HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2015

NOVEMBER 2015

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

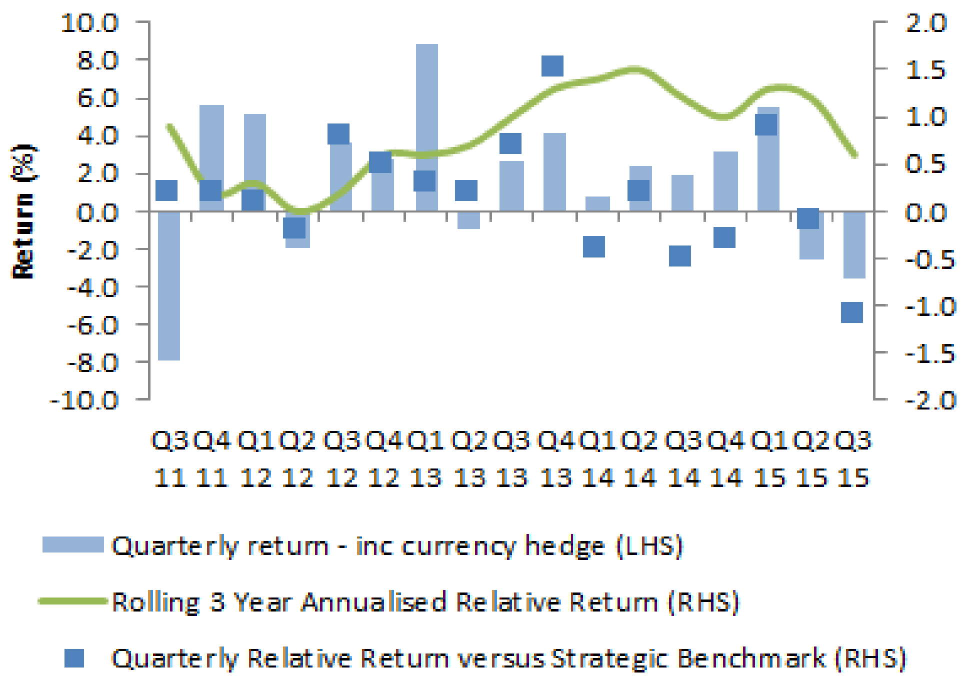
CONTENTS

SECTION 1
EXECUTIVE SUMMARY

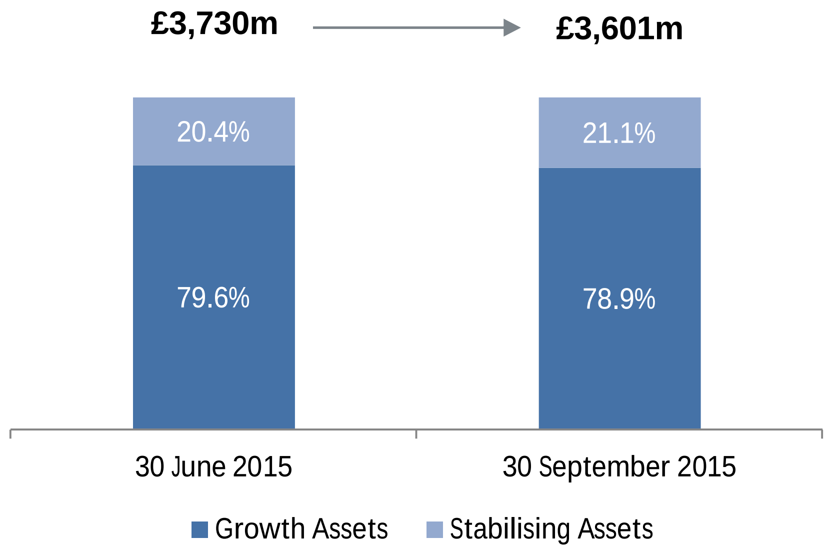
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-3.6	2.2	8.3
Total Fund (ex currency hedge)	-2.8	2.5	8.3
Strategic Benchmark (no currency hedge)	-2.5	2.8	7.7
Relative (inc currency hedge)	**-1.1**	**-0.6**	**+0.6**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) decreased from £3,730m (30 June 2015) to £3,601m.

This decrease was primarily due to the negative performance across most asset classes in the growth portfolio.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes. At the start of the quarter, developed equities were overweight but at 30 September 2015 they were within the agreed tolerance ranges as a result of market movements and a switch to the new fund of hedge funds mandate.

The underperformance of the Fund over the quarter was largely due to the overweight position in overseas equities (which produced negative returns over the quarter) and the underweight position in hedge funds, the underperformance of the DGFs relative to their cash benchmark and the depreciation of sterling (which led to negative returns when the currency hedge with Record is included).

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. 4% over the third quarter of 2015, due to negative returns from major asset classes over the quarter and a fall in the valuation discount rate (increasing liabilities).

Fund performance

- The value of the Fund's assets decreased by £129m over the quarter, to £3,601m at 30 September 2015. The Fund's assets returned -3.6% over the quarter (-2.8% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of significant negative returns from global equities. This underperformed the benchmark (excluding the currency hedge) return of -2.5%.

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.

Strategy (continued)

- 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.
- 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.

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 and the yield on the FTSE Over 5 Year Index-Linked Gilt index fell from -0.75% p.a. to -0.83% p.a. However, over October the FTSE All World has returned +5.8% in sterling terms, whilst the yield on the FTSE Over 5 Year Index-Linked Gilt index rose from -0.83% p.a. to -0.79% p.a.

