HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 JUNE 2016

SEPTEMBER 2016

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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

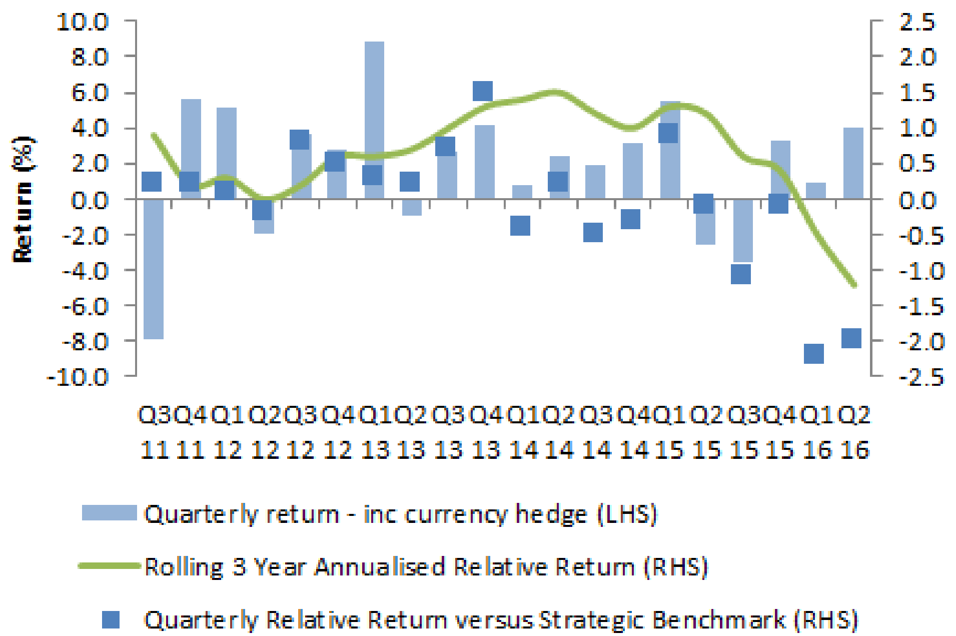
- Executive Summary 3
- Market Background 9
- Strategic Considerations 12
- Consideration of Funding Level 19
- Fund Valuations 22
- Performance Summary 26
- Appendices 31

SECTION 1
EXECUTIVE SUMMARY

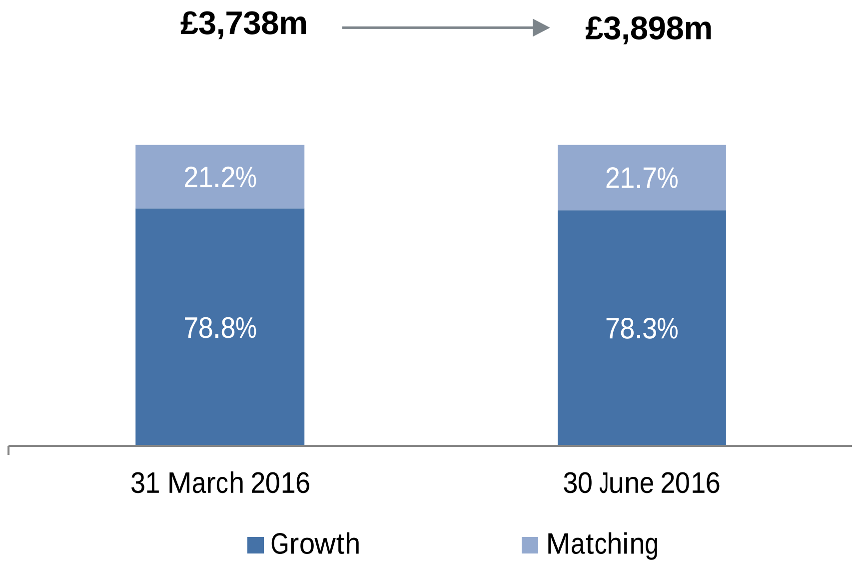
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	4.5	7.5
Total Fund (ex currency hedge)	5.7	8.7	8.5
Strategic Benchmark (no currency hedge)	6.0	7.6	8.7
Relative (inc currency hedge)	**-2.0**	**-3.1**	**-1.2**

Excess Return Chart



Asset Allocation



Commentary

Over the quarter total Fund assets (including currency hedging) increased from £3,738m (31 March 2016) to £3,898m.

This increase was primarily due to positive performance across most asset classes in particular overseas equities as sterling weakened significantly over the quarter, and bonds as yields fell.

At a strategic level, all asset class allocations were within the agreed tolerance ranges at the end of the quarter, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

The underperformance of the Fund return (when the currency hedge with Record is included) relative to the unhedged strategic benchmark return (which excludes currency hedging) over the quarter was largely a result of sterling depreciating over the quarter. The Fund return excluding currency hedging was only 0.3% behind the unhedged strategic benchmark.

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 increased by c. 2% over the second quarter of 2016, as the return on the assets exceeded the increase in liabilities.

Fund performance

- The value of the Fund's assets increased by £160m over the quarter, to £3,898m at 30 June 2016. The Fund's assets returned 4.0% over the quarter (5.7% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from most strategies. This underperformed the Strategic Benchmark return of 6.0%.

Strategy

- Global (developed) equity returns over the last three years at 12.0% p.a. have been ahead of the assumed strategic return of 8.25% p.a. from the strategic review in March 2013. We remain broadly neutral in our medium term outlook for developed market equities (over the next one to three years), despite growing uncertainty amidst geopolitical pressures, although we have reduced our conviction as a result of uncertainty following the EU Referendum.

- The three year return from emerging market equities has increased to 3.8% p.a. from -1.8 % 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 the last couple of quarters was good. As with developed markets, we are neutral in our medium term outlook for emerging market equities over the next one to three years.

EXECUTIVE SUMMARY

Strategy (continued)

- UK government bond returns over the three years to 30 June 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 15.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 12.2% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high.
- UK corporate bonds returned 7.4% p.a. over the three year period, being above their assumed return of 5.5% p.a., while property returns of 14.5% p.a. continue to be substantially above the assumed strategic return of 7% p.a., despite signs of slowing in Q2.
- 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 had the highest returns benefitting from a positive quarter for emerging markets equities, while Standard Life GARS' performance over the quarter was disappointing (-1.1% relative to a benchmark of +1.4%).
- The EU Referendum result led to a significant depreciation of the pound; as a result, the currency hedging mandates in place detracted value. In the event of a strengthening pound they will be expected to add value.
- Returns over the year to 30 June 2016 were generally strong. The equity mandates (with the exception of Jupiter) delivered positive absolute returns. Emerging market returns for the year were positive on the back of a strong Q2, with Genesis and Unigestion returning 8.9% and 5.5% respectively.
- Over three years, all mandates with a three year track record produced positive absolute returns, with only Schroder global equity, Invesco and Partners failing to beat their benchmarks (although see comments on the measurement of Partners' performance later). In addition, Jupiter, TT, Schroder property and RLAM (marginally) failed to achieve their three-year performance objectives (however Schroder property has met it's target over five years), despite beating their benchmarks. The remainder of the active managers achieved their objectives.

