HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2016

NOVEMBER 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.

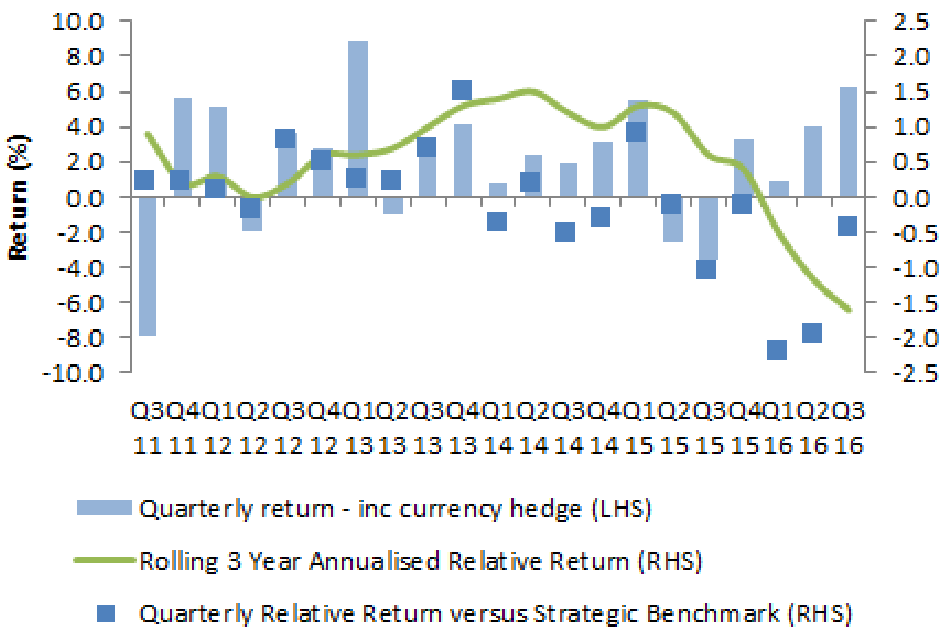
CONTENTS

SECTION 1
EXECUTIVE SUMMARY

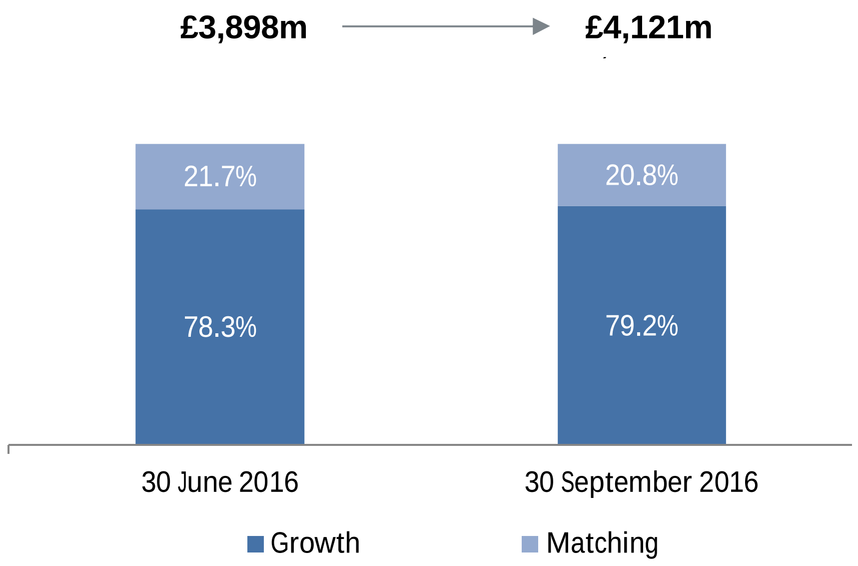
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	6.2	15.2	8.8
Total Fund (ex currency hedge)	6.8	19.5	10.1
Strategic Benchmark (no currency hedge)	6.6	20.5	10.4
Relative (inc currency hedge)	**-0.4**	**-5.3**	**-1.6**

Excess Return Chart



Asset Allocation



Quarterly Commentary

Over the quarter, total Fund assets increased from £3,898m (30 June 2016) to £4,121m.

This increase was primarily due to positive performance across all asset classes.

At a strategic level, all asset class allocations were within the agreed tolerance ranges at the end of the quarter.

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. The Fund return excluding currency hedging was 0.2% above 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. 4% over the third quarter of 2016 to 89%, as the return on the assets exceeded the increase in liabilities.

Fund performance

- The value of the Fund's assets increased by £223m over the quarter, to £4,121m at 30 September 2016. The Fund's assets returned 6.2% over the quarter (6.8% excluding the Record currency hedging mandate, given the depreciation of sterling over the quarter), as a result of positive returns from both defensive and growth assets, with strong returns in particular from global equities. This underperformed the Strategic Benchmark return of 6.6%.

Strategy

- Global (developed) equity returns over the last three years at 14.4% 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). Accommodative monetary policy remains generally supportive of equity markets but uninspiring earnings growth and downwards revisions to earnings estimates persist.

- The three year return from emerging market equities has increased to 8.4% p.a. from 3.8 % p.a. last quarter. The three year return remains 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 three quarters was strong. 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 September 2016 remain significantly above the long term strategic assumed returns (with fixed interest gilts returning 16.0% p.a. against an assumed return of 4.5% p.a., and index-linked gilts returning 16.0% p.a. versus an assumed return of 4.25% p.a.) as investor demand for gilts remains high (and following the announcement I Q3 of the extension of the Bank of England's QE programme, and a reduction in base rates to 0.25% p.a.)
- UK corporate bonds returned 8.7% p.a. over the three year period, being above their assumed return of 5.5% p.a., while UK property returns of 12.6% continue to be substantially above the assumed strategic return of 7% p.a. However, the result of the EU referendum and uncertainty created by the terms of Brexit may lead to challenges in the UK property market.
- 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 a valuable 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.

EXECUTIVE SUMMARY

Managers

- Absolute returns of the managers over the quarter were largely positive. The only exception was Schroder Property that delivered a return of -0.3%. SSgA Pacific Equities delivered the highest absolute return over the quarter, while Genesis and Unigestion Emerging Markets Equities underperformed their benchmarks. After a period of negative performance, Standard Life GARS' performance was positive this quarter but remained below their performance objective over the period since inception.
- 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. As a reminder, the currency hedging mandate is in place to reduce volatility, and is not intended to generate excess returns.
- Absolute returns over the year to 30 September 2016 were strong. All mandates (with the exception of Standard Life GARS) delivered positive absolute returns; in particular, all overseas equities mandates returned over 20%.
- Over three years, all mandates with a three year track record produced positive absolute returns and beat their benchmarks, with the exception of Schroder Global Equities, Genesis and Partners (although see comments on the measurement of Partners' performance later). Nonetheless, only the SSgA mandates achieved their three-year performance objectives. The remainder of the active managers underperformed their performance objectives despite achieving benchmark returns net of fees.

