Review for period to 31 December 2010

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

Bekki Jones, BSc (Hons), IMC
Investment Consultancy Analyst

Dave Lyons, BA (Hons), IMC
Divisional Director

February 2011

Section One – Executive Summary

- This report is produced by JLT Investment Consulting ("JLT") to assess the performance and risks of the investment managers of the Avon Pension Fund (the "Fund"), and of the Fund as a whole.

Highlights

- The total Fund's assets rose in value by £134m over the fourth quarter of 2010, to £2,626m as at the end of December 2010.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 5.2%, outperforming the customised benchmark by 0.3%. Over the last year, the Fund produced a return of 13.4%, which was 0.7% ahead of the customised benchmark return of 12.7%. Over 3 years, the Fund has produced a return of 3.8% p.a., underperforming the customised benchmark by 0.7% p.a.
- The positive absolute performance over the quarter was driven by all managers producing positive absolute returns, except RLAM. The returns from the equity funds were the primary drivers of positive returns, followed by fund of hedge funds and property.
- Over the one year period, absolute performance remains positive due to strong positive returns in the first, third and fourth quarters of 2010 more than offsetting negative returns in the second quarter.
- The relative outperformance over the quarter resulted from the outperformance of almost all managers, in particular Partners, MAN, Invesco, Stenham and Lyster Watson. Apart from negative relative returns from Jupiter and Genesis, all managers contributed positively to relative returns for the quarter. The assets with BlackRock and RLAM performed broadly in line with their benchmarks.
- There were no significant changes to the Fund's asset allocation during the quarter besides those driven by market movements.
- In October 2010, Man Group plc completed the acquisition of GLG Partners, Inc ("GLG"), which created a multi-style alternative asset manager with funds of $63 billion under management. GLG is now a wholly owned subsidiary of Man.
- In January 2011, State Street Global Advisors ("SSgA") completed the acquisition of Bank of Ireland Asset Management ("BIAM") for approximately €57 million, which SSgA stated enhances their Global Investment Platform.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. We have identified no causes for concern with this strategy outside of the areas that are currently being discussed and progressed by the Investment Panel. The Fund is currently progressing the appointment of a global equity manager, identified through the search that took place over the latter half of 2010. We also note that the Pre Qualification Questionnaire stage of the Fund's search for an active hedging currency manager is completed and the Invitation to Tender stage closes at the end of March 2011.
- Manager Performance: We have identified no areas of significant concern regarding the managers.

- The largest negative return over the quarter came from Jupiter, whose performance has generally been volatile relative to the benchmark, although this is in part a function of the Socially Responsible Investment ("SRI") constraints given to Jupiter. The Fund will be reviewing its approach to SRI in the near future and it is therefore appropriate to not invest new monies with Jupiter as part of any rebalancing that is required until the conclusions of this review are known.
- A review of the Fund's fund of hedge fund allocation is also underway, thus implying that this part of the portfolio should not be included in any investment of new monies. These areas aside, we see no reason not to invest with any of the active managers during any rebalancing process.

Section Two – Market Background

- The table below summarises the various market returns to 31st December 2010, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns Growth Assets	3 Mths %	1 Year %
UK Equities	7.4	14.5
Overseas Equities	9.6	17.2
USA	11.5	18.8
Europe	5.1	6.6
Japan	12.8	19.0
Asia Pacific (ex Japan)	8.3	23.9
Emerging Markets	8.1	23.6
Property	2.2	14.5
Hedge Funds	4.8	11.3
Commodities	14.1	12.5
High Yield	2.8	17.5
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-3.5	8.8
Index-Linked Gilts (>5 yrs)	1.1	9.0
Corporate Bonds (>15 yrs AA)	-3.7	9.6
Non-Gilts (>15 yrs)	-3.9	9.5
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	1.4	4.8
Consumer Price Index (CPI)	1.7	3.7
Earnings Inflation *	0.1	2.3

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	-0.6	-3.0
Against Euro	1.1	3.7
Against Yen	-3.5	-15.5
Yields as at 31 Dec 2010	**% p.a.**	
UK Equities	2.89	
UK Gilts (>15 yrs)	4.14	
Real Yield (>5 yrs ILG)	0.49	
Corporate Bonds (>15 yrs AA)	5.42	
Non-Gilts (>15 yrs)	5.40	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	0.3	-0.3
Index-Linked Gilts (>5 yrs)	0.0	-0.2
Corporate Bonds (>15 yrs AA)	0.5	-0.2
Non-Gilts (>15 yrs)	0.4	-0.3

* is subject to 1 month lag

Statistical highlights

- During the quarter, the rate of CPI inflation increased from 3.1% to 3.7% and it remains persistently above the Bank of England's 2% target level, with one year Retail Price Index ("RPI") inflation running at 4.8%.

- The Bank of England's Monetary Policy Committee again kept interest rates on hold at 0.5%, and unveiled no new quantitative easing measures. The last change in interest rates was in March 2009 (a reduction from 1.0%). There is a difference of opinion with a growing minority of members now voting in favour of increasing interest rates, another voting for an extension of the policy of quantitative easing and the other members voting for no change.
- The latest economic figures, which saw UK Gross Domestic Product revised down from -0.5% to -0.6% for the fourth quarter of 2010, have increased concerns that the rate of economic growth will slow further in 2011 as a result of the impact of the government's £85 billion spending cuts and VAT rising to 20% from 17.5% on 4 January 2011.
- The political and financial situation in Europe remains uncertain with speculation that further international bailouts will be required. Sterling appreciated by 1.1% against the Euro over the quarter as the Euro was adversely affected by increasing concerns about sovereign debt problems within the peripheral Eurozone countries.
- At the beginning of the quarter, US stocks benefited from expectations that the US Federal Reserve would unveil another round of quantitative easing in order to help maintain the economic recovery. The Federal Reserve duly announced a further $600 billion of US Treasury purchases in November and encouraging economic data towards the end of the fourth quarter led to an improvement in market confidence.
- Equities continued their positive run over Q4 2010 with all major equity markets producing strong positive returns. In sterling terms, each region posted a positive return over the quarter. The Japanese market posted the strongest return over the quarter (+12.8%) closely followed by USA (+11.5%), Asia Pacific (ex Japan) (+8.3%) and Emerging Markets (+8.1%).
- The majority of fixed interest assets produced negative returns over the fourth quarter with, for example, long-dated gilts producing a return of -3.5%.

UK market events – Q4 2010

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **Government Debt:** At the end of January 2011 UK national debt stood at £867.2 billion or 57.6% of GDP as compared to £720.9 billion (50.4% of GDP) at the end of January 2010.
- **Unemployment:** The number of people unemployed in the UK increased by 44,000 over the quarter to reach 2.49 million. The unemployment rate for the three months to December 2010 was 7.9%, up 0.1% on the previous quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 2,400 between December 2010 and January 2011 to reach 1.46 million according to the Office for National Statistics.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey rose to a record high figure of 62.0 in January after rising to 58.7 in December and as compared to 53.5 in September 2010 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 4% in January 2011, up from 3.7% in December 2010. RPI annual inflation was 5.1% up from 4.8% in December 2010. RPIX inflation, which excludes mortgage interest payments was 5.1% in January, up from 4.7% in December 2010.

The equivalent annualised EU CPI figure for December was 2.6%. The largest downward pressures to the change in CPI inflation came from recreation and culture, miscellaneous goods & services and clothing & footwear while the largest upward pressures came from restaurants and cafes, alcoholic beverages, purchase of vehicles, furniture & furnishings and fuel & lubricants prices, where the price of petrol stood at £1.27 per litre in January 2011, a record high.

- **Gross Domestic Product:** In the fourth quarter of 2010, GDP decreased by 0.6% revised down from the previously estimated fall of 0.5%. GDP in the fourth quarter of 2010 is now 1.5% higher than the fourth quarter of 2009. The decline in the fourth quarter was due to decreases in two of the component aggregate series, namely services and construction. Total services output decreased by 0.7% in the fourth quarter compared with a rise of 0.5% in the previous quarter while construction output decreased by 2.5% in the fourth quarter, compared with a rise of 3.9% in the previous quarter.
- **Interest Rate:** Despite inflation remaining well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been the situation since March 2009. Given the GDP figures for the fourth quarter of 2010 the Bank of England faces a difficult choice - either keep interest rates low to try to aid the economic recovery, or raise them to try to cool inflation.

Europe market events – Q4 2010

- **European Sovereign Debt Crisis:** The European Union is again struggling to persuade investors that it has the cash and the will to address the root cause of its growing debt burden that is adversely impacting a number of European Union governments and their banking systems. While Eurozone member states benefited enormously from low borrowing costs and currency stability, several – especially countries such as Portugal and Greece on the Eurozone's periphery – neglected fiscal discipline and underwent a severe loss of competitiveness, with near catastrophic results. In Ireland, a banking crisis added another dimension to the problems. The aim now is not just to fight the current crisis but to avert future disasters as well. However, on the back of all these problems, European financial stocks had their best January in more than a decade as investors bet policymakers will backstop the Euro region's indebted nations and preserve the currency union.
- **Ireland:** Ireland had to be rescued with a €85bn bail-out by the European Union and International Monetary Fund in November, after its cost of borrowing rocketed in the wake of a banking and property crash and one of the deepest recessions of any industrialised economy. Ireland's central bank has more than halved its growth forecast for 2011 following the austerity budget in December, with employment set to continue falling, slower exports and lower consumption following the introduction of higher taxes. The central bank's latest quarterly economic forecast, published on January 31st, expects GDP to grow this year by 1%, compared with the 2.3% predicted in its October forecast.
- **Greece:** Fitch cut Greece's credit rating to junk status in January, highlighting persisting doubts over the country's ability to pull itself out of a severe debt crisis that has shaken the Eurozone. The rating agency cut Greece's rating to BB+ from BBB- and maintained its negative outlook. Greek debt is now rated junk by all three major rating agencies. Its debt is about €300bn ($419bn; £259bn), and the government estimates it will need to borrow about €53bn this year to cover budget shortfalls. Debt servicing is now costing Greece 11.6% of its

GDP and it has to pay more interest on loans due to its credit rating downgrade. Eight months after a European Union-led bailout, investors are still charging Greece 8.1% more to lend to it over 10-years than to Germany. That spread reached a record 9.7% on 7 January 2011.

- **Spain:** Spain is in a much more secure position than its "Club Med" neighbours, because it starts with a level of national debt that is comparable to the UK, France and Germany – around 60% of GDP (against well over 100% in Greece). Spain's banks are strong and acquisitive, stronger than most other countries' institutions. But Spain's annual budget deficit, like the UK's and Greece's, has spiralled into double figures – at almost 12% of GDP. Fourth-quarter unemployment stood at 20.3%, up from 19.8% in the third quarter, and the highest level since the second quarter of 1997, when it was at 20.7%.
- **Germany:** Germany enjoyed its fastest economic expansion in two decades last year as booming exports spurred hiring and consumer spending. GDP jumped 3.6%, the most since data for a reunified Germany began in 1992, after slumping 4.7% in 2009 according to the Federal Statistics Office. The German government has recently raised its economic growth forecast for the year to 2.3% as rising exports help to offset concerns about Europe's debt crisis. Private consumption rose 0.5%, state spending increased 2.2% and capital investment jumped 5.5%. Unemployment dropped by 262,000 in 2010, while net trade contributed 1.1% to growth, with exports surging 14.2% and imports up 13%.
- **Unemployment:** The EU27 unemployment rate was at 9.6% in December 2010, unchanged compared to November 2010. The unemployment rate was 9.5% in December 2009. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.3%), Luxembourg (4.9%) and Austria (5.0%), and the highest in Spain (20.2%), Slovakia (14.5%) and Ireland (13.8%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI increased to 56.3 in January 2011 from 55.5 in December 2010, driven by a sharp increase in the services PMI from 54.2 in December to 55.2 in January. This indicates that the recovery is maturing and that private consumption should contribute more to this year's growth. The manufacturing PMI decreased slightly from 57.1 to 56.9, still at a reasonable level.
- **Inflation:** The annual inflation rate in the Euro area was reported at 2.5% in January 2011.
- **Gross Domestic Product:** GDP increased by 0.3% in the Euro Area (EA16) and by 0.2% in the EU27 during the fourth quarter of 2010.
- **Interest Rate:** The European Central Bank has maintained its decision to keep the base rate at a record low of 1.0% since May 2009.