- 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 of reviewing the Stabilising Asset portfolio.

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

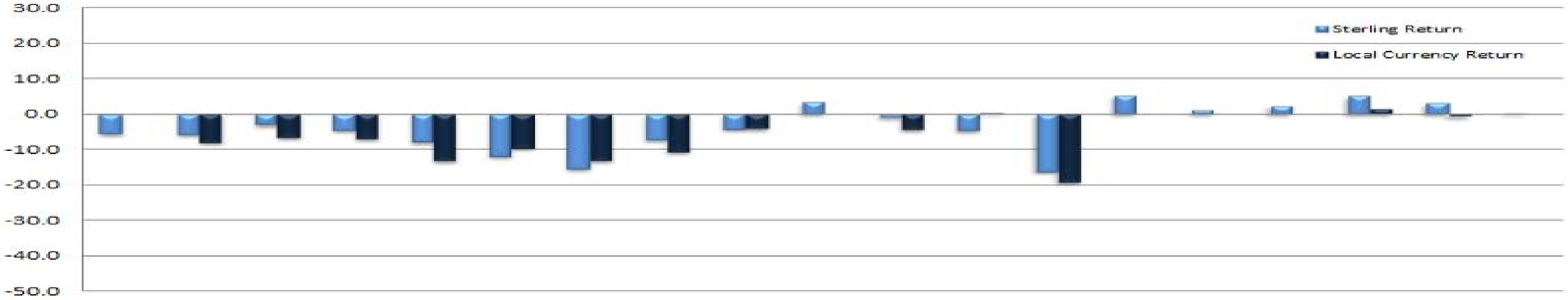
Energy prices led commodity prices lower, returning -24.4% over the quarter, as oil prices reached a six year low in August 2015 on the back of increased stockpiles in the United States and concerns that a slowing Chinese economy would adversely impact global demand.

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.

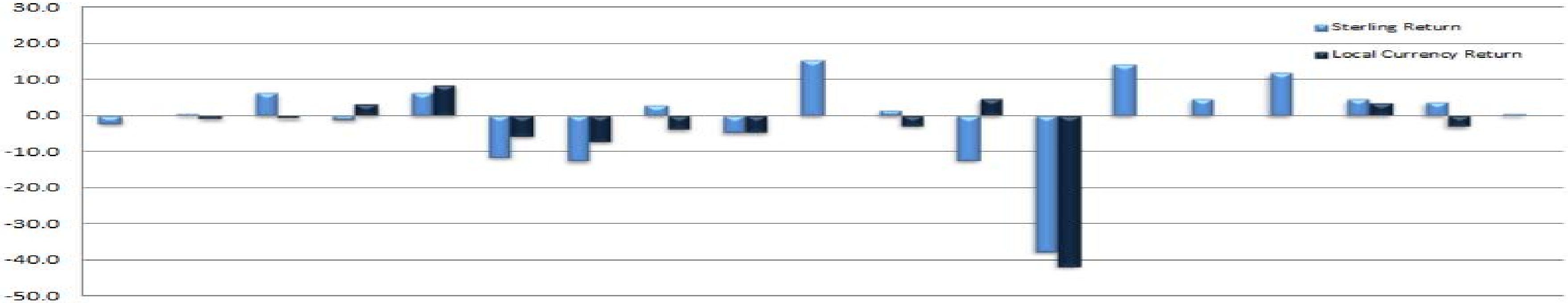
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

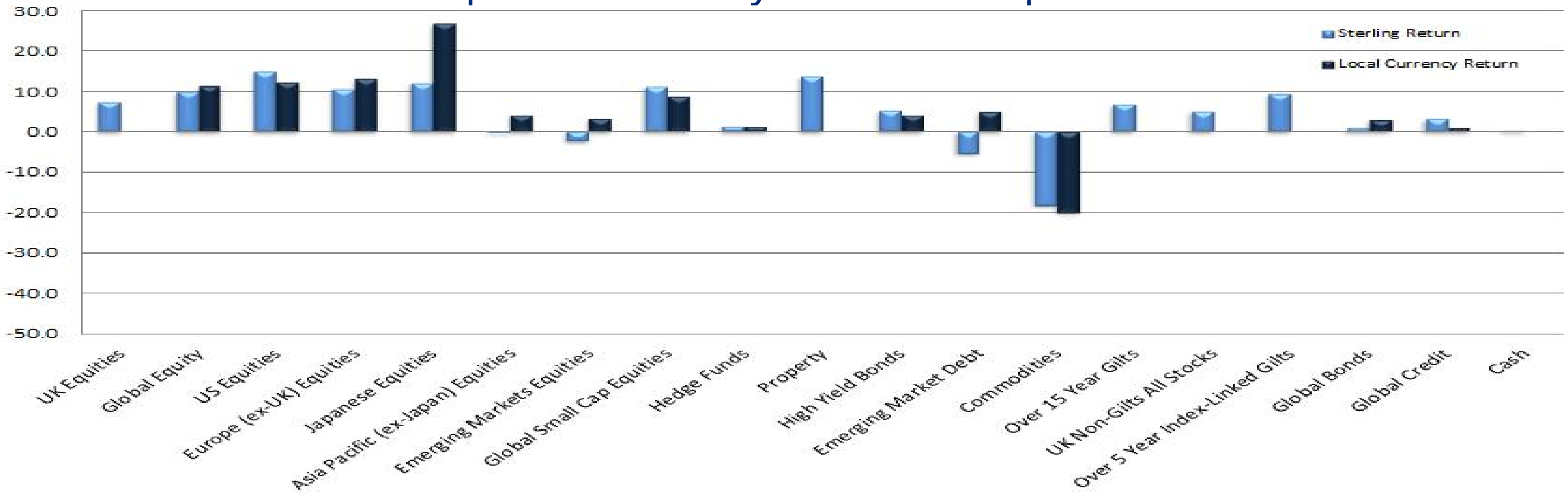
Return over the 3 months to 30 September 2015