EXECUTIVE SUMMARY

Key points for consideration

- The result from the EU Referendum led to UK gilt yields falling to historical all-time lows and sterling to depreciate significantly against other major currencies, falling to its lowest against the US dollar since 1985. Markets remain fragile due to heightened uncertainty and reduced liquidity and the short-term impact on UK economy is generally expected to be negative.
- Brexit and the dramatic falls in gilt yields are expected to have had limited direct impact on the liabilities on the 2016 “CPI plus” basis (as gilt yields do not directly affect the valuation of the liabilities in the way they did on the 2013 “gilts plus” basis), although if the Referendum results mean a reduction in long-term return expectations for assets relative to CPI this could increase liabilities.
- Uncertainty, volatility and reduced liquidity may create opportunities for investors that are able to respond dynamically to changing conditions.
- In addition, the impact of Brexit on the banking sector may create some interesting opportunities in private markets.
- Before the EU Referendum, UK property values were highly valued, and transaction market activity has since tailed off. Purchasers are more risk averse and unwilling to proceed with deals where projected returns were dependent on rental growth. Vendors who are not forced to sell are unwilling to accept a price reduction that may only be temporary.
- Secured income strategies (semi-liquid credit) offer a yield premium as compensation for reduced liquidity and greater complexity.
- Flexible manager strategies should also benefit from greater volatility and may make use of cash as an asset allocation tool (e.g. variable beta equity managers, multi-asset credit managers, some hedge funds, idiosyncratic multi-asset).

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

Most equity markets posted low positive returns in local currency terms over the quarter. Japanese equities were the main exception to this trend, falling by 7.7% in local currency terms, as the sharp appreciation of the Yen over the quarter led to concerns over future earnings growth. European (ex-UK) equities also fell by 0.6% in light of the uncertainty in the aftermath of the Brexit vote. Nonetheless, all major equity markets delivered strong positive returns in sterling terms due to the sharp depreciation of sterling against most other major currencies.

Within UK equities, there was a marked divergence in the performance of large capitalisation stocks and more domestically focused small and mid-caps. Large capitalisation stocks, as measured by the FTSE 100 index, returned 6.5% over the quarter as the fall in sterling and higher commodity prices benefited multi-nationals. Small and mid-sized companies, as measured by the FTSE Small Cap index and FTSE 250 Index, fell by 0.6% and 2.9% respectively over the quarter due to domestic economic uncertainty.

Within global equity markets, US equities were the strongest performer, delivering returns of 2.6% in local and 10.3% in sterling terms, as markets benefitted from the growing expectation that interest rate rises would be delayed further. In emerging markets, Latin American equities in particular enjoyed a strong quarter as Brazil and Peru rallied on positive political developments whereas emerging Europe such as Hungary and Poland generally underperformed amid uncertainty over the impact of Brexit. Small capitalisation stocks, as measured by the FTSE World Small Cap Index, also outperformed the broader equity market, returning 1.9% in local currency and 9.6% in sterling terms.

Bond Market Review

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

In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.

Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.

Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Currency Market Review

In the days following the Brexit vote, sterling depreciated significantly against the US dollar and Japanese yen, ending the quarter weaker by c.7% and c.15% respectively. The yen also rose on the back of Bank of Japan's decision in late April to leave policy rates unchanged, despite market expectations for further rate cuts. Sterling also depreciated against the euro by c.5% over the quarter.

Commodity Market Review

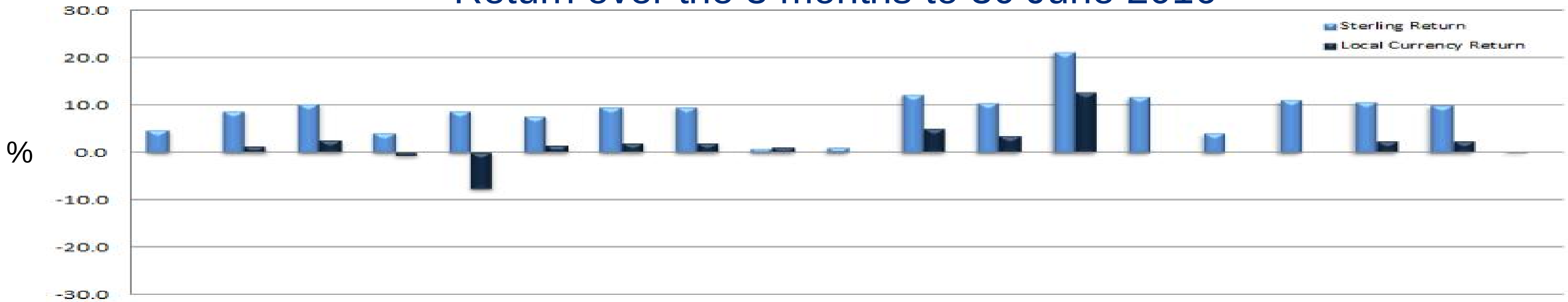
There was a broad rally in global commodities over the quarter. Energy and precious metals led the gains with positive returns of 19.0% and 8.1% respectively in US dollar terms.

Brent Crude Oil price rallied in the second quarter, to increase from US$40.0/barrel to US$49.6/barrel, a rise of c. 24%. Gold rose by 7.0% over the quarter to reach a price of c. $1,321/oz, a level not seen since June 2014, on the back of safe haven demand.

Source: Thomson Reuters Datastream.