US market events – Q4 2010

- **Unemployment:** The rate of unemployment in the US decreased from 9.4% in December 2010 to 9.0% in January 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.8% in December after having risen 0.3% in November. For the fourth quarter as a whole, industrial production increased at an annual rate of 2.4%, a slower pace than in the earlier quarters of the year. In the manufacturing sector, output moved up 0.4% in December with gains in both durables and nondurables.

- **Inflation:** The annual inflation rate in the United States was reported at 1.6% in January 2011.
- **Gross Domestic Product:** US real GDP increased by 2.8% over the fourth quarter of 2010, against a (revised upwards) 2.6% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q4 2010

- Emerging Markets remained very much in the spotlight. With the prospect of significant capital inflows to the region continuing, many emerging countries are embarking on capital controls in an attempt to prevent excessive destabilisation of their domestic economies. China will continue to lead the world's economic output in 2011, with its economy projected to grow 9.6% year-on-year in 2011, according to the International Monetary Fund ("IMF").
- Over the quarter, policy tightening has been the major theme across the developing Asian countries following stronger than expected economic data. In China, further administrative measures were put in place to curb property market price growth, as well as interest rate increases and reserve requirement hikes in order to keep inflation, which rose to 4.9% in January 2011, under control.
- Rising food prices – with food representing up to 60% of the consumer price index in some emerging markets – are also increasing inflationary pressures. The UN's Food and Agriculture Organisation has warned that the world is "dangerously close" to another food crisis in 2011, citing a global shortage of corn and wheat.
- India's annual GDP growth is expected to race ahead at 8.5% this year. The major issue in India is food inflation, which reached 17.1% in February 2011.

Market events – Global summary – 1 year

- The major market events over the 12 month period to 31 December 2010 were the sovereign debt problems within the Eurozone; in particular, the possibility that the Greek government might default on its debt. There were also fears that similar problems would affect the government bond markets in Spain, Portugal, Italy and Ireland. Eventually, a €750bn bailout package, spearheaded by the German Chancellor, Angela Merkel, was put together to alleviate the problems of Greece and provide support for any other EU countries which may fall into difficulty. The Irish economy was rescued in November 2010 with the Irish government agreeing to an €85bn bailout, with €35bn going towards propping up the Irish banking system and the remaining €50bn to help the government's day to day spending.
- In the UK, the Bank of England has not raised interest rates over the past 12 months or extended its Quantitative Easing programme; consequently, total asset purchases by the Bank of England through this scheme remained at £200bn. Towards the end of 2010, there was a clear split emerging in the Bank of England's Monetary Policy Committee, with a growing minority of members voting in favour of increasing interest rates and one voting for an extension of the policy of Quantitative Easing.
- Interest rates in the US and the Eurozone were also unchanged over the year at 0.25% and 1.0% respectively. Japan's central bank cut its interest rates to almost zero as it tried to

stimulate the country's faltering economy. A near zero policy means that the rate moves within a small range between 0% and 0.1%, although no fixed rate is set. In contrast, in India the central bank has raised interest rates seven times over the course of 2010 ending the year at 5.25%. India has been facing rising food prices, as the soaring cost of staple goods such as grain, pulses, fruit and vegetables has caused economic as well as political tension.

- UK GDP grew during the first three quarters of 2010, although the economy contracted by 0.6% in the fourth quarter of 2010, with the most recent data leading to concerns the UK economy may slide back into recession as the impact of the cuts in public spending began to be felt. Despite the problems in Greece, GDP growth in the Eurozone remained positive throughout the year (mainly driven by Germany) as did GDP growth in the United States.
- Sterling appreciated by 3.7% against the Euro over the year as the Euro was adversely affected by the sovereign debt problems within the peripheral Eurozone countries. At the same time, sterling was supported over the second half of the year by speculation that increasing UK inflationary pressures might lead to the Bank of England raising interest rates over the coming months.

Equities

- Equities produced a strong absolute return over the year to 31 December 2010 despite a poor Q2 2010 and a stumble in the early part of Q4.
- The global economy continued its rally in the first half of the year despite a brief setback in Q2 2010, which was due to a moderation in the pace of economic recovery in both the Eurozone and the United States, the European sovereign debt crisis dominating headlines, weaker than expected housing and unemployment statistics in the US and policy tightening in emerging economies such as China. Q3 and Q4 2010 saw equities bounce back following better than expected corporate profits in the major economies.
- In sterling terms, Asia Pacific (ex Japan) and Emerging Markets produced the strongest returns, followed by Japan and USA. Japanese equities produced the weakest returns in local currency terms.
- Sterling investors will have generally benefited from currency movements if they were unhedged as sterling generally weakened against each of the major currencies, except the Euro, over the year to 31 December 2010.

Bonds & credit

- Gilt yields have remained low despite the consensus view at the beginning of the year that gilt yields had to rise to compensate for the raft of new issuance. There were also fears that gilt prices could fall if the policy of Quantitative Easing programme were to be unwound, although these fears were not realised over the year to 31 December 2010 as the programme was not unwound.
- Longer-dated gilt yields fell by around 0.3% over the one year period to 31 December 2010 as investors sought more secure investments on fears over a possible double-dip recession and then due to the sovereign debt problems seen in the so-called 'PIIGS' countries, (Portugal, Italy, Ireland, Greece and Spain).

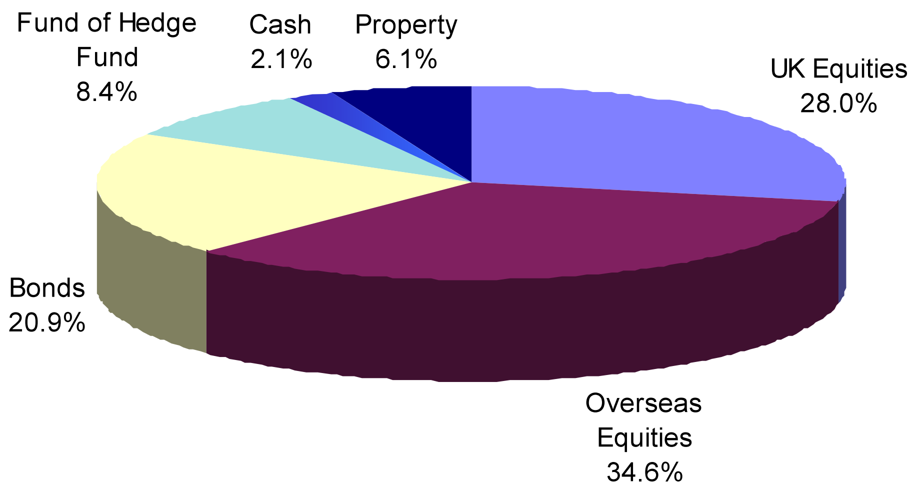
- Corporate bonds posted a strong absolute return over the year, due to a strong corporate profitability, although the fourth quarter saw some investors begin to take profits after a strong rally and further evidence of an economic recovery that might benefit equity markets.
- The real yield on index-linked gilts also fell over the 12 month period as concerns surrounding potential inflation led to excess demand relative to supply.

Alternative asset classes

- UK commercial property posted a positive return in each quarter over the year. The return over the year is primarily the result of capital appreciation although income also played a notable role. The property return was driven by investors' belief that property prices bottomed out in mid 2009 and there was a significant increase in investor interest in this sector, although some analysts have suggested that the recent performance was the result of excess demand rather than an improvement in underlying fundamentals. This view is illustrated by the number of investors currently held in queues to enter property funds.
- Hedge funds have also had a positive year, with double-digit returns, but, as would be expected in strongly rising equity markets, have underperformed the majority of the regional equity indices. However, the hedge fund returns were achieved with significantly less volatility than equities. The Dow Jones Credit Suisse Hedge Fund Index has now recaptured all of its losses suffered during the recent financial crisis and there were significant inflows into this sector in 2010.
- Commodities produced a strong rally in the fourth quarter of 2010 to achieve a 12.5% return for the year as a whole. Global food prices rose to fresh highs in December 2010 and are well above the level in 2008, when there were riots in several countries that were provoked by the high level of food prices at that time.
- High yield bonds also performed strongly with spreads relative to government bonds falling substantially - benefitting from liquidity being pumped into the global financial markets, loose monetary policy in many developed economies and generally improving sentiment around the prospects for global growth.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 31 December 2010, with the BlackRock Multi-Asset portfolio and the BlackRock property portfolio (assets “ring fenced” for investment in property) split between the relevant asset classes.



Asset Class	31 December 2010 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	735,814	28.0	27.0
Overseas Equities	911,769	34.7	33.0
Bonds	548,764	20.9	20.0
Fund of Hedge Funds	220,240	8.4	10.0
Cash	55,395	2.1	-
Property	159,773	6.1	10.0
Reconciling differences and rounding	-5,611	-0.2	-
TOTAL FUND VALUE	**2,626,144**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £134m over the fourth quarter of 2010 to £2,626m, mainly as a result of positive absolute investment performance from all asset classes except bonds. UK Equities and Overseas Equities produced the highest absolute returns; 7.3% and 9.4% respectively. These assets comprise approximately 63% of the Fund's investments.
- There has been no significant change to the asset allocation, which has largely drifted with investment market movements over the quarter. There was some further funding of property investments over the quarter.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 September 2010		Net New Money £'000	31 December 2010	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	101,567	4.1	-	107,692	4.1
TT International	UK Equities	123,106	4.9	-	132,581	5.0
Invesco	Global ex-UK Equities	148,145	5.9	-	166,525	6.3
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	83,690	3.3	-	91,189	3.5
Genesis	Emerging Market Equities	138,629	5.6	-	149,537	5.7
Lyster Watson	Fund of Hedge Funds	9,874	0.4	-	9,752	0.4
MAN	Fund of Hedge Funds	95,591	3.8	-	99,699	3.8
Signet	Fund of Hedge Funds	46,328	1.9	-	46,867	1.8
Stenham	Fund of Hedge Funds	11,427	0.4	-	11,689	0.4
Gottex	Fund of Hedge Funds	51,433	2.1	-	52,232	2.0
BlackRock	Passive Multi-asset	1,293,335	51.9	-	1,362,979	51.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	113,428	4.6	-21,350	93,157	3.5
RLAM	Bonds	131,988	5.3	-	128,979	4.9
Schroder	UK Property	93,810	3.8	20,100	115,988	4.4
Partners*	Property	34,192	1.4	3,235	41,786	1.6
Internal Cash*	Cash	15,799	0.6	-1,985	15,491	0.6
Rounding		0	0.0	-	1	0.1
TOTAL		**2,492,342**	**100.0**	**-**	**2,626,144**	**100.0**

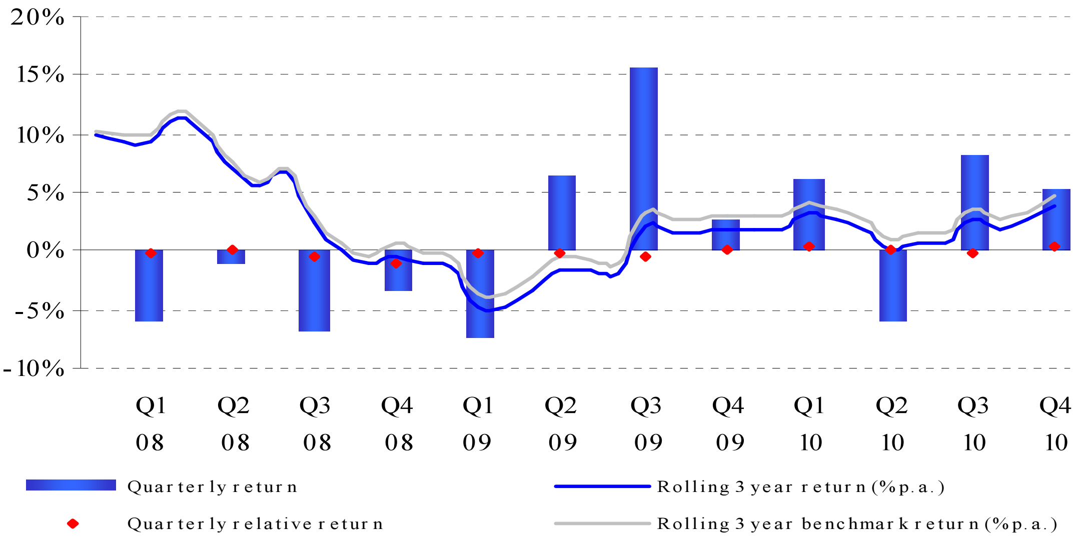
Source: Data provided by WM Performance Services
* Cashflows include two transactions each of which have been converted to GBP

Section Four – Performance Summary

Total Fund performance

- The chart below shows the absolute performance of the total Fund's assets over the last 3 years.

