HEALTH WEALTH CAREER

AVON PENSION FUND

PANEL INVESTMENT PERFORMANCE REPORT QUARTER TO 31 MARCH 2016

MAY 2016

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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 increased by £37m over the quarter, to £3,742m at 31 March 2016.

Strategy

- Global (developed) equity returns over the last three years at 9.3% p.a. have been 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).

- The three year return from emerging market equities has increased to -1.8% p.a. from -2.9% p.a. last quarter. The three year return remains well below the assumed strategic return (of 8.75% p.a.) as returns have been affected by the general emerging markets weakness in recent years, although performance in Q1 was strong compared to developed markets, largely due to the weakening US dollar and increasing commodities prices. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

- UK government bond returns over the three years to 31 March 2016 remain above the long term strategic assumed returns (with fixed interest gilts returning 8.6% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 5.6% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.

Strategy (continued)

- UK corporate bonds returned 5.0% p.a. over the three year period, falling behind their assumed return of 5.5% p.a., while property returns of 14.6% continue to be substantially above the assumed strategic return of 7% p.a.
- Hedge fund returns remain below long term averages and the strategic return of 6% p.a., as they are affected by low cash rates, and as active managers in general have struggled to generate meaningful returns.
- With most listed assets looking close to fully valued, if not fully valued, we would continue to 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. In light of reduced market liquidity, we also see opportunities for more dynamic and active strategies to add value, and continue to believe that there are likely to be opportunities arising in distressed debt given the maturing credit cycle. Asset classes that can provide a reliable source of income such as Long Lease Property, Private Debt and Infrastructure also offer relatively attractive sources of return, in our view, given the current market outlook.

Managers

- Absolute returns of the managers over the quarter were mixed. UK equities struggled in light of concerns over the EU referendum and the slowing of economic growth at the start of the quarter, and Jupiter and TT delivered negative relative returns. Genesis and Unigestion had the highest returns benefitting from a positive quarter for emerging markets equities, while Standard Life GARS performance over the quarter was disappointing (-3.3% relative to a benchmark of +1.4%).
- Brexit concerns led to a weakening of sterling versus other major currencies; as a result, the currency hedging overlay detracted value over the quarter. In the event of a strengthening pound, for example possibly following a vote to ‘remain’ in June, it will be expected to add value.
- With the exception of property, returns over the year to 31 March 2016 were generally muted. The equity mandates (with the exception of TT) delivered negative absolute returns despite a strong Q1. Emerging market returns for the year were disappointing, with Genesis and Unigestion returning -6.4% and -7.1% respectively (although both still met their outperformance target despite the negative returns).
- Over three years, all mandates with a three year track record produced positive absolute returns (with the exception of Genesis), with only Schroder global equity and Partners failing to beat their benchmarks (although see comments on the measurement of Partners’ performance later). In addition, TT and Schroder property failed to achieve their three-year performance objectives, despite both beating their benchmarks. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- Initial funding has begun for the infrastructure mandate, which has a 5% strategic benchmark allocation. On 24 March, £146m ($195m) of passive developed market equities were sold to fund the investment. This was held as cash by IFM and invested on 1 April. A currency hedging overlay will be put in place with Record to hedge the underlying currency exposures.

- Over the quarter, changes took place in the Stabilising Asset portfolio as fixed interest gilts and overseas government bonds were fully transitioned to index-linked gilts. Current holdings in index-linked gilts are approximately £436m, or 11.7% of the Fund.

EXECUTIVE SUMMARY
MANAGER INFORMATION

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
BlackRock	Passive Multi-Asset	✓	✓	✓	P2	*27*
Jupiter	UK Equities	-	✓	✓	2	*28*
TT International	UK Equities	-	✓	-	3	*29*
Schroder	Global Equities	✓	✕	✕	2	*30*
Genesis	Emerging Market Equities	✓	✓	✓	3	*31*
Unigestion	Emerging Market Equities	-	✓	N/A	N	*32*
Invesco	Global ex-UK Equities	✓	✕	✓	4	*33*
SSgA	Europe ex-UK Equities	-	✓	✓	N	*34*
SSgA	Pacific inc. Japan Equities	-	-	✓	N	*35*

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

- BlackRock have informed us that Amy Schioldager, Senior Managing Director and Global Head of Beta Strategies, will be leaving the firm. See page 27 for detail.
- Schroders have announced that Michael Dobson is to move from CEO to Chairman and will be replaced by Peter Harrison. See page 30 for detail.
- SSgA have announced its intention to acquire GE Asset Management. See page 34 for detail.
- There were no changes to any ratings over the quarter.

EXECUTIVE SUMMARY
MANAGER INFORMATION CONTINUED

Manager	Mandate	Research Rating	Short Term Performance (1 year)	Long Term Performance (3 year)	ESG	Page
Pyrford	**DGF**	-	✕	N/A	N	*36*
Standard Life	**DGF**	✓	✕	N/A	4	*37*
JP Morgan	**Fund of Hedge Funds**	✓	N/A	N/A	N	*39*
Schroder	**UK Property**	-	-	-	3	*42*
Partners	**Global Property**	✓	✕	✕	4	*43*
RLAM	**Bonds**	✓	-	✓	3	*44*
Record Currency Management	**Currency Hedging**	-	N/A	N/A	N	*45*

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

Focus Points

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

SECTION 2

MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The major equity markets outside of the US posted negative returns over the quarter to end March, with global equities falling by 1.3% in local currency terms (though noting that a gain of 3.0% was achieved in sterling terms due to the relative depreciation of sterling). Small capitalisation stocks, as measured by the FTSE World Small Cap Index, outperformed the broader equity market, posting a positive return of 3.4% and 0.8% respectively in sterling and local currency terms.

Emerging markets were the strongest performing equity market measured, returning 8.8% in sterling and 3.3% in local currency terms, supported by the backdrop of a weaker US dollar and strengthening commodity prices. In contrast, Japan was the weakest performing equity market, returning -4.3% in sterling and -12.8% in local currency terms, as the significantly stronger yen also contributed to downward revisions of corporate earnings.

In the UK, the FTSE All-Share Index delivered a negative return of -0.4% over the quarter, outperforming the global equity market on a local currency basis but underperforming in sterling, mostly due to the negative return posted by financial stocks. Within the UK, large capitalisation stocks (represented by the FTSE 100 Index) delivered a positive return and outperformed smaller segments of the market (represented by the FTSE 250 and FTSE Small Cap indices) due to its larger exposure to resource stocks which benefitted from a recovery in commodity prices towards the end of the quarter.

Bond Market Review

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

In the UK, nominal government bond yields decreased by c.40-60 bps across the curve over the quarter with the Over 15 Gilts Index returning 8.2%. Nominal yields are now roughly at levels seen a year ago.

Real yields also fell over the quarter, albeit to a slightly lesser extent of c.20-40 bps, with the Over 5 Year Index-Linked Gilts Index posting a positive return of 6.5%.

Credit spreads widened over the quarter by c.14 bps and ended the quarter at c.1.5% and 1.6% for the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year Indices, respectively. Despite the widening of credit spreads, UK credit assets posted a positive return of 3.0% in sterling terms due to the positive benefits from a decrease in government bond yields as well as income earned from coupons.

Currency Market Review

Over the quarter, sterling depreciated significantly against its major counterparts as Brexit fears sparked investor concerns. After reaching a seven year low against the US dollar in February, sterling recovered slightly in March as the Federal Reserve Bank lowered its projections for the pace of further rate rises in the US.

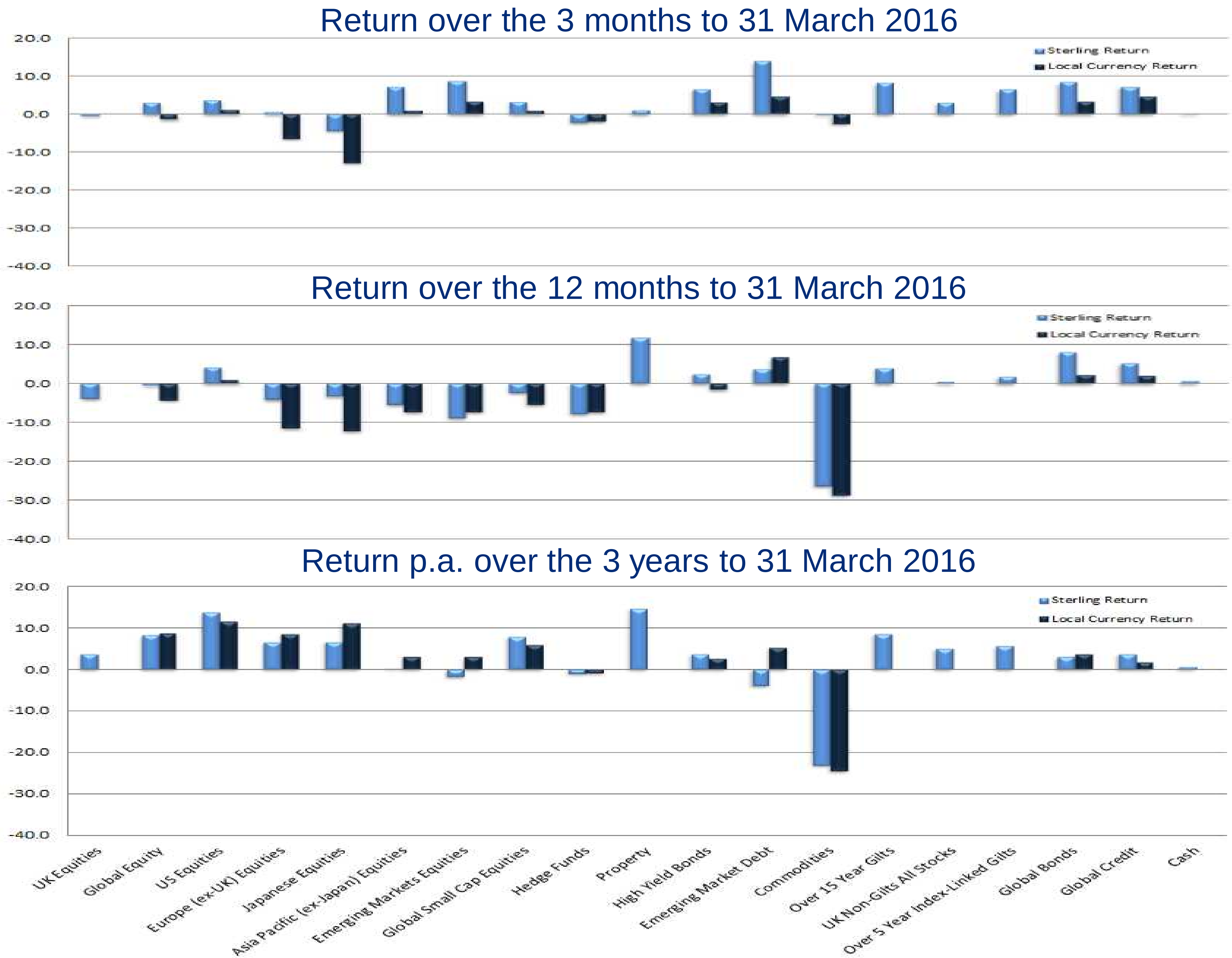
Commodity Market Review

The performance of major commodity sub-indices was mixed, with negative returns in the energy, agriculture and livestock and sub-indices more than offsetting positive returns from the precious metals and industrial metals sub-indices.

Brent Crude Oil prices recovered from a multi-year low of US$28/barrel in late January to a price of US$40/barrel as at end March, an increase of 43%. Gold rose by 16.2% over the quarter, reaching a 13 month high of US$1,234/oz as at end March on the back of a weaker US dollar.

Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE



Source: Thomson Reuters Datastream.