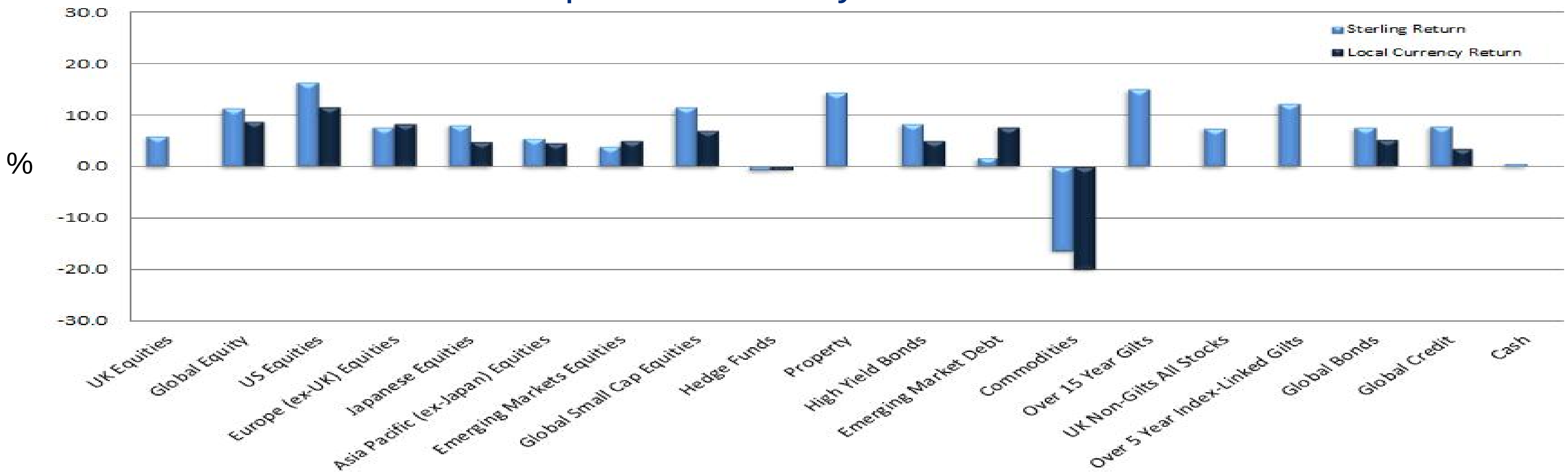
MARKET BACKGROUND
INDEX PERFORMANCE

Return over the 3 months to 30 June 2016



Return over the 12 months to 30 June 2016

Return p.a. over the 3 years to 30 June 2016

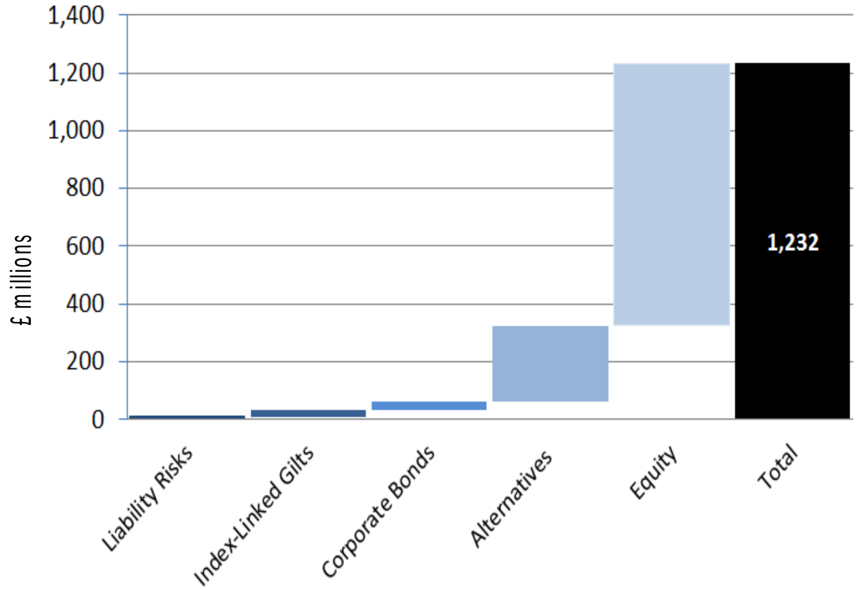


Source: Thomson Reuters Datastream.

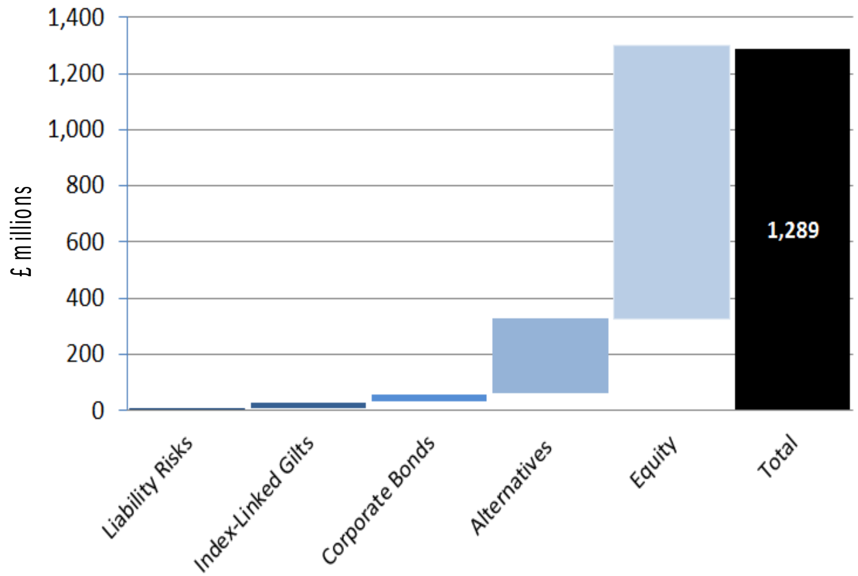
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

31 March 2016



30 June 2016



The two charts to the left illustrate the main risks that the Fund is exposed to on the proposed 2016 funding basis and 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 three years’ time.

If we focus on the chart at 30 June 2016, it shows that if a 1 in 20 “downside event” occurred, we would expect that in three years’ time, the deficit would increase by an additional **£1.3b** on top of the current deficit of **£0.7b**, creating a deficit of c. **£2.0b**.

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 increased slightly. This largely reflects an increased contribution from equity volatility, as asset values have increased.

The contributions to the total risk from the various return drivers have, as expected, changed little. 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.

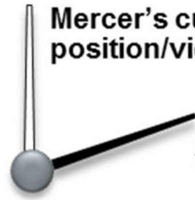
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	12.0	*Remains ahead of the assumed strategic return.* *This has increased from 9.3% p.a. last quarter as the latest quarter's return of 8.7% was considerably higher than the 0.8% return of Q2 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	3.8	*The three year return from emerging market equities has increased from -1.8% p.a. last quarter, as the return of 9.5% experienced last quarter was significantly higher than the quarter that fell out of the period (-7.5%). The three year return remains considerably below the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.8	*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 we would expect DGF to underperform equities.*
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	4.5	15.0	*UK gilt returns remain above the long term strategic assumed return as yields remain low relative to historic averages, and returns have increased compared to the previous quarter as yields fell significantly over Q2. Gilt returns are now considerably above the assumed strategic return. Corporate bond returns are now also ahead of the strategic assumed return, following a strong Q2.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	12.2	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	7.4	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.7	*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	14.5	*Property returns continue to be above the expected returns, driven by the encouraging economic data in the US and the UK over the last three years. Returns slowed in June in light of the result of the EU Referendum and the investor uncertainty this created.*
Infrastructure (S&P Global Infrastructure)	7.0	13.3	*Infrastructure returns are well ahead of the expected returns, driven by a strong Q2 return of 12.9%. This return was in part driven by currency as sterling depreciated over the quarter.*

Source: Thomson Reuters Datastream. Returns are in sterling terms.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

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



DEVELOPED MARKET EQUITIES

- ✓ Monetary policy remains generally supportive of equity markets
- ! Macro environment more uncertain amidst geopolitical pressures. Risks appear to have shifted to the downside
- ! Uninspiring earnings growth and downwards revisions to earnings estimates persist