EXECUTIVE SUMMARY

Key points for consideration

- The stand-out point to note this quarter is that the majority of equity strategies held by the Fund underperformed their benchmarks over the year to 30 September 2016, despite generating significant double digit returns (largely due to the dramatic depreciation of sterling over the year as a result of the EU Referendum vote in June).

- In some cases this is expected (for example, as Unigestion's emerging market mandate is expected to have a low beta, and so would naturally underperform the rising markets we have seen).

- While this could just be a coincidence of timing, we would suggest that as part of the upcoming strategy review, further analysis is made of the Fund's equity exposures and the managers' tilts towards the various underlying drivers of returns (growth, value, small cap, low volatility etc) to ensure that the combination of strategies provides the diverse exposure desired.

- At the same time, the Fund should be looking to ensure that the strategy is consistent with the funding basis, which requires assets to generate secure returns above CPI inflation.

- From a strategic perspective, the continued fall in bond yields over the quarter following the EU Referendum result (see page 10) will have had limited direct impact on the liabilities of the new funding basis (as gilt yields do not directly affect the valuation of the liabilities in the same way as they did on the 2013 funding basis).

SECTION 2
MARKET BACKGROUND

MARKET BACKGROUND
INDEX PERFORMANCE

Equity Market Review

The major equity markets benefitted from the “risk on” environment and further loose monetary policy, and consequently posted strong positive returns in local currency terms over the quarter. Returns in sterling terms were further boosted by the depreciation of sterling against its main counterparts.

Within UK equities, large capitalisation stocks, as measured by the FTSE 100 index, returned 7.1% over the quarter amid a return of investor risk appetite. Small and mid-sized companies, as measured by the FTSE Small Cap Index and FTSE 250 Index, rose significantly, by 12.1% and 10.7% respectively over the quarter, as both segments rebounded from the losses posted last quarter in the aftermath of the EU Referendum result.

Within global equity markets, Japanese equities led gains in local currency terms as the equity market rebounded from a negative performance in the previous quarter. Emerging markets also performed strongly as economic conditions appeared to stabilise in key countries in the region. China was among the strongest markets over the quarter, benefitting from the release of positive trade and manufacturing data as well as a more accommodative monetary stance by the People’s Bank of China. Brazil and Russia also performed well over the quarter whereas Turkey and the Philippines underperformed on the back of unfavourable political developments. US and European equities posted positive returns in local currency terms, but underperformed the broader equity market. Deutsche Bank in particular became a focus towards the end of the quarter after US regulators levied a $14bn fine on it for alleged mis-selling of mortgage-backed securities before the financial crisis.

Bond Market Review

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

In the UK, further loosening of monetary policy by the Bank of England and subdued growth expectations led to a downward shift in government bond yields at the medium to long tenors over the quarter. As a result, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a positive return of 4.2%.

Real yields also decreased over the quarter by an extent of c.30 to 50 bps on the back of lower nominal yields and an increase in breakeven inflation rates. The Over 5 Year Index-Linked Gilts Index posted a strong positive return of 11.0% over the quarter.

Credit spreads tightened by c.40 bps, with the sterling Non-Gilts All Stocks and sterling Non-Gilts All Stocks over 10 years indices both ending the quarter at c.1.2%. This, along with a decrease in government bond yields, led to UK credit assets posting a positive return of 6.0% over the quarter, outperforming the broader global credit market.

Currency Market Review

Over the quarter, continued Brexit uncertainty, and the Bank of England’s decision to cut rates, led to sterling extending its depreciation against the US dollar, euro and the Japanese yen; it depreciated against these currencies by c.2.8%, c.3.9% and c.4.1% respectively.

Commodity Market Review

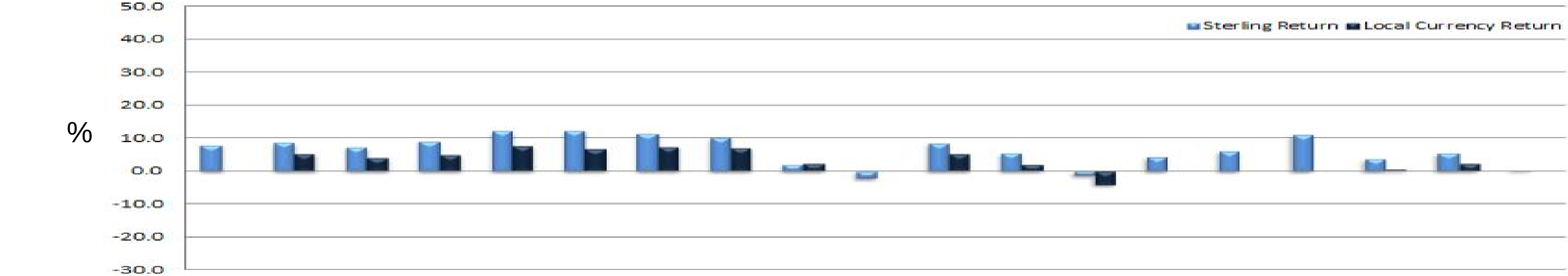
Global commodities fell significantly over the quarter with this fall led primarily by the livestock and agriculture sectors which suffered losses of 19.0% and 7.5% respectively in US dollar terms. All other commodity sectors fell over the quarter, with the exception of industrial metals which benefitted from supply concerns, returning 3.7% in US dollar terms.

Brent Crude Oil price fell slightly over the quarter, decreasing by c.1.3% from US$49.62/barrel to US$48.97/barrel. While gold prices ended the quarter largely unchanged at c.$1,321/oz, there was considerable intra-quarter volatility.

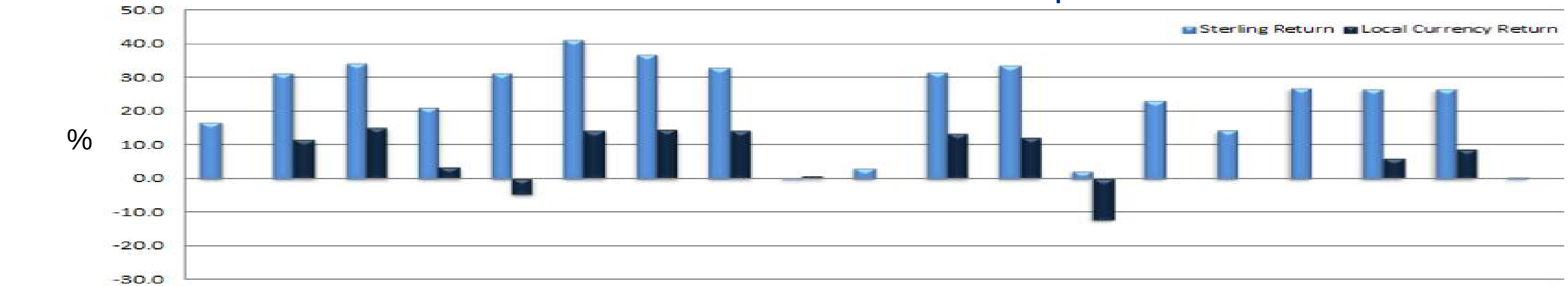
Source: Thomson Reuters Datastream.

