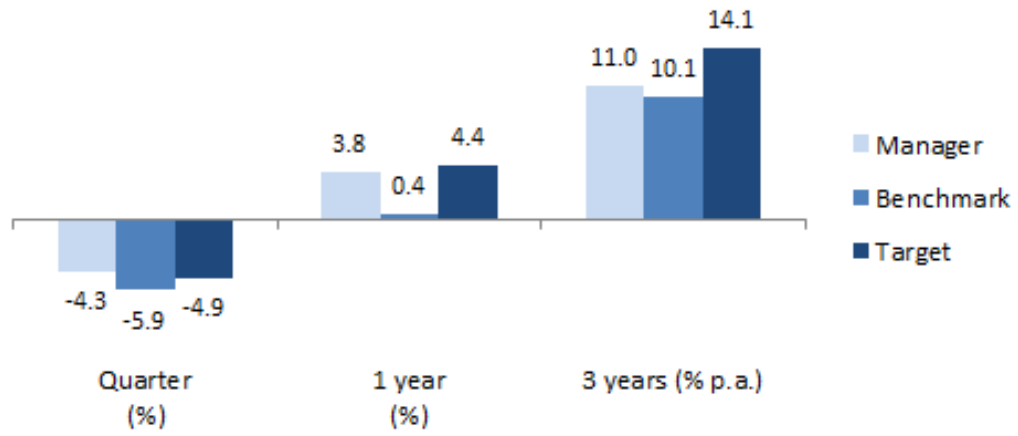
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

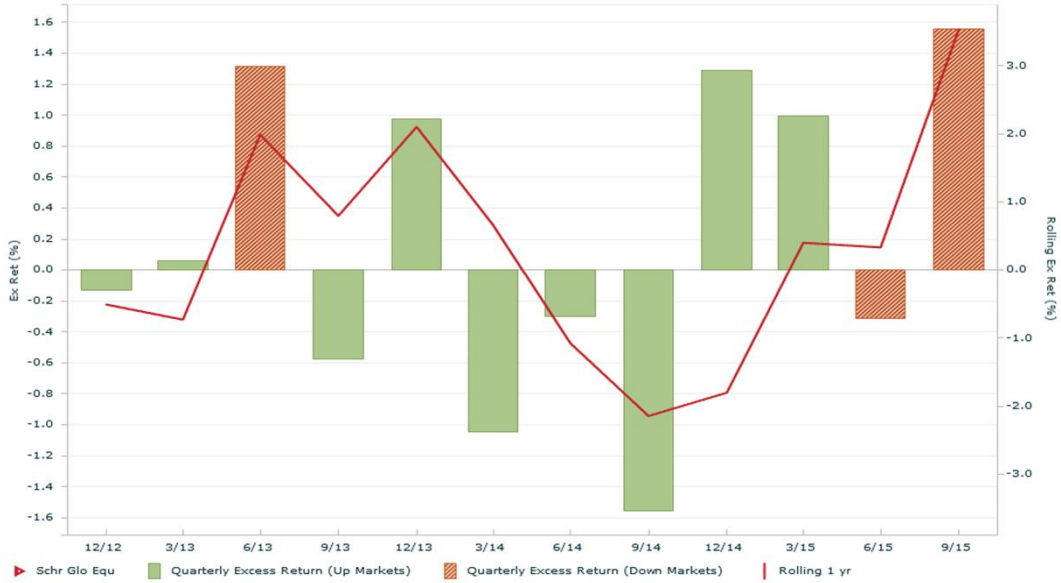
- Clear philosophy and approach
- Long term philosophy aligned with Fund's goals, commitment to incorporating ESG principles throughout the investment process
- Evidence of ability to achieve the Fund's performance target

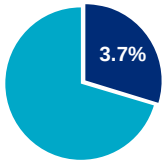
Performance



Rolling relative returns

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





GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£132.4M END VALUE *(£152.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review)
Performance Objective *Benchmark*	Outperformed benchmark by 0.9% p.a. over three years
Three year tracking error was 3.5% p.a. (Q2: 3.5%) – *source: Genesis*	Number of stocks: 159

Manager Research and Developments

- The fund outperformed its benchmark over the quarter. Relative to the index, the portfolio benefitted from stock selection in India and South Africa, and from being underweight the weak Chinese market. This was partly offset by being underweight in South Korea and Taiwan (comparatively strong markets).
- The biggest contributor was SABMiller (South Africa) whilst the biggest detractor was First Quantum Minerals (Zambia). Turnover over the quarter was 22%, approximately one third of which related to trading in Chinese equities given volatility in that market.
- The portfolio one-year returns are 0.8% below benchmark, while three year returns are 0.9% ahead. 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.
- Over the quarter our researchers met with Genesis as part of our regular research on the manager and from this have confirmed that the "A" rating should remain.

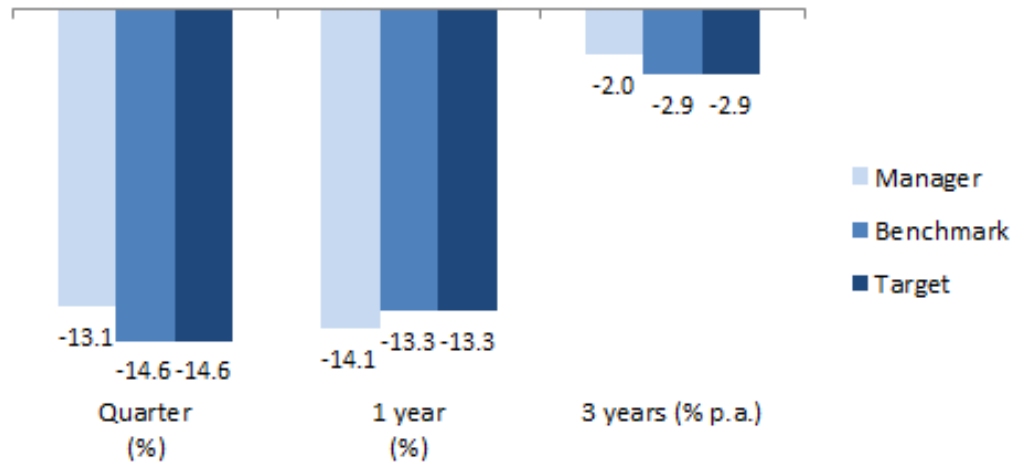
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

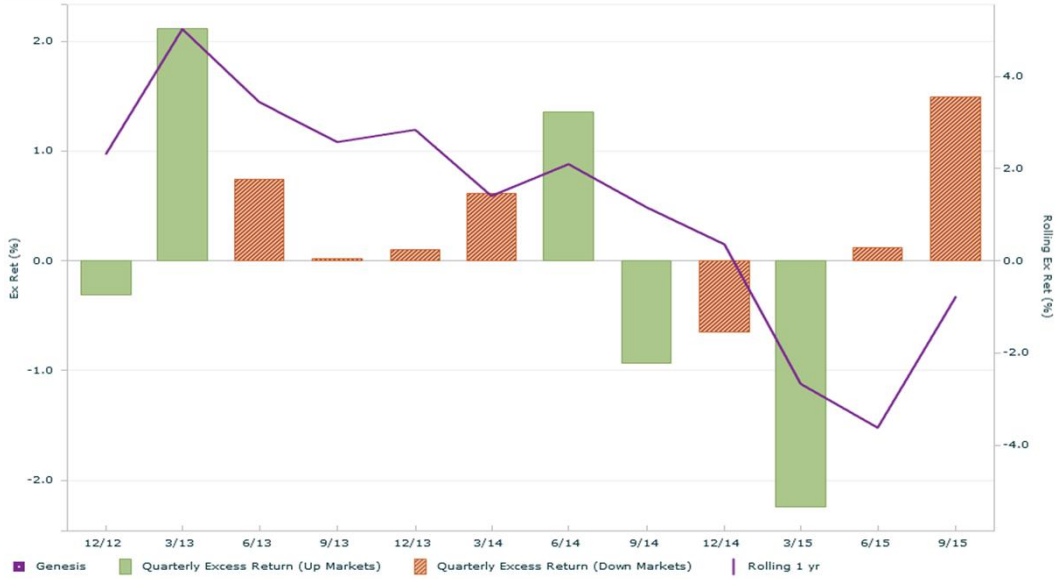
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

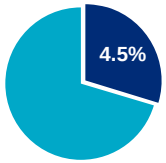
Performance



Rolling relative returns

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





UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£161.6M END VALUE *(£181.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Outperformed benchmark by 0.7% over the year
Historic tracking error since inception was 7.3% p.a. (Source: Unigestion)	Number of stocks: 88

Manager Research and Developments

- The Fund outperformed by 4.3% over the quarter and by 0.7% over the year to 30 September 2015.
- This outperformance largely occurred in July, where the fund returned -3.1% against a benchmark return of -6.2%, benefiting from its defensive profile, with an overweight position in Food and Telecoms helping relative performance. From a geographical point of view, notable outperformance was generated by allocations to South Korea, China and South Africa. The fund also outperformed over the months of August and September.
- Volatility since inception is 15.0%, lower than the index (at 17.2%) and consistent with their objectives (and the strategy's bias towards quality and large- or mega-cap stocks).