EMERGING MARKET EQUITIES

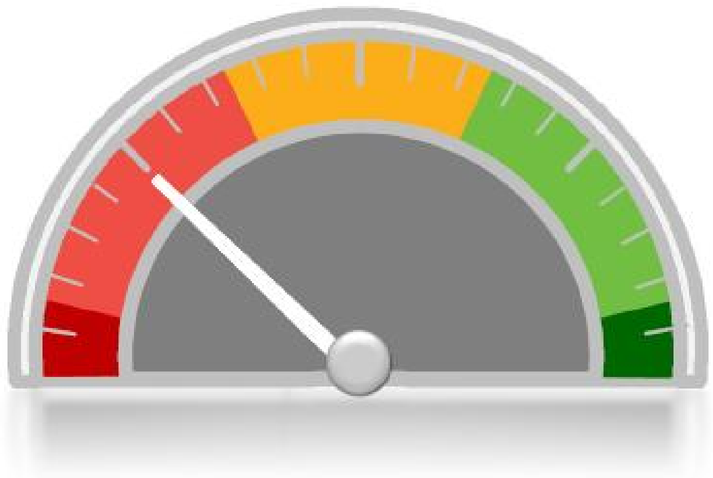
- ✓ Valuations remain below long-term averages, though have risen over the year
- ✓ Rebound in commodity prices and more dovish outlook from the Fed should prove favourable
- ! A period of dollar strength and an earlier than expected rate rise by the Fed would pose potential risks for emerging markets

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 – Q3 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✔ Ongoing extraordinary monetary policy and uncertainty following the Brexit vote will restrain upward yield moves in medium term
- ⚠ Valuations remain expensive, with nominal yields well below long-term average levels



INDEX-LINKED GILTS

- ✔ Breakeven inflation levels largely unchanged over the quarter and remain at cyclical lows
- ✔ Expect UK inflation to increase at least temporarily as a result of a Brexit
- ⚠ Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Credit spreads remain in fair value territory relative to current default rates
- Yields remain historically low and prospective total returns are relatively limited
- A reduction in trading liquidity and an uncertain macro environment have led to the risk of increased volatility

UK PROPERTY

- Relative to gilts, yields look reasonable and the referendum result may present opportunities in parts of the market in the longer term (e.g. HLV)
- Period of uncertainty for UK property market; activity in both transaction and rental markets likely to be subdued
- Whilst true impact on valuations is still unknown, values are expected to have been pushed down in light of Brexit

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q3 2016

GROWTH VERSUS DEFENSIVE

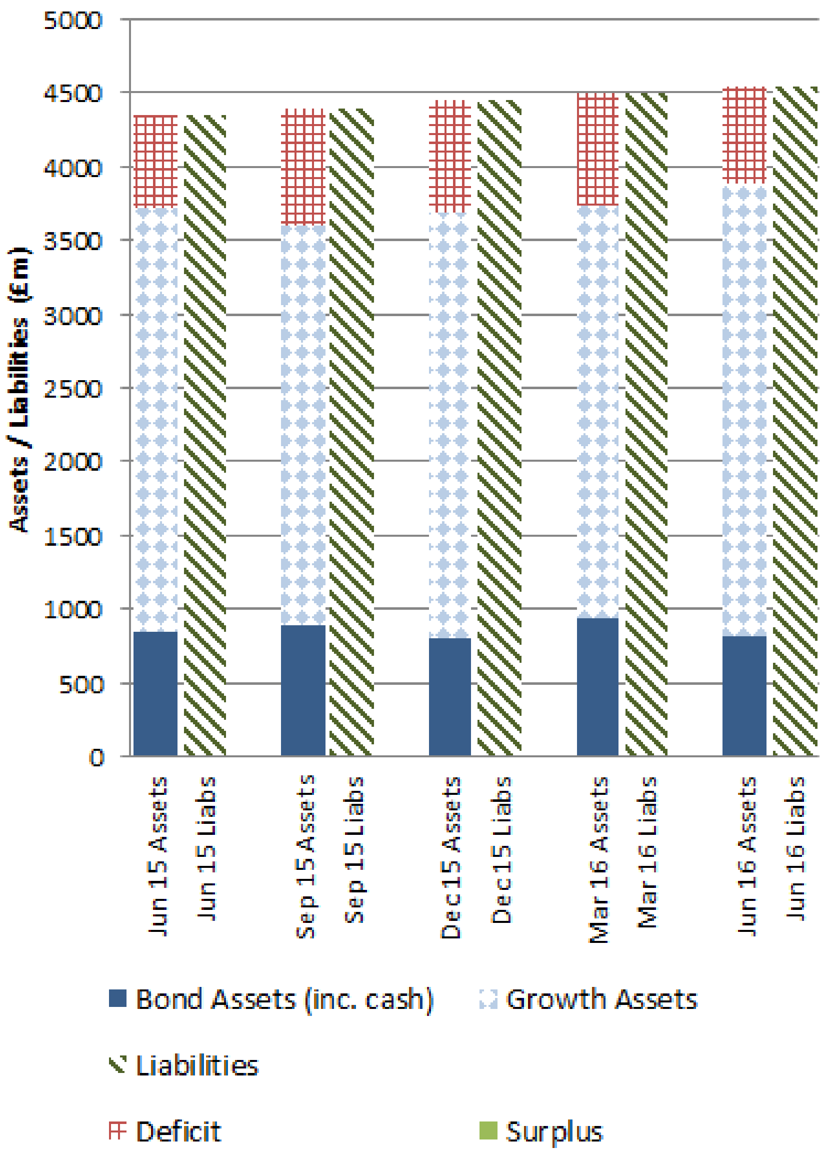
* The downgrade from attractive to neutral reflects our reduced confidence in equities and the broadly flat outlook for defensive assets over the next one to three years.

Asset Class	Jan 2016	Apr 2016	Jul 2016
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	Unattractive	Unattractive	Unattractive
Eurozone Government Bonds	Unattractive	Unattractive	Unattractive
Non-Government Bonds (£ All-Stocks)	Unattractive	Unattractive	Unattractive
Non-Government Bonds (€ All-Stocks)	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	Unattractive
High yield bonds	Neutral	Neutral	Neutral
Local currency emerging market debt	Unattractive	Unattractive	Neutral