MARKET BACKGROUND
INDEX PERFORMANCE

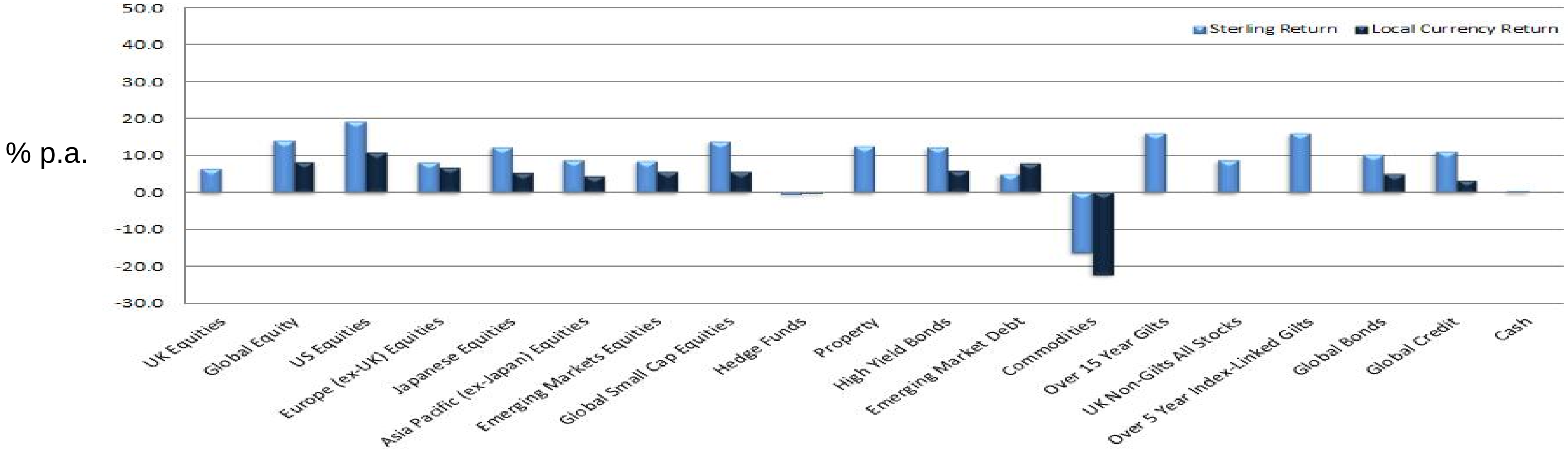
Return over the 3 months to 30 September 2016



Return over the 12 months to 30 September 2016



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

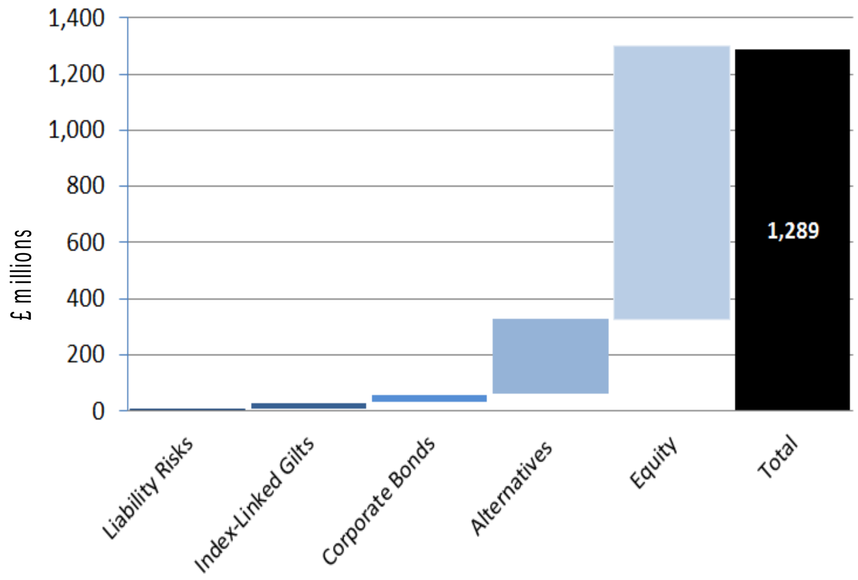


Source: Thomson Reuters Datastream.

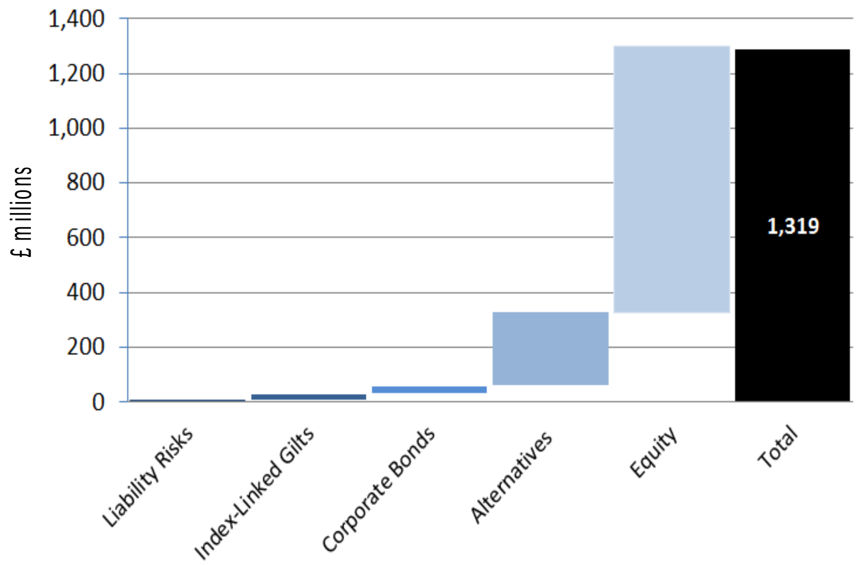
SECTION 3
STRATEGIC CONSIDERATIONS

STRATEGIC CONSIDERATIONS
RISK DECOMPOSITION

30 June 2016



30 September 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 September 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 **£0.5b**, creating a deficit of c. **£1.8b**.

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 dominates.

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.