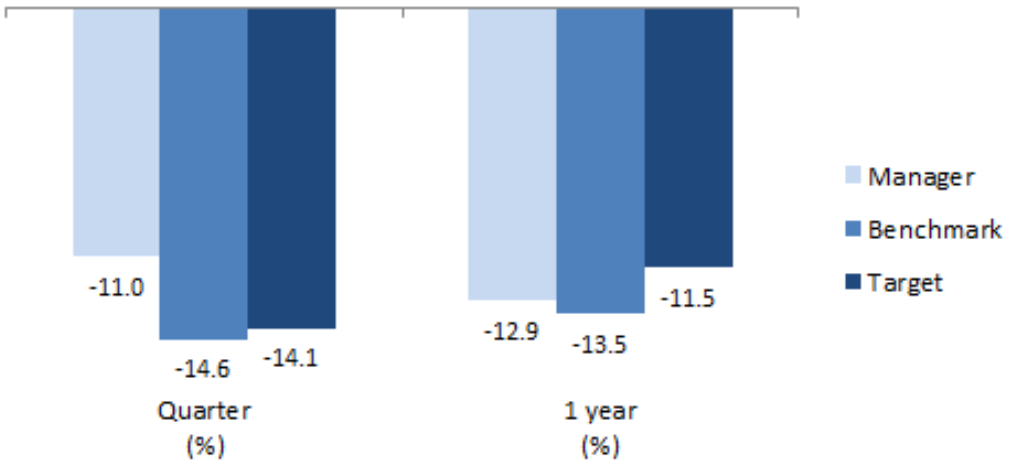
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

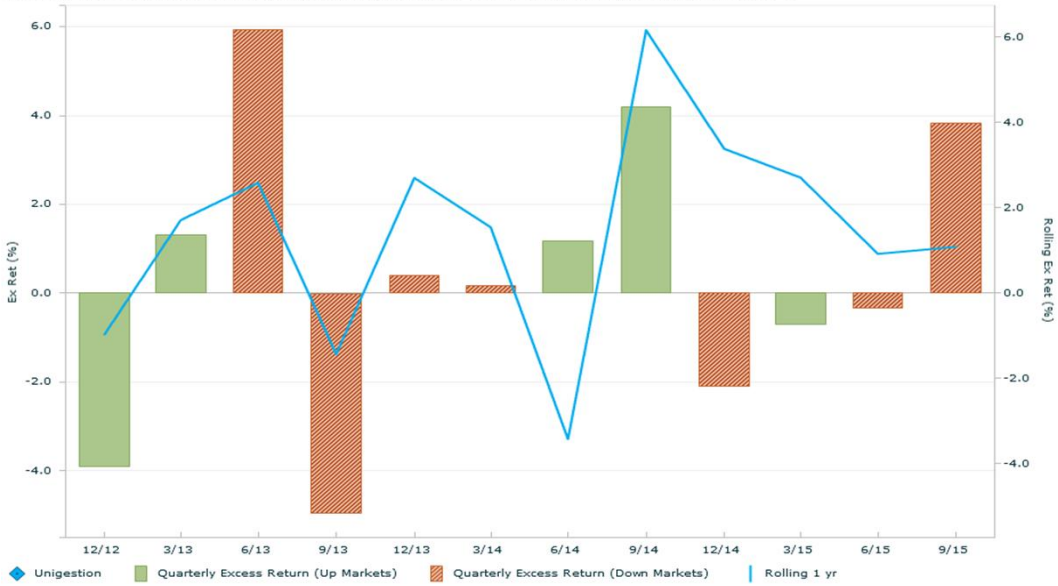
- Risk-based active management approach
- Aim for lower volatility than the MSCI Emerging Markets Index
- Combine fundamental and quantitative analysis

Performance

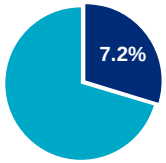


Rolling relative returns

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



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£260.0M END VALUE *(£273.9M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.5% p.a. over three years
Tracking error since inception was 1.5% p.a. – *source: Invesco*	Number of stocks: 422 (up from 407)

Manager Research and Developments

- The fund underperformed its benchmark by 0.3% over the last quarter (source: WM), and is in line with its outperformance target over 3 years. Beta remains near to one, as expected.
- The sector and country allocations were broadly in line with the benchmark. All industry and country allocations were within +/- 1.2% of benchmark weightings, in line with general expectations for an enhanced indexation product.

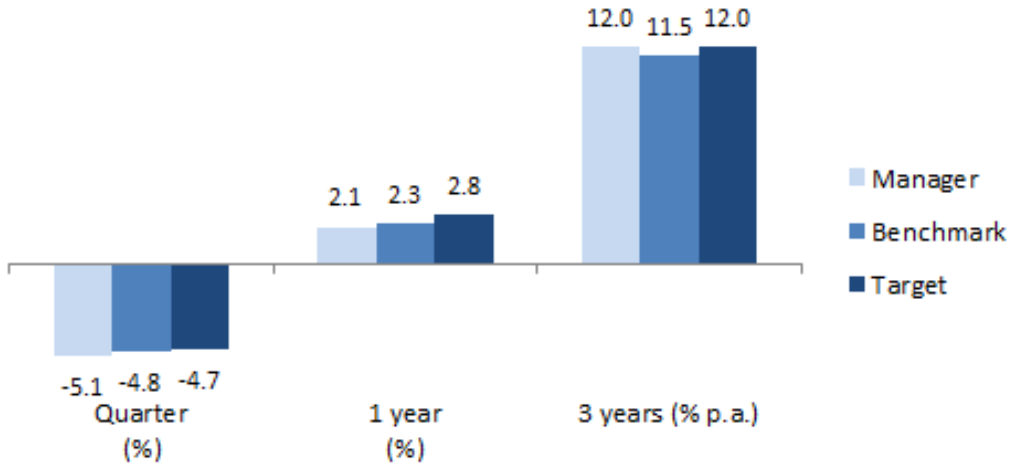
Reason for investment

To provide asset growth as part of diversified equity portfolio

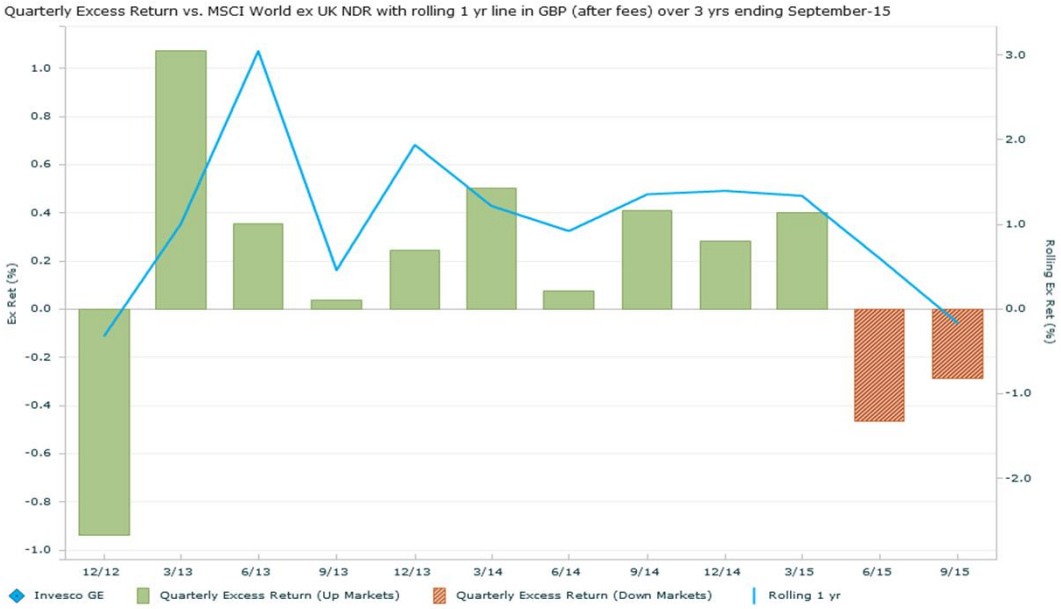
Reason for manager

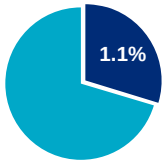
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

Performance



Rolling relative returns





SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£40.1M END VALUE *(£41.5M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.8% p.a. over three years
Historic tracking error was 0.8% p.a. (Source: Mercer)	Number of stocks: 203

Manager Research and Developments

- The Fund's return has outperformed its performance target over 3 years.
- The total pooled fund size on 30 September 2015 was £40.1m. 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 203 out of 389 stocks in the index, around 52%, within the expected range of 35-65%. Beta over three years is as expected at around 1.