Total Fund absolute and relative performance

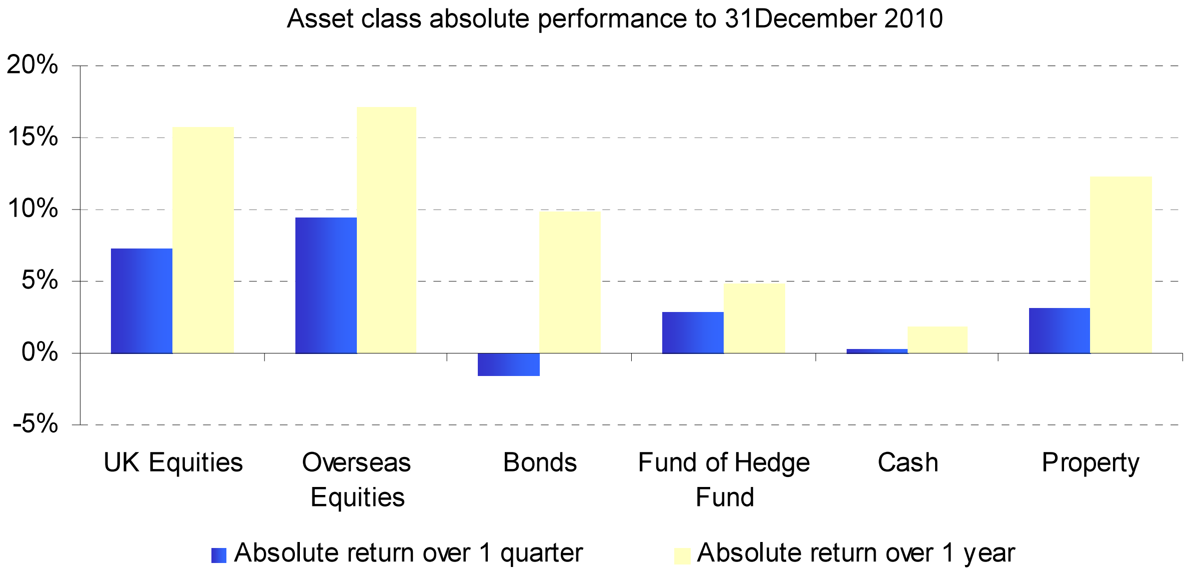


Source: Data provided by WM Performance Services

- Please note that the rolling 3 year return has been included in place of the rolling 1 year returns shown in earlier quarters, to provide a longer term view of investment performance.
- Over the last quarter (blue bars) the total Fund's assets produced a return of 5.2%, outperforming the customised benchmark by 0.3%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 13.4%, outperforming the customised benchmark by 0.7%.
- Over the last 3 years (blue versus grey line), the total Fund's assets produced a positive return of 3.8% p.a., underperforming the customised benchmark by 0.7% p.a.
- The driver of positive absolute performance over the last quarter was the positive absolute returns from all of the Fund's managers, except RLAM (see page 17) and across all asset classes, except bonds (see page 15).
- The slight outperformance over the quarter arose from positive relative returns from a number of managers, most notably Partners, MAN and Invesco. BlackRock (multi asset) and RLAM performed broadly in line with their benchmarks. There were two underperforming managers (Jupiter and Genesis) but these were outweighed by the positive relative returns.

Asset classes performance

- The chart and table below show the absolute performance of the Fund's assets by asset class over the quarter and year to 31 December 2010. Note that the returns from the BlackRock Multi-Asset portfolio and the second BlackRock portfolio, which hold a combination of asset classes, are aggregated within the relevant asset class returns.



Source: Data provided by WM Performance Services

- Over the fourth quarter of 2010, all asset classes produced positive absolute returns except bonds.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 7.4% and 9.6% respectively.
- Sterling depreciated against the Dollar and Yen over the quarter, meaning a higher return on the Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro denominated overseas equities in sterling terms. All major markets produced positive returns for the quarter in local currency terms. The highest local currency return came from the Japan region and the lowest from the Europe (ex UK) region.
- Bonds produced negative absolute returns of 1.6% over the quarter due to the rising yield (falling price) on UK Government bonds (gilts). However, positive returns from UK index-linked bonds mitigated the negative impact from conventional gilts to a certain extent.
- The fund of hedge fund portfolio produced positive returns of 2.8% over the quarter.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 31 December 2010:

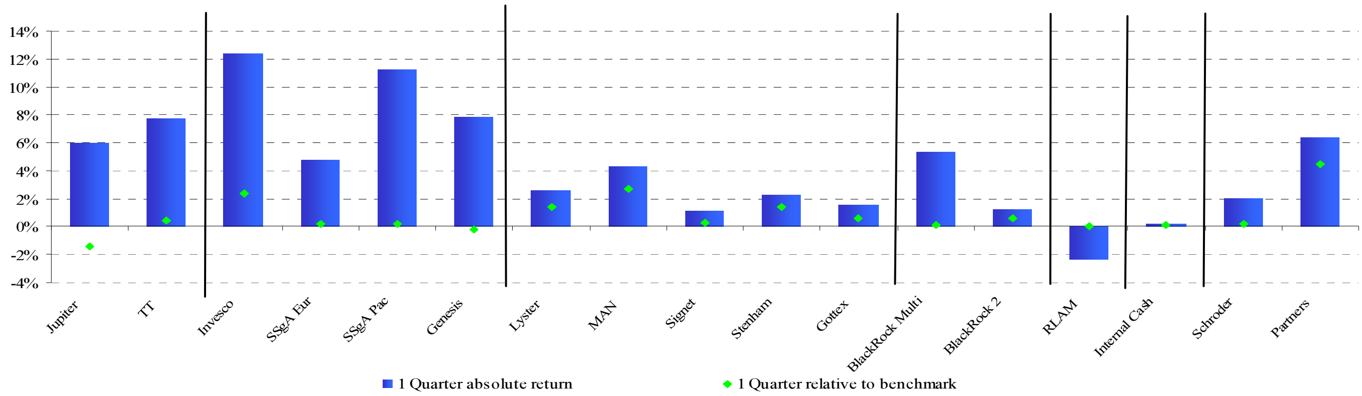
Asset Class	Weight in Strategic Benchmark	Q4 2010 (index returns)	1 year (index returns)
UK Equities	27%	7.4%	14.5%
Overseas Equities	33%	9.6%	17.2%
Index Linked Bonds *	6%	1.1%	8.9%
Gov Bonds – Fixed *	14%	-2.1%	7.2%
Corporate Bonds *		-2.6%	8.7%
Hedge Funds	10%	4.8%	11.3%
Property	10%	2.2%	14.5%
Total Fund	**100%**		

*Please note that these are 'all maturities' index returns and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two.

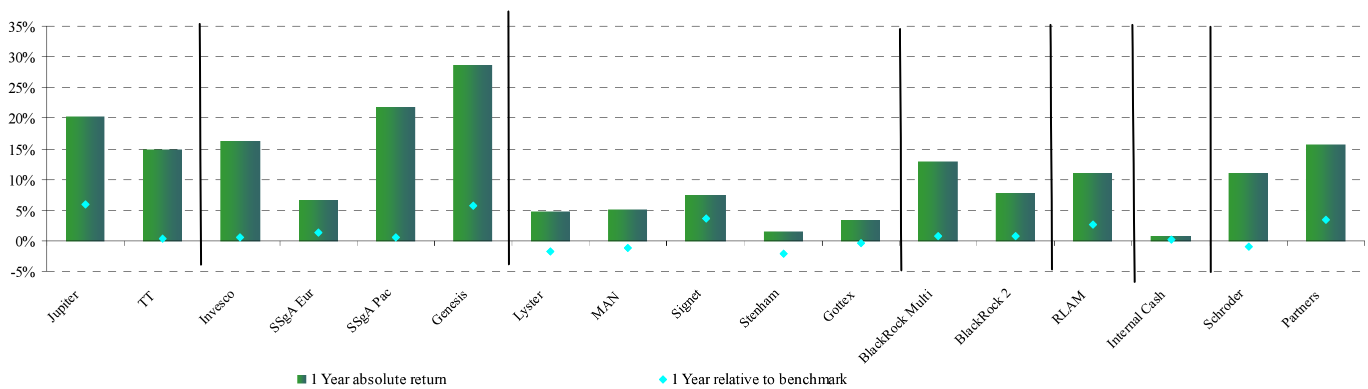
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of December 2010. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 December 2010



Absolute and relative performance - year to 31 December 2010

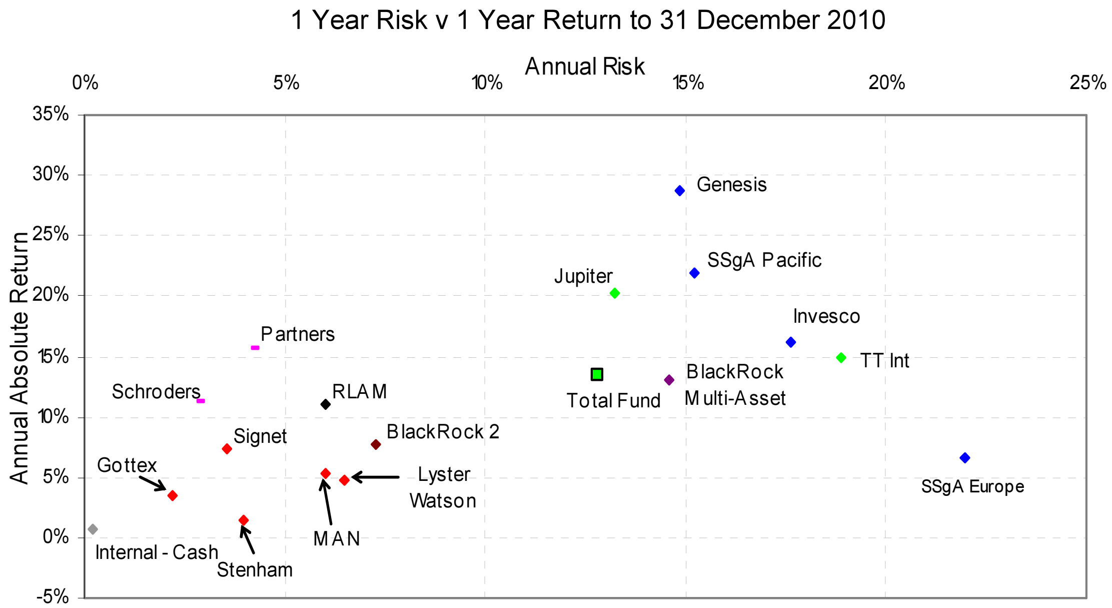


Source: Data provided by WM Performance Services

- All of the Fund's investment managers produced positive absolute returns over the quarter except RLAM.
- Over the quarter, the strongest absolute performance came from Invesco. In relative terms, Partners performed the best over the quarter, outperforming their benchmark by 4.5%, whilst the worst relative performance came from Jupiter, underperforming their benchmark by 1.4%.
- Over the year, all absolute returns were positive. Continuing to be of note is the one year return achieved by the Genesis Emerging Markets equity portfolio, which was 28.5%, well ahead of the benchmark return of 22.9%.