SECTION 4

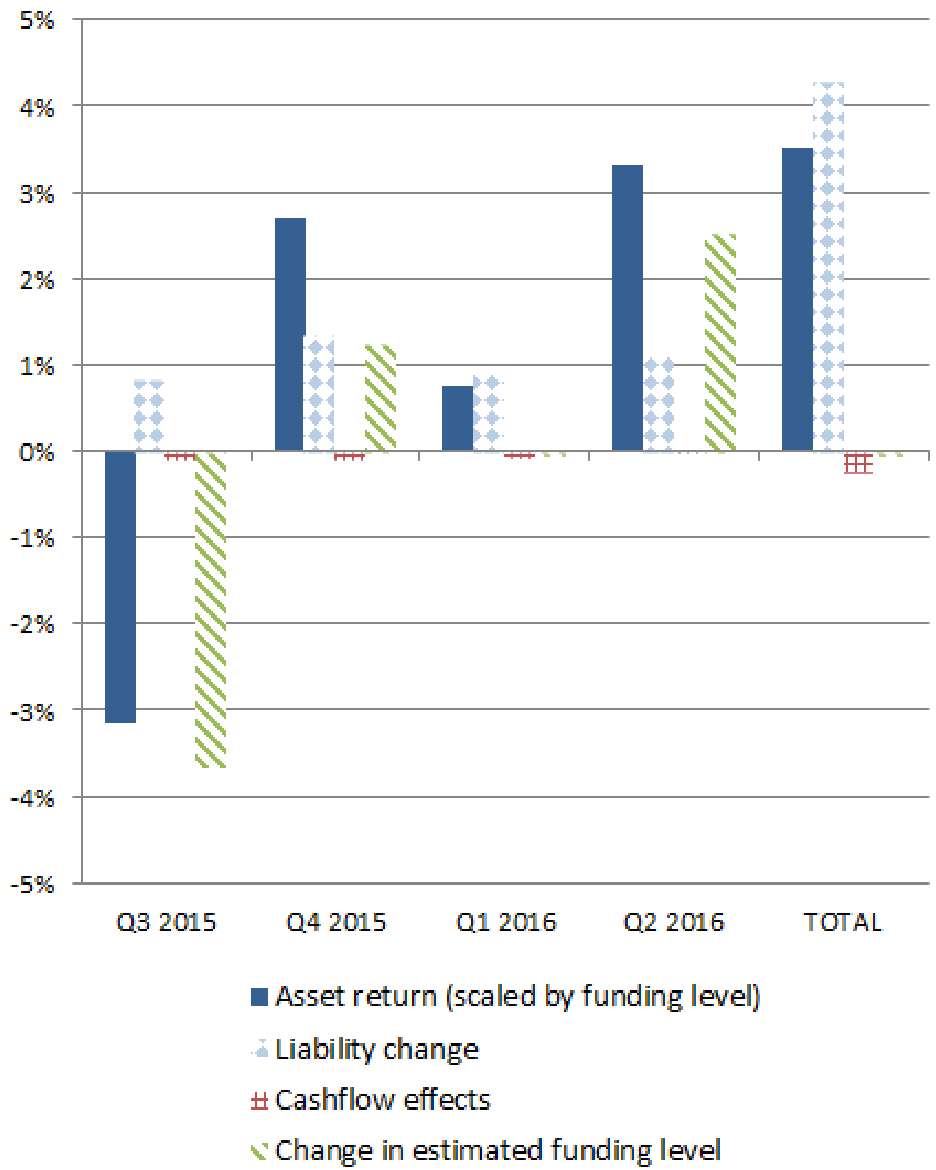
CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level increased by c. 2% over the second quarter of 2016, all else being equal, from 83% to 85%.
- This was driven by the positive return on the Fund's assets exceeding the increase in the present value of the liabilities over the quarter (i.e. the "interest cost").
- This is calculated using the new actuarial valuation as at 31 March 2016 and new "CPI plus" basis.

CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned 4.0% over the quarter, which, when allowing for the funding position, increased the funding level by 3.3%.
- In addition, the Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negligible.
- Overall, the combined effect has led to a increase in the estimated funding level to 85% (from 83% at 31 March 2016).
- Over the 12 month period, the estimated funding level has fallen by 0.1%.

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	1,544,963	1,611,123	41.3	41.3	40.0	35 - 45	+1.3
Emerging Market Equities	327,975	358,238	8.8	9.2	10.0	5 - 15	-0.8
Diversified Growth Funds	360,928	363,166	9.7	9.3	10.0	5 - 15	-0.7
Fund of Hedge Funds	192,394	208,736	5.1	5.4	5.0	0 - 7.5	+0.4
Property	362,097	380,524	9.7	9.8	10.0	5 - 15	-0.2
Infrastructure	-	149,161	-	3.8	5.0	0 - 7.5	-1.2
Bonds	792,149	847,704	21.2	21.7	20.0	15 - 35	+1.7
Cash (including currency instruments)	157,710	-20,793	4.2	-0.5	-	0 - 5	-0.5
Total	**3,738,216**	**3,897,860**	**100.0**	**100.0**	**100.0**		**0.0**

Source: BNY Mellon, 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 £160m due to positive returns from most asset classes (in particular overseas equities). At the end of the quarter, all asset classes were within the agreed tolerance ranges, except cash (including currency instruments) as it takes into account the negative balance from Record currency hedging.

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	1,025,565	-21,660	1,081,129	27.4	27.7
Jupiter	UK Equities	173,896	-	174,182	4.7	4.5
TT International	UK Equities	201,799	-	208,744	5.4	5.4
Schroder	Global Equities	253,892	-	277,115	6.8	7.1
Genesis	Emerging Market Equities	149,857	-	166,886	4.0	4.3
Unigestion	Emerging Market Equities	178,118	-	191,352	4.8	4.9
Invesco	Global ex-UK Equities	289,696	-	307,650	7.7	7.9
SSgA	Europe ex-UK & Pacific inc. Japan Equities	119,803	-	127,575	3.2	3.3
Pyrford	DGF	126,947	-	131,310	3.4	3.4
Standard Life	DGF	233,981	-	231,856	6.3	5.9