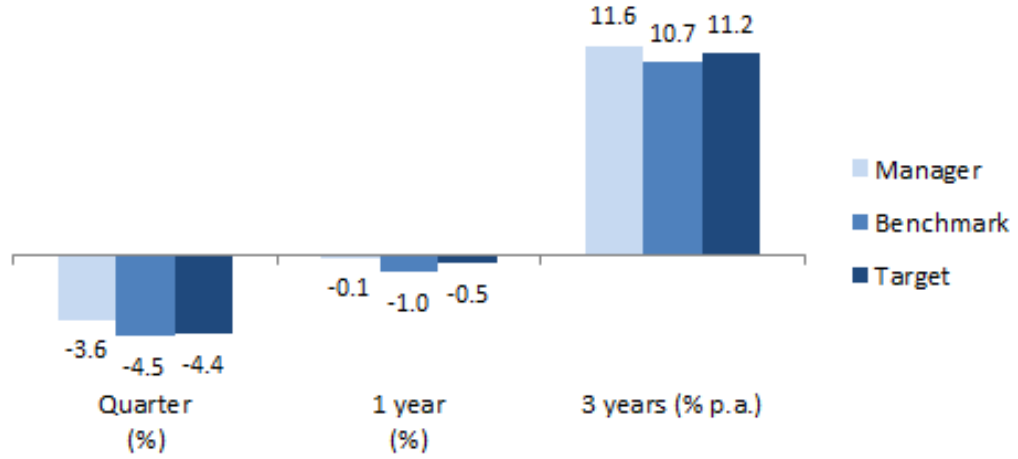
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

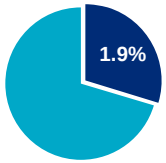
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

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 September-15



SSGA – PACIFIC INCL. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)
£69.8M END VALUE *(£76.5M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 1.3% p.a. over three years
Historic tracking error was 0.7% p.a. (Source: Mercer)	Number of stocks: 400

Manager Research and Developments

- The Fund's return has met its performance target over 3 years.
- The total pooled fund size on 30 September 2015 was £69.8m. 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 (i.e. broadly in line with a market cap approach).

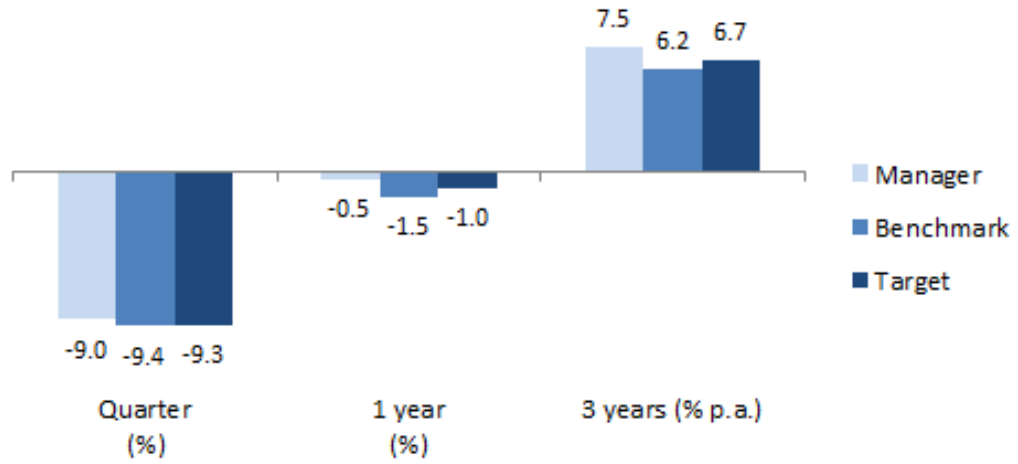
Reason for investment

To provide asset growth as part of diversified equity portfolio

Reason for manager

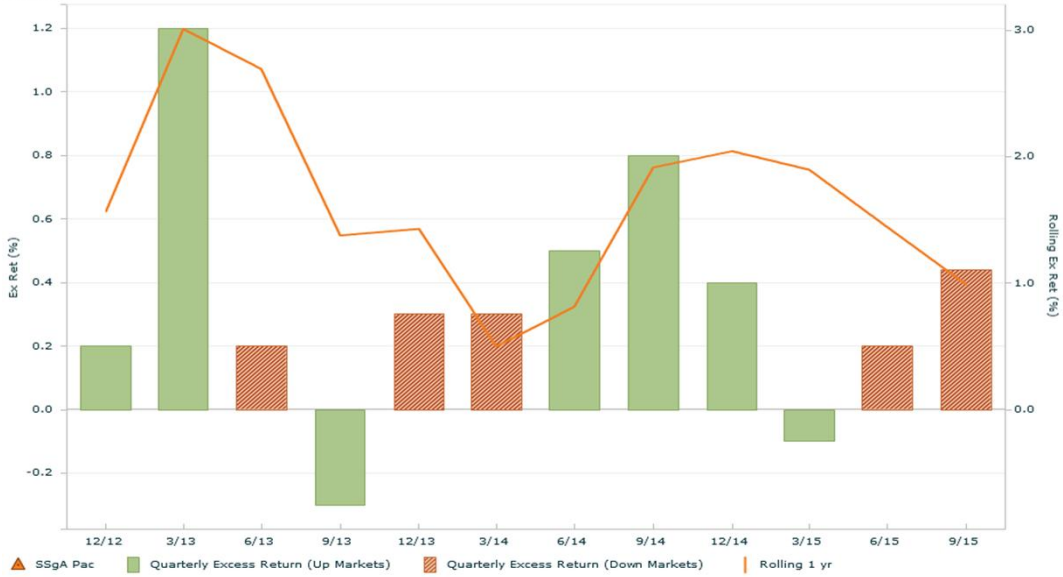
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

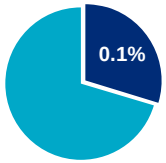
Performance



Rolling relative returns

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





RECORD – ACTIVE CURRENCY HEDGING (SEGREGATED)
£3.4M END VALUE *(£34.1M START VALUE)*

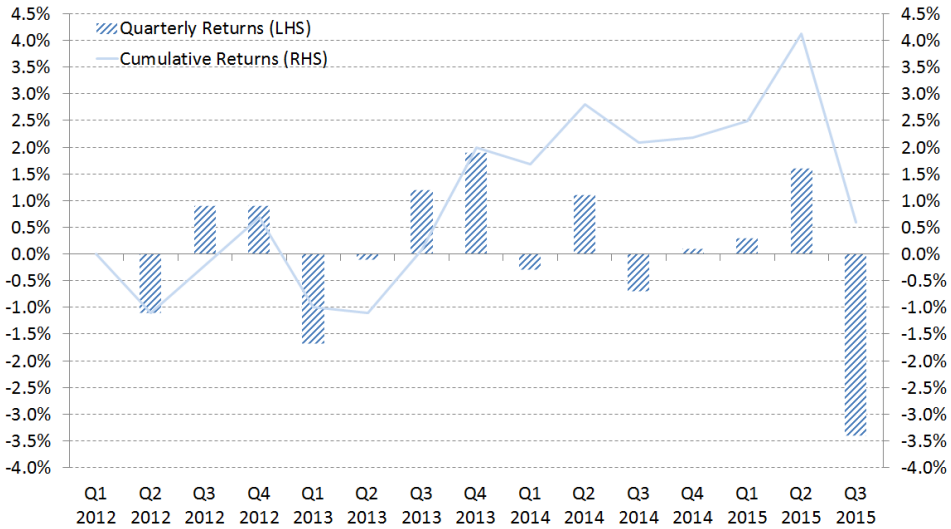
Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *N/A*	Underperformed a 50% passive hedge by 0.3% p.a. over three years

Manager Research and Developments

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

A 50% hedge on each currency would have had an overall negative return as some of the appreciation of the three currencies would have been protected against. Record had a higher hedge ratio against the US dollar, euro and yen, which resulted in a negative relative performance – see right.