Manager and total Fund risk v return

- The chart below shows the 1 year absolute return ("Annual Absolute Return") against the 1 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of December 2010 of each of the funds, along with the total Fund.



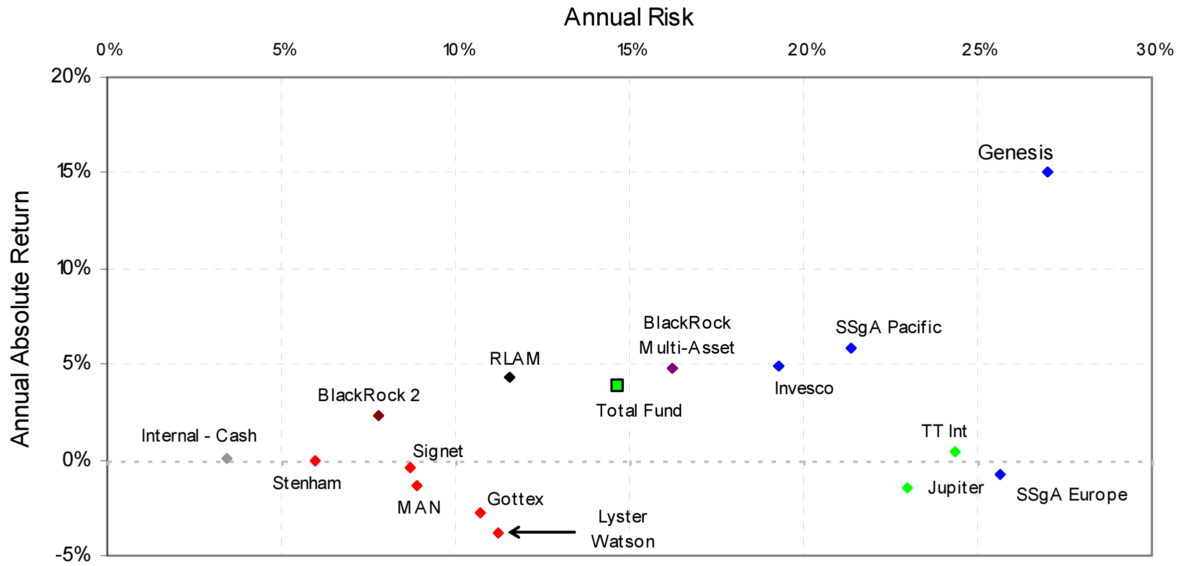
Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund
  - Pink: Property

- The volatility of returns over the year has remained broadly in line with the previous quarter. The fund where volatility decreased notably compared with the last quarter was Schroders while others were broadly in line with the previous quarter. Partners is shown for the first time in the above chart.
- There has been a general shift upwards in the annual returns compared to the last quarter. This was driven by consistent strong absolute performance over the last four quarters, the exception being the negative absolute returns achieved in Q2 2010.

- The returns from the fund of hedge funds are again at a lower level (lower down on chart) than most of the other managers, but at significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last year has continued to provide a very good risk adjusted absolute return, when compared with its annualised volatility and other funds.
- The volatility of all of the various funds is broadly in line with expectations. The total Fund has benefited from diversification by asset classes, as Fund volatility is lower than the equity managers, despite these making up a large proportion of the total assets.

3 Year Risk v 3 Year Return to 31 December 2010



Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:
  - Green: UK equities
  - Blue: overseas equities
  - Red: fund of hedge funds
  - Black: bonds
  - Maroon: multi-asset
  - Brown: BlackRock No. 2 portfolio
  - Grey: internally managed cash
  - Green Square: total Fund

- The returns from the fund of hedge funds continue to remain at a lower level (lower down on chart) than most of the other managers, with continued significantly lower volatility (to the extreme left).
- The very strong absolute return from Genesis over the last 3 years has provided a very good risk adjusted absolute return, when compared with its annualised volatility and other funds.

- The volatility of all of the various funds is broadly in line with expectations. The total Fund has again, over the longer period, benefited from diversification by asset classes, as Fund volatility is lower than the equity managers and the BlackRock multi-asset portfolio, despite these making up a large proportion of the total assets.

Section Five – Manager Performance

- This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in Appendix B, which shows the benchmark and outperformance target for each fund.

Summary of conclusions

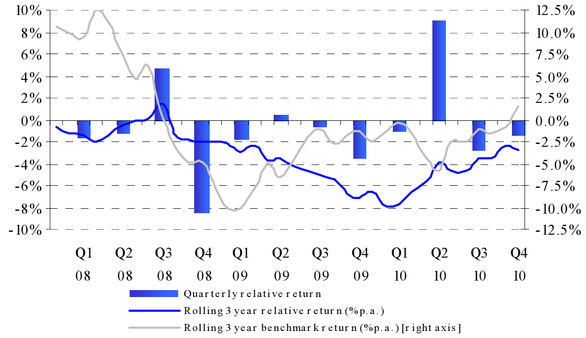
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. However, we do note that SRI will be revisited in the near future by the Investment Panel and Committee, which would imply that any new investment with Jupiter should be at least subject to discussion until firm conclusions as to the practical implications of this review are reached. Similarly, a review of the fund of hedge fund portfolio that is currently ongoing implies further thought is required before rebalancing to this part of the portfolio.
- UK Equity Funds:
  - Jupiter underperformed over the fourth quarter of 2010 partly due to their underweight allocation to the mining and Oil and Gas sectors, which produced positive absolute returns over the quarter, and overweight positions in Utilities and Consumer Services, which produced negative returns. These positions combined contributed to the negative relative returns over the period.
  - TT International outperformed its benchmark over the quarter, with continued overweight positions in Consumer services and Basic Materials, and underweight positions in Financials and Consumers Goods.
  - Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to their respective benchmarks over the quarter. Invesco, however, produced stronger positive relative returns over the quarter, although we reiterate that their relative performance can be affected by 'timing' differences in the pricing of their fund compared to their benchmark.
  - Emerging Markets: Genesis marginally underperformed their benchmark over the quarter, but produced strong positive absolute returns. The absolute return was driven by equity markets themselves, which overall produced positive returns over the quarter; the relative return was driven by stock selection. This is the first instance in the last seven quarters that the manager has underperformed its benchmark to any degree.
- Fund of Hedge Funds:
  - Stenham Asset Management produced strong relative returns for the quarter, 1.4% ahead of their benchmark, producing an absolute return of 2.3%.
  - Man produced strong relative returns of 2.7%, the second highest relative return for the quarter after Partners.
  - Hedge funds continued to underperform Equities in the last two quarters as compared to the Q2 2010 when Hedge funds outperformed Equities, although this is not unexpected.

  - All the Hedge Fund managers outperformed their benchmarks this quarter. The best performing manager in both absolute and relative terms was MAN.
  - Over the year to 31 December 2010, only Signet is ahead of their objective.

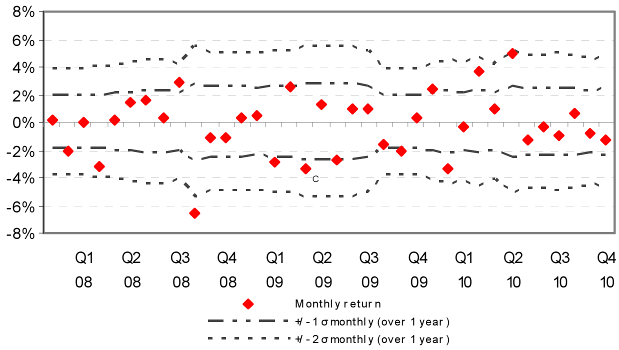
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have very marginally outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their fund.
- Property: Performance of the property funds over the quarter was positive in both absolute and relative terms. Due to the short period since investment in the property funds, details are not provided in the charts following. These will be included in the future, once sufficient performance history is available. For the time being, a qualitative assessment is included for each of these two managers.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

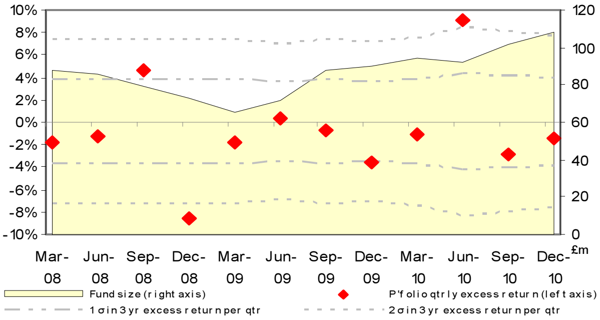
Relative returns [#1]



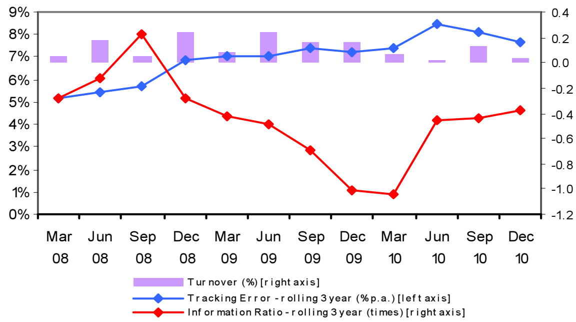
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



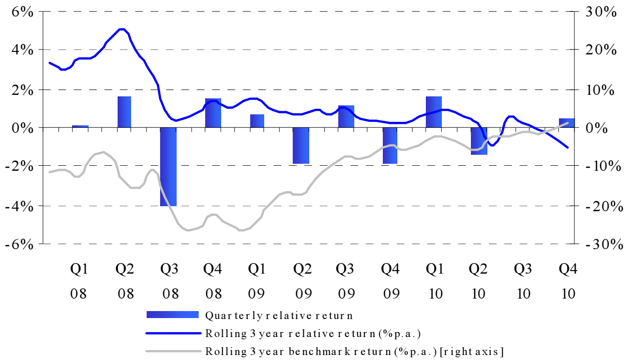
Source: Data provided by WM Performance Services, and Jupiter

Comments:

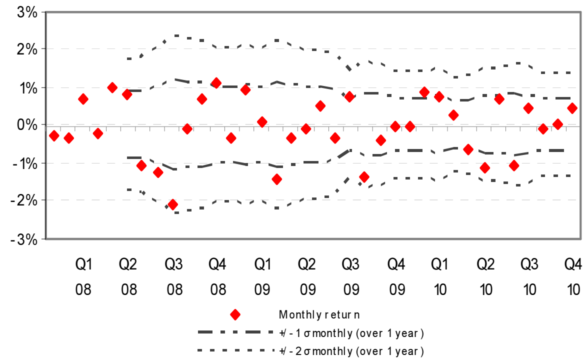
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of 6.0%.
- Over the last year, the Fund outperformed the benchmark by 5.8%, producing an absolute return of 20.3%. Over the last 3 years, the Fund underperformed the benchmark by 2.9% p.a., producing an absolute return of -1.5% p.a.
- The Fund's exposure to cash (6.6%) has been steadily increasing over the last five consecutive quarters.
- The industry allocation has remained considerably different from the benchmark allocation (as expected from Socially Responsible Investing), so the variability of relative returns (volatility) is expected to be high. Over Q4 2010, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer goods and Financials, with significantly overweight positions in Industrial, Utilities and Consumer Services. These relative allocations were also consistent with most recent historical quarters.