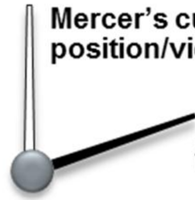
MARKET BACKGROUND
INDEX PERFORMANCE VERSUS STRATEGY

Asset Class	Strategy Assumed Return % p.a.	3 year Index Return % p.a.	Comment
Developed Equities (Global) (FTSE All-World Developed)	8.25	14.4	*Remains ahead of the assumed strategic return.* *This has increased from 12.0% p.a. last quarter as the latest quarter's return of 8.2% was considerably higher than the 1.5% return of Q3 2013, which fell out of the 3 year return.*
Emerging Market Equities (FTSE AW Emerging)	8.75	8.4	*The three year return from emerging market equities has increased from 3.8% p.a. last quarter, as the return of 11.2% experienced last quarter was significantly higher than the quarter that fell out of the period (-2.2%), in large part due to dramatic currency movements. The three year return is now close to the assumed strategic return.*
Diversified Growth	Libor + 4% / RPI + 5%	4.6 / 6.7	*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	16.0	*UK gilt returns remain considerably 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 over Q3. Corporate bond returns are also ahead of the strategic assumed return.*
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	4.25	16.0	
UK Corporate Bonds (BofAML Sterling Non Gilts)	5.5	8.7	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	6.0	-0.5	*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	12.6	*Property returns continue to be above the expected returns, driven by the strong performance up to the EU Referendum. Since then, the surprise result and slowing rental growth have meant fundamentals have weakened and a more cautious outlook may be required.*
Infrastructure (S&P Global Infrastructure)	7.0	15.2	*Infrastructure returns are well ahead of the expected returns, driven by a strong return since start of 2016. This return was in part driven by currency as sterling depreciated over the year.*

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

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

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



DEVELOPED MARKET EQUITIES

- ✓ Accommodative monetary policy remains generally supportive of equity markets
- ! Valuations have continued to trend upwards and on the whole, are at the upper range relative to historical averages
- ! Uninspiring earnings growth and downwards revisions to earnings estimates persist

EMERGING MARKET EQUITIES

- ✓ Valuations remain around or slightly below long-term averages, though have risen significantly over the year
- ✓ Positive earnings surprises and diminishing headwinds from key economies (e.g. China)
- ! US monetary policy normalisation and / or appreciation of US Dollar could hurt the asset class

These charts summarise Mercer's views on the medium term outlook for returns from the key asset classes; by medium term we mean one to three years. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect investors to make frequent tactical changes to their asset allocation based upon these views. These are also based from the view of an absolute return investor, and so do not take into account pension scheme liabilities.

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

FIXED INTEREST GILTS (ALL STOCK)

- ✓ Ongoing extraordinary monetary policy and heightened geopolitical downside risk may 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 rose over the quarter, benefitting from a weaker Sterling and central bank easing
- ! Valuations remain expensive, with real yields well below long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

NON-GOVERNMENT BONDS (£ ALL-STOCK)

- Despite narrowing over the quarter, credit spreads provide adequate coverage given expectations for the downgrade environment to remain benign
- ! Yields remain historically low and prospective total returns appear to be relatively limited
- ! Risk of increased volatility due to reduction in trading liquidity and heightened geopolitical downside risk

UK PROPERTY

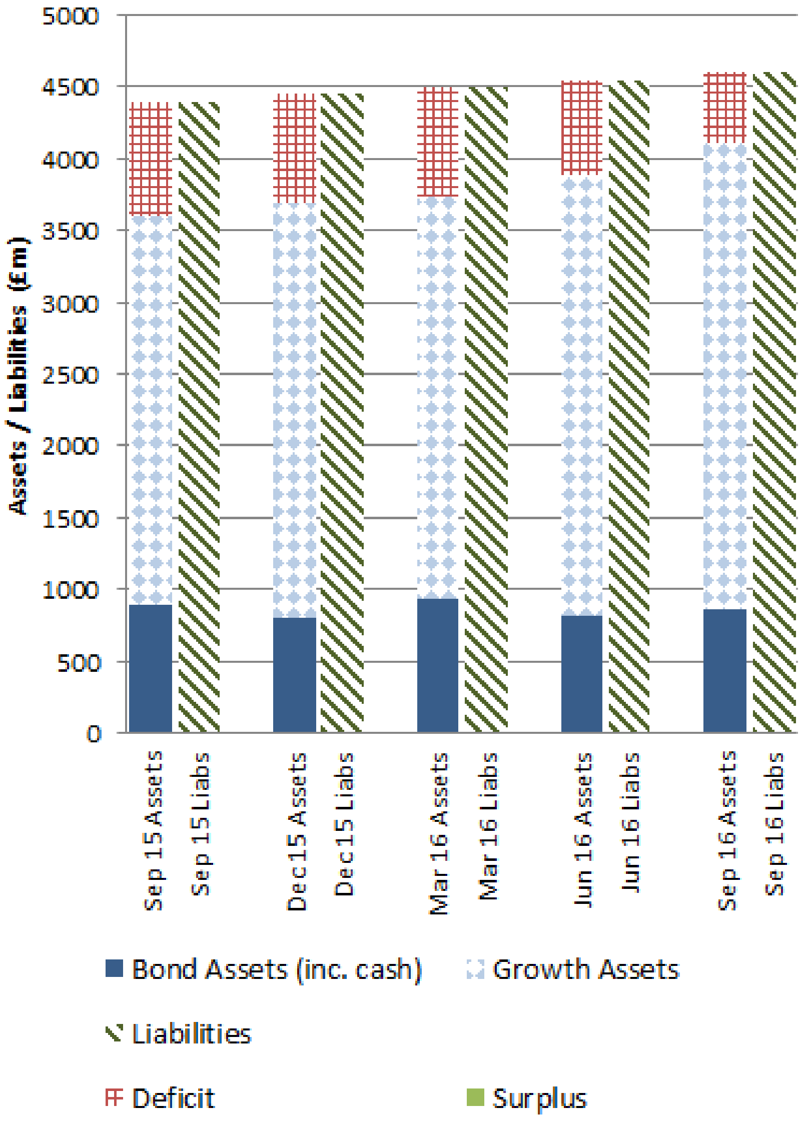
- Relative to other asset classes, some parts of the market still present attractive opportunities (e.g. HLV property)
- ! Valuations remain expensive despite a slight rise in yields in most sectors
- ! ‘Brexit’ and slowing rental growth have meant fundamentals have weakened and a more cautious outlook may be required

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2016

Asset Class	Apr 2016	Jul 2016	Oct 2016
Fixed Interest Gilts	Unattractive	Unattractive	Unattractive
Index-Linked Gilts	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	Unattractive	Unattractive
High yield bonds	Neutral	Neutral	Unattractive
Local currency emerging market debt	Unattractive	Neutral	Neutral