Return over the 12 months to 30 September 2015



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

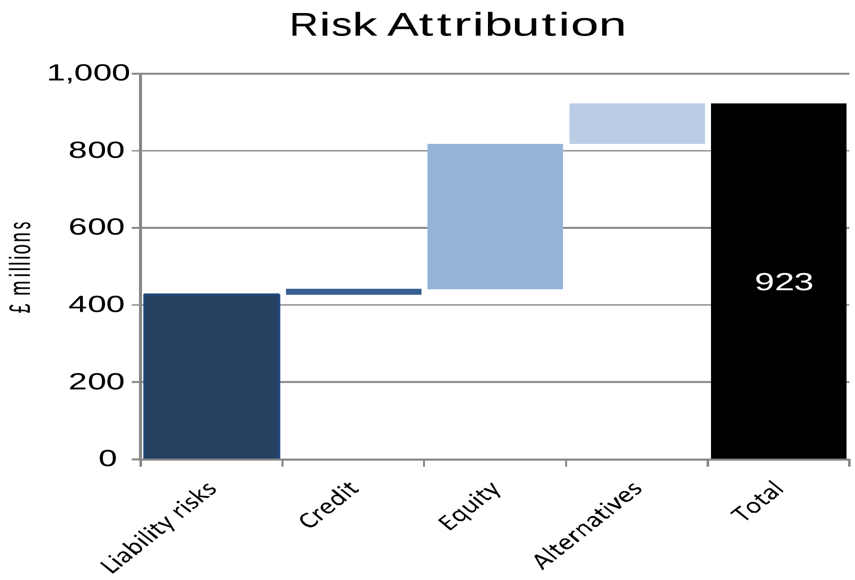


Source: Thomson Reuters Datastream.

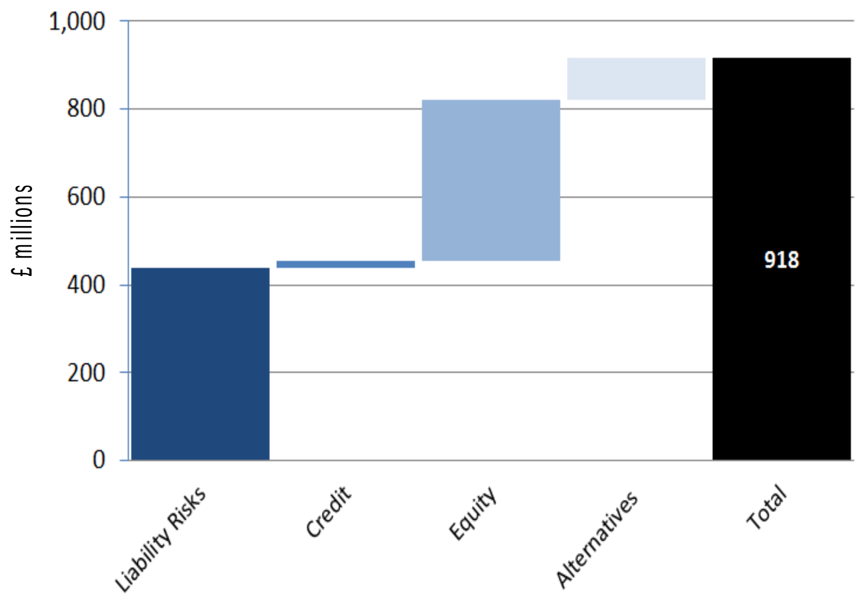
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 June 2015



30 September 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 change in 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 a downside scenario 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 September 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 **£918m** on top of the current deficit of **£1.4b**, creating a deficit of **£2.3b**.

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 and volatility of equity markets and alternative assets).

The two charts show that the one-year risk over the quarter has stayed broadly the same, with a slight change of c£5m from **£923m** to **£918m**. This slight reduction is due to the size of the assets reducing, decreasing their contribution to total risk. This was slightly offset by the increase in the Fund’s liabilities over the quarter.

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.

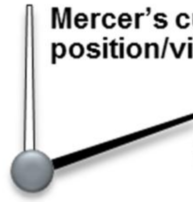
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

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.

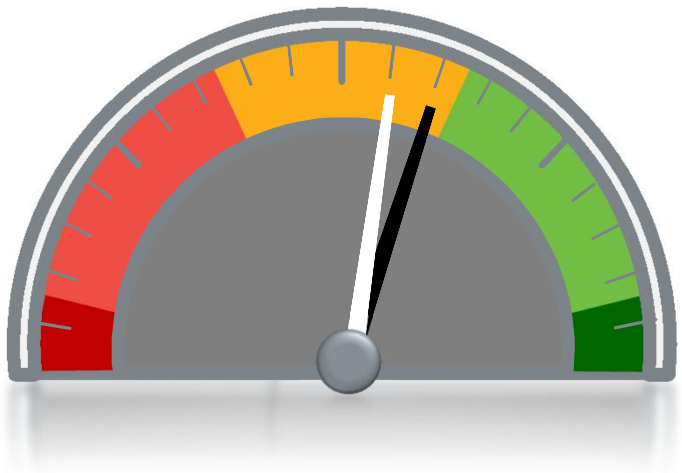
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2015