SECTION 3
STRATEGIC ASSUMPTIONS

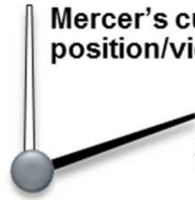
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	9.3	*Remains ahead of the assumed strategic return.* *This has decreased from 13.6% p.a. last quarter as the latest quarter's return of 2.4% was considerably lower than the 15.1% return of Q1 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	-1.8	*The three year return from emerging market equities has increased from -2.9% p.a. last quarter, as the return of 8.8% experienced last quarter was higher than the quarter that fell out of the period (5.4%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.6	*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 and low inflation means that both benchmarks have significantly underperformed the long term expected return from equity. During periods of strong equity returns, such as the last three year period, we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	8.6	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages. Returns have decreased compared to the previous quarter as the quarter that fell out of the 3-year return offset the fall in yields (and hence positive total returns) experienced in the last quarter. Corporate bond returns have increased this quarter, but over three years continue to be below the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	5.6	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	5.0	
Overseas Fixed Interest (JP Morgan Global Government Bonds ex UK)	5.5	2.6	*Although still lagging the strategic assumed return, the 3 year performance from overseas fixed interest increased over the quarter due to a strong quarterly return of 9.8%.*
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-1.0	*Hedge fund returns remain below long term averages and the strategic return, as they are affected by low cash rates. It should be noted that the index includes a wide variety of strategies that may have had very divergent returns.*
Property (IPD UK Monthly)	7.0	14.6	*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 – Q2 2016

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



DEVELOPED MARKET EQUITIES

- Monetary policy remains generally supportive of equity markets
- Valuations have risen slightly and equities on the whole are at the upper end of fair value range
- Negative earnings growth over the last 12 months and downwards revisions to earnings estimates are uninspiring

EMERGING MARKET EQUITIES

- Valuations remain below long-term averages, despite a slight rise over the quarter
- Bearish market sentiment may leave room for surprises on the upside
- Structural headwinds remain in place: slowing Chinese growth, weak commodity prices and currency mismatches on EM balance sheets

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 – Q2 2016

FIXED INTEREST GILTS (ALL STOCK)

- Ongoing extraordinary monetary policy and concerns over slowing growth continue to restrain upward yield moves
- Valuations remain stretched by historical norms and have increased further
- US monetary policy normalisation could hurt performance of fixed income assets

INDEX-LINKED GILTS

- Breakeven inflation levels at cyclical lows due to weak commodity prices
- Valuations remain expensive, with real yields well below long-term averages
- Core inflation expectations continue to fall amid concerns China may remain a deflationary force at the global level

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q2 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads have widened slightly over the quarter and remain favourable relative to current default rates
- Yields remain historically low and lack of trading liquidity has led to risk of increased volatility
- General consensus that credit cycle is fairly mature and recent macro events have led to greater uncertainty

UK PROPERTY

- Yields remain reasonable relative to other assets and continue to be supported by strong fund inflows
- Supply starting to come to market, leading to less favourable supply-demand dynamics
- Signs of prime London market approaching the top of the cycle

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	1,685,251	1,545,029	45.5	41.3	40.0	35 - 45	+1.3
Emerging Market Equities	302,627	327,299	8.2	8.7	10.0	5 - 15	-1.3
Diversified Growth Funds	365,235	360,928	9.9	9.6	10.0	5 - 15	-0.4
Fund of Hedge Funds	201,841	192,715	5.4	5.2	5.0	0 - 7.5	+0.2
Property	343,969	367,077	9.3	9.8	10.0	5 - 15	-0.2
Infrastructure	-	-	-	-	5.0	0 - 7.5	-5.0
Bonds	753,425	792,149	20.3	21.2	20.0	15 - 35	+1.2
Cash (including currency instruments)	52,683	156,579	1.4	4.2	-	0 - 5	+4.2
Total	**3,705,031**	**3,741,775**	**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 increased over the quarter by £37m due to positive returns from most asset classes (in particular, bonds). At the start of the quarter, developed equities were overweight relative to benchmark (and outside the range in the SIP); at 31 March 2016 they remained overweight but within the agreed tolerance ranges. £146m was disinvested from developed market equities to fund the infrastructure mandate (held as cash at 31 March 2016).

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	1,133,399	-148,294	1,025,565	30.6	27.4
Jupiter	UK Equities	176,056	-	173,896	4.8	4.6
TT International	UK Equities	205,993	-	201,993	5.6	5.4
Schroder	Global Equities	253,171	-	253,764	6.8	6.8
Genesis	Emerging Market Equities	136,357	-	149,181	3.7	4.0
Unigestion	Emerging Market Equities	166,270	-	178,118	4.5	4.8
Invesco	Global ex-UK Equities	284,392	-	289,696	7.7	7.7
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,872	-	119,803	3.2	3.2
Pyrford	DGF	123,750	-	126,947	3.3	3.4
Standard Life	DGF	241,485	-	233,981	6.5	6.3

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

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

Manager Allocation

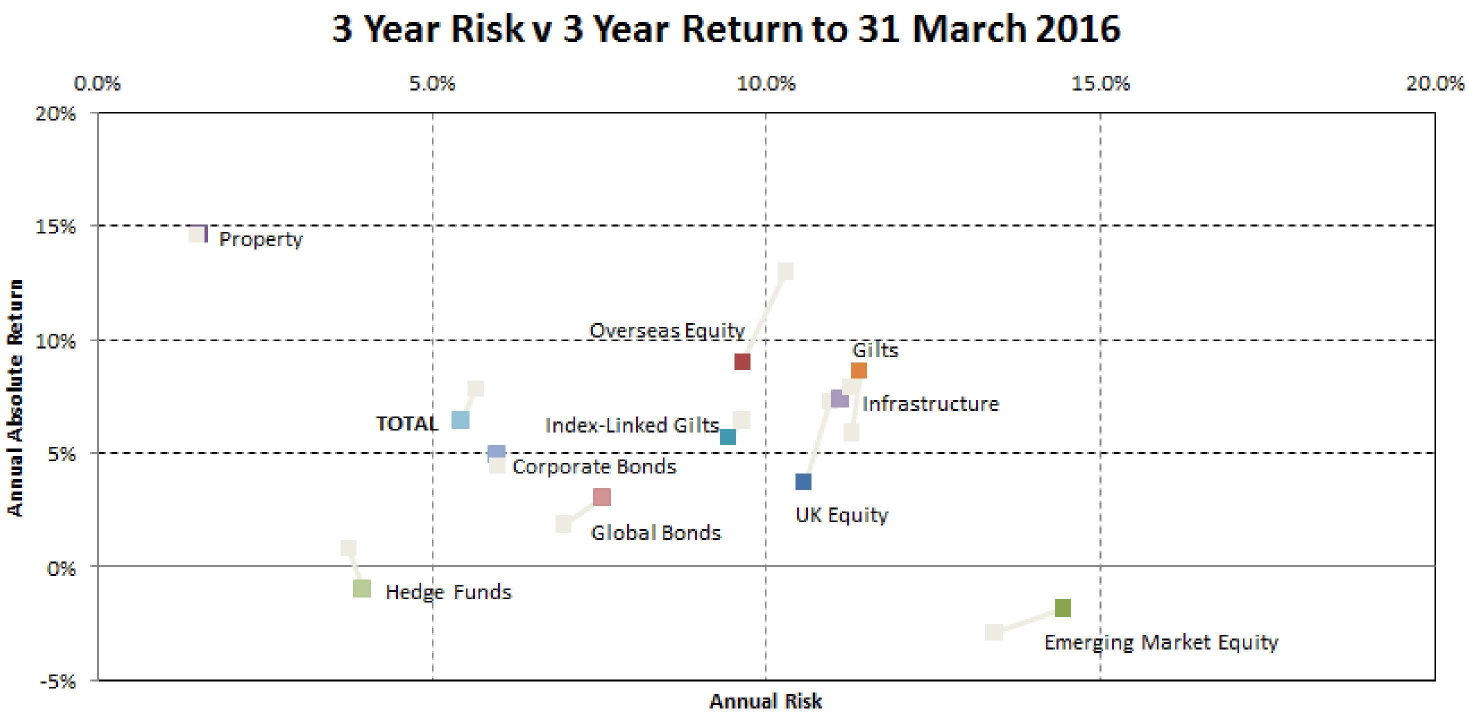
Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
MAN	Fund of Hedge Funds	814	-	422	0.0	0.0
Signet	Fund of Hedge Funds	5,186	-	1,056*	0.1	0.0
Gottex	Fund of Hedge Funds	9,564	-6,453	3,542	0.3	0.1
JP Morgan	Fund of Hedge Funds	186,277	-	187,695	5.0	5.0
Schroder	UK Property	194,007	-	195,868	5.2	5.2
Partners	Property	151,610	-	171,992**	4.1	4.6
RLAM	Bonds	282,045	-	289,662	7.6	7.7
Record Currency Management	Currency Hedging	-17,595	23,000	-29,293	-0.5	-0.8
Internal Cash	Cash	52,377	131,747	167,927***	1.4	4.5
Total		**3,705,031**	**0**	**3,741,775**	**100.0**	**100.0**

Source: WM Services, Avon. Totals may not sum due to rounding.
* Change in valuation methodology from using Net Asset Value to listed price
** Estimated value.
*** Includes £136m to be transferred into the IFM infrastructure fund on 1 April.

SECTION 5

PERFORMANCE SUMMARY

MANAGER MONITORING
RISK RETURN ANALYSIS



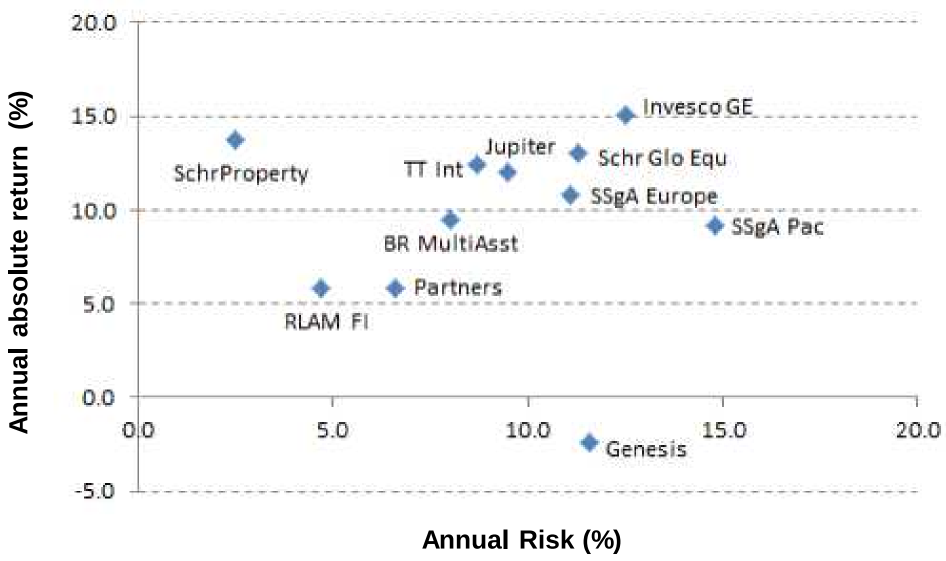
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2016, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from WM Services). We also show the positions as at last quarter, in grey.

Comments

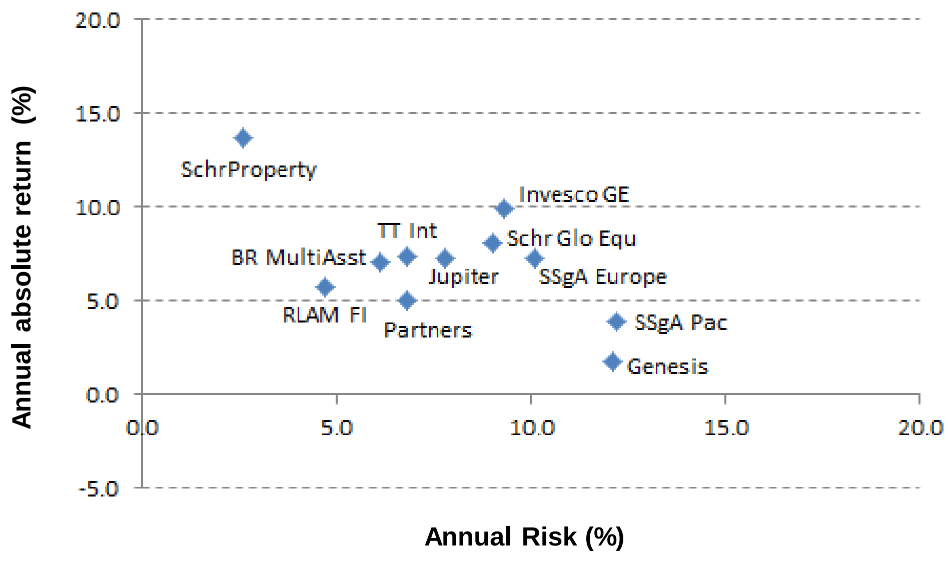
- *There were limited shifts in observed returns and volatilities over the quarter, the most significant being in equities (as a result of lower returns in Q1 2016 than in Q1 2013). Whilst UK and overseas equities saw a decrease in returns and volatility, emerging markets equities moved in the opposite direction.*

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 31 December 2015



3 year Risk vs 3 year Return to 31 March 2016



Comments

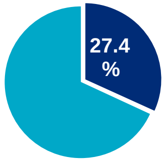
- *In general absolute returns and volatility of the funds decreased over the quarter, in particular for developed market equities (consistent with the picture seen on page 23).*

MANAGER MONITORING
MANAGER PERFORMANCE TO 31 MARCH 2016

Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Multi-Asset	3.7	3.8	-0.1	1.1	0.7	+0.4	7.3	6.9	+0.3	-	Target met
Jupiter	-1.2	-0.4	-0.8	-1.3	-3.9	+2.7	7.5	3.7	+3.7	+2	Target met
TT International	-2.0	-0.4	-1.6	3.4	-3.9	+7.6	7.3	4.5	+2.7	+3-4	Target not met
Schroder Equity	0.1	2.9	-2.7	-1.5	-0.6	-0.9	8.3	8.5	-0.2	+4	Target not met
Genesis	9.3	8.4	+0.8	-6.4	-8.8	+2.6	-1.8	-2.4	+0.6	-	Target met
Unigestion	7.1	8.4	-1.2	-7.1	-9.1	+2.2	N/A	N/A	N/A	+2-4	N/A
Invesco	1.9	2.4	-0.5	-0.6	0.2	-0.8	9.9	9.4	+0.5	+0.5	Target met
SSgA Europe	0.2	0.0	+0.2	-3.9	-5.0	+1.2	7.4	6.6	+0.7	+0.5	Target met
SSgA Pacific	-0.2	-0.5	+0.3	-4.0	-4.4	+0.4	4.0	3.3	+0.7	+0.5	Target met
Pyrford	2.6	1.4	+1.1	1.8	6.6	-4.5	N/A	N/A	N/A	-	N/A
Standard Life	-3.3	1.4	-4.6	-4.5	5.6	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	0.6	0.9	-0.3	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	1.2	1.1	+0.1	10.6	10.6	0.0	13.6	13.0	+0.5	+1	Target not met
Partners Property	2.9	1.1	+1.8	4.5	8.6	-3.8	6.5	11.6	-4.5	+2	Target not met
RLAM	2.7	3.2	-0.5	0.4	0.4	0.0	5.8	4.9	+0.9	+0.8	Target met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.4	0.0	-	N/A

Source: WM Services, Avon, Mercer estimates.
In the relative performance columns, 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).
A summary of the benchmarks for each of the mandates is given in Appendix 1.