Hedging Return



Performance (Total Hedging Portfolio)

	3 months (%)	1 year (%)	3 years (% p.a.)
Record Hedge	-3.39	-1.50	0.28
50% Illustrative Hedge	-2.02	-1.42	0.53
Relative	**-1.40**	**-0.08**	**-0.25**

Currency Hedging 3 Month Performance (£ terms)

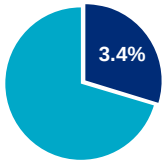
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Hedge Return (%)	Record Hedge Return (%)	Net Return (%)
USD	512,547,836	491,943,312	3.83%	(1.85%)	(3.03%)	0.72%
EUR	200,472,608	188,257,965	4.02%	(1.90%)	(3.56%)	0.40%
JPY	144,091,744	120,361,671	6.08%	(2.90%)	(4.55%)	1.42%
Total	**857,112,188**	**800,562,949**	**4.22%**	**(2.02%)**	**(3.39%)**	**0.75%**

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)
£120.9M END VALUE *(£121.5M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed benchmark by 3.3% p.a. over one year

Manager Research and Developments

- The fund has underperformed the benchmark over the quarter and year by 1.7% and 3.3% respectively.
- The asset allocation of the fund remained nearly unchanged over the quarter at 30% equities, 66% bonds and 5% cash.
- Performance in Q3 was disappointing, with a return of -0.2% although they did provide downside protection as equities fell.
- 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 fell to 1.8 years.

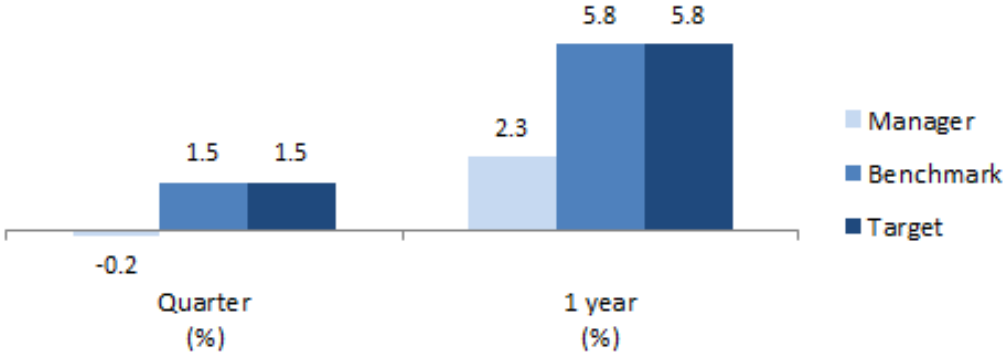
Reason for investment

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

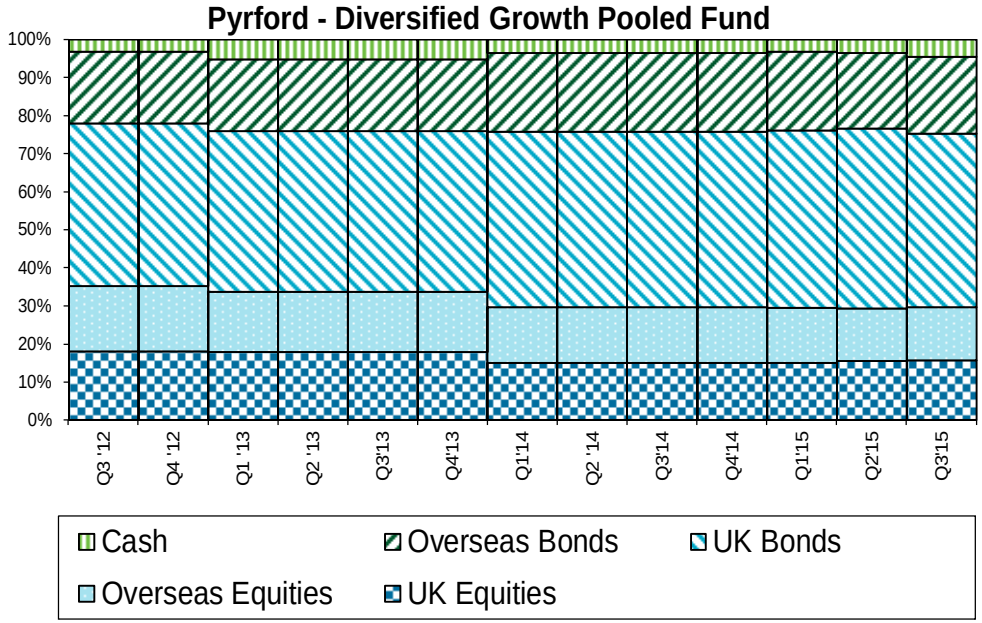
Reason for manager

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

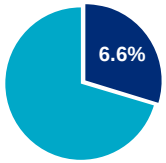
Performance



Asset Allocation



Annual data prior to Q1 2015.



STANDARD LIFE – DGF (POOLED)
£237.0M END VALUE *(£241.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Cash +5% p.a.*	Underperformed benchmark by 3.2% p.a. over the quarter
	Underperformed benchmark since inception by 4.7% (-1.3% vs 3.6% gross of fees)

Manager Research and Developments

- Over the quarter the Fund returned -1.8% against a benchmark of 1.4%.
- 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 September 2015, illustrating that while returns have been broadly in line with the median DGF manager, the risk taken to produce these returns has been significantly lower and as a result risk adjusted returns are in the top quartile.
- The equity market falls hurt the fund's European and Japanese equity strategies, with global commodity price falls leading to negative returns from a global equity miners position. The market turmoil led to US Treasury bonds appreciating, which meant that the fund's strategy to benefit from rising treasury yields also produced negative returns.
- In July Gerry Fowler joined the Multi-Asset Investing Team as Investment Director, Idea Generation. He will be part of the 56 person team providing idea generation, investment recommendations and detailed implementation strategies for their range of multi-asset funds and will report directly to Guy Stern, Executive Director of Multi-Asset and Macro Investing. We are not proposing any changes to ratings.

Reason for investment

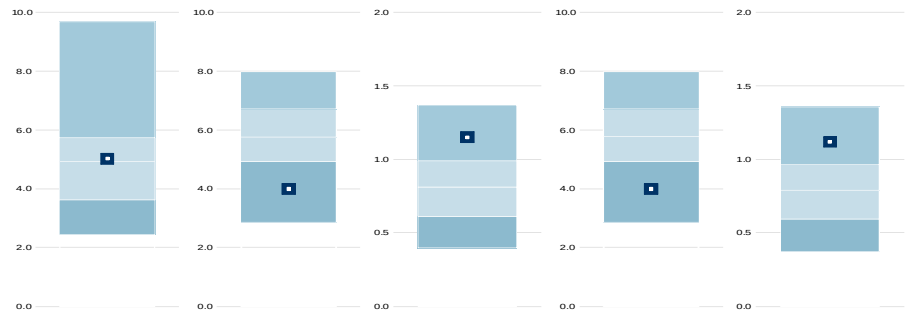
To provide equity like return over the long term but with a lower level of volatility

Reason for manager

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

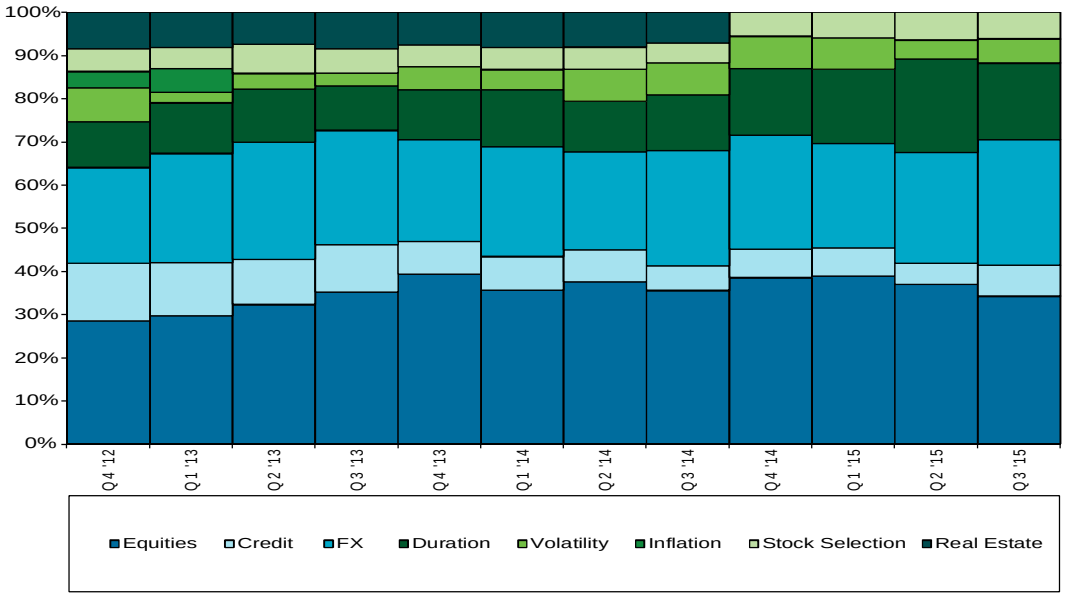
Performance

Performance characteristics vs. 3 Month Sterling LIBOR (after fees) over 3 years ending September-15 (quarterly calc
Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking)