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



Mercer's current DAA position/view

Position/view last time (if changed)



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

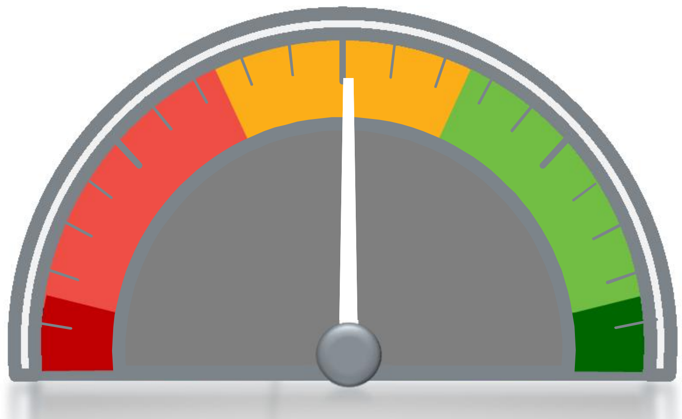
INDEX-LINKED GILTS

- ✔ 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)

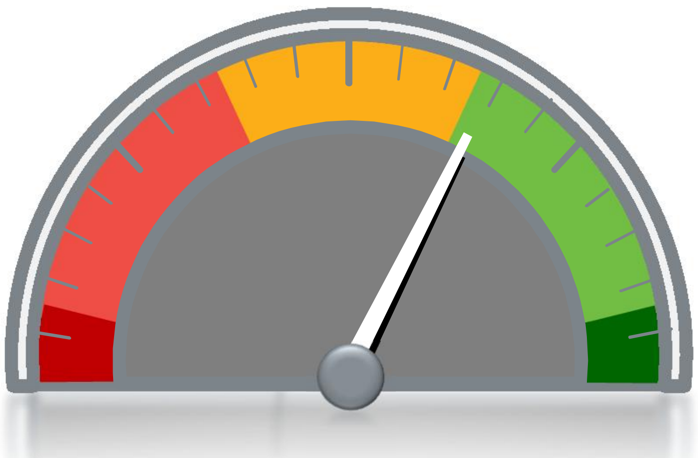
- Credit spreads have increased over the quarter and provide reasonable compensation against current default rates
- ! Credit yields remain historically low and prospective returns are limited
- ! Lack of trading liquidity has led to risk of increased volatility in credit markets



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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2015

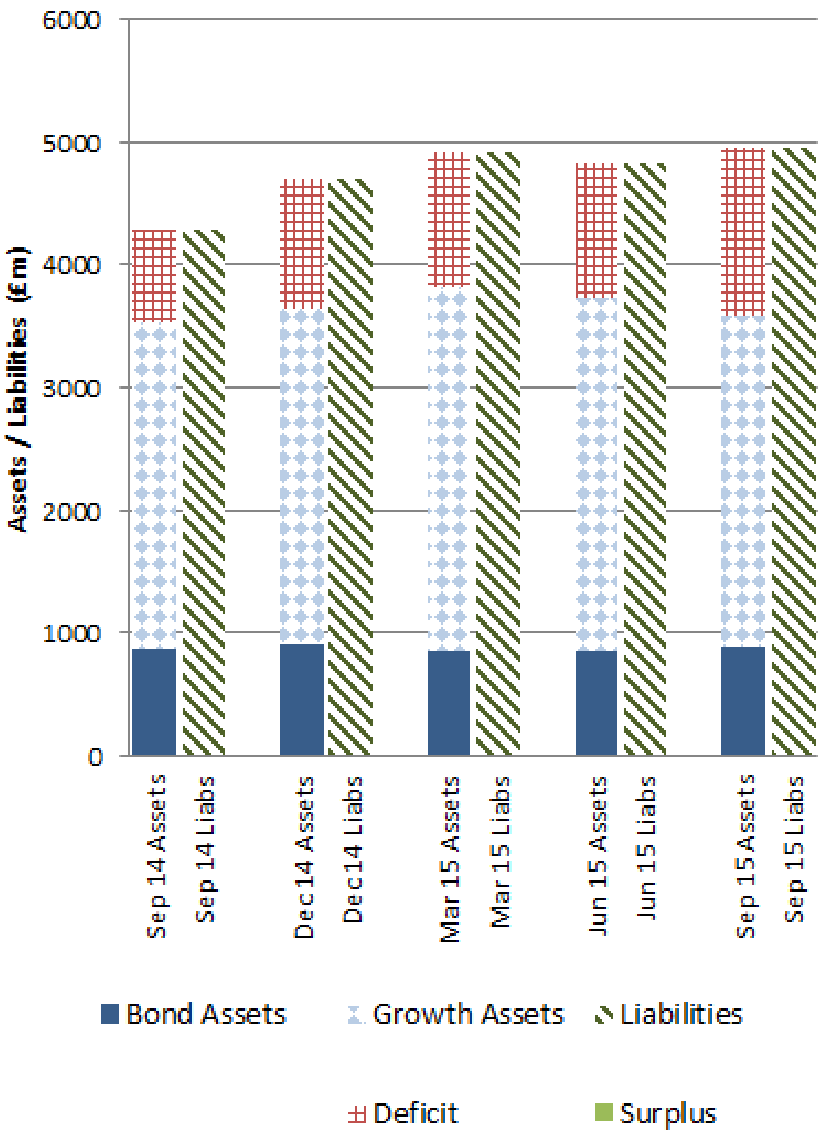


GROWTH VERSUS DEFENSIVE

Asset Class	April 2015	July 2015	Oct 2015
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive
Eurozone Government Bonds	Extremely Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive
Non-Government Bonds (€ All-Stocks)	Extremely Unattractive	Unattractive	Unattractive
Global Equities	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Neutral	Neutral
Small Cap Equities	Neutral	Neutral	Neutral
Low Volatility Equities	Neutral	Neutral	Neutral
UK Property	Neutral	Neutral	Neutral
High yield bonds	Neutral	Neutral	Neutral
Local currency emerging market debt	Neutral	Neutral	Unattractive