TT International – UK Equities (Unconstrained)

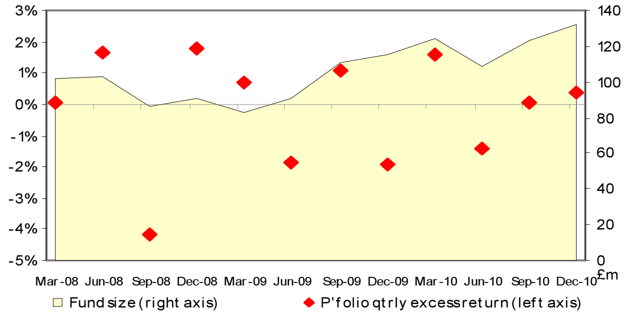
Relative returns #1



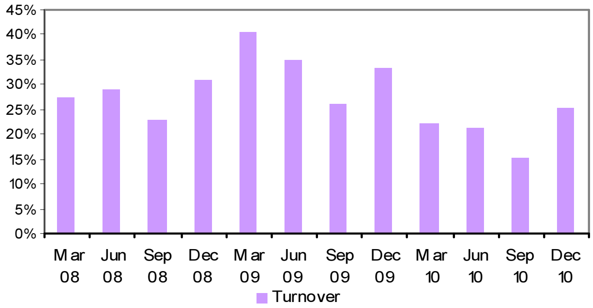
Monthly relative returns #2



Performance v fund size #3



Turnover #4

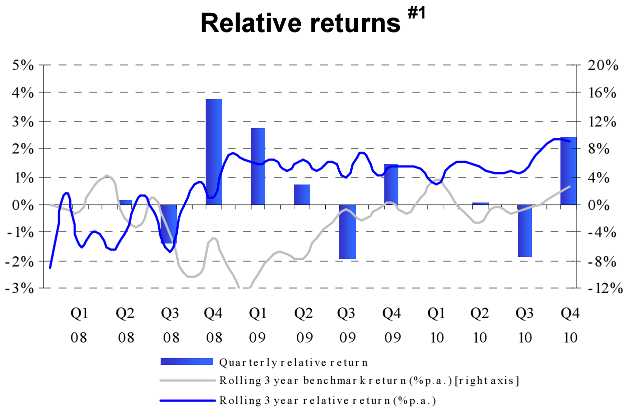


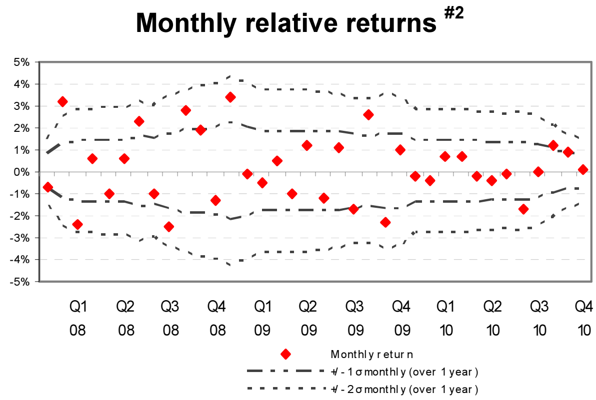
Source: Data provided by WM Performance Services, and TT International

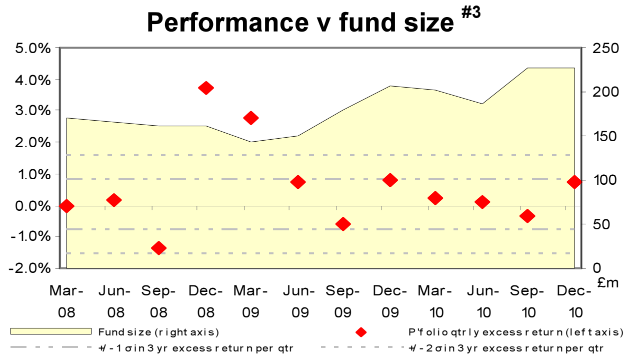
Comments:

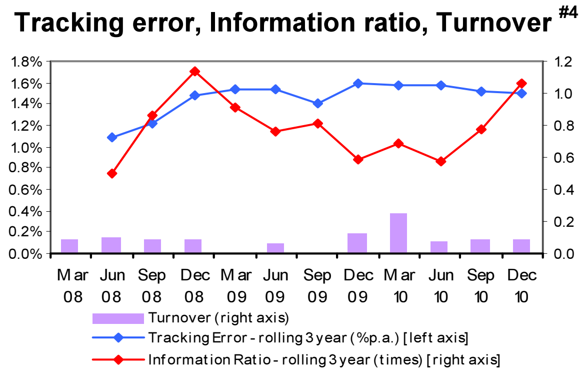
- Over the last quarter the Fund outperformed the benchmark by 0.4%, producing an absolute return of 7.8%.
- Over the last year, the Fund marginally outperformed the benchmark by 0.4%, producing an absolute return of 14.9%. Over the last three years, the Fund underperformed the benchmark by 0.9% p.a., producing an absolute return of -0.5% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials, having increased these slightly to 8.5% and 5.3% respectively, and is underweight to Financials by 6.4%, which also represents a slight increase on the last quarter.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover has risen slightly to 25.3% for Q4 2010 as compared to 15.1% in the previous quarter.
- Apart from the particularly poor quarter in Q3 2008, the volatility of this Fund relative to the benchmark is lower than that of Jupiter. This is driven by the fact that whilst TT International is more unconstrained in approach, their sector positions are better able to reflect those of the benchmark than Jupiter's (which are, in part, a function of their Socially Responsible Investment brief). This more pragmatic style may be more suited for investment when rebalancing to active UK equities, not least given the review of SRI and Corporate Governance planned for later in 2011.

Invesco – Global ex-UK Equities Enhanced (Enhanced Indexation)









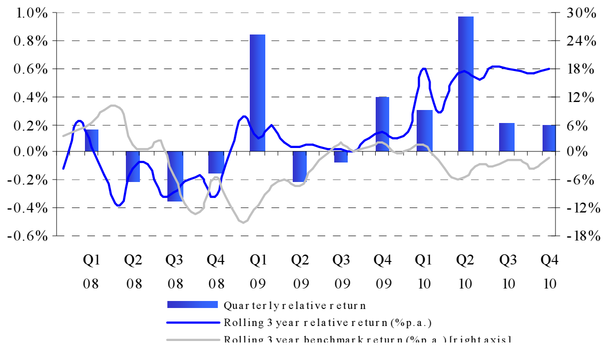
Source: Data provided by WM Performance Services, and Invesco

Comments:

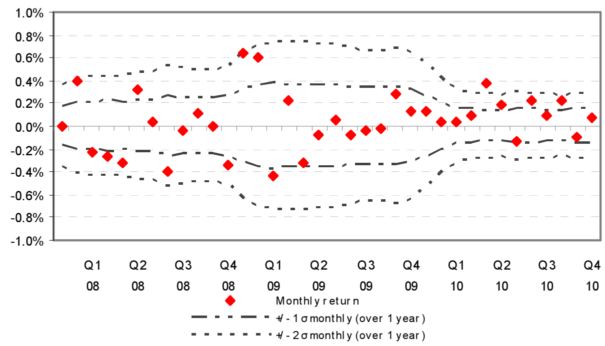
- Over the last quarter the Fund outperformed its benchmark by 2.4%, producing an absolute return of 12.4%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 16.2%. Over three years, the Fund outperformed, by 1.6% p.a., producing an absolute return of 4.9% p.a.
- Over the last quarter, stock selection and style selection have been the main contributors. There were no material negative contributors over the quarter. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The volatility of monthly relative returns has reduced gradually over time, as the volatility of 2008 has rolled out of the calculations. However, there is a marginal increase in the current quarter compared to earlier quarters.
- Turnover increased slightly over Q4 2010, however it remained low, as expected for this mandate. The number of stocks remains at approximately 500, which reduces stock specific risk through diversification.
- The industry allocation is relatively in line with the benchmark industry allocations, as Information Technology remained an overweight position (at 1.9%) and Consumer Staples continued to be an underweight position (in the 1.8% to 2% range).

SSgA – Europe ex-UK Equities (Enhanced Indexation)

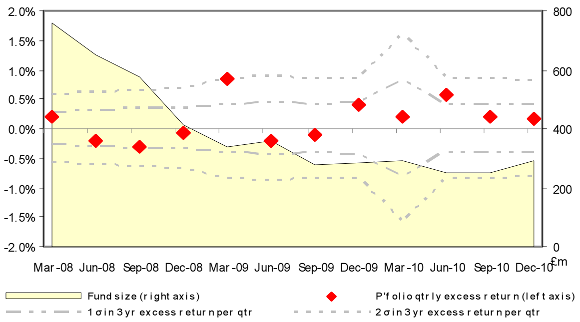
Relative returns #1



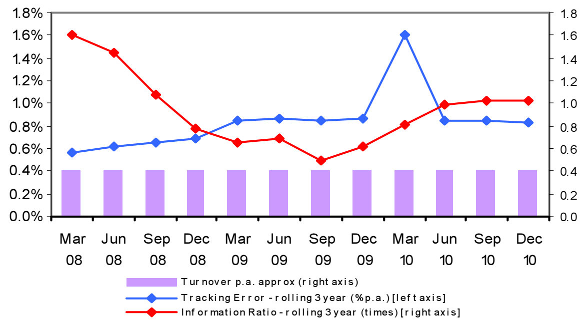
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



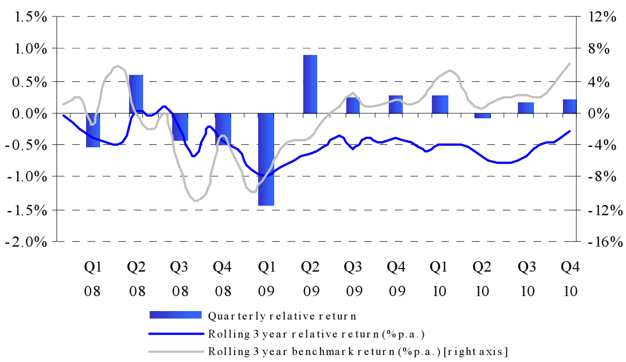
Source: Data provided by WM Performance Services, and SSgA

Comments:

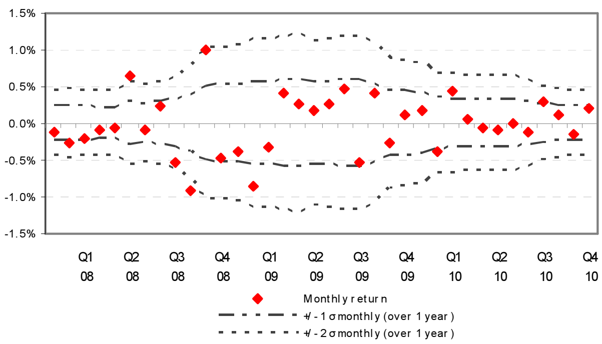
- In January 2011, State Street Global Advisors ("SSgA") completed the acquisition of Bank of Ireland Asset Management ("BIAM") for approximately €57 million inclusive of the estimated net assets of the business of €14 million. SSgA claim that this acquisition enhances their Global Investment Platform and our view is that this acquisition will have no impact at all on the funds in which the Avon Pension Fund invests with SSgA.
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 4.8%.
- Over the last year, the Fund outperformed the benchmark by 1.9%, producing an absolute return of 6.7%. Over the last 3 years, the Fund outperformed the benchmark by 1.3% p.a., producing an absolute return of -0.7% p.a.
- Stock selection continued to be the primary driver of relative performance, continuing to account for approximately 90% of relative performance.
- The volatility of monthly relative returns has declined over the last year, reflecting conditions in the underlying equity markets. As an enhanced indexation fund the magnitude of the volatility is expected to be very low.
- Turnover has continued to remain consistent over the last 3 years while the number of stocks increased very slightly over the quarter. The tracking error has remained constant compared to the last quarter.
- Given its reasonable return and low risk, this Fund would appear to be suitable for new contributions or suitable for investment if rebalancing is required into active overseas equities, subject to the strategic benchmark constraints.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