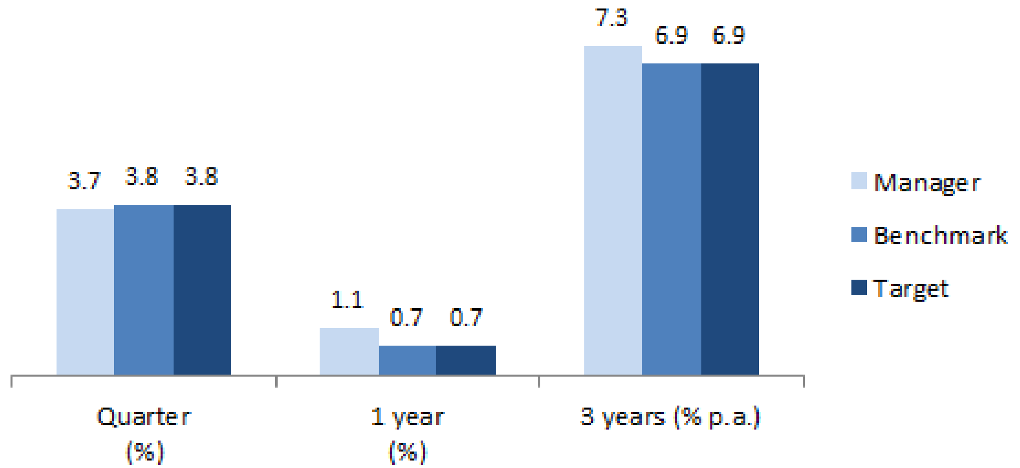
SECTION 6
MANAGER PERFORMANCE



BLACKROCK – PASSIVE MULTI-ASSET (POOLED EQUITIES, SEGREGATED BONDS)
£1,025.6M END VALUE *(£1,133.4M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	A (no change over period under review). ESGp2 for equities
Performance Objective *In line with the benchmark*	●	Outperformed benchmark by 0.3% p.a. over three years

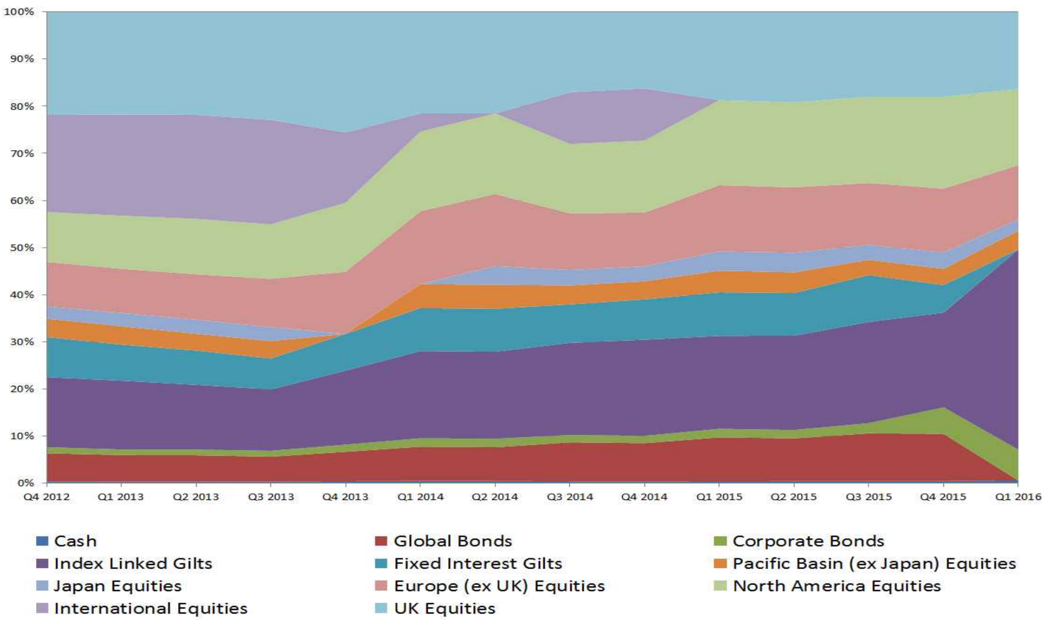
Performance



Manager Research and Developments

- Returns have been in line with the benchmark over the quarter, which is expected for a passive mandate with a benchmark based on monthly mean fund weights.
- Fixed interest gilts and overseas government bonds were fully transitioned to index-linked gilts over the quarter.
- In addition, on 24 March, £146m ($195m) was disinvested from developed equities with BlackRock to fund the IFM infrastructure mandate.
- We have been informed by BlackRock that Amy Schioldager, Senior Managing Director and Global Head of Beta Strategies is to retire in 12 months, after being with the firm for 26 years. Schioldager leads the team managing BlackRock's index strategies as well as iShares ETFs. BlackRock have confirmed that they will be disclosing the specifics of their plans as Schioldager's retirement date approaches. We do not propose any changes to the ratings of BlackRock's passive products as a result.

Asset Allocation

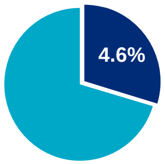


Reason for investment

To provide asset growth as part of a diversified portfolio

Reason for manager

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



JUPITER ASSET MANAGEMENT – UK EQUITIES (SRI) (SEGREGATED)
£173.9M END VALUE *(£176.1M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG2 – see below.
Performance Objective *Benchmark +2% p.a.*	Outperformed benchmark by 3.7% p.a. over three years
Tracking error was 3.6% p.a. (Q4: 3.6%) – *source: Jupiter*	Number of stocks: 57

Manager Research and Developments

- The fund outperformed its target over the year and three year periods, but underperformed the benchmark over the quarter.
- The underperformance was a reflection of the underweight positions in the resources sector. The period's strongest sectors were Oil & Gas and Basic Materials (the latter to a large extent driven by the mining subsector) as sentiment towards the oil and broader commodity markets improved.
- Our researchers met with Jupiter in February 2016 to discuss ESG issues for the Jupiter Responsible Income Fund (the pooled vehicle managed by Charlie Thomas which is most similar to the Fund’s segregated mandate). We regard a rating of ESG2 as appropriate for the strategy. The portfolio is constructed with strong reference to ESG issues as drivers of investment opportunities have been made. Changes to the overall ESG processes within the organisation have increased oversight and generated heightened consideration of ESG issues across the product range. Active ownership for the strategy remains well organised. However we do feel the core Environment and Sustainability Investment Team is small compared to their peers. While we now have more confidence in the robustness of the ESG processes, we will continue to monitor as part of our regular review processes.

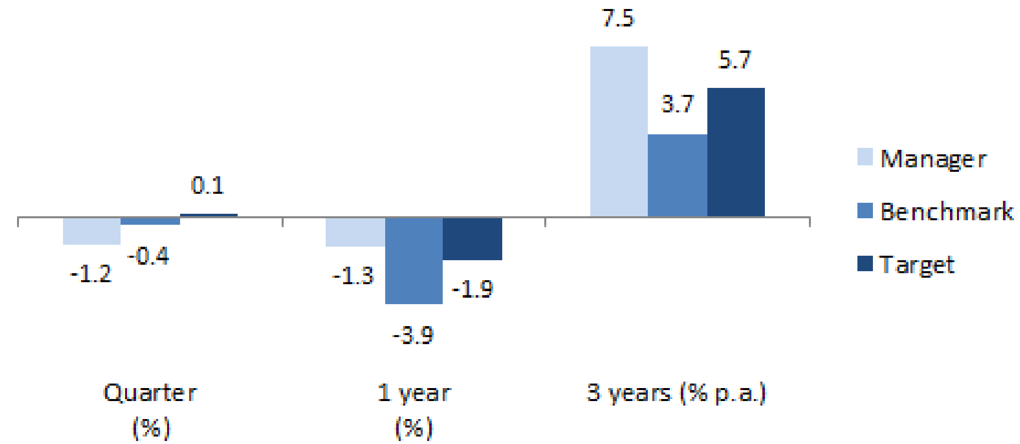
Reason for investment

To provide asset growth as part of a diversified equity portfolio and to provide a specific SRI allocation

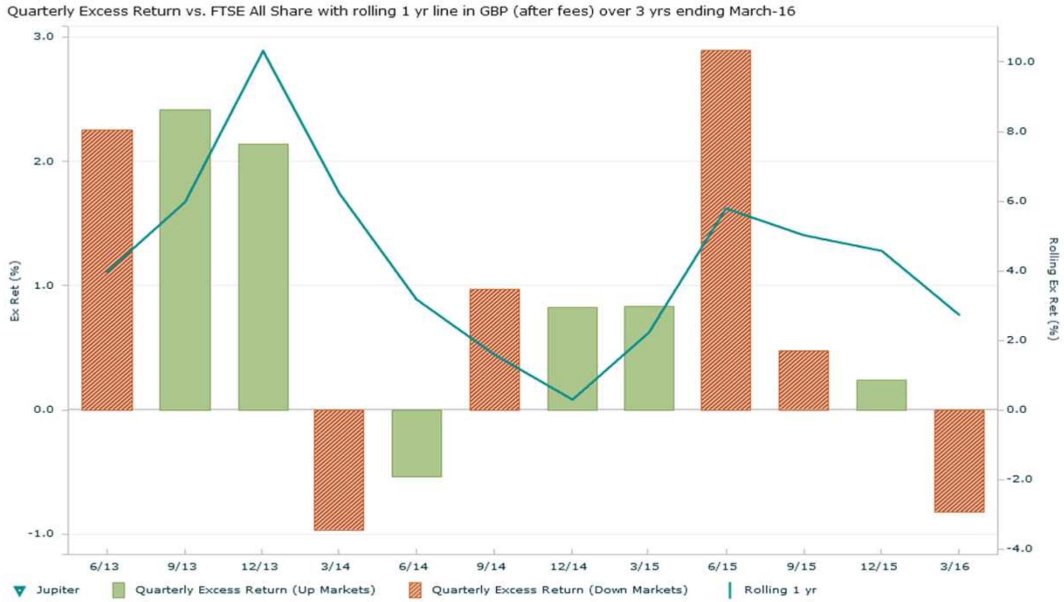
Reason for manager

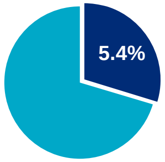
- Clear and robust approach to evaluating SRI factors within the investment process
- Dedicated team of SRI analysts to research SRI issues and lead engagement and voting activities
- Corporate commitment to SRI investment approach within a more mainstream investment team

Performance



Rolling relative returns





TT INTERNATIONAL – UK EQUITIES (UNCONSTRAINED) (SEGREGATED)
£202.0M END VALUE *(£206.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B (no change over period under review). ESG3
Performance Objective *Benchmark +3-4% p.a.*	Outperformed benchmark by 2.7% p.a. over three years
Three year tracking error was 4.4% p.a. – *source: Mercer*	Number of stocks: 46

Manager Research and Developments

- TT have underperformed their benchmark by 1.6% over the quarter, but significantly outperformed by 7.6% over the year to 31 March 2016.
- This underperformance over the quarter was largely due to stock selection in the Financials and Industrials sectors (detracting 1.5% from returns in total).
- In terms of sector positioning, TT gained from being underweight Financials.
- Turnover increased from 23.7% in Q4 to 30.5% in Q1 2016 while the three year tracking error (a proxy for risk relative to benchmark) rose from 4.1% to 4.4%.
- Three-year information ratios have decreased over the quarter.
- Assets under management in TT's UK equity strategies decreased over the quarter to c. £516m in light of negative returns; this consists of the assets of TT's pooled fund, and three segregated accounts (one of which being the Fund's holdings). This compares to £526m in December 2015, £496m in March 2015 and £574m in March 2013). A significant portion (c.40%) of the firm's UK equity assets are managed on behalf of the Fund.
- Our researchers met with TT in February 2016 and no change to the strategy rating was recommended. We acknowledge their strong performance, but our researcher continue to believe that a 'B' rating is appropriate for the strategy as we cannot identity any strong discernable edge over other strategies.