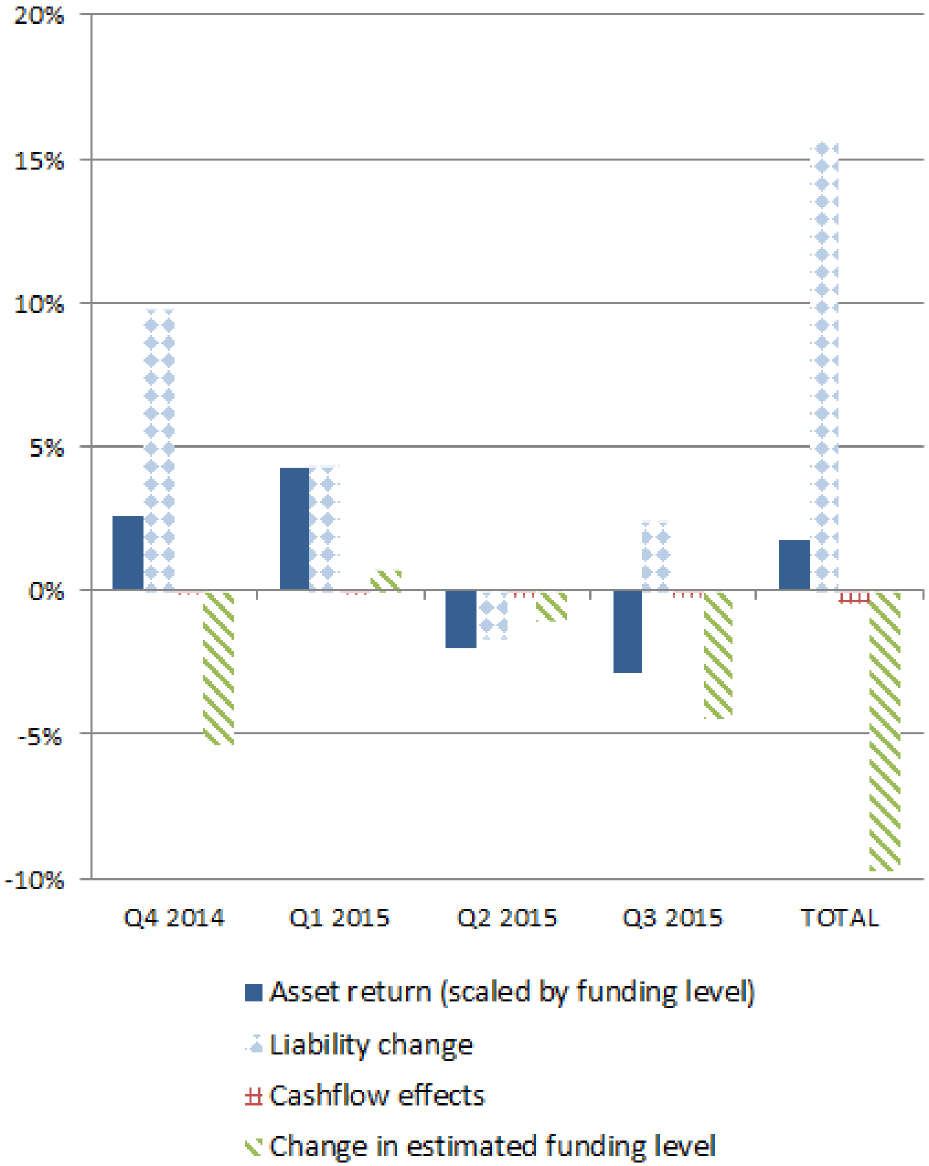
SECTION 4
CONSIDERATION OF FUNDING LEVEL

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. 4% over the third quarter of 2015, all else being equal, from 77% to 73%. This was driven by:
  - A negative asset return from most of the growth asset classes;
  - A negative effect from the liabilities, as the discount rate decreased, increasing the value placed on the liabilities (somewhat offset by a decrease 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 73%. This reduction has come mainly from the increase in the present value of the liabilities over the period (due to the falling discount rate).

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned -3.6% over the quarter, which, when allowing for the funding position, reduced the funding level by 2.9%.
- However, the Fund's estimated liabilities increased by 2.5% (primarily due to a decrease in the discount rate, offset to some extent by a decrease 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 73% (from 77% at 30 June 2015).
- Over the 12 month period, the funding level has fallen by 10% primarily due a fall in yields.

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	1,700,572	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. This overweight will be further reduced when funds are drawn down to fund the infrastructure investments.

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.