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

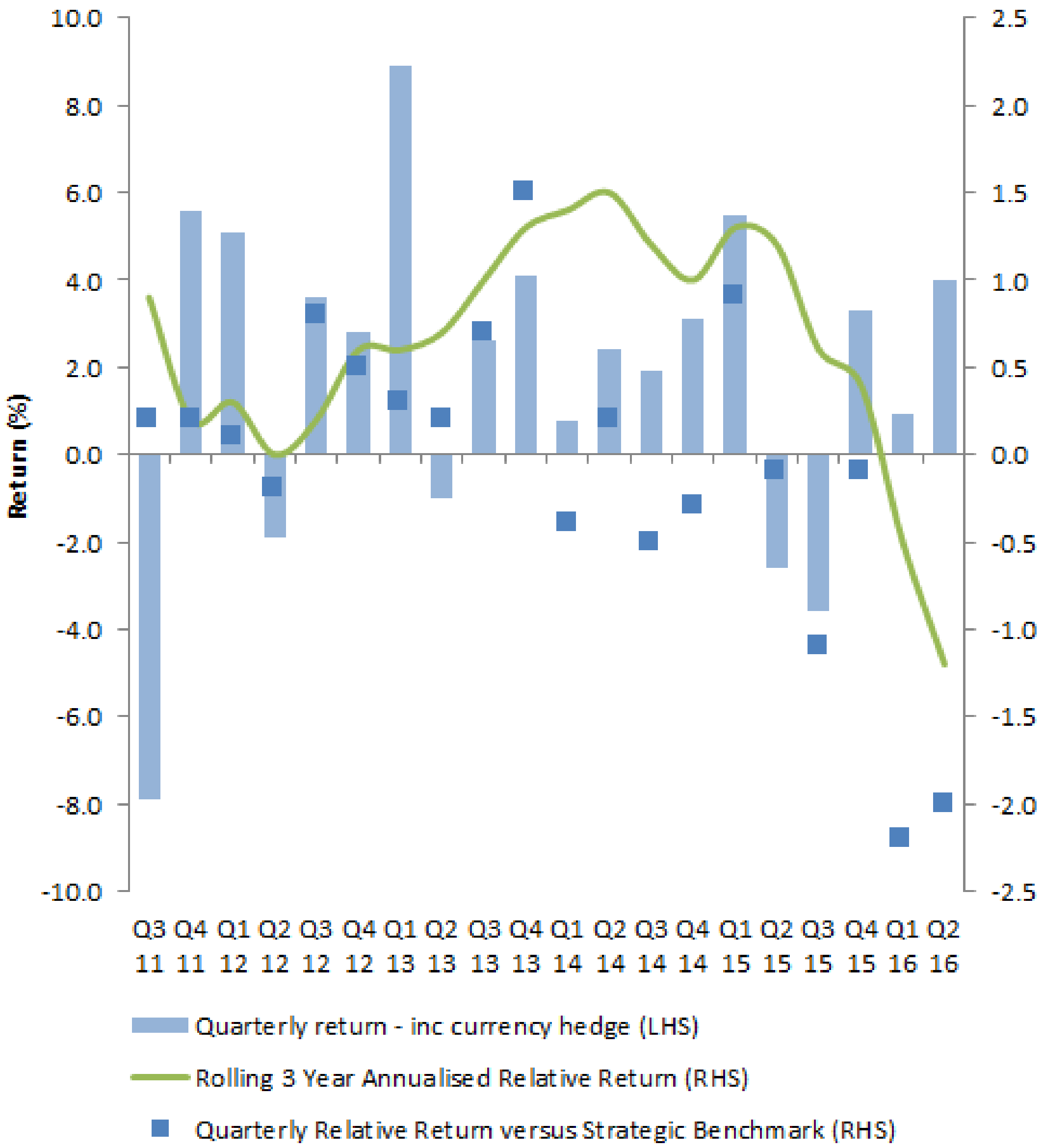
Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
MAN	Fund of Hedge Funds	422	-	446	0.0	0.0
Signet	Fund of Hedge Funds	1,056	-	913	0.0	0.0
Gottex	Fund of Hedge Funds	3,547	-596	2,933	0.1	0.1
JP Morgan	Fund of Hedge Funds	187,695	-	204,444	5.0	5.2
Schroder	UK Property	195,868	-	194,598	5.2	5.0
Partners	Property	171,992	8,060	188,066	4.6	4.8
IFM	Infrastructure	-	136,698	149,161	-	3.8
RLAM	Bonds	289,662	-	300,968	7.7	7.7
Record Currency Management	Currency Hedging	-29,293	20,300	-72,552	-0.8	-1.9
Internal Cash	Cash	167,927	-142,801	31,083	4.5	0.8
Total		**3,738,639**	**0**	**3,897,860**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.

SECTION 6
PERFORMANCE SUMMARY

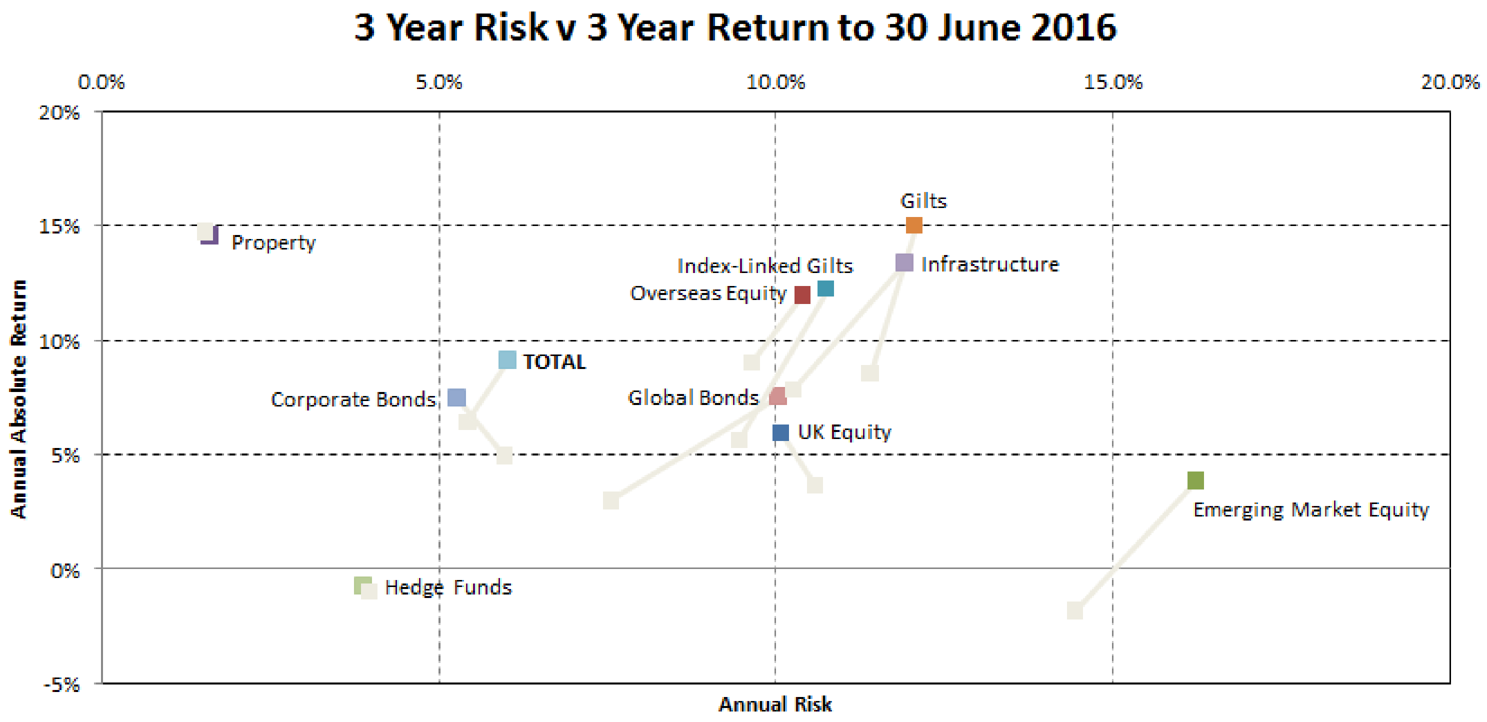
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	4.0	4.5	7.5
Total Fund (ex currency hedge)	5.7	8.7	8.5
Strategic Benchmark (no currency hedge)	6.0	7.6	8.7
Relative (inc currency hedge)	**-2.0**	**-3.1**	**-1.2**

- Over Q2 2016, the Fund underperformed its Strategic Benchmark by 2.0% when including the currency hedge and by 0.3% excluding the currency hedge.
- The Fund has underperformed the Strategic Benchmark over the year by 3.1% and by 1.2% p.a. over the three year period (again, largely due to currency moevements).
- The latest quarter’s underperformance has increased the rolling three year underperformance from -0.5% p.a. to -1.2% p.a.
- The underperformance of the Fund (when the currency hedge with Record is included) relative to the unhedged strategic benchmark over the quarter was primarily due to having the currency hedging mandate in place, as sterling depreciated over the quarter.