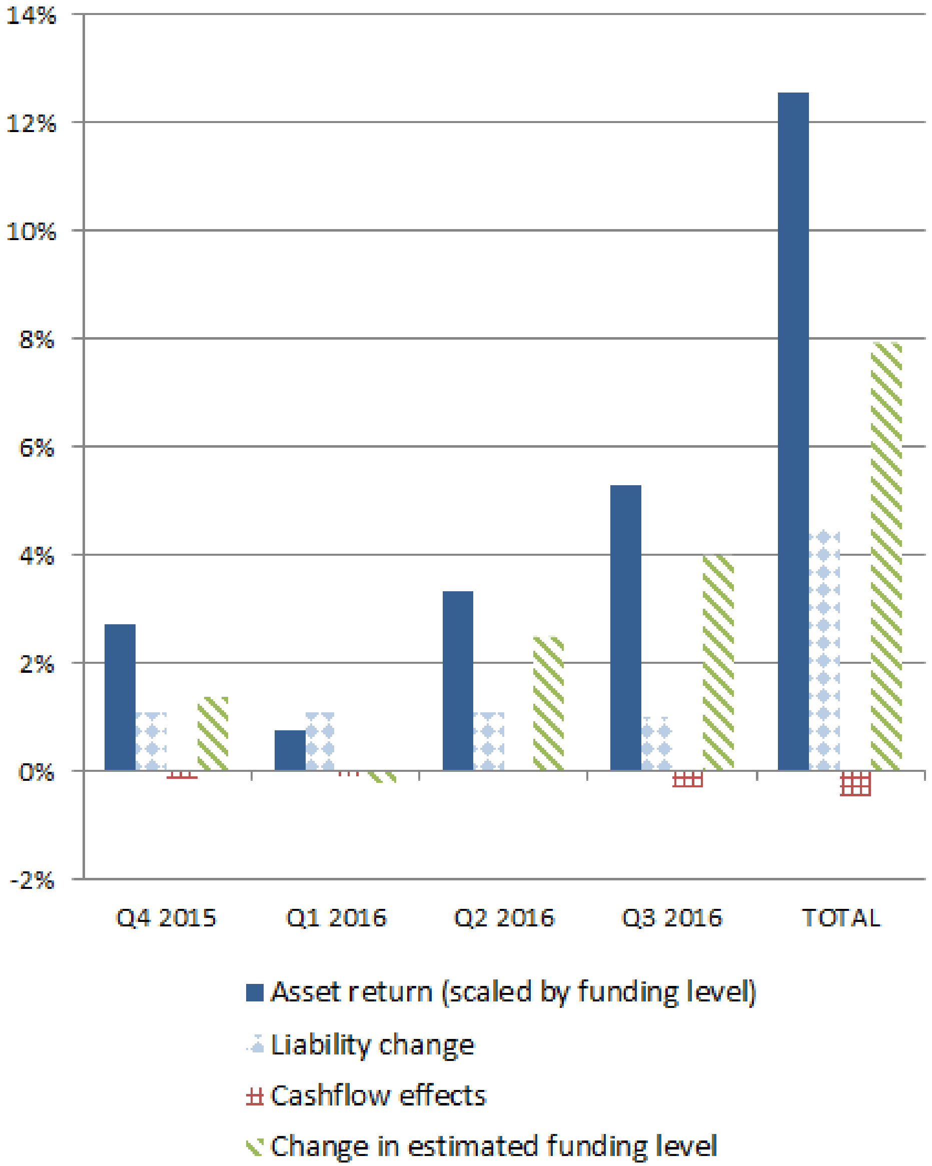
SECTION 4
CONSIDERATION OF FUNDING LEVEL

CONSIDERATION OF FUNDING LEVEL
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level increased by c. 4% over the third quarter of 2016, all else being equal, from 85% to 89%.
- 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.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the "CPI plus" discount basis.

CONSIDERATION OF FUNDING LEVEL
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned 6.2% over the quarter which, when allowing for the funding position, increased the funding level by 5.3%.
- The Fund's estimated liabilities increased by 1.1% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negative but small.
- Overall, the combined effect has led to a increase in the estimated funding level to 89% (from 85% at 30 June 2016).
- Over the 12 month period, the estimated funding level has risen by c.8%.

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	1,611,123	1,752,287	41.3	42.5	40.0	35 - 45	+2.5
Emerging Market Equities	358,238	385,222	9.2	9.3	10.0	5 - 15	-0.7
Diversified Growth Funds	363,166	368,673	9.3	8.9	10.0	5 - 15	-1.1
Fund of Hedge Funds	208,736	215,363	5.4	5.2	5.0	0 - 7.5	+0.2
Property	380,524	372,582	9.8	9.0	10.0	5 - 15	-1.0
Infrastructure	149,161	153,772	3.8	3.7	5.0	0 - 7.5	-1.3
Bonds	847,704	858,641	21.7	20.8	20.0	15 - 35	+0.8
Cash (including currency instruments)	-20,793	14,011	-0.5	0.3	-	0 - 5	+0.4
Total	**3,897,860**	**4,120,797**	**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 £223m due to positive returns from all asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS
VALUATION BY MANAGER

Manager Allocation

Manager	Asset Class	Start of Quarter (£'000)	Cashflows (£'000)	End of Quarter (£'000)	Start of Quarter (%)	End of Quarter (%)
BlackRock	Passive Multi-Asset	1,081,129	-560	1,176,622	27.7	28.6
Jupiter	UK Equities	174,182	-	188,908	4.5	4.6
TT International	UK Equities	208,744	-	222,410	5.4	5.4
Schroder	Global Equities	277,115	-	301,486	7.1	7.3
Genesis	Emerging Market Equities	166,886	-	179,161	4.3	4.3
Unigestion	Emerging Market Equities	191,352	-	206,060	4.9	5.0
Invesco	Global ex-UK Equities	307,650	-	337,782	7.9	8.2
SSgA	Europe ex-UK & Pacific inc. Japan Equities	127,575	-	142,333	3.3	3.5
Pyrford	DGF	131,310	-	135,239	3.4	3.3
Standard Life	DGF	231,856	-	233,435	5.9	5.7