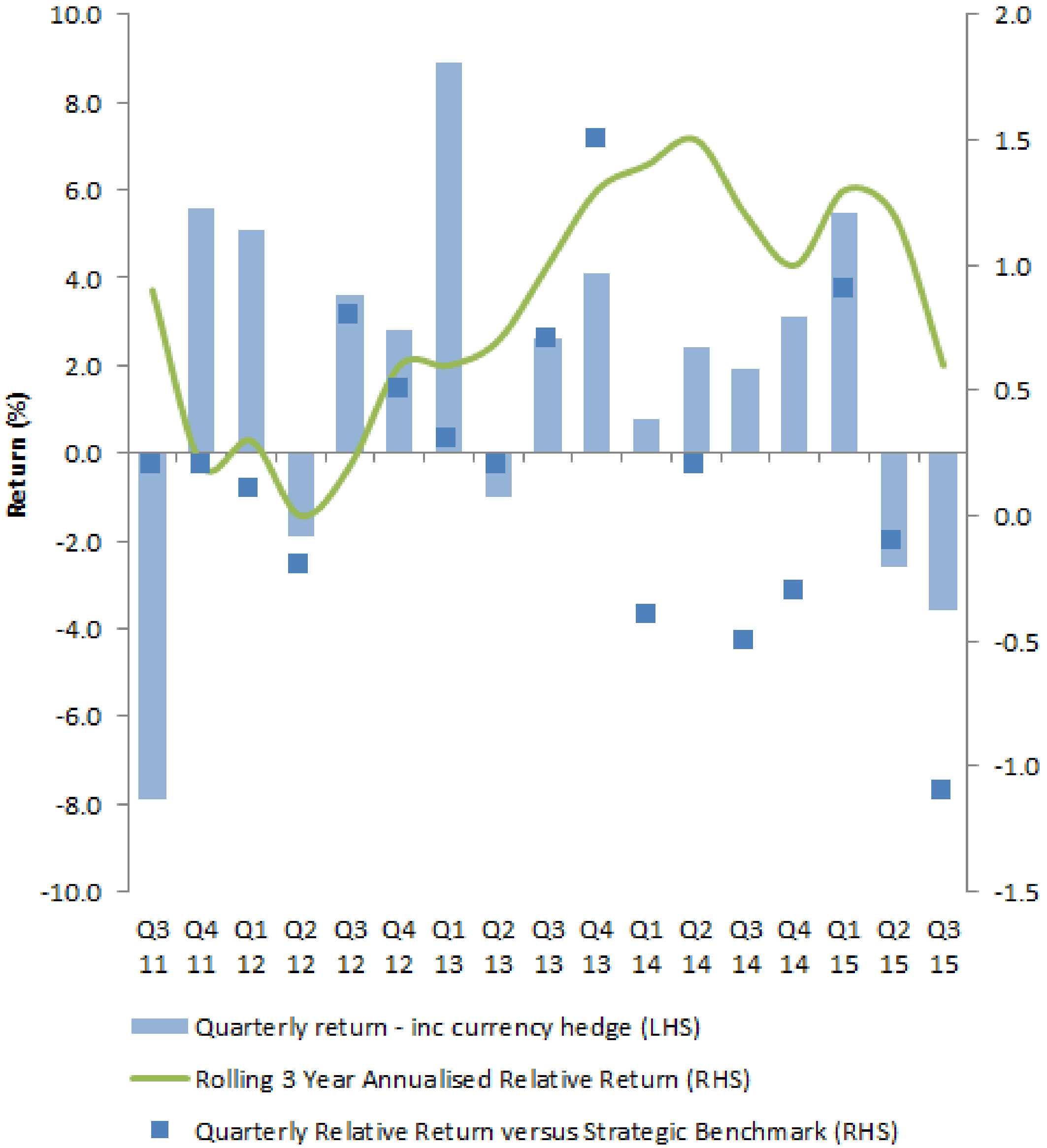
FUND VALUATIONS
VALUATION BY MANAGER

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 6
PERFORMANCE SUMMARY

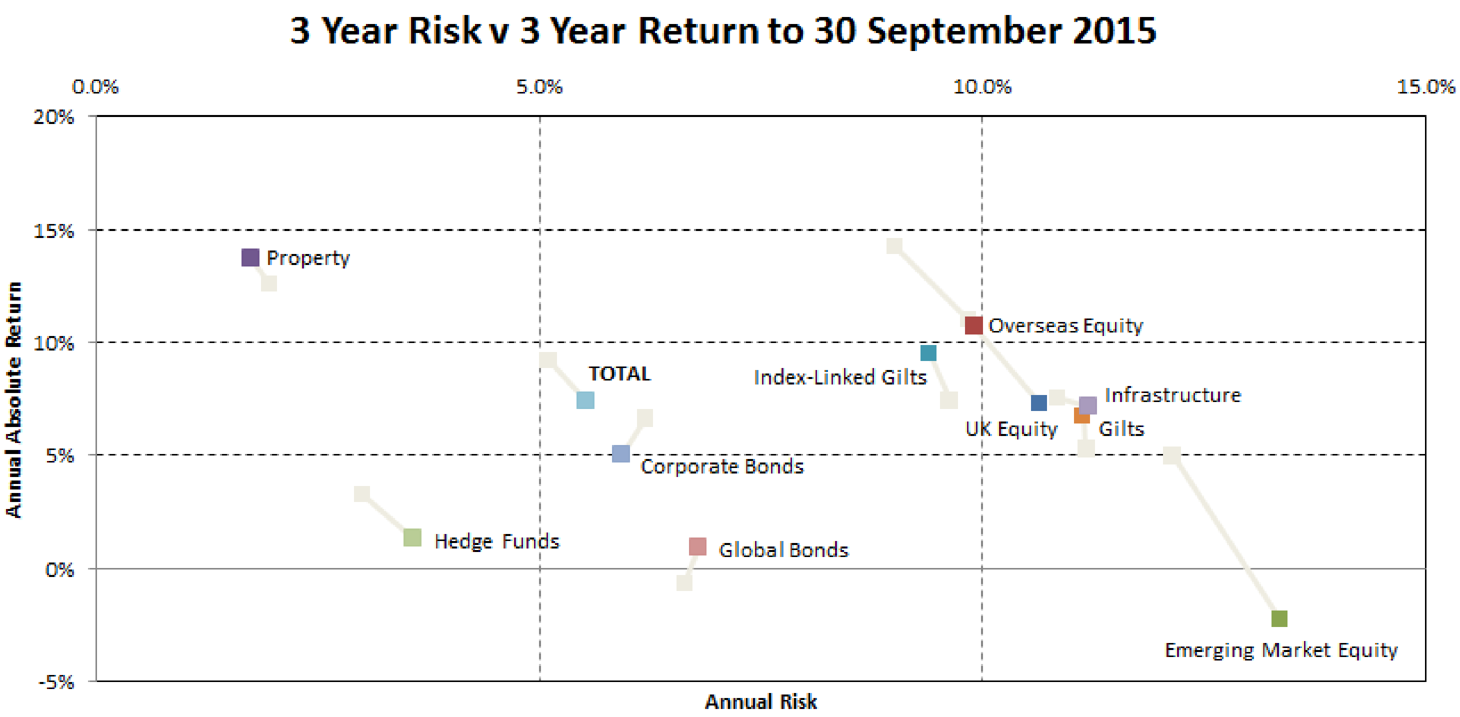
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	-3.6	2.2	8.3
Total Fund (ex currency hedge)	-2.8	2.5	8.3
Strategic Benchmark (no currency hedge)	-2.5	2.8	7.7
Relative (inc currency hedge)	**-1.1**	**-0.6**	**+0.6**