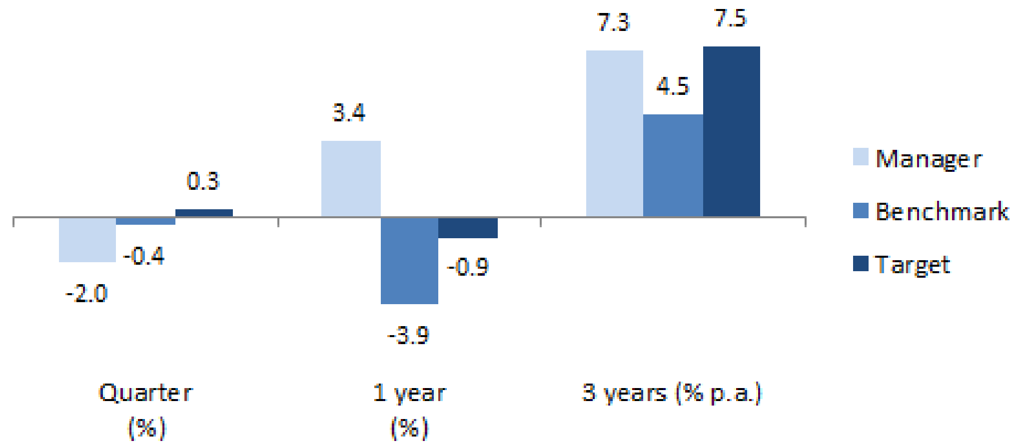
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

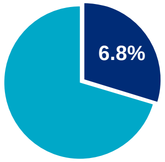
- Favoured the partnership structure that aligns manager's and Fund's interests
- Focussed investment activity and manages its capacity
- Clear, robust stock selection and portfolio construction

Performance



Rolling relative returns

Quarterly Excess Return vs. FTSE All Share with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-16



SCHRODER – GLOBAL EQUITY PORTFOLIO (SEGREGATED)
£253.8M END VALUE *(£253.2M START VALUE)*

Item Monitored		Outcome
Mercer Rating	🟢	B+ (no change over period under review). ESG2
Performance Objective *Benchmark +4% p.a.*	🔴	Underperformed benchmark by 0.2% p.a. over three years

Three year tracking error was 2.7% p.a. – *source: Mercer*

Manager Research and Developments

- The fund has significantly underperformed the benchmark over the quarter, largely through stock selection in financials (which detracted -1.1%) and industrials (-1.0%).
- The portfolio's growth bias weighed on performance over the quarter as the market rally in the second half of the quarter was driven by lower quality, cyclical companies. Stock selection in the US was particularly unfavourable.
- The largest detractor over the quarter was Citigroup. Holdings in the bank sector weighed on returns amid concerns about the sector's exposure to the energy sector and the impact of interest rates staying "lower for longer" in major economies.
- Three year tracking error increased from 2.1% to 2.7% p.a. since last quarter.
- Schroders have announced some widely anticipated management changes. Michael Dobson is to step down as CEO and will be replaced by Peter Harrison. Dobson will take on the role of Chairman which is surprising as we had expected a clean break in terms of management change. In practice we anticipate that Harrison will have control over any changes he deems necessary. There has been no change to the portfolio management team., and we do not propose any changes to the strategy's ratings. Nonetheless, we note that this move goes against current views on best corporate governance practice.

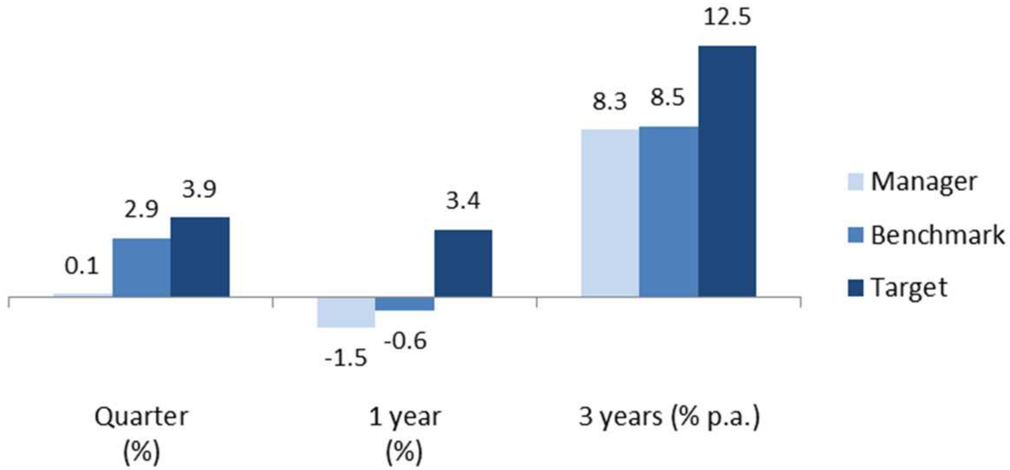
Reason for investment

To provide asset growth as part of a diversified equity portfolio

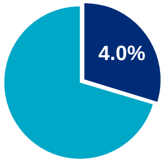
Reason for manager

- 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



GENESIS ASSET MANAGERS – EMERGING MARKET EQUITIES (POOLED)
£149.2M END VALUE *(£136.4M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	A (no change over period under review). ESG3
Performance Objective *Benchmark*	●	Outperformed benchmark by 0.6% p.a. over three years
Three year tracking error was 3.5% p.a. (Q4: 3.5%) – *source: Genesis*		Number of stocks: 151

Manager Research and Developments

- The fund has outperformed its benchmark over the quarter. China was by the biggest contributor to relative performance, as an underweight meant that there was less exposure to the market's 5% fall. Further relative gains were made in South Africa and Thailand.
- Some relative performance was lost through poor stock picking in Nigeria and South Korea and from being underweight in Malaysia and Brazil.
- The biggest contributor was Anglo American from South Africa whilst the biggest detractor was Lupin from India. Turnover over the quarter was 21%.
- The portfolio one-year returns are 2.6% above benchmark, and three year returns are 0.6% ahead.
- Our researchers met with Genesis in April 2016 and no change to the strategy rating is recommended.

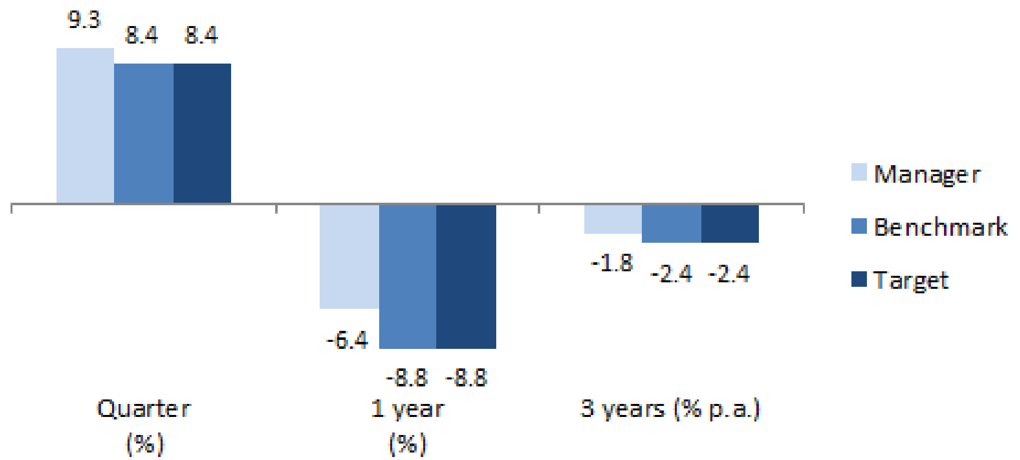
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

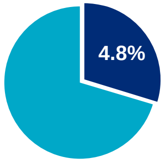
- Long term investment approach which takes advantage of evolving growth opportunities
- Niche and focussed expertise in emerging markets
- Partnership structure aligned to delivering performance rather than growing assets under management

Performance



Rolling relative returns

Quarterly Excess Return vs. MSCI EM with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-16



UNIGESTION – EMERGING MARKET EQUITIES (POOLED – SUB-FUND)
£178.1M END VALUE *(£166.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +2-4% p.a.*	Outperformed benchmark by 2.2% over the year
Tracking error since inception was 7.4% p.a. – *source: Unigestion*	Number of stocks: 102

Manager Research and Developments

- The fund has underperformed by 1.2% over the quarter but outperformed by 2.2% over the year to 31 March 2016.
- This underperformance over the quarter largely occurred in March, where the fund returned 6.1% against a benchmark return of 9.8%. This largely came from the negative selection effect in Food, Materials and Banks and from the asset allocation, with an overweight in Telecommunication and underweight in Energy and Banks.
- From a geographical point of view, the underweight to Brazil and South Africa was detrimental to relative performance, as both countries were among the best performers in Emerging Markets.
- Volatility since inception is 16.3%, lower than the index (at 18.9%) and consistent with their objectives (and the strategy's bias towards quality and large- or mega-cap stocks).

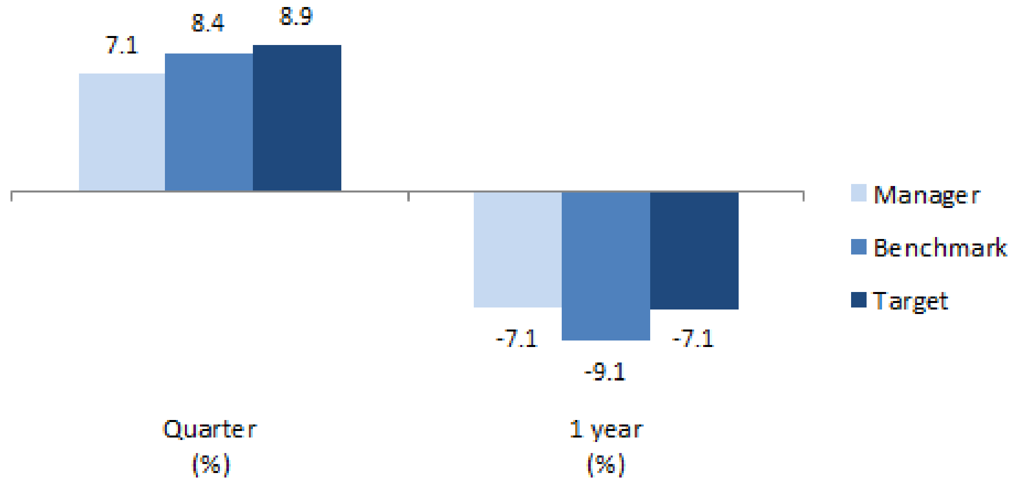
Reason for investment

To provide asset growth as part of a diversified equity portfolio

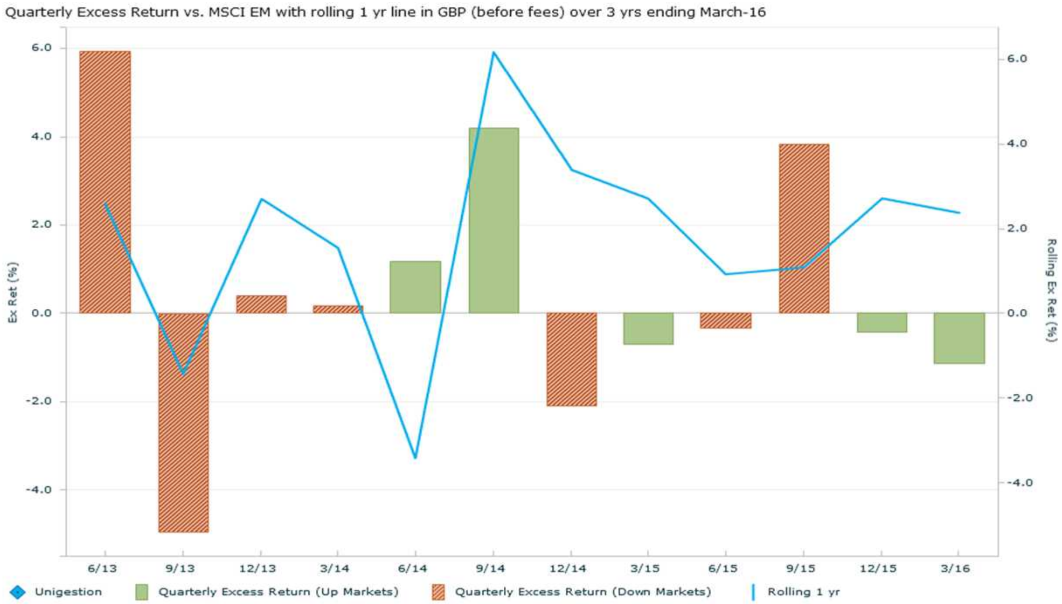
Reason for manager

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

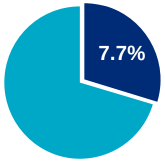
Performance



Rolling relative returns



Note: Chart is pooled fund performance, gross of fees



INVESCO – GLOBAL EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£289.7M END VALUE *(£284.4M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review). ESG4
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: 454 (up from 432)

Manager Research and Developments

- The fund has underperformed its benchmark by 0.5% over the last quarter (with stock selection the largest negative impact on relative performance); nonetheless it met its outperformance target over 3 years (source: Invesco). Beta remains near to one, as expected.
- All sector and country allocations were within +/- 1.0% of benchmark weightings, in line with general expectations for an enhanced indexation product.