Name	Ret (% p.a	Std Dev (% p.	Sharpe	TE (% p.a	IR
Standard Life	5.0 (15)	4.0 (26)	1.1 (3)	4.0 (26)	1.1 (3)
95th Percentile	9.7	8.0	1.4	8.0	1.4
Upper Quartile	5.7	6.7	1.0	6.7	1.0
Median	4.9	5.8	0.8	5.8	0.8
Lower Quartile	3.6	4.9	0.6	4.9	0.6
5th Percentile	2.4	2.8	0.4	2.8	0.4
Number of Fur	30	30	30	30	30

Asset Allocation/Risk Exposure



DGF MANDATES

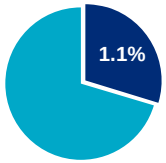
Performance characteristics vs. BofAML LIBOR 3 month average UK in GBP (after fees) over 1 yr ending September-15

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

	Ret (%)	Std Dev (%)	IR
▲ Pyrford DGF	2.1 *(15)*	4.9 *(32)*	0.3 *(11)*
▼ SLI GARS	2.3 *(12)*	5.8 *(28)*	0.3 *(12)*
95th Percentile	6.6	11.8	1.1
Upper Quartile	3.2	9.1	0.4
Median	0.8	7.5	0.0
Lower Quartile	-0.7	5.7	-0.2
5th Percentile	-3.2	3.8	-0.7
Number	38	38	38

Commentary

- Over the year to 30 September 2015, the Standard Life GARS pooled fund outperformed Pyrford by 0.2% (however the Fund has only been invested since January 2015).
- This placed both Standard Life and Pyrford above the median manager of the DGF universe for performance. It should be noted that this universe is very diverse in styles.
- However this was achieved whilst taking different levels of risk, with Standard Life's volatility standing at 5.8% 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, information ratios (a measure of risk adjusted returns) for both Pyrford and Standard Life were above the median 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
£38.9M END VALUE *(£63.2M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Cash +3% p.a.*	Underperformed benchmark by 3.6% p.a. over three years to 30 June 2015

Item	
Number of funds	30

Strategy	Approximate Contribution to Performance over Q2 2015 (%)
Long-Biased Credit	+0.21
Long-Short Credit	-0.13
Long Only Credit	+0.03
Recovery Plays	-0.23
Global Rates and FX	+0.26
Mortgaged Backed Securities	+0.06
Event Driven and Special Situations Fund	+0.08

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

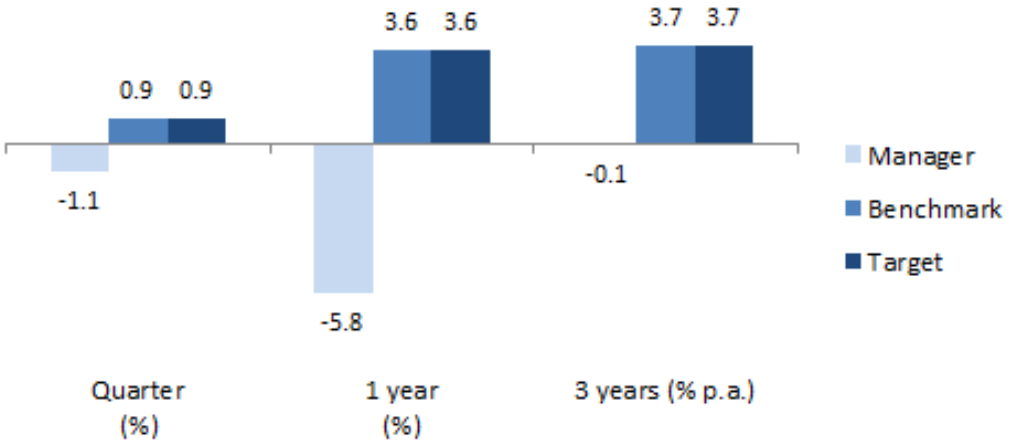
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

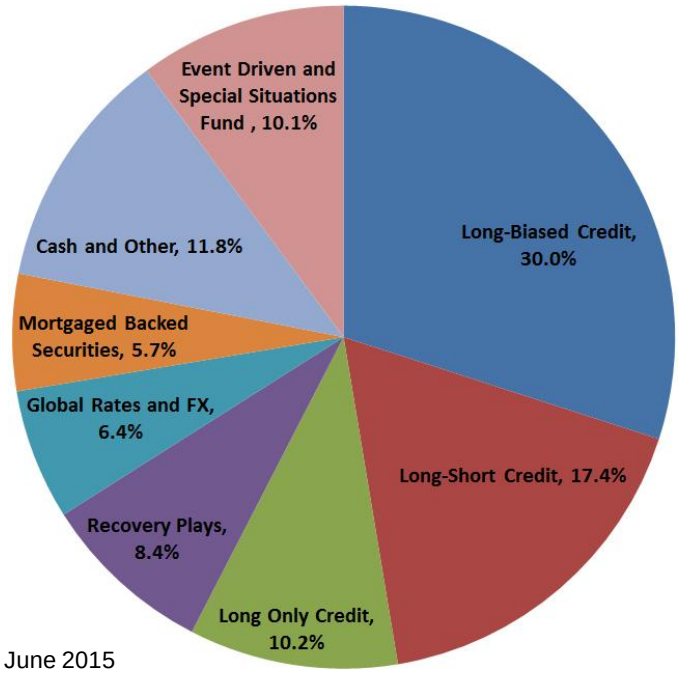
Reason for manager

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

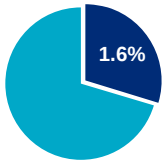
Performance to 30 June 2015



Allocation



As at 30 June 2015



GOTTEX – FUND OF HEDGE FUNDS
£58.4M END VALUE *(£59.5M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Cash +3% p.a.*	Underperformed benchmark by 0.5% p.a. over three years

Item	
Number of funds	Not Available

Top 5 most significant contributing strategies	Gross Contribution to Performance over Q2 2015 (%)
Fundamental MN Equity	+0.43
Distressed Securities	+0.36
Asset-Backed Securities	+0.23
Long/Short Equity	+0.20
Long/Short Credit	+0.19

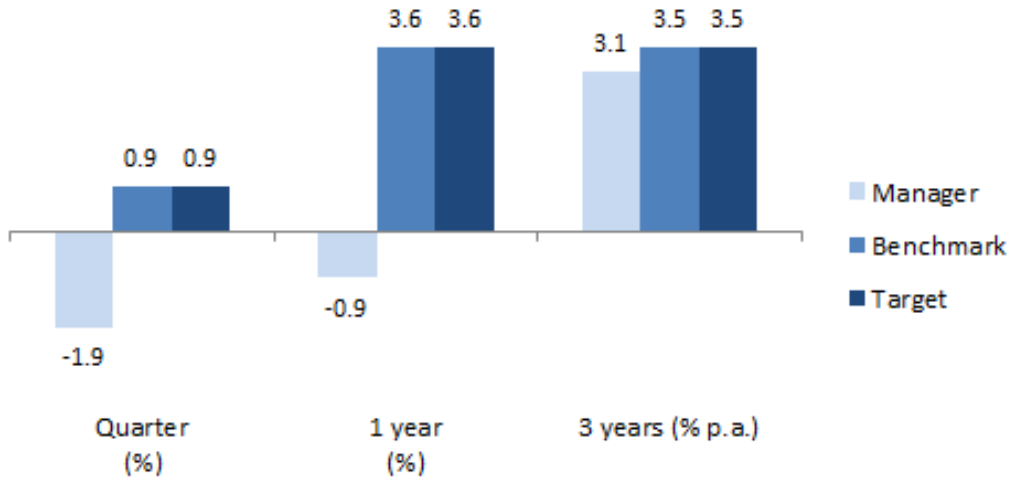
Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