- Over Q3 2015, the Fund underperformed its Strategic Benchmark by 1.1% when including the currency hedge, and by 0.3% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 0.6% but outperformed over the three year period by 0.6% p.a.
- The latest quarter's underperformance has reduced the rolling three year outperformance from 1.2% p.a. to 0.6% p.a.
- The underperformance of the Fund over the quarter was largely due to the overweight position in overseas equities (which produced negative returns over the quarter) and the underweight position in hedge funds, the underperformance of the DGFs relative to their cash benchmark and the depreciation of sterling (which led to negative returns when the currency hedge with Record is included).

MANAGER MONITORING
RISK RETURN ANALYSIS



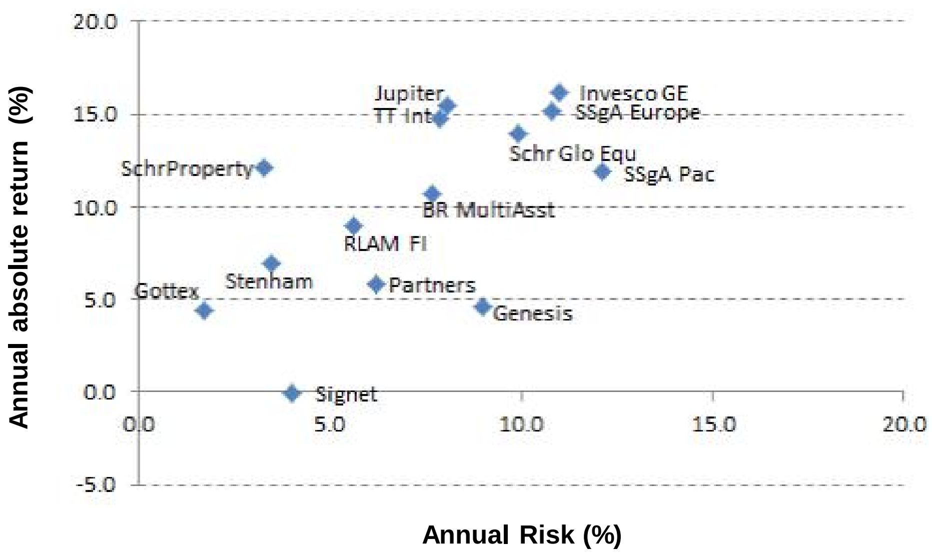
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2015, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

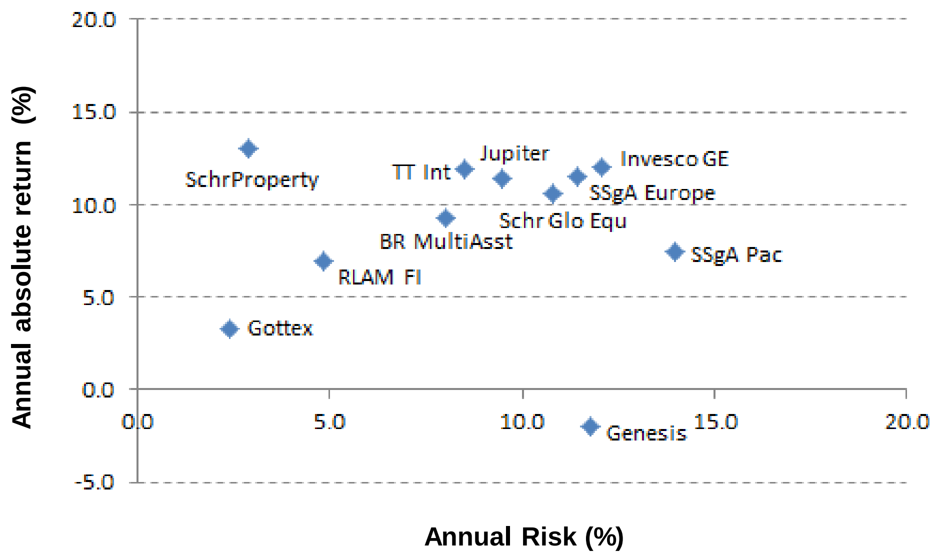
- *The most significant movement seen over the quarter was emerging market equity, which saw a significant decrease in three-year trailing return, driven by Latin American and Asian economies (with similar – albeit less pronounced – movements seen for UK and overseas equities).*
- *Index-linked gilts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

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.