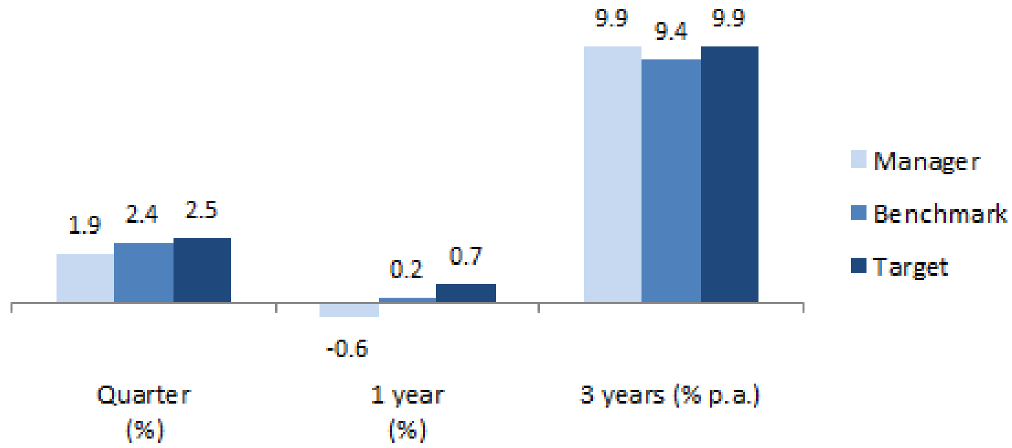
Reason for investment

To provide asset growth as part of a diversified equity portfolio

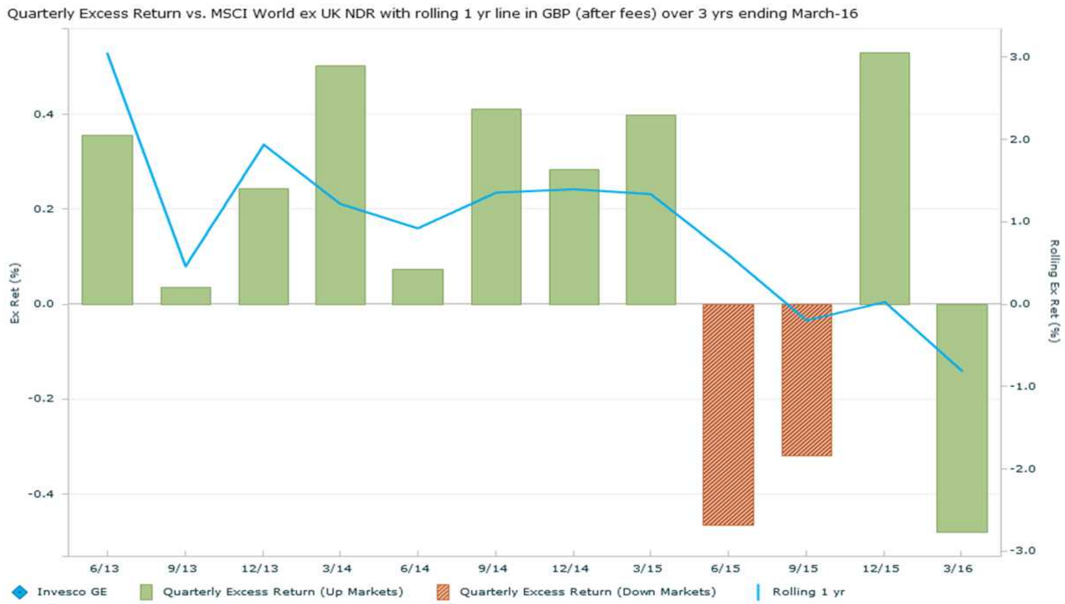
Reason for manager

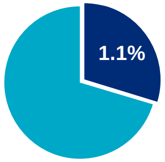
- Robust investment process supported by historical performance record, providing a high level of assurance that the process could generate the outperformance target on a consistent basis
- One of few to offer a Global ex UK pooled fund

Performance



Rolling relative returns





SSGA – EUROPE EX-UK EQUITIES (ENHANCED INDEXATION) (POOLED)
£42.6M END VALUE *(£42.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.7% p.a. over three years
Three year tracking error was 0.9% p.a. – *source: Mercer*	Number of stocks: 215

Manager Research and Developments

- The fund outperformed its performance target over the three year period.
- The total pooled fund size on 31 March 2016 was £42.7m. 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 215 out of 392 stocks in the index, around 55%, within the expected range of 35-65%. Beta over three years is as expected at around 1.
- SSgA have announced its intention to acquire GE Asset Management (GEAM) for up to $485 million in a transaction expected to close during Q3 2016. We believe the GEAM product offering does not overlap with any SSgA strategies and the acquisition of GEAM is largely complimentary to SSgA's core business of passive equity. We believe SSgA has the size and scale to quickly and efficiently integrate GEAM's AUM and employees. We are maintaining our existing ratings on all SSgA strategies (when applicable).

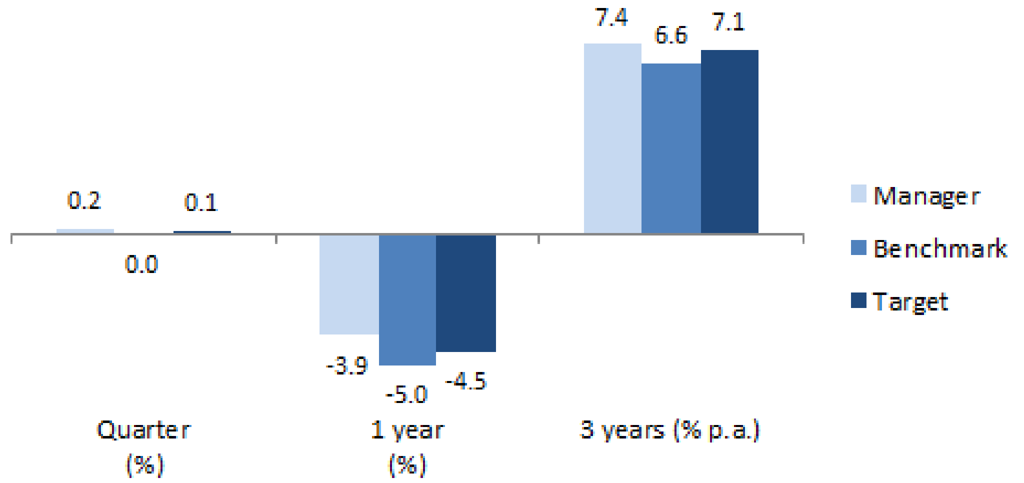
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

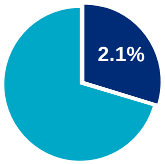
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

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 March-16



SSGA – PACIFIC INC. JAPAN EQUITIES (ENHANCED INDEXATION) (POOLED)

£77.2M END VALUE *(£77.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *Benchmark +0.5% p.a.*	Outperformed benchmark by 0.7% p.a. over three years
Three year tracking error was 0.8% p.a. – *source: Mercer*	Number of stocks: 395

Manager Research and Developments

- The fund outperformed its performance target over the three year period.
- The total pooled fund size on 31 March 2016 was £77.2m. 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).
- SSgA have announced its intention to acquire GE Asset Management. See page 34 for details.

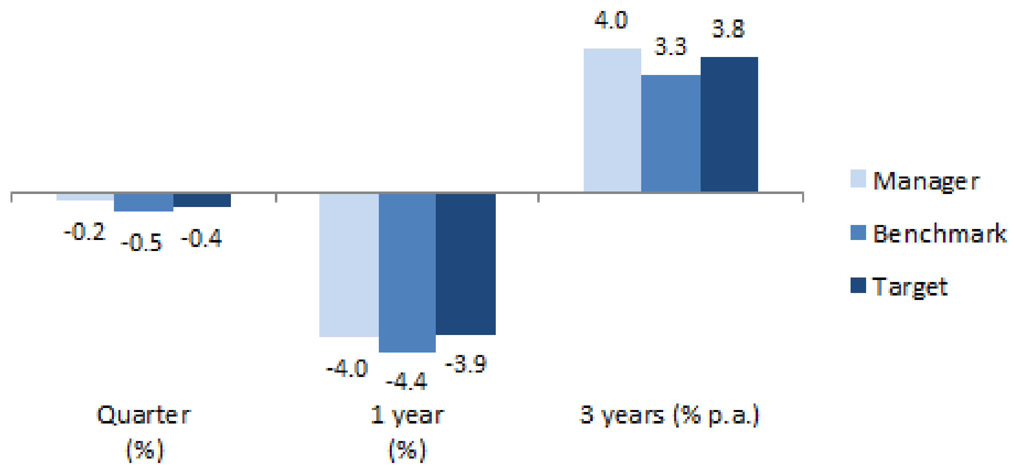
Reason for investment

To provide asset growth as part of a diversified equity portfolio

Reason for manager

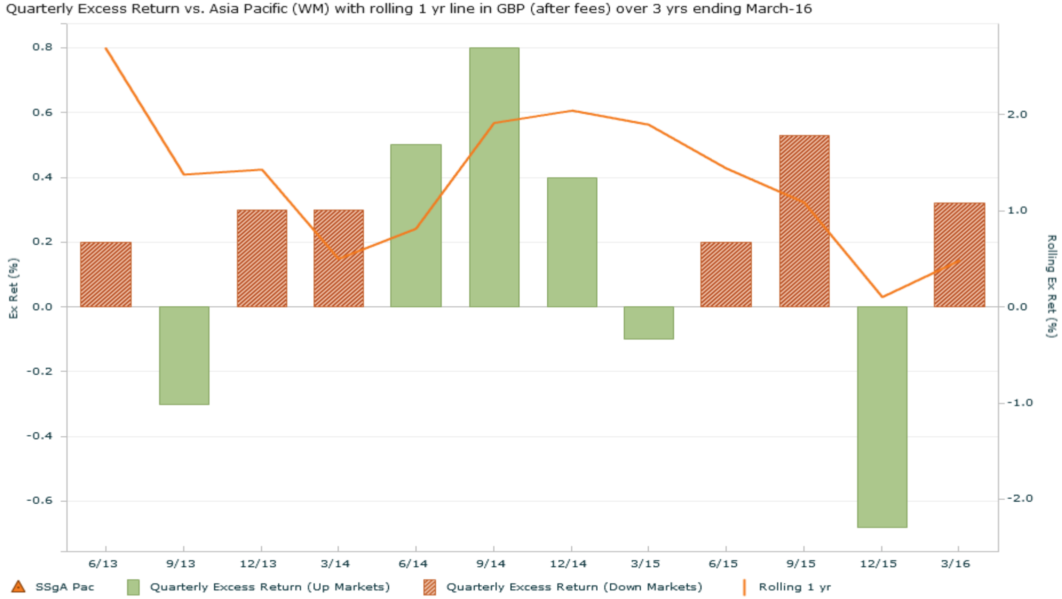
- Strength of their quantitative model and process, and ongoing research to develop the model
- Historic performance met the risk return parameters the Fund was seeking
- Two Funds (European and Pacific) to achieve the Fund's customised asset allocation within overseas equities

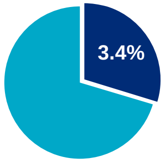
Performance



Rolling relative returns

Quarterly Excess Return vs. Asia Pacific (WM) with rolling 1 yr line in GBP (after fees) over 3 yrs ending March-16





PYRFORD – DGF (POOLED)
£126.9M END VALUE *(£123.8M START VALUE)*

Item Monitored	Outcome
Mercer Rating	R (no change over period under review)
Performance Objective *RPI +5% p.a.*	Underperformed benchmark by 4.5% p.a. over one year

Manager Research and Developments

- The fund has outperformed its performance objective (RPI + 5% p.a.) over the quarter by 1.1% but significantly underperformed over the year by 4.5%.
- During the first quarter Pyrford made the decision to increase its equity allocation by 5%. This decision was made by Pyrford's Investment Strategy Committee in light of sharp falls in equity markets. The target allocation is now 35% in equities, 62% in fixed income and 3% in cash.
- Performance in Q1 was above benchmark, with a return of 2.6%. The defensive positioning with only 30% in equities at the start of the quarter aided performance, as did the equity holdings which were defensive themselves.
- 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 1.3 years.