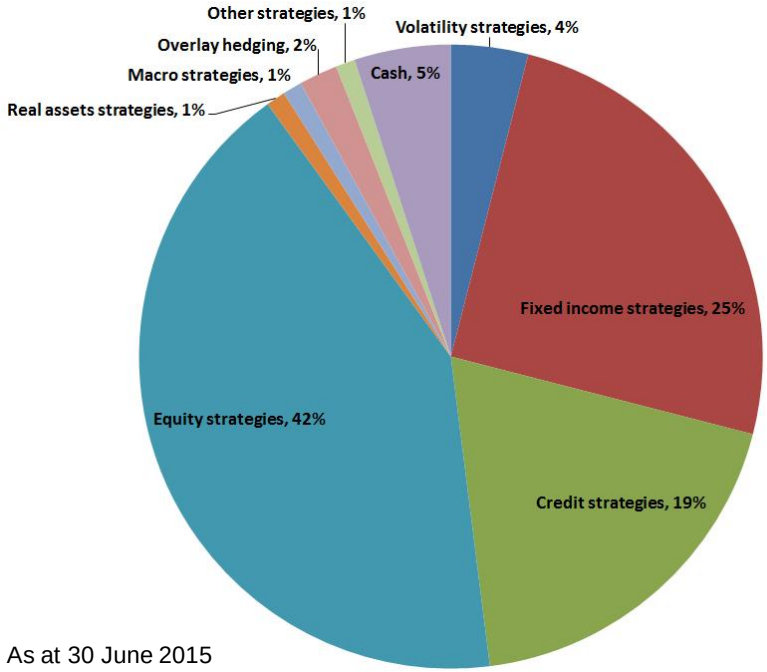
Reason for manager

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

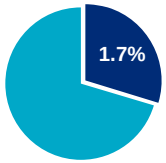
Performance to 30 September 2015



Allocation



As at 30 June 2015



JP MORGAN – FUND OF HEDGE FUNDS
£59.4M END VALUE *(£0.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Cash +3% p.a.*	Underperformed benchmark by 1.7% p.a. over August 2015

Item	
Number of funds	23

Strategy	Contribution to Performance over August 2015 (%)
Relative Value	0.00
Opportunistic/Macro	-0.15
Long/Short Equities	-0.77
Merger Arbitrage/Event Driven	-0.46
Cash/Fees/Other	-0.07
Total	**-1.45**

Inception date: 1 August 2015.

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

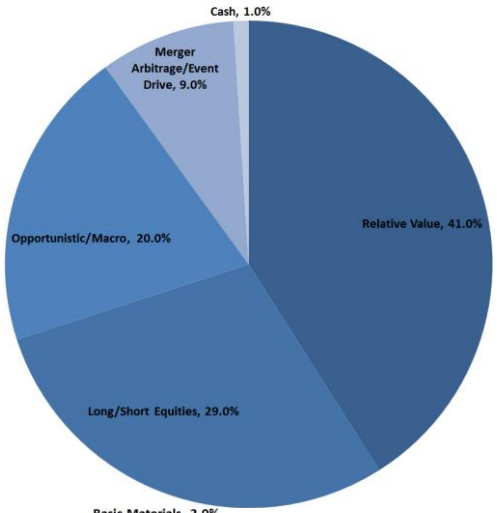
Reason for manager

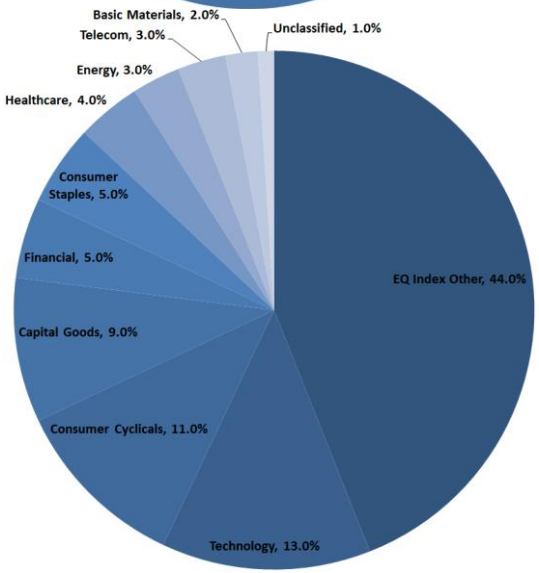
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance to 31 August 2015 (in USD)

Since Inception (1 August 2015)	-1.45%
Benchmark	0.27%

Allocation



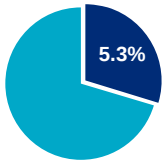


Source: JP Morgan.
As at 31 August 2015

FUND OF HEDGE FUND MANDATES

After the termination of the Stenham mandate, the Fund is in the process of divesting from Signet and Gottex, with the allocation to be managed by JP Morgan in a bespoke fund of funds vehicle.

Manager	30 September 2015 holding	Comments
Signet	£38.9m	Signet saw significant underperformance over the year to 30 June 2015, which led to a negative overall contribution to relative performance. This largely 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 -1.8% in US dollar terms over the twelve month period to 30 June 2015).
Gottex	£58.4m	Gottex's market neutral approach underperformed over the year (with poor returns in Q4 2014 and Q3 2015 in particular, and relatively weak returns in Q2 2015).
JP Morgan	£121.8m	With the first investment being made at the beginning of August 2015, the JP Morgan fund underperformed its benchmark over that month (too short a time scale for reasonable analysis) . The long/short equities strategy that detracted the most from performance over the month. At the end of August the asset allocation was broadly in line with the target allocation of: • 15-50% long/short equities • 15-50% relative value • 15-50% opportunistic/macro • 0-40% event driven



SCHRODER – UK PROPERTY FUND OF FUNDS
£189.4M END VALUE *(£183.8M START VALUE)*

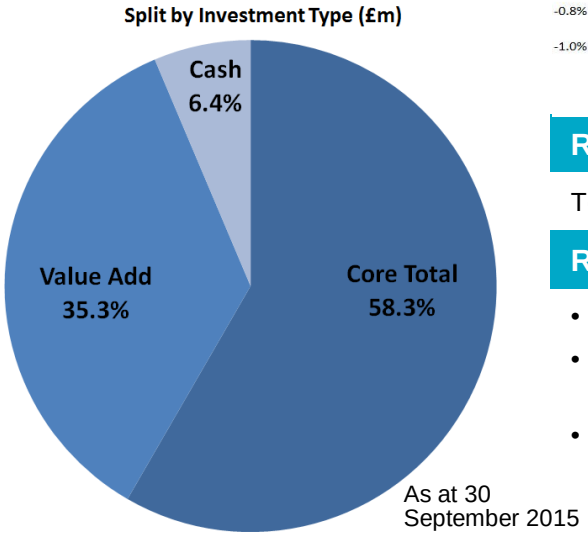
Item Monitored	Outcome
Mercer Rating	B (no change over quarter)
Performance Objective *Benchmark +1% p.a.*	Outperformed benchmark by 1.2% p.a. over three years

Manager Research and Developments

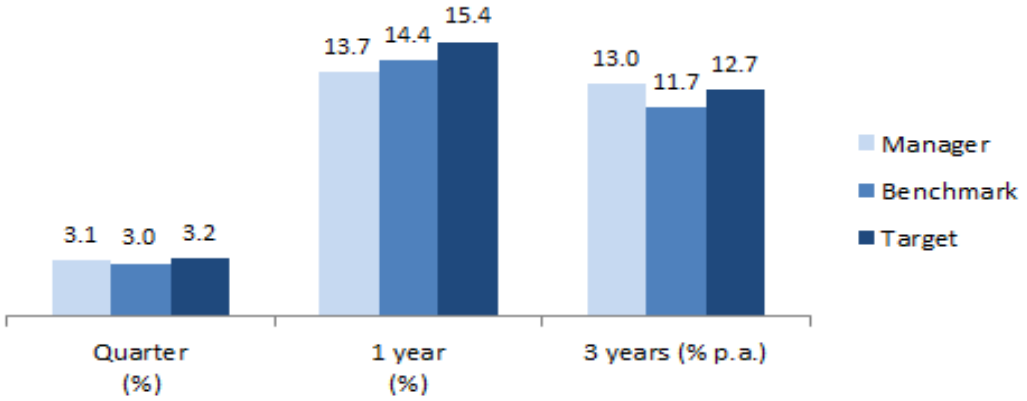
- The fund slightly outperformed the benchmark over the quarter by 0.1%.
- Over the three year period, the fund has outperformed its target by 0.3% p.a.
- Attribution analysis as of Q3 2015 is not available at the time of writing.
- Over the quarter, the fund purchased c. £0.4m of units in the Multi-Let Industrial Property Unit Trust.
- Over the last few months, Schroder announced the departure of three Real Estate Portfolio Managers: Jennifer Murray, Tony Doherty and Keeran Kang. Head of Real Estate, Graeme Rutter will inevitably take a more hands-on role on the majority of portfolios. Neil Turner will step back into the role of managing client portfolios and a new senior PM will be recruited. We continue to believe that Rutter is a suitable leader for the business but there will be short-term pressures on him. Our researchers have therefore recommended that this strategy is placed on Watch. This is to be confirmed by our UK Ratings Ratification Committee.