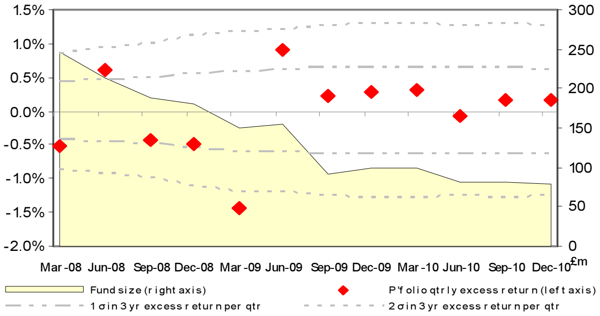
Relative returns #1



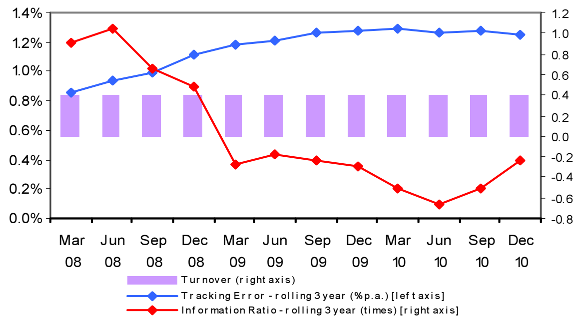
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



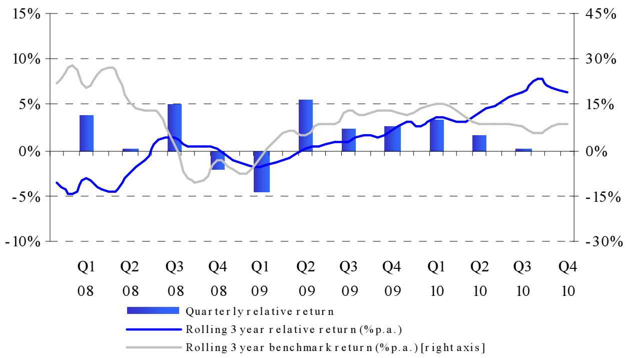
Source: Data provided by WM Performance Services, and SSgA

Comments:

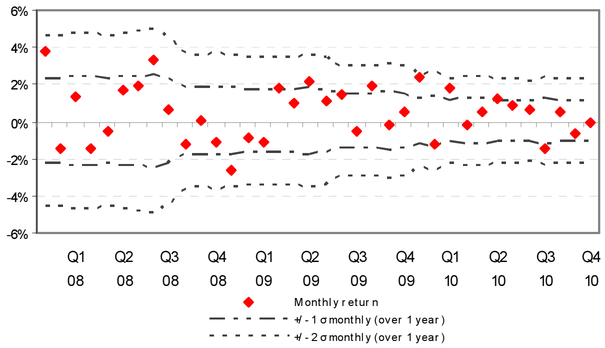
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 11.2%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of 22.1%. Over the last 3 years, the Fund underperformed the benchmark by 0.1% p.a., producing an absolute return of 6.0% p.a.
- Similar to the other SSgA portfolio, stock selection continued to be the primary driver of relative performance over the year, accounting for approximately 90% of relative performance.
- Turnover has remained consistent over the last three years, which is what is expected of this style of investment management.
- Given its reasonable return and low risk, this Fund would also appear to be suitable for new contributions or suitable for investment if rebalancing is required.

Genesis Asset Managers – Emerging Market Equities

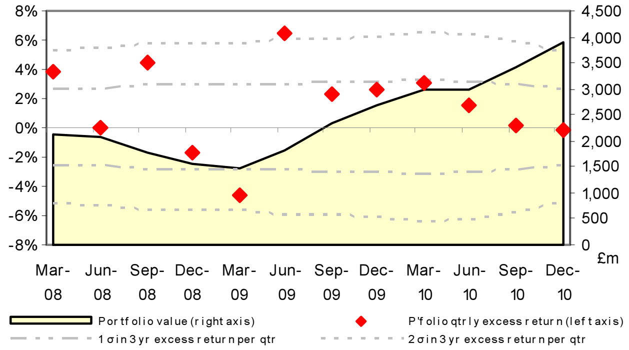
Relative returns #1



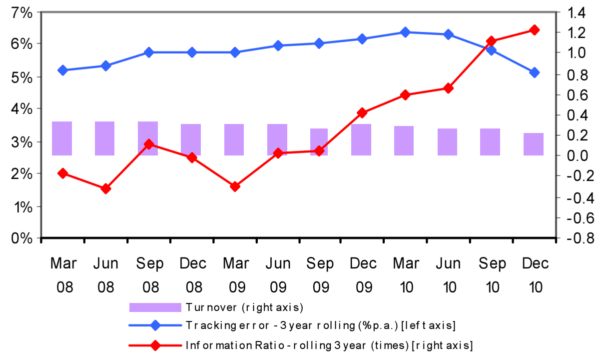
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



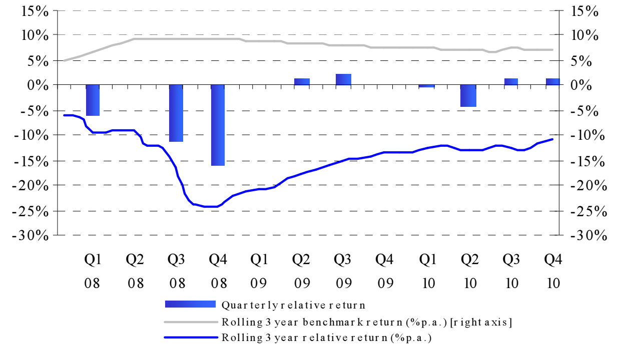
Source: Data provided by WM Performance Services, and Genesis

Comments:

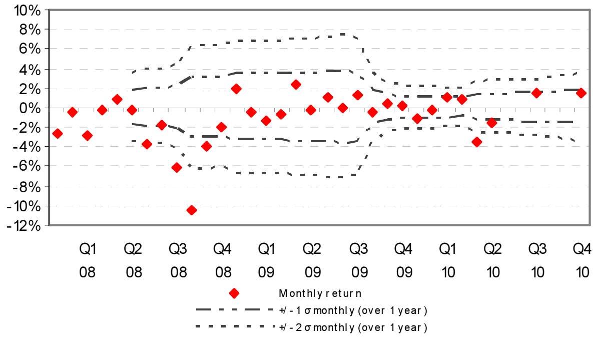
- Over the last quarter the Fund underperformed the benchmark very marginally, by 0.2%, producing an absolute return of 7.9%.
- Over the last year, the Fund outperformed the benchmark by 5.6%, producing an absolute return of 28.5%. Over the last 3 years, the Fund outperformed the benchmark by 6.7% p.a., producing an absolute return of 15.0% p.a.
- The Fund remains overweight to South Africa and has moved overweight in India, whilst moving underweight in Brazil. The underweight position in China is maintained, although this is partly due to the restrictions on non-local investors. Please note that the over and underweights are a result of Genesis' stock picking approach, rather than taking a view on countries.
- The 3 year tracking error (proxy for risk) continued to fall over the latest quarter. The 3 year information ratio (risk adjusted return), again, continued to rise over the quarter to 1.23 in Q4 2010 as compared to 1.11 in Q3 2010. This is particularly impressive.
- On an industry basis, the Fund continued to be significantly overweight in Consumer Staples (+8.5%) and underweight Information Technology, Consumer Discretionary (-3.9%) and Energy (-3.9%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns [#1]

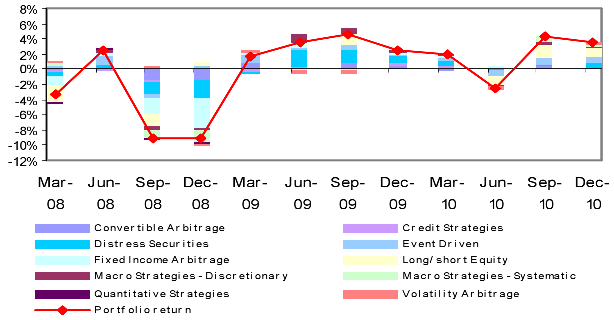


Monthly / Quarterly relative returns [#2]

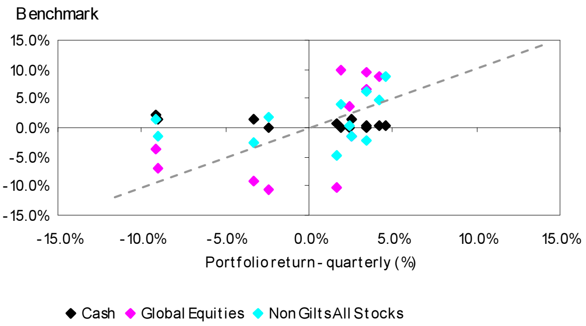


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



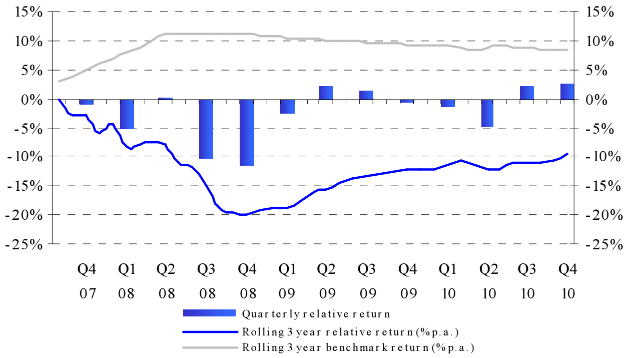
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

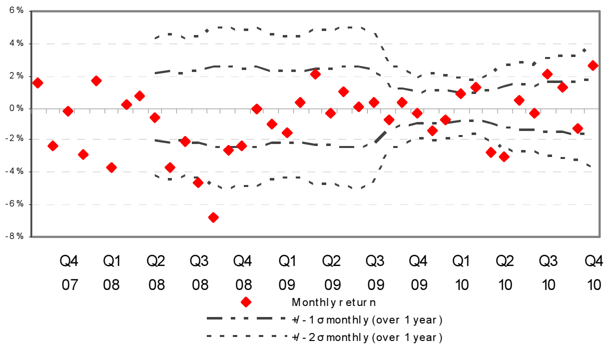
- Over the last quarter, the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.6%.
- Over the last year, the Fund performed in line with the benchmark, producing an absolute return of 4.7%. Over the three year period, the Fund underperformed the benchmark by 10.2% p.a., producing an absolute return of -3.7% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation (now 41.9%) to Distressed Securities and Long / Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

MAN – Fund of Hedge Funds

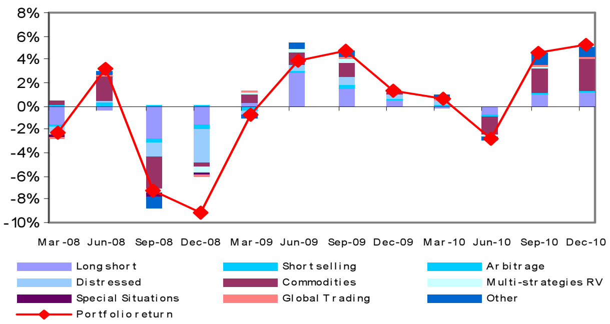
Relative returns #1



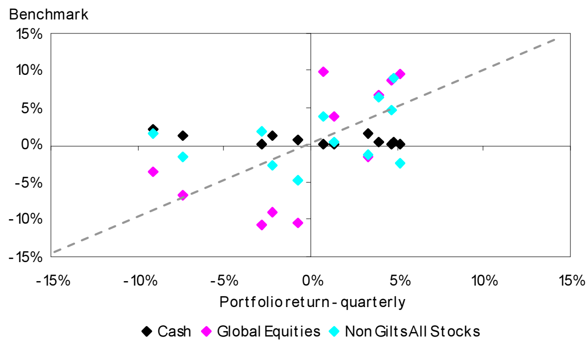
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