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

FUND VALUATIONS
VALUATION BY MANAGER CONTINUED

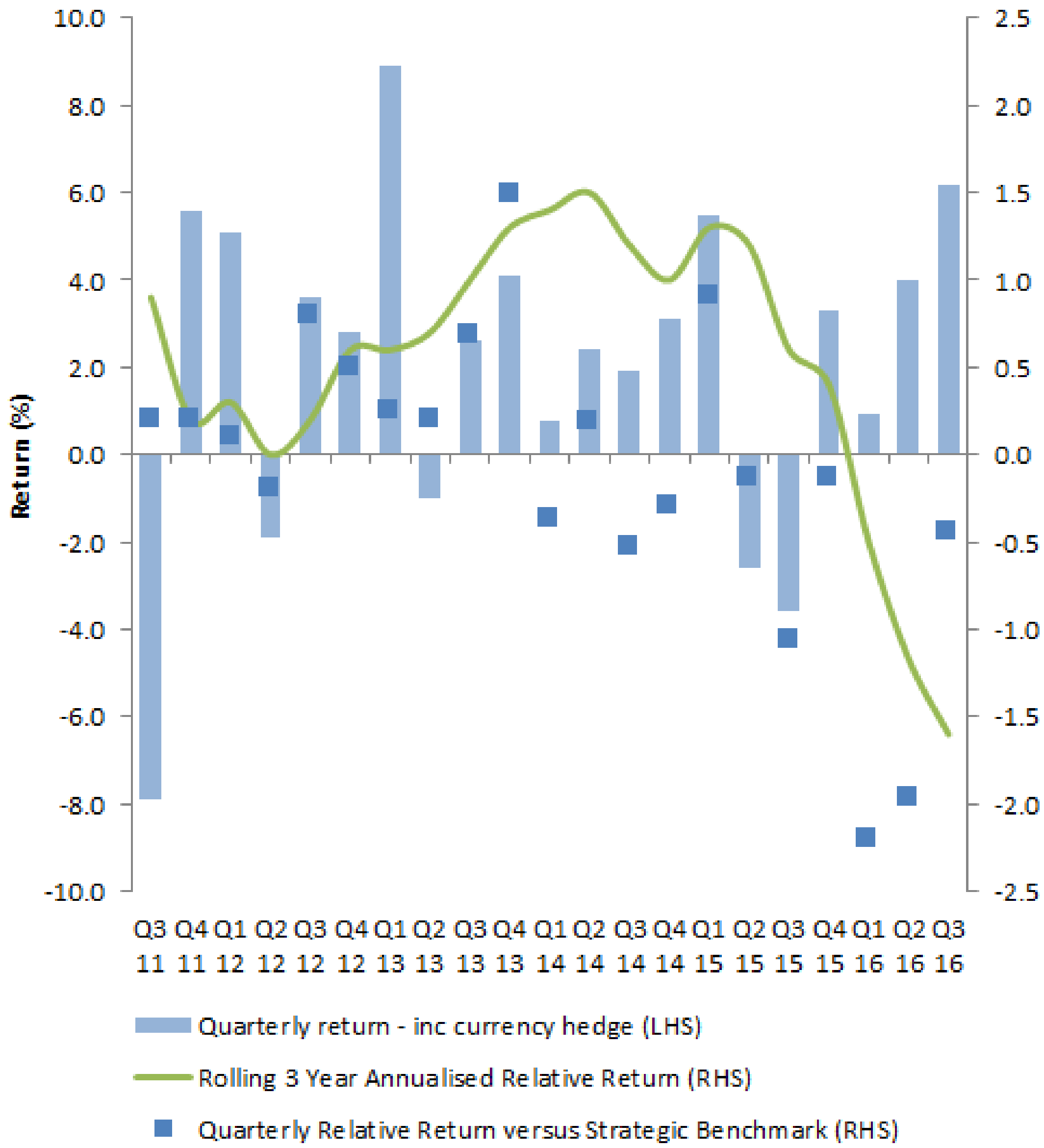
Manager Allocation						
Manager	**Asset Class**	**Start of Quarter (£'000)**	**Cashflows (£'000)**	**End of Quarter (£'000)**	**Start of Quarter (%)**	**End of Quarter (%)**
MAN	Fund of Hedge Funds	446	-	404	0.0	0.0
Signet	Fund of Hedge Funds	913	-135	1,000	0.0	0.0
Gottex	Fund of Hedge Funds	2,933	-	3,334	0.1	0.1
JP Morgan	Fund of Hedge Funds	204,444	-	210,966	5.2	5.1
Schroder	UK Property	194,598	-	194,155	5.0	4.7
Partners	Property	188,066	-7,785	188,135	4.8	4.6
IFM	Infrastructure	149,161	-	153,772	3.8	3.7
RLAM	Bonds	300,968	-60,000	258,577	7.7	6.3
Record Currency Management	Currency Hedging	-72,552	40,000	-62,320	-1.9	-1.5
Internal Cash	Cash	31,083	28,481	49,337	0.8	1.2
Total		**3,897,860**	**-**	**4,120,797**	**100.0**	**100.0**

Source: BNY Mellon, Avon. Totals may not sum due to rounding.
The cashflow column shows only the cash movements within the asset portfolio. It does not include non-investment cash movements such as employer contributions or pension payments made, however these amounts are included in the 'Internal Cash' start and end balance to reflect the asset value position of the total fund.

SECTION 6

PERFORMANCE SUMMARY

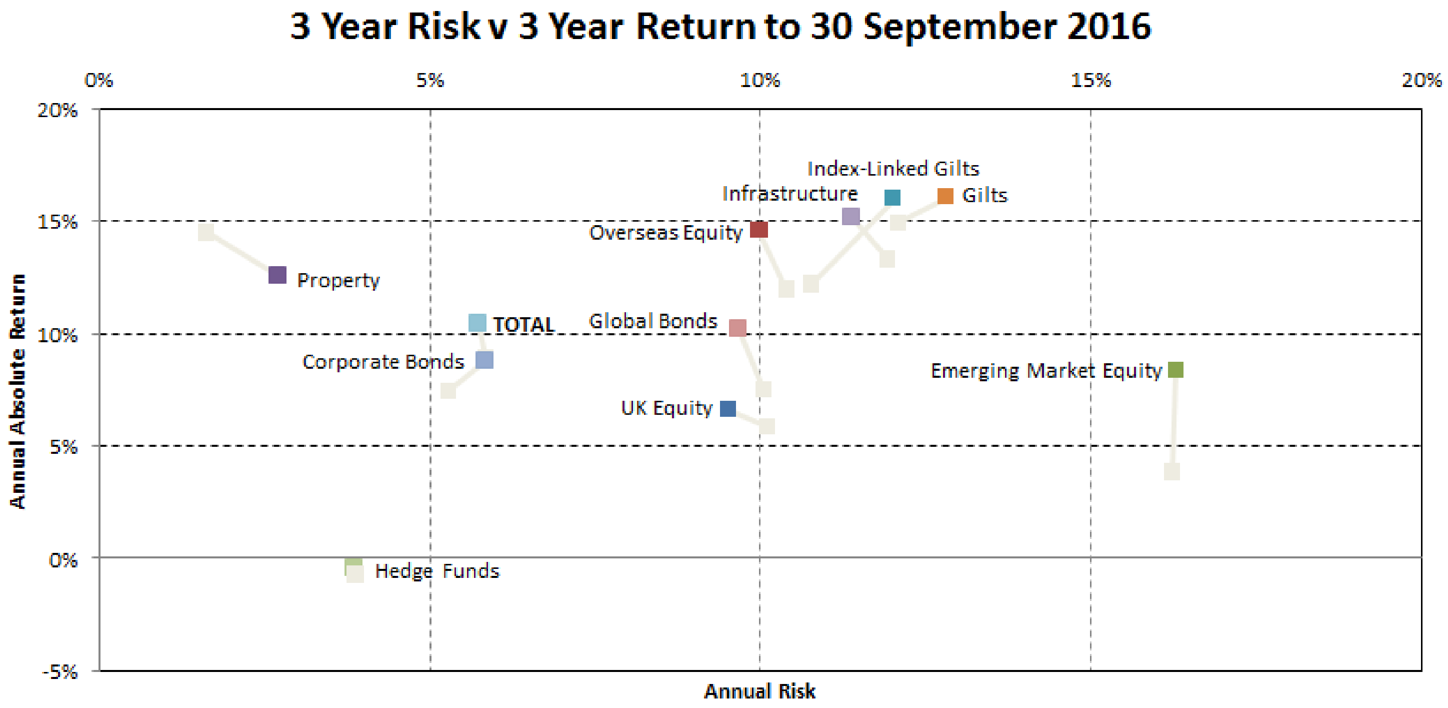
PERFORMANCE SUMMARY
TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	6.2	15.2	8.8
Total Fund (ex currency hedge)	6.8	19.5	10.1
Strategic Benchmark (no currency hedge)	6.6	20.5	10.4
Relative (inc currency hedge)	**-0.4**	**-5.3**	**-1.6**