Manager and Investment type splits

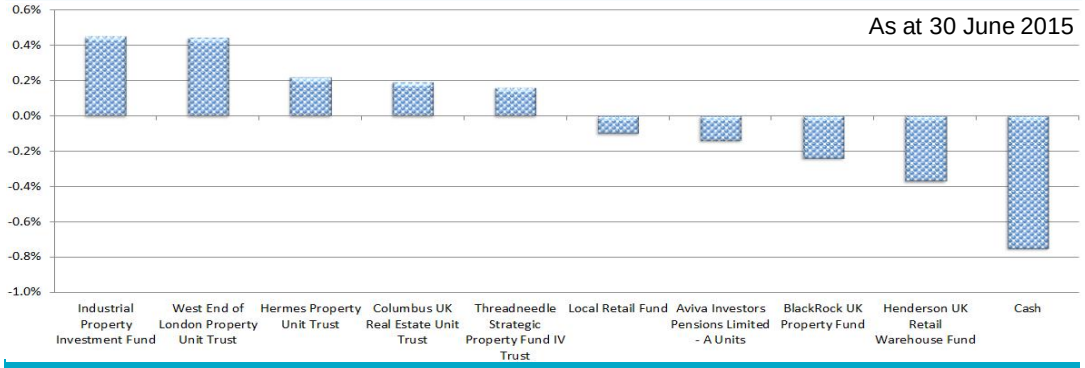
Top 5 Holdings	Proportion of Total Fund (%)
BlackRock UK Property Fund	12.9
L&G Managed Property Fund	12.9
Industrial Property Investment Fund	9.8
Standard Life Pooled Pension Property Fund	9.8
Schroder Real Estate Fund	8.6



Performance



Top 5 Contributing and Detracting Funds over 12 Months

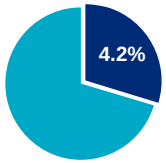


Reason for investment

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

£150.5M END VALUE *(£140.4M START VALUE)*

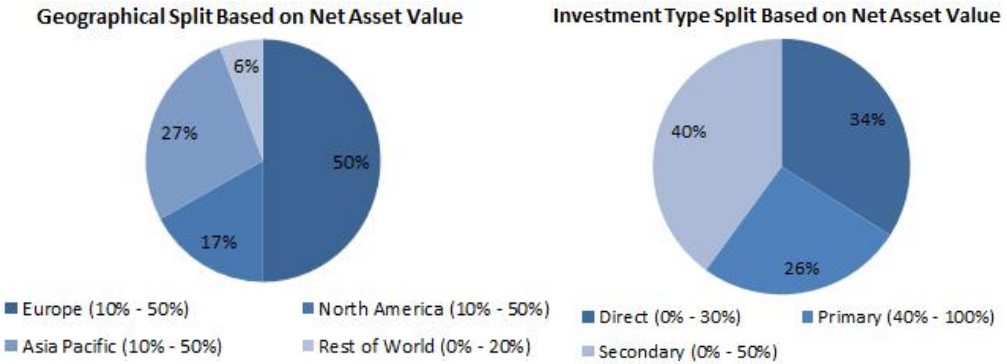
30 September asset value estimated based on 30 June valuation and cash movements over the quarter.

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Benchmark +2% p.a.*	Underperformed benchmark by 3.2% p.a. over three years to 30 June 2015

Manager Research and Developments

- Over Q2 2015, the fund underperformed the benchmark by 1.8%, and 3.2% 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 30 June 2015 at 9.5% p.a. is slightly below their target of 10% p.a. but broadly consistent.**
- Over Q2, the allocation to Europe increased (from 45% to 50%) while Asia Pacific and North America both fell slightly (from 28% to 27%, and 20% to 17% respectively. These remain within the guidelines.
- Exposure to Secondary opportunities fell during the first quarter (from 42% to 40%), with Direct increasing by 3% and Primary by 1%. 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 30 June 2015



As at 30 June 2015

Portfolio update as at 30 June 2015

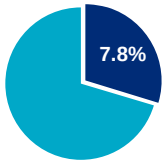
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (30 June 2015) (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	15.29	22.62	8.5
Real Estate Secondary 2009	19.01	4.38	19.53	13.9
Asia Pacific and Emerging Market Real Estate 2009	15.76	5.39	13.99	6.5
Distressed US Real Estate 2009	14.75	12.35	8.57	9.9
Global Real Estate 2011	24.70	4.80	23.42	12.2
Direct Real Estate 2011	10.79	1.85	12.08	9.6
Real Estate Secondary 2013	3.90	0.00	4.56	21.9
Global Real Estate 2013	29.27	0.00	26.86	3.8
Real Estate Income 2014	7.85	0.00	7.09	1.7
Total	**157.69**	**44.06**	**138.71**	**9.5**

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



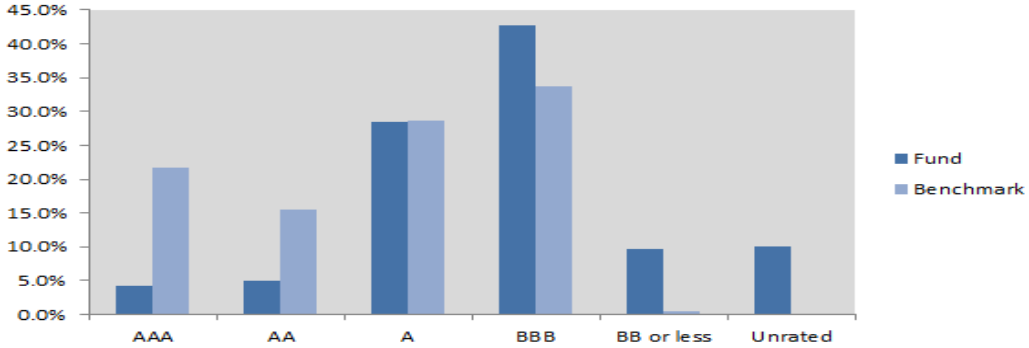
ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£281.0M END VALUE *(£298.7M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review)
Performance Objective *Benchmark +0.8% p.a.*	Outperformed benchmark by 1.9% 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	*7.5*	*7.5*
Benchmark	*7.8*	*7.7*

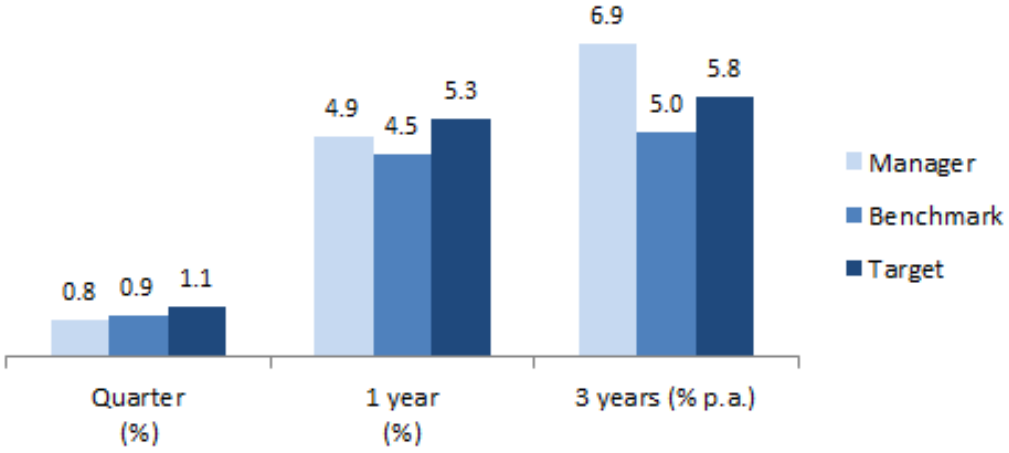
Reason for investment

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 September-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	6.9 *(4)*	4.8 *(28)*	1.4 *(1)*	1.0 *(25)*	2.0 *(1)*
95th Percentile	7.5	8.7	1.1	4.3	0.7
Upper Quartile	5.7	6.0	1.0	2.4	0.3
Median	5.1	5.2	0.9	1.5	0.1
Lower Quartile	4.5	5.1	0.8	1.2	-0.4
5th Percentile	3.8	4.9	0.7	0.9	-0.8
Number	28	28	28	28	28

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.	-
Gottex	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
JP Morgan	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.