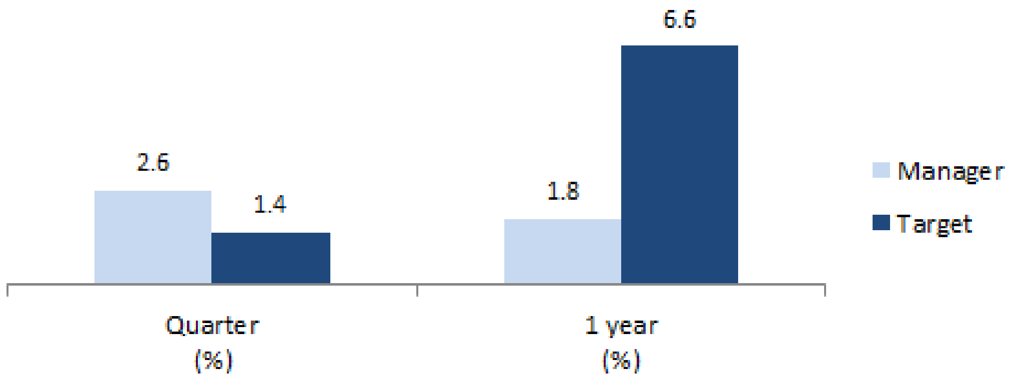
Reason for investment

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

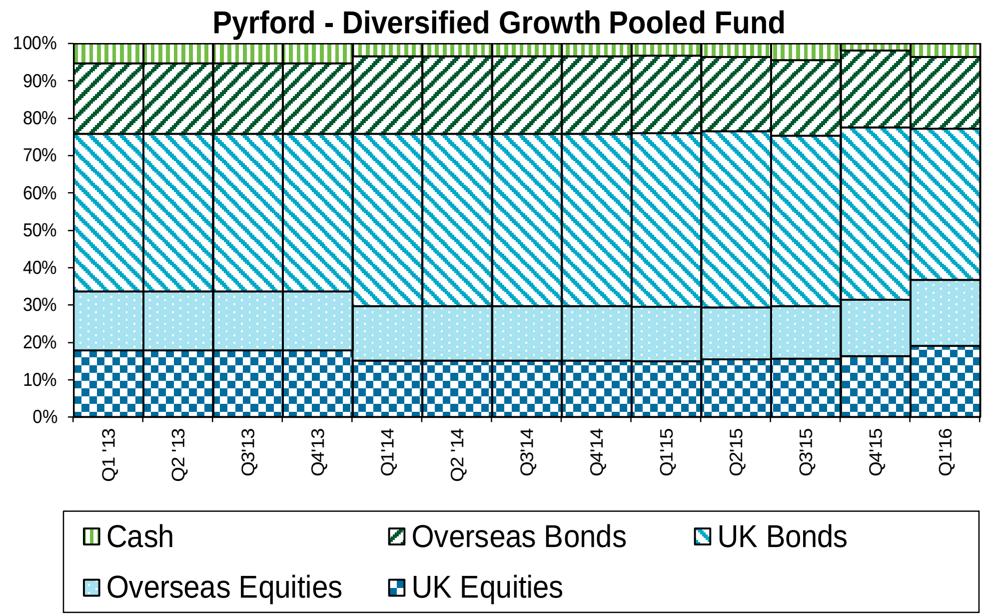
Reason for manager

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

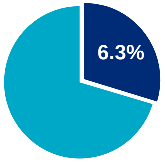
Performance



Asset Allocation



Annual data prior to Q1 2015.



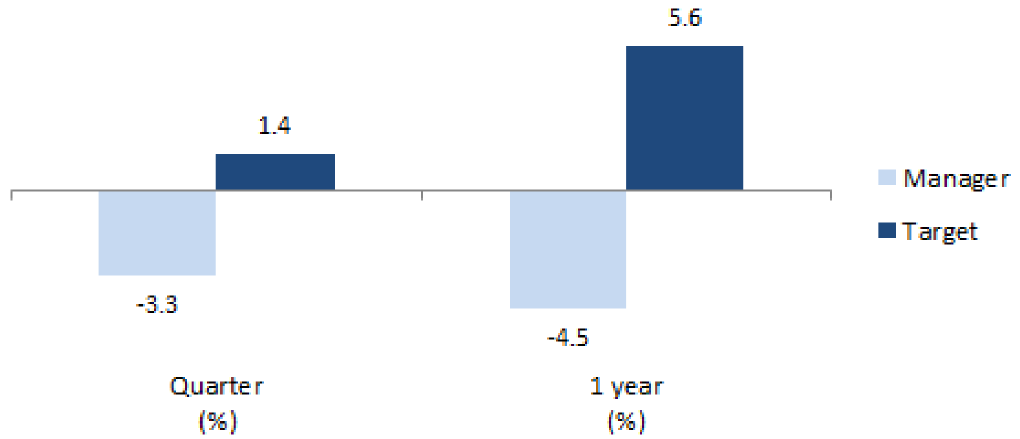
STANDARD LIFE – DGF (POOLED)
£234.0M END VALUE *(£241.5M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *Cash +5% p.a.*	●	Underperformed benchmark by 9.6% p.a. over the year

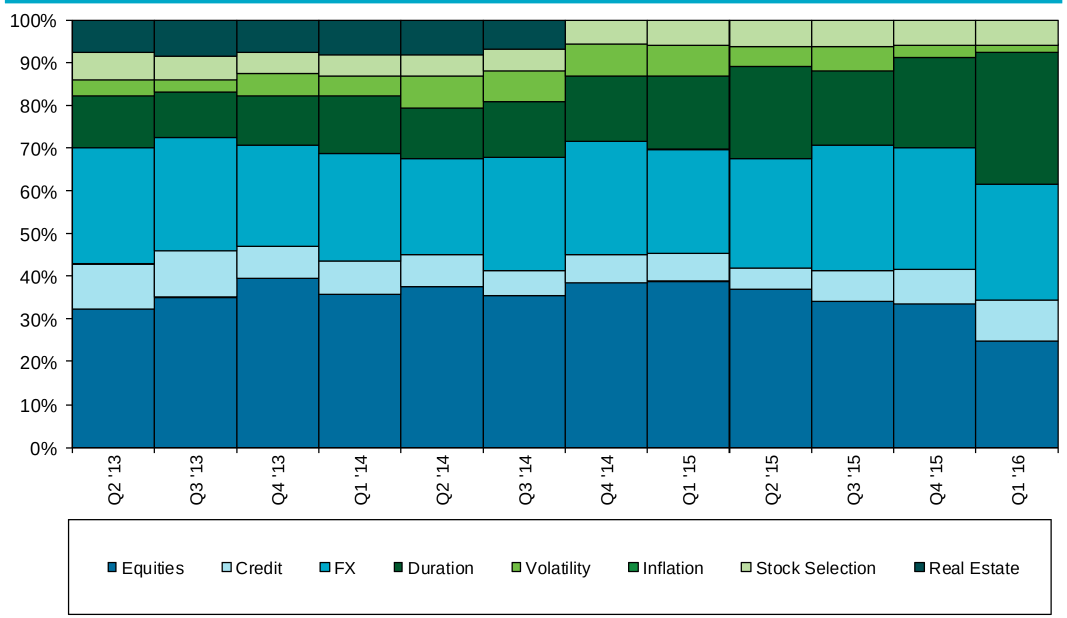
Manager Research and Developments

- Over the quarter the fund returned -3.3% against a benchmark of 1.4%, and returned -4.5% against a benchmark of 5.6% over the year.
- Performance suffered in the quarter as the portfolio was positioned to benefit from continued positive economic data from the US, which did not transpire in practice. This affected the US Dollar and the expected path of interest rates.
- Long position in European and Japanese equities also detracted from performance.
- In response to weak performance, the manager has reduced the short duration strategy and closed their Mexica Peso vs Australian Dollar position.

Performance



Asset Allocation/Risk Exposure



Reason for investment

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

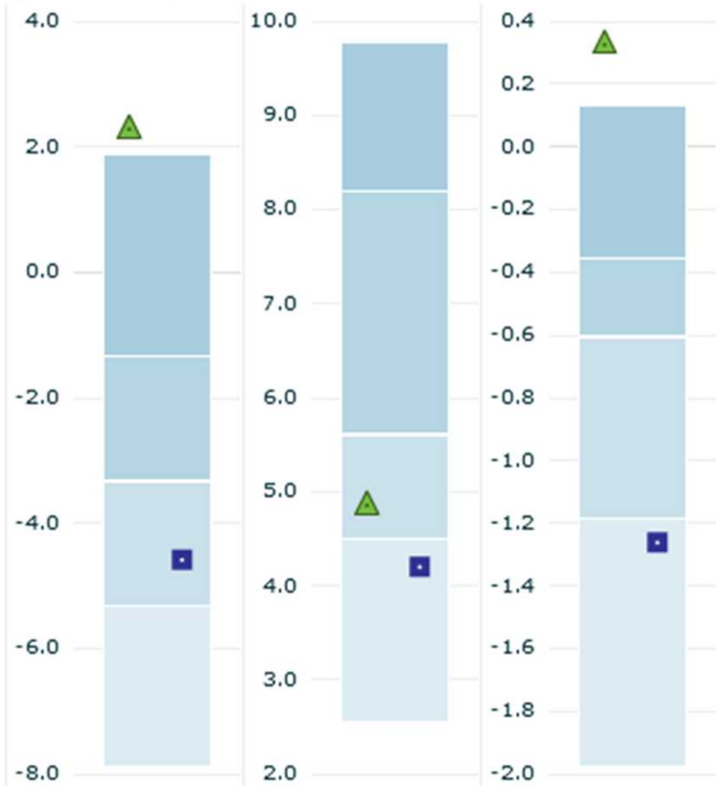
Reason for manager

- Diversification from equities
- Exposure to relative value strategies and different approach to Pyrford's largely static asset allocation investment strategy

DGF MANDATES

Performance characteristics vs. BofAML LIBOR 6 month average UK in GBP (after fees) over 1 yr ending March-16

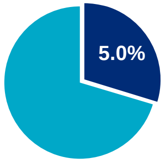
Comparison with the International Multi-Asset GBP (Net) universe (Actual Ranking) (quarterly calculations)



	Ret (%)	Std Dev (%)	IR
Pyrford DGF	2.3 *(3)*	4.9 *(28)*	0.3 *(2)*
SLI GARS	-4.6 *(29)*	4.2 *(37)*	-1.3 *(34)*
95th Percentile	1.9	9.8	0.1
Upper Quartile	-1.3	8.2	-0.4
Median	-3.3	5.6	-0.6
Lower Quartile	-5.3	4.5	-1.2
5th Percentile	-7.9	2.5	-2.0
Number	43	43	43

Commentary

- Over the year to 31 March 2016, the Standard Life GARS pooled fund significantly underperformed Pyrford by 6.9%.
- This placed Pyrford above the 95th percentile of the DGF universe for performance. On the other hand, Standard Life was below the median manager of the universe. It should be noted that this universe is very diverse in styles.
- This was achieved whilst taking relatively similar levels of risk, with Pyrford's volatility standing at 4.9% against Standard Life's 4.2%.
- Both managers were below the median for risk, meaning they took less risk than most managers in the universe.
- As a result, the information ratio (a measure of risk adjusted returns) for Pyrford was in the top of the universe and for Standard Life was in the lower quartile.
- 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.
- The information ratio (IR) measures the amount of 'information' that the manager can extract from the market. Expressed in another way this is the amount of excess return generated per unit of risk or tracking error added. The IR is therefore a measure of the skill of the manager. If the IR is large and it is measured over a reasonable period of time, then this is an indication that the manager has some skill in managing money. Mercer defines the IR as the annualised excess return divided by the annualised tracking error.