- Over Q3 2016, the Fund underperformed its Strategic Benchmark by 0.4% when including the currency hedge but outperformed by 0.2% excluding the currency hedge (as Sterling continued to weaken).
- The Fund has underperformed the Strategic Benchmark over the year by 5.3% and by 1.6% p.a. over the three year period. Over the year, this was mostly due to the recent weakening of sterling and to a lesser degree manager underperformance (mainly in equities and Standard Life GARS).
- Due to the latest quarter's underperformance, the rolling three year underperformance went from -1.2% p.a. to -1.6% p.a.

MANAGER MONITORING
RISK RETURN ANALYSIS



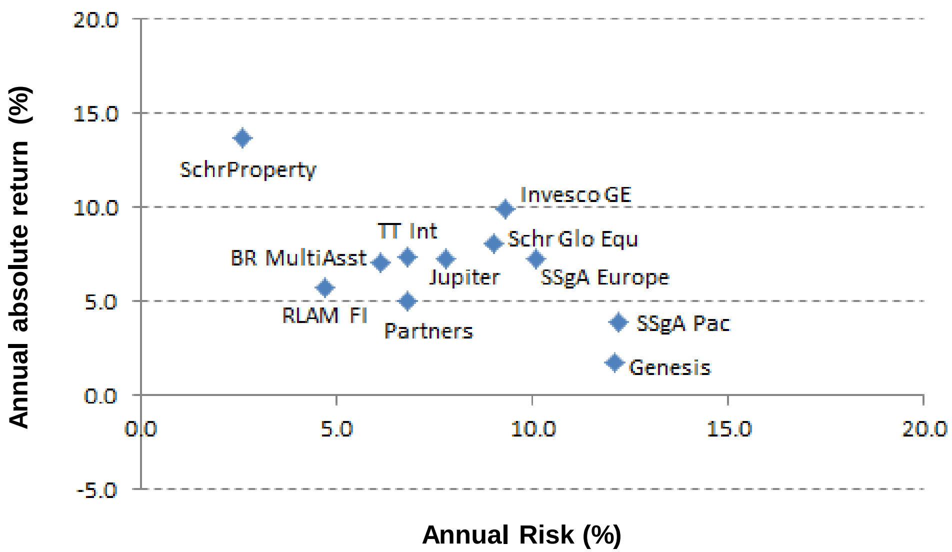
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2016, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark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

Comments

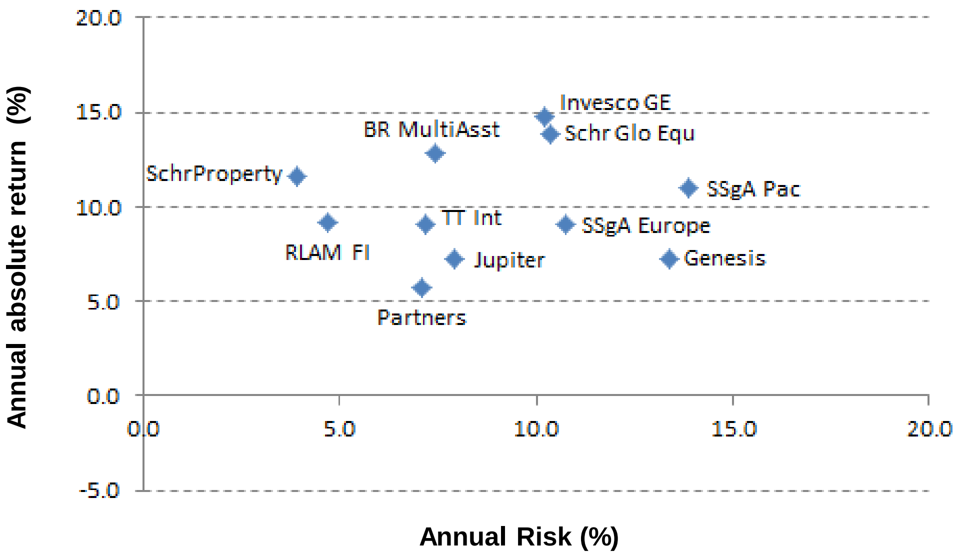
- *There were limited changes in observed returns and volatilities over the quarter. Returns increased for bonds and gilts as well as international equities. Property saw a decrease in observed return and an increase in volatility as a result (following a sustained period of consistent growth).*

MANAGER MONITORING
RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 June 2016



3 year Risk vs 3 year Return to 30 September 2016



Comments

- *Absolute returns for equities and fixed income mandates increased over the quarter (consistent with the picture seen on page 28). On the other hand, property absolute return decreased.*