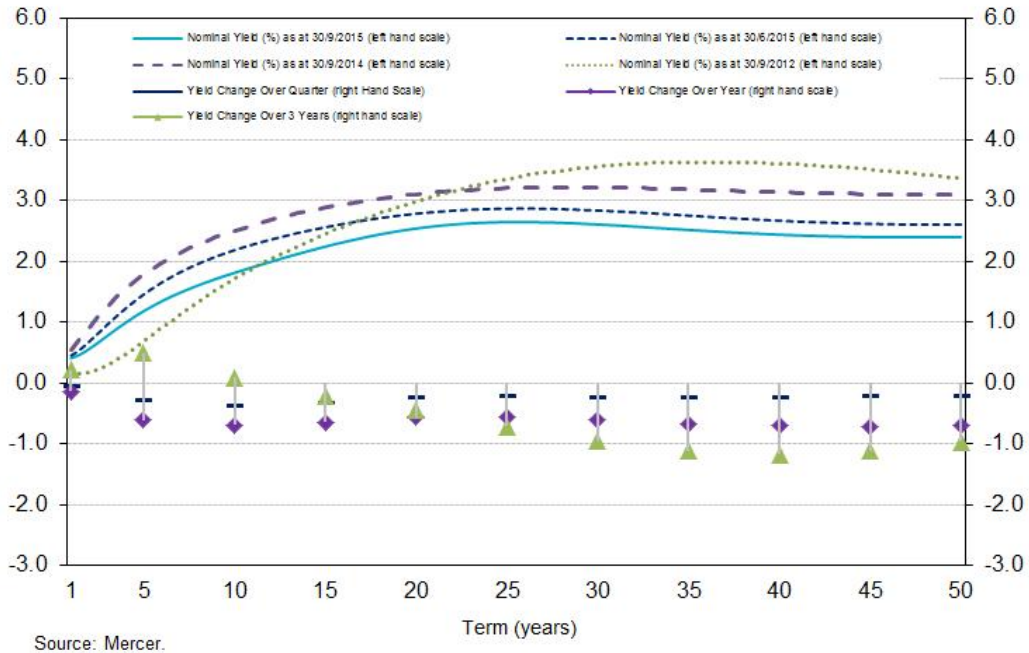
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 September 2015	30 June 2015	30 September 2014	30 September 2013
UK Equities	3.71	3.46	3.34	3.41
Over 15 Year Gilts	2.38	2.63	2.98	3.41
Over 5 Year Index-Linked Gilts	-0.83	-0.75	-0.35	-0.02
Sterling Non Gilts	3.16	3.15	3.39	3.64

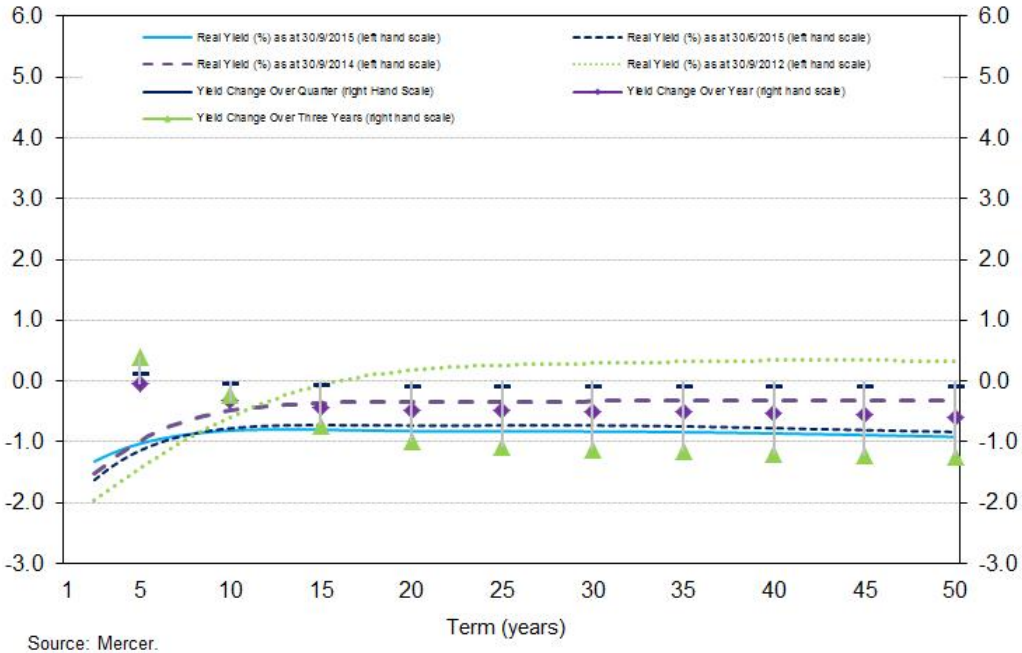
- After a sharp rise during the second quarter of the year, bond yields fell across all maturities over the quarter, resulting in positive returns for investors.
- Nominal gilt yields decreased across all maturities during the third quarter, resulting in a return of 5.1% for Over 15 Year Gilts Index.
- The real yield curve also moved down, although by less than nominal yields, resulting in a degree of normalization of previously depressed breakeven inflation rates. Index-linked gilts posted a quarterly gain of 2.3%, as measured by the Over 5 year Index-Linked Gilts index.
- The total returns from global credit rose by 3.0% in the third quarter in Sterling terms, with a moderate loss of 0.8% in local currency terms, with a moderate loss of 0.8% in local currency terms. Credit spreads widened slightly in the UK, but yields still fell overall, resulting in a 1.0% 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 normally 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. There are exceptions to this practice. These are primarily in real estate and private markets where the rating is normally applied to specific funds.

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 9), 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.

The four factors above apply to most product categories that Mercer researches. Variations on these factors are used in some product categories. Examples here include passive strategies, liability driven investment and private markets.

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

The above definitions apply to the majority of product categories researched by Mercer. However for some product categories the rating scale reflects Mercer’s degree of confidence in a manager’s ability to achieve a strategy’s stated aims. Examples of where this applies include low volatility equities, cash, passive, liability driven strategies and DC specific solutions.

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.

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.

NICHE STRATEGIES

Mercer categorize a limited number of strategies as Niche. The Niche categorization is applied to strategies that are perceived as highly differentiated. Mercer does not have specific rules as to what characterizes a Niche strategy but examples might include strategies where a manager is seeking to exploit anomalies not generally recognized by other market participants. It might also be applied to strategies with a short track record and/or limited assets under management.

RESEARCH INDICATIONS – INDICATIVE VIEW

For strategies where Mercer has conducted some initial research, we may apply Mercer Research Indications. Mercer's Research Indications are an indication of whether a strategy merits deeper / further due diligence. This indication is shown by an assigned indicative view, identified as a color. A Research Indication does not necessarily result in future research. All Research Indications are assigned as R rating.

- Red – further research has "below average" prospects of resulting in an investable rating.
- Amber – further research has "average" prospects of resulting in an investable rating.
- Green – further research has "above average" prospects of resulting in an investable rating.

An investable rating is defined as an A or B+.

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.

ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE RATINGS

Mercer also assigns ratings to strategies that represent Mercer's view on the extent to which environmental, social and corporate governance (ESG) and active ownership practices (voting and engagement) are integrated into the manager's investment process and decision-making across asset classes. ESG factors are incorporated into the investment process on the basis that these issues can impact revenue, operating costs, competitive advantage, and the cost of capital. During discussions with managers about ESG integration, Mercer assesses the use of ESG information to generate outperformance.

ESG Rating Scale	
ESG1	The highest ESG rating is assigned to strategies that Mercer believes to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in Mercer's view, include ESG factors as part of decision making, with a strong level of commitment made at a firmwide level and some indication that data and research are being taken into account by the managers in their valuations and investment process.
ESG3	The penultimate rating is assigned to strategies for which, in Mercer's view, the manager has made some progress with respect to ESG integration and/or active ownership, but for which there is little evidence that ESG factors are taken into consideration in valuations and investment process.
ESG4	The lowest ESG rating is assigned to strategies for which, in Mercer's view, little has been done to integrate ESG and active ownership into their core process.

For passive strategies, Mercer applies an ESGp1 through to ESGp4. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, most of Mercer's analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

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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