JP MORGAN – FUND OF HEDGE FUNDS
£187.7M END VALUE *(£186.3M START VALUE)*

Item Monitored	Outcome
Mercer Rating	B+ (no change over period under review)
Performance Objective *Cash +3% p.a.*	Underperformed benchmark by 0.3% p.a. over the quarter
Item	
Number of funds	33
Strategy	**Contribution to Performance over the Quarter in USD (%)**
Relative Value	-0.09
Opportunistic/Macro	-0.15
Long/Short Equities	-1.07
Merger Arbitrage/Event Driven	-0.38
Credit	0.00
Total	**-1.87 (including cash and fees)**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

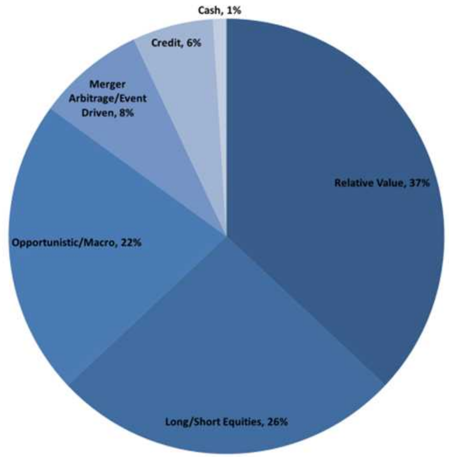
Reason for manager

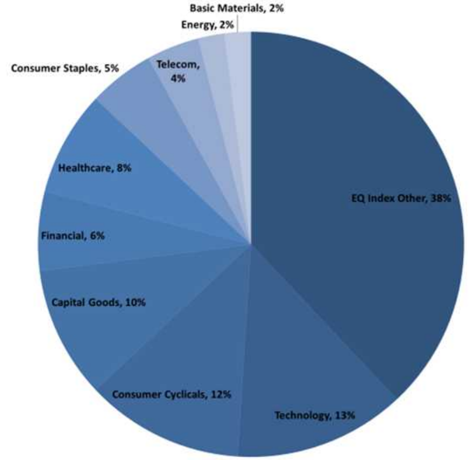
- Niche market neutral investment strategy
- Established team with strong track record
- Complemented other funds in the portfolio

Performance (GBP, JP Morgan return converted from USD)

Last Quarter	0.6%	Benchmark	0.9%

Portfolio Composition and Equity Sector Allocation





Source: JP Morgan.
As at 31 March 2016.

HEDGE FUND COMMENTARY – Q1 2016

- Hedge funds broadly produced negative returns in the first quarter of 2016. The HFRI index returned -2.8%, the HFRX index returned -1.9% and the Dow Jones Credit Suisse Hedge Fund Index declined 2.2% (USD returns).
- The first quarter of 2016 was a tale of two halves for risky assets with many broad markets still managing to finish Q1 in the black despite the volatility. While hedge funds generally protected capital during the sell-off, a broad reduction in risk levels and a subsequent short-covering rally limited hedge funds' participation in the market's turnaround. As a result, hedge funds collectively misfired to open the new year.
- The hedge fund industry contracted, ending the quarter at $2.86 trillion in assets. Investors pulled $15 billion from hedge funds in Q1, marking the largest net redemptions since 2Q09 and the 2nd consecutive quarterly outflow from the space.
- While successive redemptions is notable, Q1 redemptions represent just a fraction (less than 1%) of industry assets. Ultimately, we view a small "culling" of the industry to be healthy and a net benefit to the opportunity set for hedge fund investing.

Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC.

HEDGE FUND COMMENTARY – Q1 2016

Relative Value (37%)

- Fixed income and convertible arbitrage strategies declined 1.2% and 0.4%, respectively, during the quarter.
- Volatility across and within markets created a challenging environment for relative value managers broadly in Q1.
- Fixed income strategies suffered from instability in yield and spread trading, while convertibles declined slightly in light of tepid new issuance and general credit market and liquidity uncertainty.

Long/Short Equities (26%)

- Long/short equity declined 3.8% in Q1, while market neutral strategies finished the quarter down 0.4%.
- Long/short equity strategies performed quite poorly in Q1 given the modestly positive backdrop from directional exposure (global equities finished positive) and dispersion. Many managers were “whipsawed” during the period, as portfolios were de-risked during the sell-off early in the quarter and unable to benefit from the short-covering rally that followed. Security selection fundamentals were also relatively poor, as the correlations among stocks were elevated and overall market dispersion was modest, leading to poor results for many idiosyncratic long and short positions.

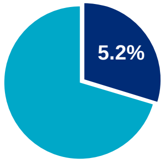
Opportunistic / Macro (22%)

- The broad global macro universe declined 2.2% during the quarter, while managed futures earned 4.3%. Macro strategies overall posted mixed results in Q1.
- Systematic strategies demonstrated particular strength during the sell-off, largely driven by a significant rally in rates as well as favorable positioning in FX and energy.
- Discretionary strategies broadly experienced slight declines, as many managers were caught off guard by the extent of the market’s reaction to China, concerns for a US recession, and subsequent USD weakness.

Merger Arbitrage / Event Driven (8%)

- The multi-strategy / event space continued to struggle, posting broad losses in Q1.
- Merger arbitrage strategies, however, held up relatively well. Global activity remained supportive for the strategy, with nearly $1 trillion in announced deals during the quarter, a year-over-year increase from Q1 2015.
- Outside of mergers, catalyst-oriented and distressed situations generally struggled, as a lack of deal progress, reduced credit market liquidity and energy-related exposure punished many portfolios. However, we did witness modest dispersion in manager results, with a number of stressed/distressed situations contributing meaningfully to results.

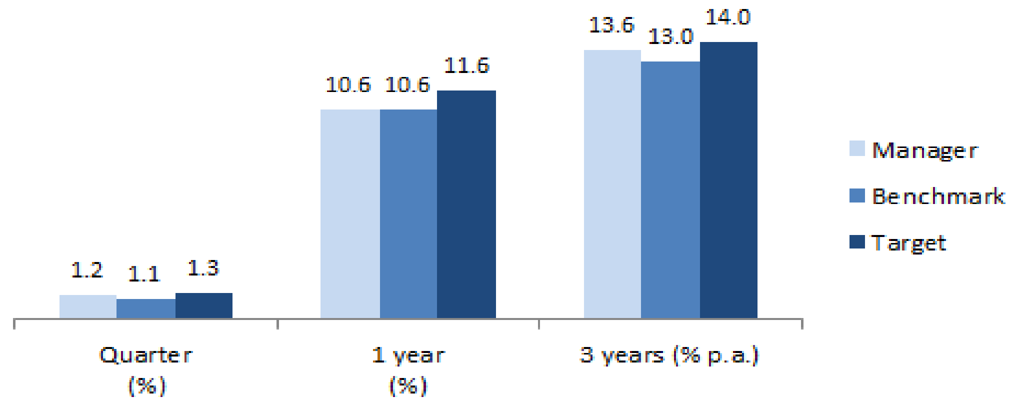
Returns are in USD. Source: Source: Credit Suisse Hedge Index LLC.



SCHRODER – UK PROPERTY FUND OF FUNDS
£195.9M END VALUE *(£194.0M START VALUE)*

Item Monitored	Outcome	
Mercer Rating	●	B (no change over period under review). ESG3
Performance Objective *Benchmark +1% p.a.*	●	Outperformed benchmark by 0.5% p.a. over three years

Performance



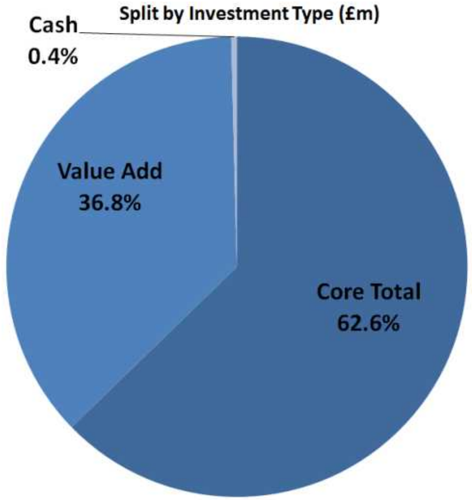
Manager Research and Developments

- The fund has outperformed the benchmark over the quarter by 0.1%, as core fund holdings have marginally outperformed the benchmark.
- Over the three year period, the fund has outperformed its benchmark by 0.5% p.a., largely due to strong performance from Value Add strategies, with holdings in central London offices and the industrial sector being the main positive drivers of returns.
- Purchases over the quarter, with c. £2.8m invested in total, include Metro Property Unit Trust (c. £1.4m), Schroder Real Estate Real Income Fund (c. £1.0m) and the Regional Office Property Unit Trust (c. £0.4m).

Top 5 Contributing and Detracting Funds over 12 Months

Manager and Investment type splits

Top 5 Holdings	Proportion of Total Fund (%)
L&G Managed Property Fund	12.9
BlackRock UK Property Fund	12.6
Industrial Property Investment Fund	11.4
Standard Life Pooled Pension Property Fund	9.9
Aviva Investors Pensions	9.4



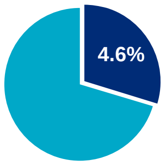
As at 31 March 2016

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



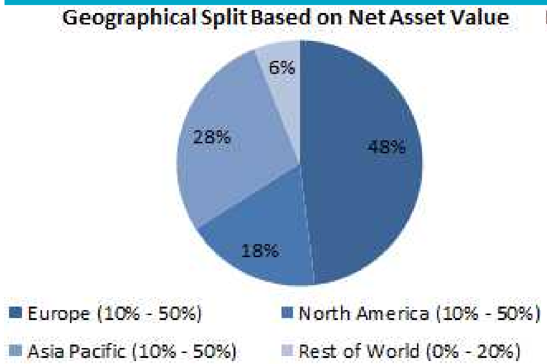
PARTNERS – OVERSEAS PROPERTY
£172.0M END VALUE *(£151.6M START VALUE)*

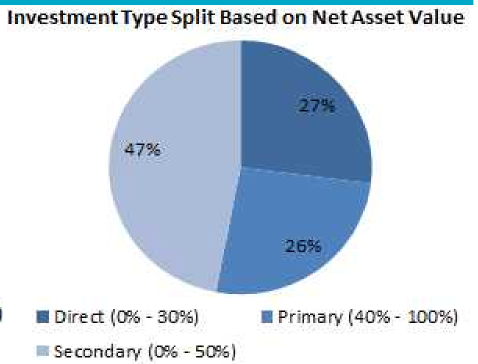
Item Monitored	Outcome	
Mercer Rating	●	B+ (no change over period under review). ESG4
Performance Objective *IRR of 10% p.a.*	●	IRR since inception to 31 December 2015 at 8.9% p.a. is below target of 10% p.a.

Manager Research and Developments

- The portfolio delivered a net return of 6.2% over Q4 2015 for USD programmes in local currency, and 1.4% for EUR programmes, versus the target of c. 2.5%.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 December 2015 at 8.9% p.a. (in local currency) is below their target of 10% p.a.; over the 12 months to 31 December 2015 IRR was 7.2% (I local currency terms).
- Over Q4, the allocation to Europe decreased (from 50% to 48%), with North America falling slightly (from 19% to 18%) and Asia Pacific increased (from 25% to 28%). These remain within the guidelines.
- Exposure to Secondary opportunities rose during the fourth quarter (from 44% to 47%), with Direct falling (from 30% to 27%) and Primary remaining at 26%. Primary exposure continues to be below the guidelines. Short-term deviation from the guidelines is expected whilst the amount drawn-down is below target.
- Note that Partners are rated B+ for global real estate, but A for secondary global real estate (as a result of their private equity skill set).