MANAGER PERFORMANCE TO 30 SEPTEMBER 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	9.0	8.9	+0.1	25.7	25.7	-0.1	12.8	12.7	+0.2	-	Target met
Jupiter	8.3	7.8	+0.5	11.4	16.8	-4.6	7.1	6.6	+0.5	+2	Target not met
TT International	6.5	7.8	-1.2	14.5	16.8	-2.0	9.0	6.6	+2.3	+3-4	Target not met
Schroder Equity	8.7	8.5	+0.1	29.0	31.4	-1.8	13.5	13.8	-0.2	+4	Target not met
Genesis	8.3	12.3	-3.6	35.6	36.7	-0.8	7.2	7.4	-0.2	-	Target not met
Unigestion	7.7	12.2	-4.0	27.5	36.2	-6.3	N/A	N/A	N/A	+2-4	N/A
Invesco	9.8	8.0	+1.7	29.9	30.8	-0.7	14.8	14.7	+0.1	+0.5	Target not met
SSgA Europe	9.8	9.1	+0.6	21.4	21.0	+0.3	9.0	8.4	+0.6	+0.5	Target met
SSgA Pacific	12.4	12.2	+0.2	34.0	35.1	-0.9	11.0	10.4	+0.5	+0.5	Target met
Pyrford	3.0	1.9	+1.1	11.9	7.1	+4.5	N/A	N/A	N/A	-	N/A
Standard Life	0.5	1.4	-0.8	-1.8	5.7	-7.1	N/A	N/A	N/A	-	N/A
JP Morgan	4.1	0.9	+3.2	17.6	3.6	+13.5	N/A	N/A	N/A	-	N/A
Schroder Property	-0.3	-0.7	+0.4	2.8	3.4	-0.6	11.6	11.4	+0.2	+1	Target not met
Partners Property	6.4	1.1	+5.2	20.5	4.6	+15.3	7.3	11.6	-3.9	+2	Target not met
IFM	4.0	0.7	+3.2	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
RLAM	5.7	5.6	+0.1	13.2	14.0	-0.6	9.1	8.6	+0.5	+0.8	Target not met
Internal Cash	0.1	0.1	0.0	0.3	0.3	0.0	0.4	0.3	0.0	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- Returns are in GBP terms, consistent with overall fund return calculations before currency hedging in applied.
- 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); totals may not sum due to rounding.
- Partners fund performance shown in this table are time-weighted returns in sterling terms. Benchmark performance is 3 Month LIBOR +4% p.a. since its change in Q4 2015.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

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.

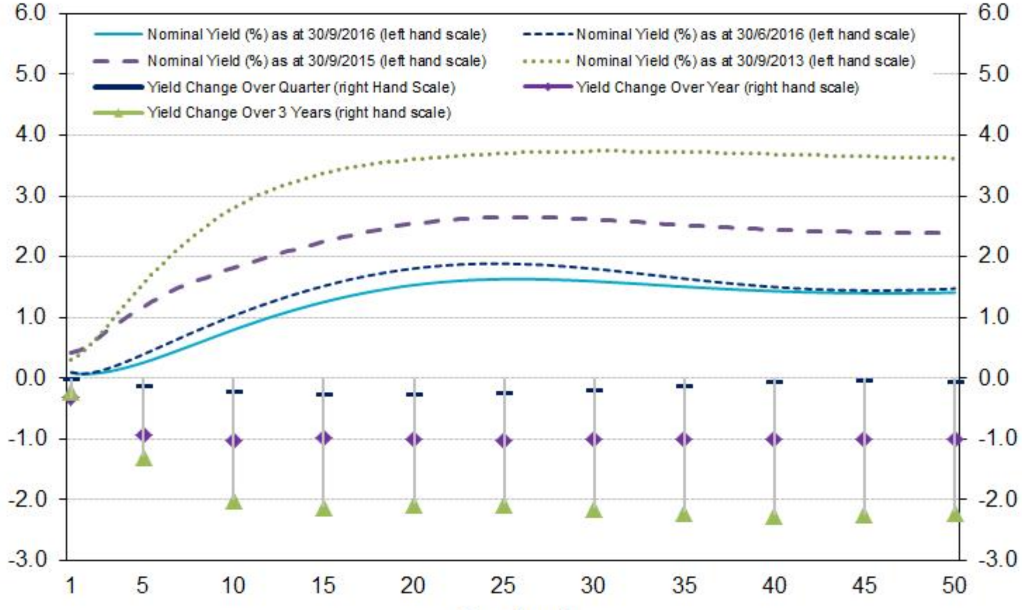
APPENDIX 3
CHANGES IN YIELDS

CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 September 2016	30 June 2016	30 September 2015	30 September 2014
UK Equities	3.46	3.66	3.71	3.34
Over 15 Year Gilts	1.42	1.61	2.38	2.98
Over 5 Year Index-Linked Gilts	-1.78	-1.38	-0.83	-0.35
Sterling Non Gilts	1.99	2.55	3.16	3.39

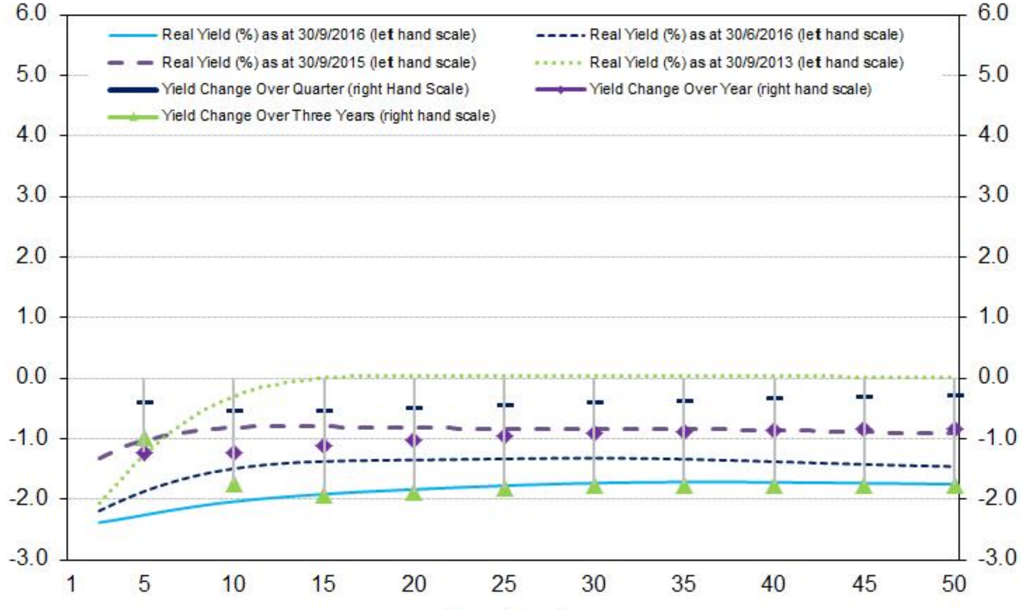
- Bond yields fell across all maturities over the quarter, resulting in positive absolute returns for investors.
- In the UK, further loosening of monetary policy by the Bank of England and subdued growth expectations led to a downward shift in government bond yields at the medium to long tenors over the quarter. As a result, the Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a positive return of 4.2%.
- Real yields also decreased over the quarter by an extent of c.30 to 50 bps on the back of lower nominal yields and an increase in breakeven inflation rates. The Over 5 Year Index-Linked Gilts Index posted a strong positive return of 11.0% over the quarter.
- Credit spreads tightened by c.40 bps, with the sterling Non-Gilts All Stocks and sterling Non-Gilts All Stocks over 10 years indices both ending the quarter at c.1.2%. This, along with a decrease in government bond yields, led to UK credit assets posting a positive return of 6.0% over the quarter, outperforming the broader global credit market.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY

MERCER