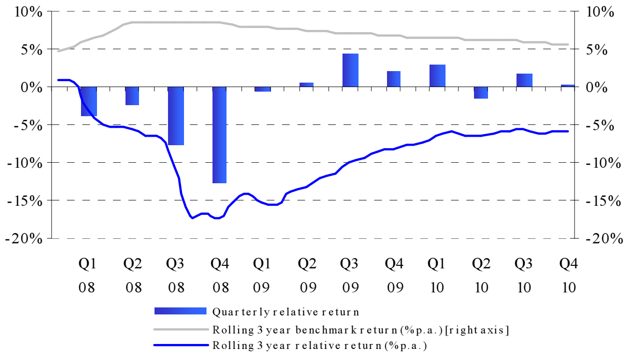
Source: Data provided by WM Performance Services, and MAN

Comments:

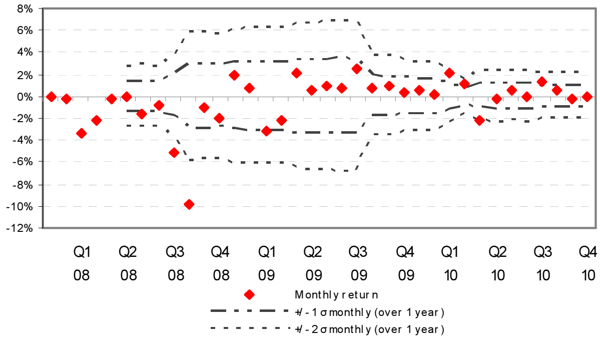
- In October 2010, Man Group plc completed the acquisition of GLG Partners, Inc (GLG), which helped to create a multi-style alternative asset manager with funds of $63 billion under management. GLG is now a wholly owned subsidiary of Man. We have no additional concerns surrounding this corporate development in respect of the Avon Pension Fund's investment with Man to add to the discussion had as part of the ongoing review of the Fund of Hedge Funds.
- Over the last quarter the Fund outperformed the benchmark by 2.7%, producing an absolute return of 4.3%.
- Over the last year, the Fund underperformed the benchmark by 1.3%, producing an absolute return of 5.2%. Over the last 3 years, the Fund underperformed the benchmark by 9.6% p.a., producing an absolute return of -1.4% p.a.
- The key drivers of performance were the high allocations to Commodities and Long / Short strategies which produced strong returns, except for the Long / Short Global strategy which produced negative returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, although 63.7% is made up of Long / Short and Commodities strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Signet – Fund of Hedge Funds

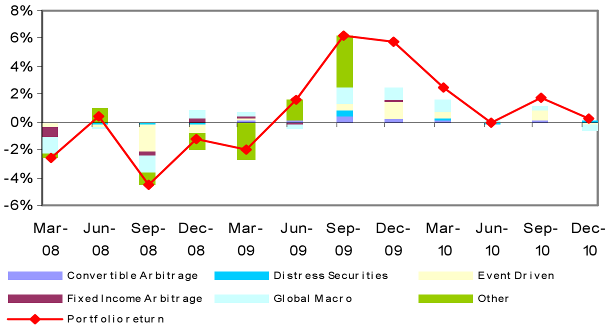
Relative returns [#1]



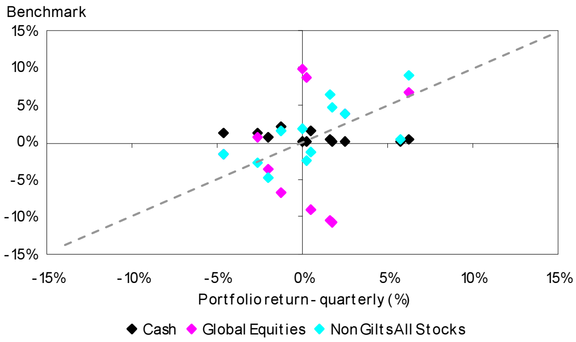
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



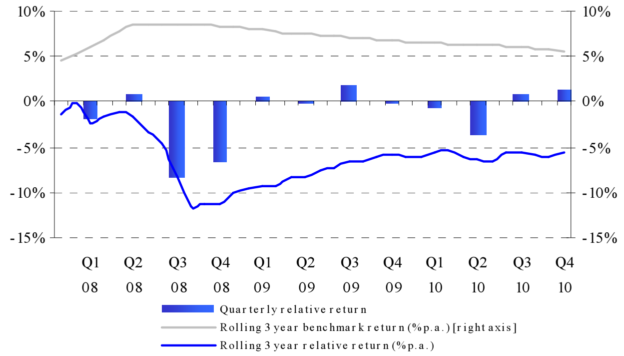
Source: Data provided by WM Performance Services, and Signet

Comments:

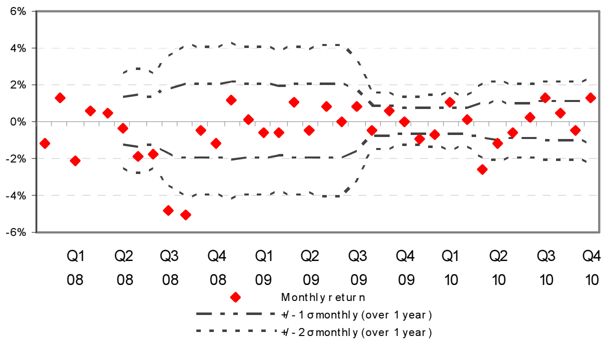
- Over the last quarter, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 1.2%.
- Over the last year, the Fund outperformed the benchmark by 3.7%, producing an absolute return of 7.4%. Over the 3 year period the Fund underperformed the benchmark by 6.0% p.a., producing an absolute return of 0.5% p.a.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.
- The reduction in the volatility of monthly returns since the middle of 2009 is marked, and a trend identifiable in all of the Fund of Hedge Fund managers' monthly returns.

Stenham – Fund of Hedge Funds

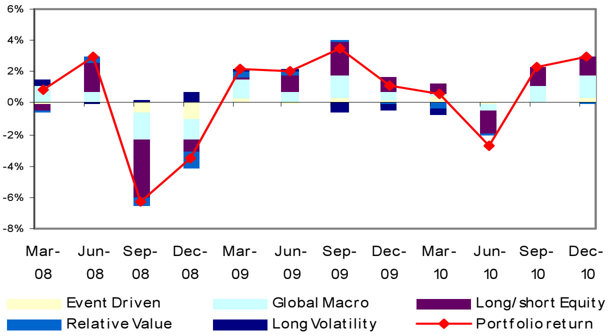
Relative returns [#1]



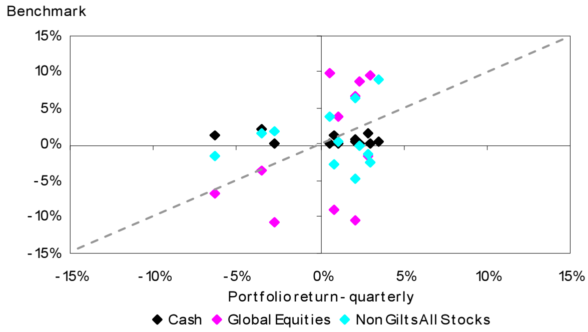
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



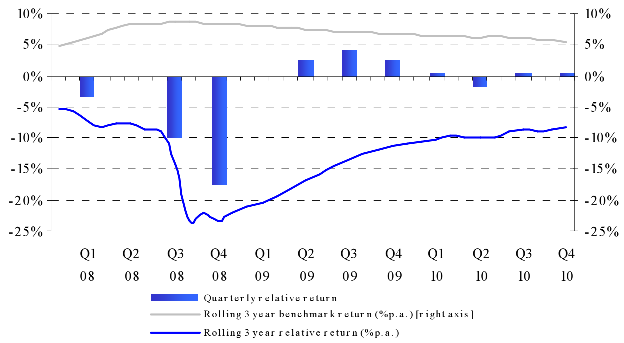
Source: Data provided by WM Performance Services, and Stenham

Comments:

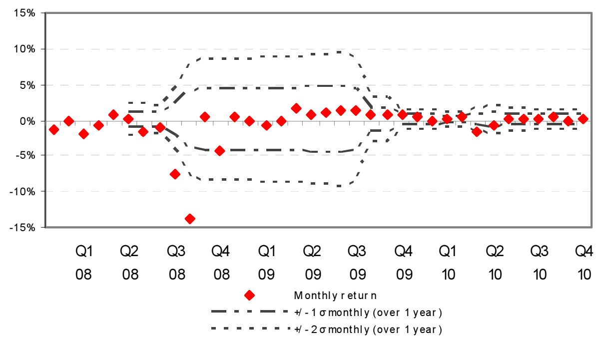
- Over the last quarter the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.3%.
- Over the last year, the Fund underperformed the benchmark by 2.2%, producing an absolute return of 1.5%. Over the last 3 years, the Fund underperformed the benchmark by 5.6% p.a., producing an absolute return of -0.1% p.a.
- The main contributors to the positive absolute performance continued to be Global Macro and Long / Short Equity strategies.
- The allocation to the Global Macro and Long / Short Equity strategies made up 68% of the total Fund allocation. The allocation to Event Driven strategies rose from 10.4% to 16.5% over the quarter.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

Gottex – Fund of Hedge Funds

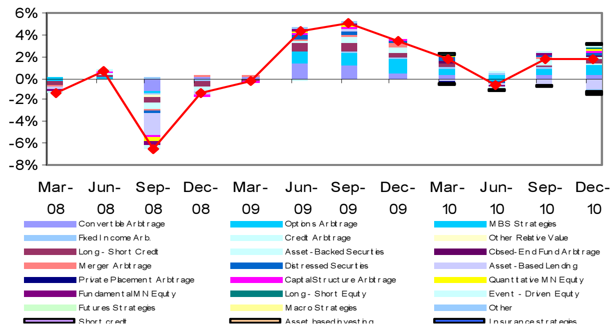
Relative returns [#1]



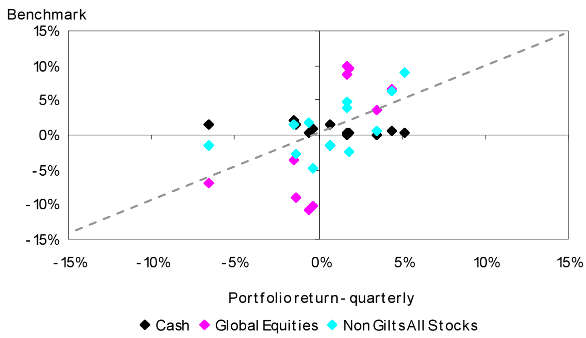
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



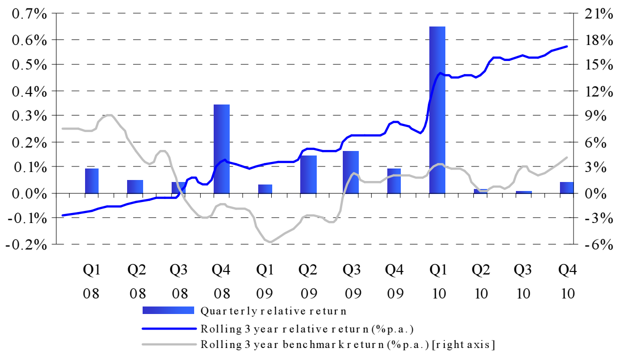
Source: Data provided by WM Performance Services, and Gottex

Comments:

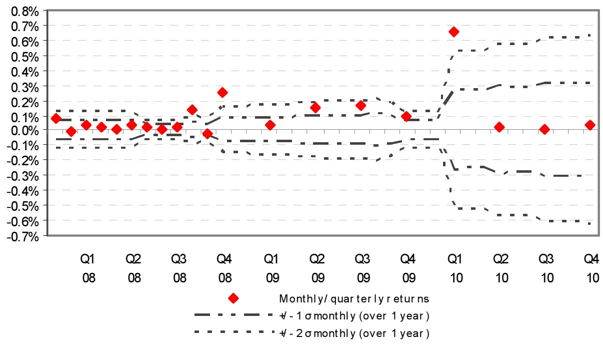
- Over the last quarter the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.5%.
- Over the last year, the Fund underperformed the benchmark by 0.2%, producing an absolute return of 3.5%. Over the last 3 years, the Fund underperformed the benchmark by 8.1% p.a., producing an absolute return of -2.6% p.a.
- The key drivers of performance were Macro and MBS strategies, Long / Short equities, Event-driven equities and Closed-End Fund Arbitrage. Performance for the quarter continued to be negatively impacted by the Asset Backed, Asset Based Lending and Other strategies.
- The Fund has a diverse range of strategy exposures, with the major exposures continuing to be ABS, Long-Short Credit, MBS and convertible Arbitrage Strategies. Allocations to Asset-Backed Securities increased further, continuing the gradual increase seen over the past six quarters.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds. This suggests that this Fund acts as a good diversifier to the Avon Pension Fund's other asset classes.