Geographical and Investment type splits as at 31 December 2015





Portfolio update as at 31 December 2015

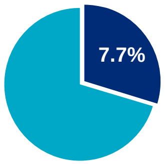
Partners Fund	Total Drawn Down (£m)	Total Distributions (£m)	Net Asset Value (£m)	Since Inception Net IRR
Global Real Estate 2008	31.66	17.45	20.71	7.5
Real Estate Secondary 2009	19.65	4.84	20.66	12.5
Asia Pacific and Emerging Market Real Estate 2009	17.71	8.71	12.32	4.2
Distressed US Real Estate 2009	14.74	13.75	7.56	9.4
Global Real Estate 2011	25.14	6.98	23.65	11.8
Direct Real Estate 2011	10.79	4.90	10.42	10.0
Real Estate Secondary 2013	6.70	0.36	8.53	30.0
Global Real Estate 2013	34.77	0.00	33.44	2.3
Real Estate Income 2014	13.26	0.46	12.67	2.1
Asia Pacific Real Estate 2016	3.33	0.00	5.31	55.4
Total	**177.74**	**57.45**	**155.27**	**8.9**

Reason for investment

To reduce volatility of the Growth portfolio and increase diversification

Reason for manager

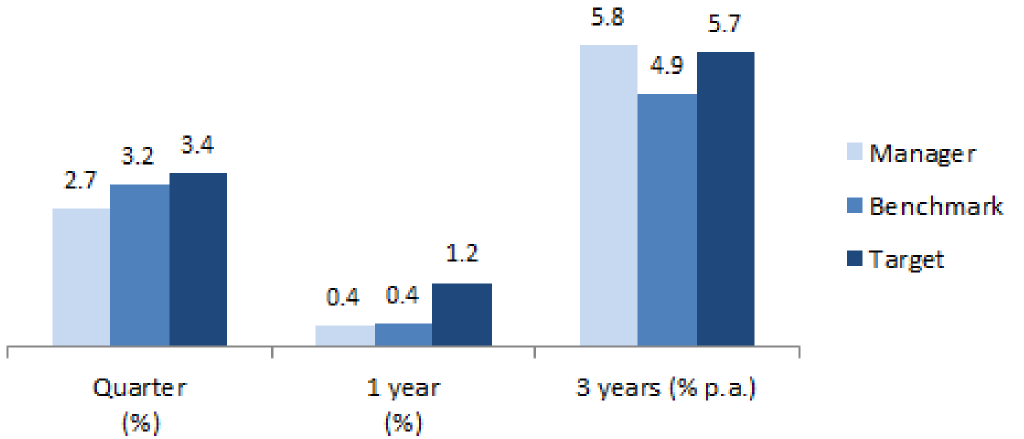
- Depth of experience in global property investment and the resources they committed globally to the asset class
- The preferred structure for the portfolio was via a bespoke fund of funds (or private account) so the investment could be more tailored to the Fund's requirements



ROYAL LONDON ASSET MANAGEMENT – FIXED INTEREST (POOLED)
£289.7M END VALUE *(£282.0M START VALUE)*

Item Monitored	Outcome
Mercer Rating	A (no change over period under review). ESG3
Performance Objective *Benchmark +0.8% p.a.*	Outperformed benchmark by 0.9% p.a. over three years

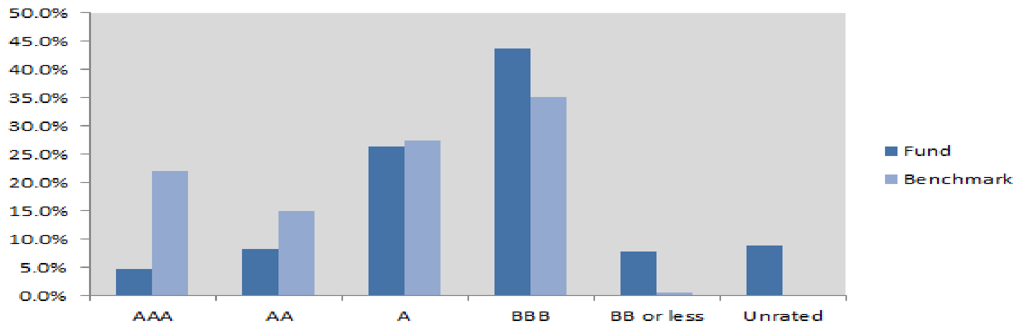
Performance



Manager Research and Developments

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

Credit Rating Allocation

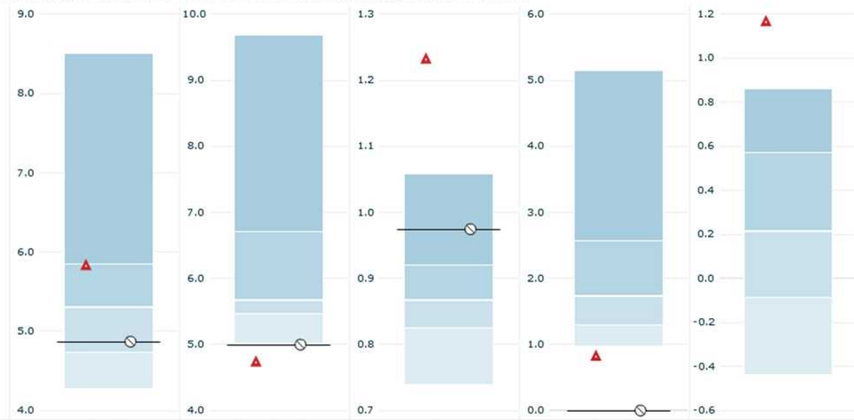


Weighted Duration	Start of Quarter	End of Quarter
Fund	*7.5*	*7.5*
Benchmark	*7.7*	*7.8*

Risk and Return relative to benchmark

Performance characteristics vs. Markit iBoxx Non Gilts Overall in GBP over 3 yrs ending March-16

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	5.8 *(8)*	4.7 *(28)*	1.2 *(1)*	0.8 *(28)*	1.2 *(2)*
IBNGO	4.9 *(21)*	5.0 *(27)*	1.0 *(7)*	0.0 *(29)*	-
95th Percentil	8.5	9.7	1.1	5.1	0.9
Upper Quartile	5.8	6.7	0.9	2.6	0.6
Median	5.3	5.7	0.9	1.7	0.2
Lower Quartile	4.7	5.5	0.8	1.3	-0.1
5th Percentile	4.3	5.0	0.7	1.0	-0.4
Number	28	28	28	28	28

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

RECORD – CURRENCY HEDGING (SEGREGATED)
-£29.3M END VALUE *(-£17.6M START VALUE)*

Item Monitored	Outcome
Mercer Rating	N (no change over period under review)
Performance Objective *N/A*	The three initiated hedging mandates have all slightly outperformed their informal benchmark returns over the quarter

Manager Research and Developments

Over the quarter, sterling depreciated against the US dollar, the euro and the yen as Brexit fears sparked investor concerns.

The passive funds include accounts to hedge 50% of the currency exposure on developed global equities (dollar, euro and yen), and 100% on the hedge fund and global property mandates.

Performance for each of these separate accounts is shown to the right; as expected, performance for the passive mandate has been broadly in line with the (informal) benchmark; where this differs from the movement in currency rates this relates to the timing of the implementation trades (2pm) and the currency rates quoted (4pm fix).

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

Currency Hedging Q1 2016 Performance (£ terms)

Passive Developed Equity Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	543,272,596	572,761,642	2.55%	(1.37%)	(1.33%)	1.33%
EUR	201,088,471	188,644,012	7.57%	(3.55%)	(3.52%)	3.89%
JPY	136,648,893	130,089,526	9.75%	(4.81%)	(4.68%)	5.13%
Total	**881,009,960**	**891,495,180**	**4.69%**	**(2.33%)**	**(2.28%)**	**2.43%**

Passive Hedge Fund Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	183,189,146	194,312,572	2.55%	(2.85%)	(2.73%)	(0.05%)
Total	**183,189,146**	**194,312,572**	**2.55%**	**(2.85%)**	**(2.73%)**	**(0.05%)**

Passive Property Hedge

Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	31,048,435	36,421,737	2.55%	(2.89%)	(2.75%)	0.04%
EUR	110,809,724	134,164,968	7.57%	(7.26%)	(7.18%)	(0.02%)
Total	**141,858,158**	**170,586,705**	**6.47%**	**(6.29%)**	**(6.19%)**	**(0.00%)**

APPENDIX 1
SUMMARY OF MANDATES

SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance target (p.a.)
BlackRock	Passive Multi-Asset	In line with customised benchmarks using monthly mean fund weights	-
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%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
JP Morgan	Fund of Hedge Funds	3 Month LIBOR +3% p.a.	-
Schroder	UK Property	IPD UK Pooled	+1%
Partners	Overseas Property	3 Month LIBOR +4% p.a.	-
Royal London Asset Management	UK Corporate Bonds	iBoxx £ Non-Gilts All Maturities	+0.8%
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 2

MARKET STATISTICS INDICES

MARKET STATISTICS INDICES

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

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

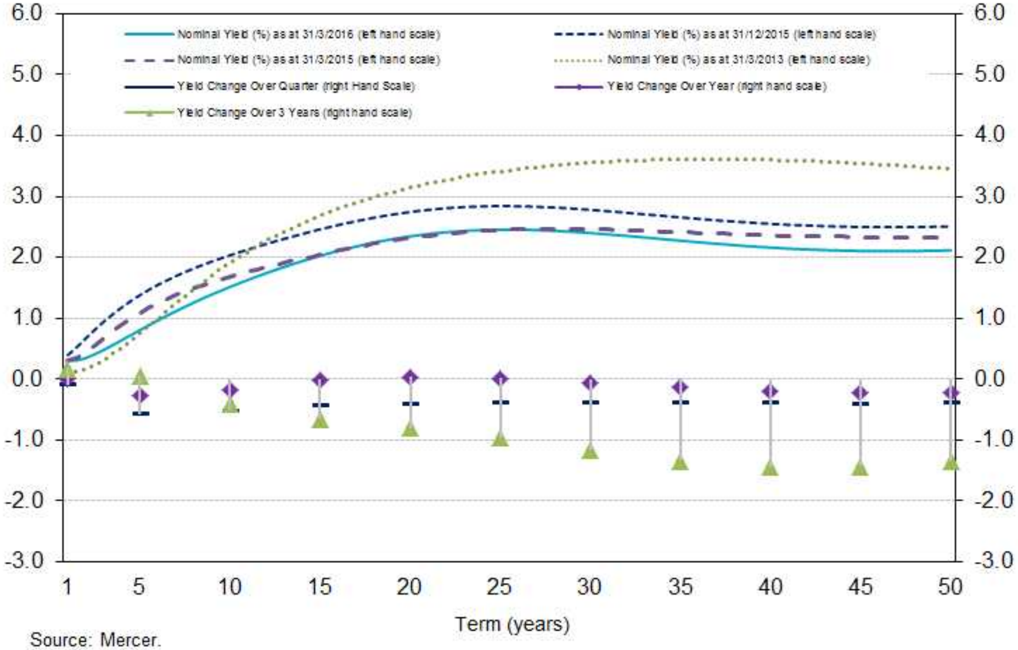
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 March 2016	31 December 2015	31 March 2015	31 March 2014
UK Equities	3.77	3.70	3.33	3.41
Over 15 Year Gilts	2.17	2.57	2.23	3.43
Over 5 Year Index-Linked Gilts	-0.97	-0.70	-0.91	-0.08
Sterling Non Gilts	2.90	3.23	2.65	3.69

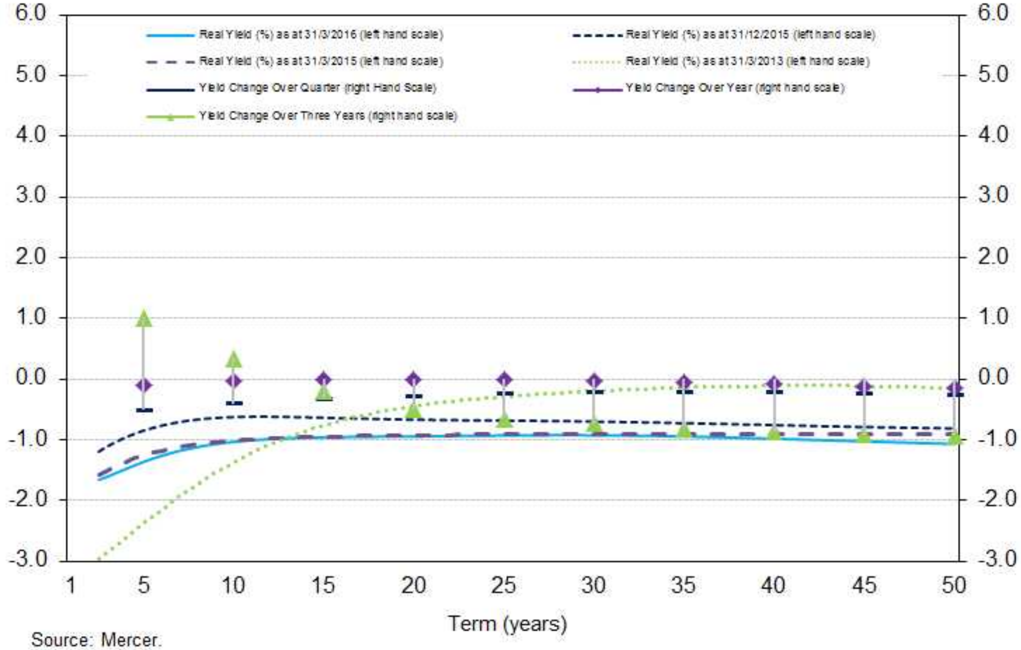
- Bond yields fell across all maturities over the quarter, resulting in positive returns for investors.
- In the UK, nominal government bond yields decreased by c.40-60 bps across the curve over the quarter with the Over 15 Gilts Index returning 8.2%. Nominal yields are now roughly at levels seen a year ago.
- Real yields also fell over the quarter, albeit to a slightly lesser extent of c.20-40 bps, with the Over 5 Year Index-Linked Gilts Index posting a positive return of 6.5%.
- Credit spreads widened over the quarter by c.14 bps and ended the quarter at c.1.5% and 1.6% for the Sterling Non-Gilts All Stocks and Sterling Non-Gilts Over 10 Year Indices, respectively. Despite the widening of credit spreads, UK credit assets posted a positive return of 3.0% in sterling terms due to the positive benefits from a decrease in government bond yields as well as income earned from coupons.

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.

GUIDE TO MERCER RATINGS

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 colour. 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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