MANAGER MONITORING
RISK RETURN ANALYSIS

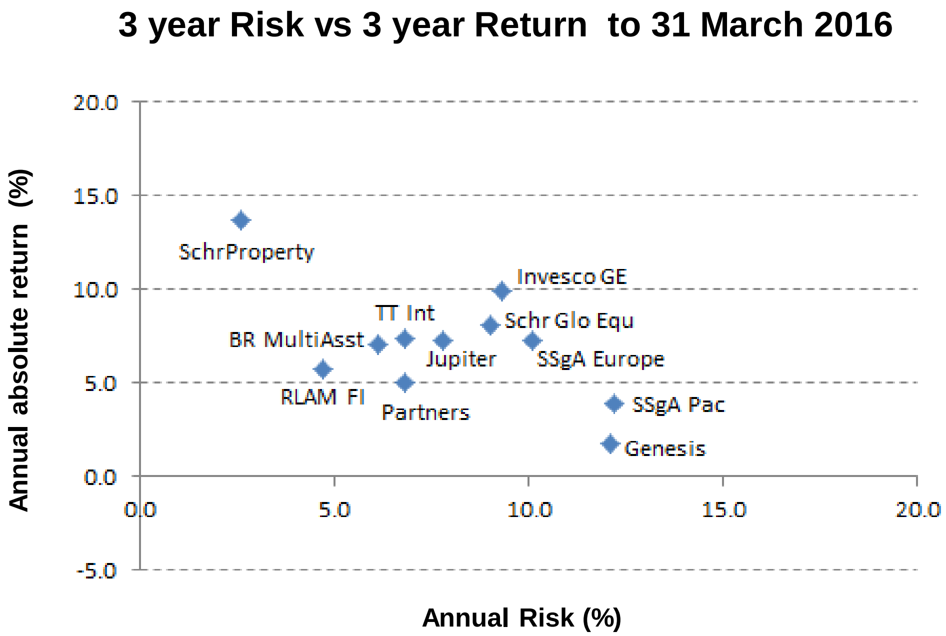


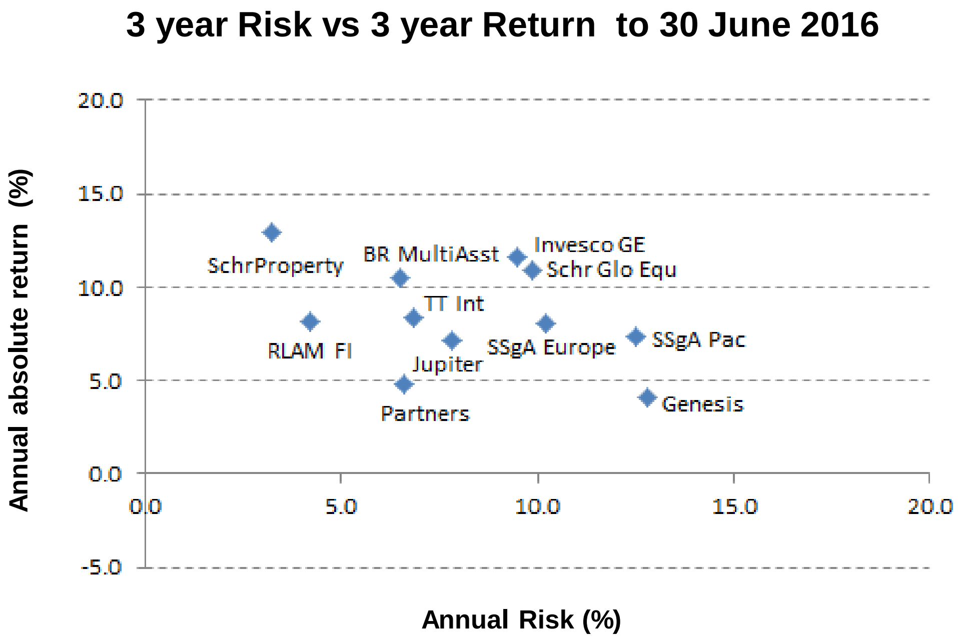
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of June 2016, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

- *There were some significant shifts in observed returns and volatilities over the quarter. The asset classes with the most relevant shifts were global bonds, index-linked and fixed interest gilts, infrastructure and emerging markets equities. In all of them, both return and volatility increased. For overseas assets, a significant proportion of the increase in return and observed volatility was due to the fall in sterling over the quarter.*

MANAGER MONITORING
RISK RETURN ANALYSIS





Comments

- *Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 23).*

MANAGER MONITORING
MANAGER PERFORMANCE TO 30 JUNE 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	7.7	7.7	0.0	13.7	13.7	0.0	10.4	10.4	0.0	-	Target met
Jupiter	0.1	4.7	-4.4	-2.6	2.2	-4.7	7.0	5.9	+1.1	+2	Target not met
TT International	3.3	4.7	-1.3	4.8	2.2	+2.5	8.3	5.9	+2.3	+3-4	Target not met
Schroder Equity	9.1	8.8	+0.3	13.7	14.0	-0.3	10.7	11.2	-0.4	+4	Target not met
Genesis	10.9	8.4	+2.3	8.9	3.9	+4.8	4.1	3.0	+1.0	-	Target met
Unigestion	7.4	8.2	-0.7	5.5	3.5	+1.9	N/A	N/A	N/A	+2-4	N/A
Invesco	6.2	8.8	-2.3	12.3	15.3	-2.6	11.6	12.1	-0.4	+0.5	Target not met
SSgA Europe	4.1	3.8	+0.3	6.7	5.5	+1.1	8.1	7.6	+0.5	+0.5	Target met
SSgA Pacific	7.7	7.7	0.0	8.4	8.5	-0.1	7.3	6.8	+0.5	+0.5	Target met
Pyrford	3.4	2.0	+1.4	8.1	6.6	+1.3	N/A	N/A	N/A	-	N/A
Standard Life	-1.1	1.4	-2.4	-4.4	5.7	-9.6	N/A	N/A	N/A	-	N/A
JP Morgan	7.9	0.9	+7.0	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	0.1	-0.4	6.6	7.2	-0.5	12.8	12.5	+0.3	+1	Target not met*
Partners Property	6.6	1.1	+5.4	10.4	6.9	+3.3	6.3	11.7	-4.9	+2	Target not met
IFM	9.0	0.8	+8.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	4.0	4.3	-0.3	8.0	9.0	-0.9	8.1	7.4	+0.7	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.4	0.0	0.4	0.4	0.0	-	N/A

Source: BNY Mellon, Avon, Mercer estimates.
BlackRock were unable to provide the benchmark returns in time and so we have assumed this is in line with fund performance.
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.
* Target was met over a five year time period.