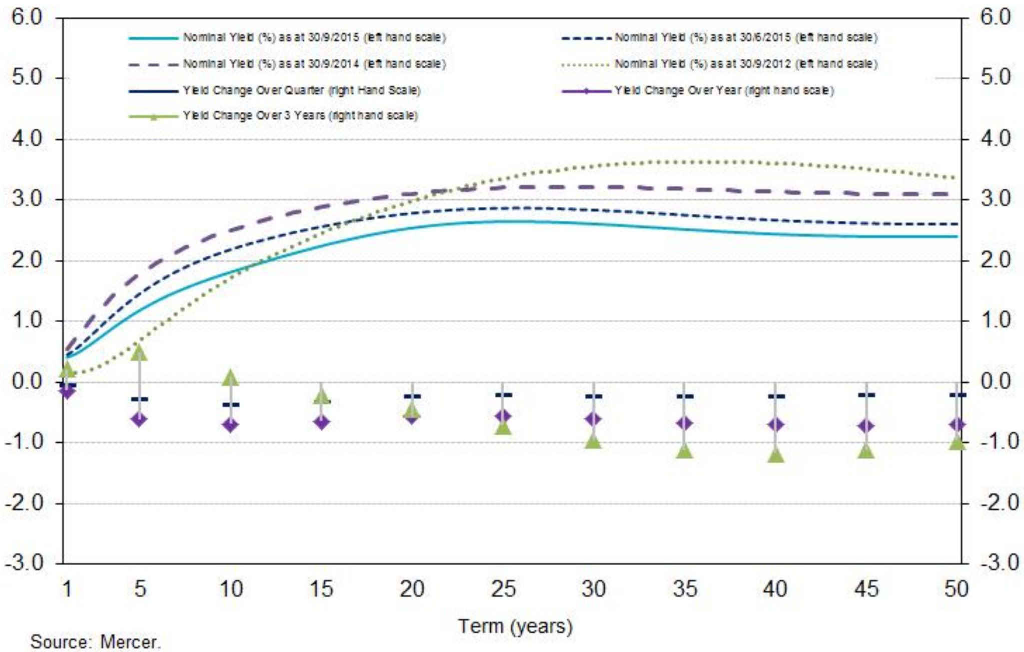
APPENDIX 3
CHANGES IN YIELDS

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

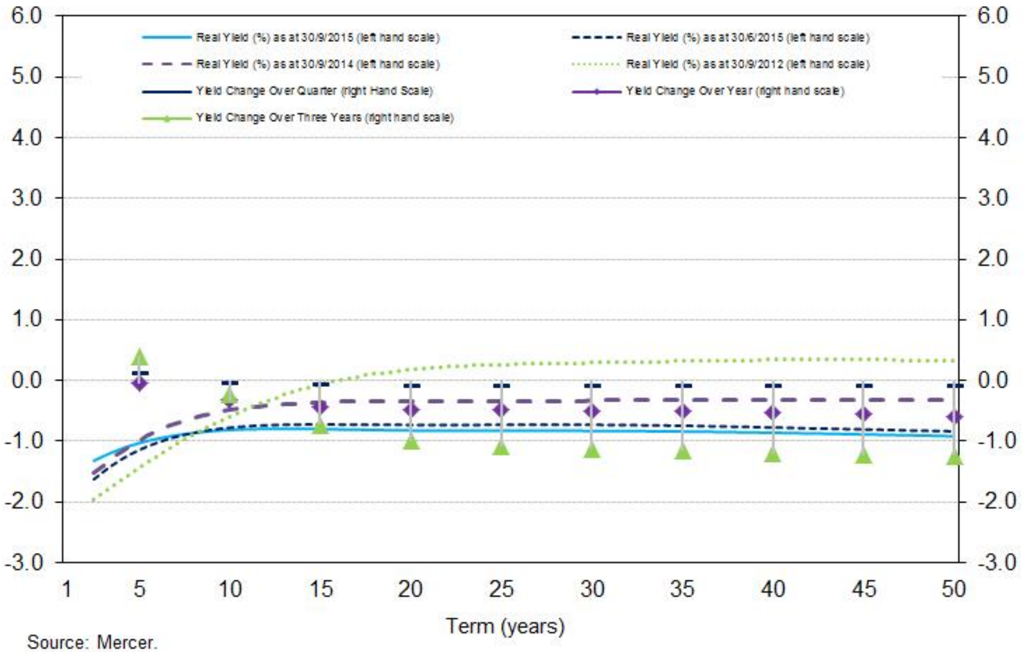
- After a sharp rise during the second quarter of the year, bond yields fell across all maturities over the quarter, resulting in positive returns for investors.
- Nominal gilt yields decreased across all maturities during the third quarter, resulting in a return of 5.1% for Over 15 Year Gilts Index.
- 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.

MAKE
TOMORROW,
TODAY

MERCER