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.	-
IFM	Infrastructure	6 Month LIBOR +2.5% 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
Infrastructure	S&P Global Infrastructure
Commodities	S&P GSCI
Over 15 Year Gilts	FTA UK Gilts 15+ year
Sterling Non Gilts	BofA Merrill Lynch Sterling Non Gilts All Stocks
Over 5 Year Index-Linked Gilts	FTA UK Index Linked Gilts 5+ year
Global Bonds	BofA Merrill Lynch Global Broad Market
Global Credit	Barclays Capital Global Credit
Eurozone Government Bonds	BofA Merrill Lynch EMU Direct Government
Cash	BofA Merrill Lynch United Kingdom Sterling LIBOR 3 month constant maturity

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

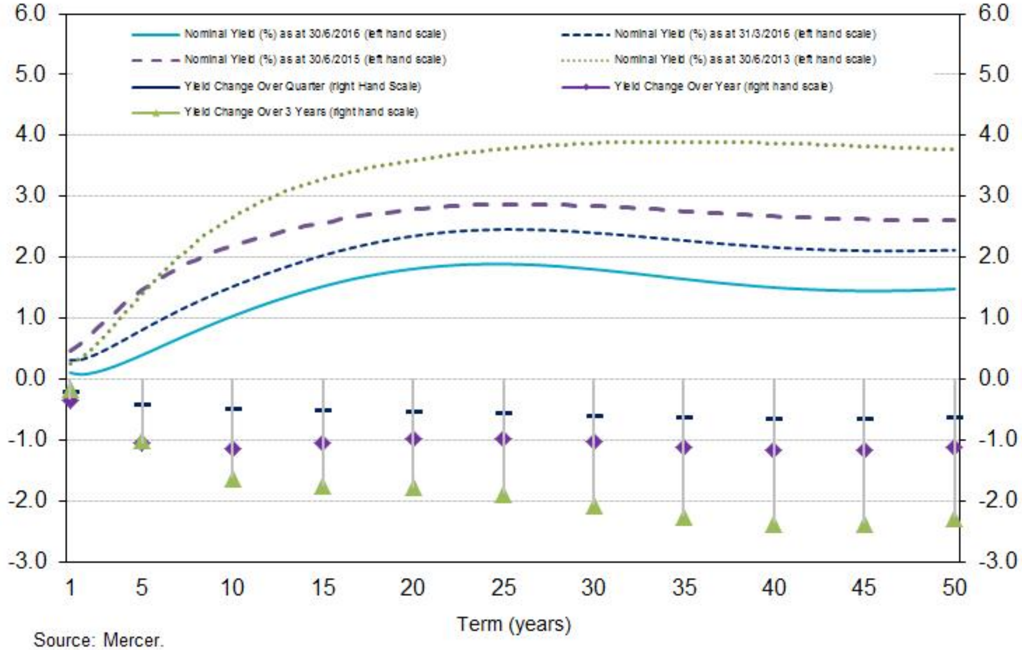
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 June 2016	31 March 2016	30 June 2015	30 June 2014
UK Equities	3.66	3.77	3.46	3.27
Over 15 Year Gilts	1.61	2.17	2.63	3.34
Over 5 Year Index-Linked Gilts	-1.38	-0.97	-0.75	-0.10
Sterling Non Gilts	2.55	2.90	3.15	3.59

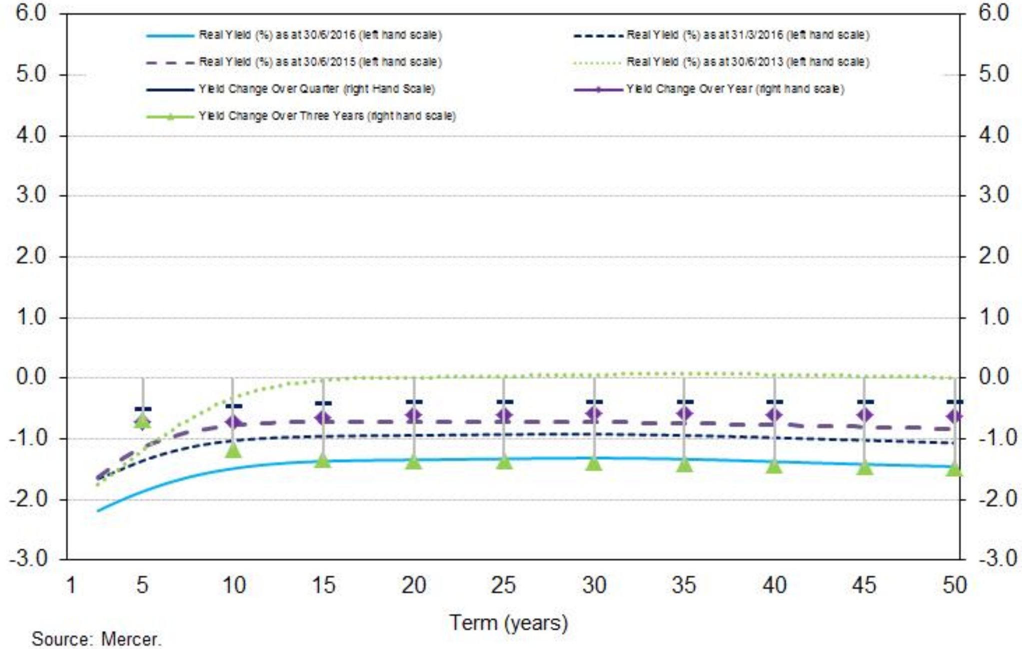
- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, nominal government bond yields decreased by c.20-55 bps across the curve over the quarter with the Over 15 Year Gilts Index returning 11.8%. On the day of the result of the EU Referendum, 10 year UK gilt yields fell by c.30 bps to 1.0%, the largest one day move since the financial crisis.
- Real yields also decreased over the quarter, by c.40-50 bps. The Over 5 Year Index-Linked Gilts Index posted a positive return of 11.1% over the quarter.
- Credit spreads widened slightly over the quarter, with the Sterling Non-Gilts All Stocks and Sterling Non-Gilts All Stocks indices both ending the quarter with spreads of 1.6% p.a. Overall, UK credit assets posted a positive return of 4.2% over the quarter, largely due to the benefits from a decrease in government bond yields.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY

MERCER