BlackRock – Passive Multi-Asset

Relative returns #1

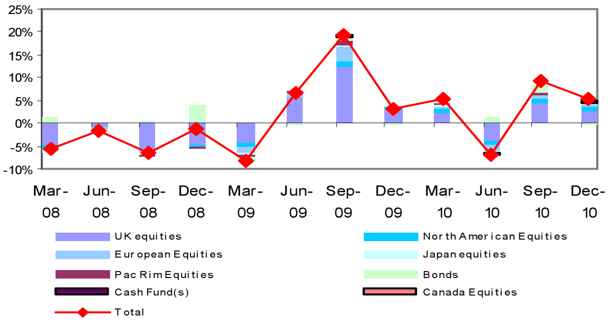


Monthly/Quarterly relative returns #2

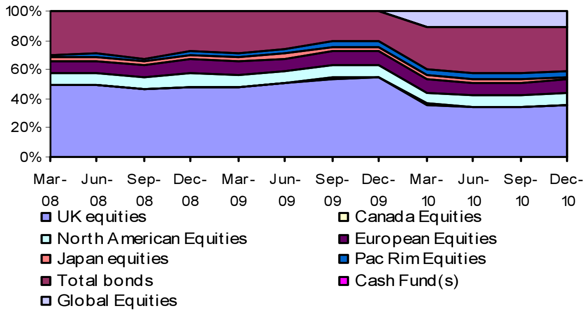


Note that return after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5



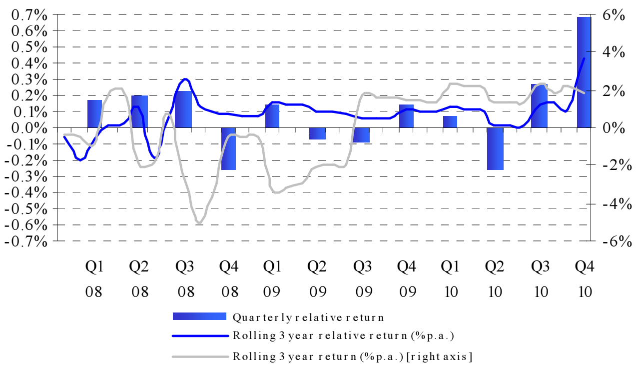
Source: Data provided by WM Performance Services, and BlackRock

Comments:

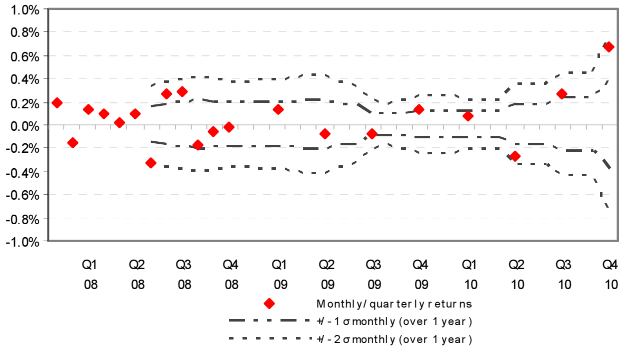
- Over the last quarter, the Fund outperformed the benchmark by 0.1%, producing an absolute return of 5.4%.
- Over the last year, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 13.1%. Over the last 3 years the Fund outperformed the benchmark by 0.4% p.a., producing an absolute return of 4.8% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The portfolio has outperformed its benchmark for the last 12 consecutive quarters, though being passively managed the outperformance has been marginal. This is positive as it indicates minimal relative risk in the portfolio.
- The magnitude of the relative volatility in the portfolio is very small.
- Allocations have remained stable compared to Q3 2010; however, there have been significant changes to allocations compared to the same quarter in 2009. Total allocations to bonds have significantly increased while allocation to equities has been reduced steadily.

BlackRock No.2 – Property account (“ring fenced” assets)

Relative returns [#1]



Monthly relative returns [#2]



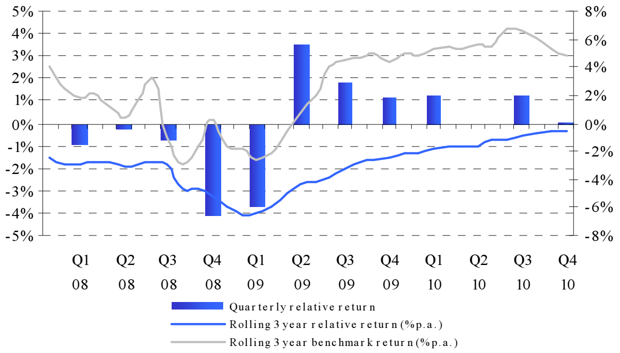
Note that returns after Q4 2008 above are quarterly returns.

Source: Data provided by WM Performance Services, and BlackRock

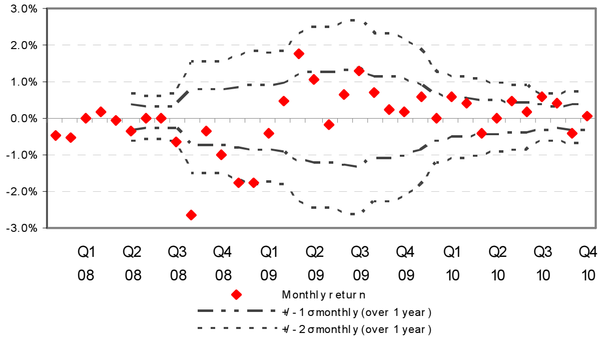
Comments:

- Over the last quarter, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 1.2%.
- Over the last year the Fund produced a return of 7.8%, outperforming the benchmark by 0.8%. Over a rolling 3 year period the Fund produced an absolute return of 2.3%p.a., outperforming the benchmark return by 0.4%.
- Over the quarter the Fund sold down equities and bonds to provide the cash to fund the investments made into the Fund's property managers.

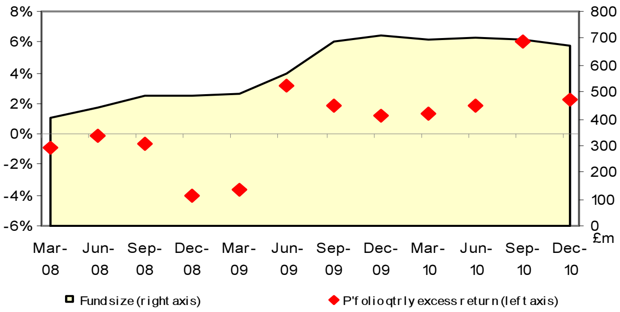
Relative returns #1



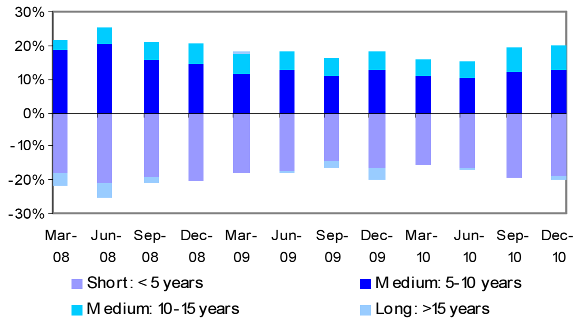
Monthly relative returns #2



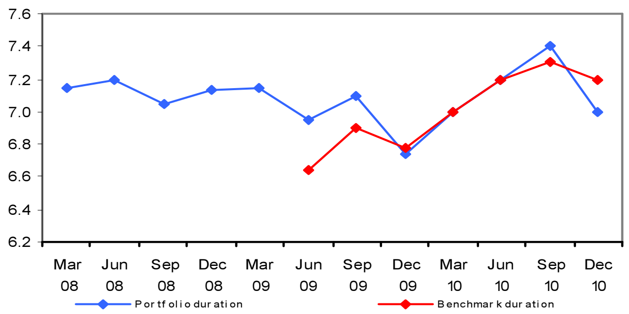
Performance v fund size #3



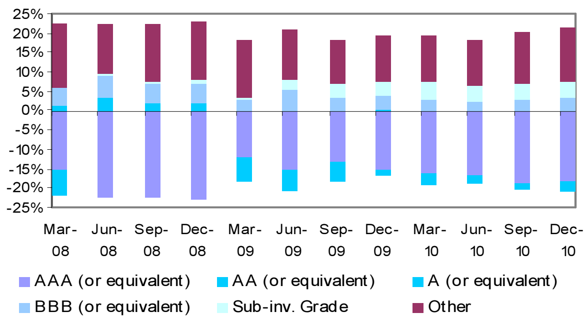
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter the Fund marginally outperformed the benchmark by 0.1%, producing an absolute return of -2.3%.
- Over the last year, the Fund outperformed the benchmark by 2.6%, producing an absolute return of 11.0%. Over a rolling 3 year period, the Fund underperformed the benchmark by 0.6% p.a., producing an absolute return of 4.2% p.a.
- The Fund marginally outperformed the benchmark over the last quarter despite the portfolio being underweight to AAA, and favouring BBB, sub-investment and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity bonds.

Schroder – UK Property

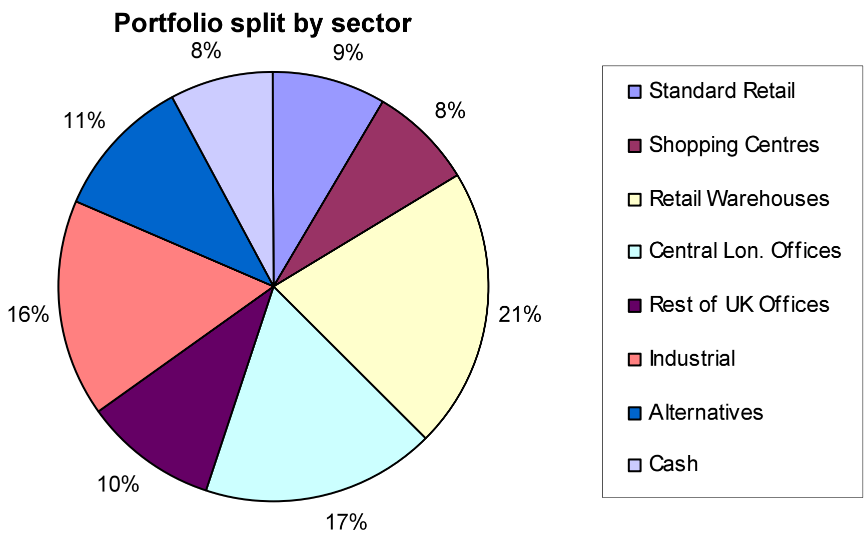
- The mandate awarded to Schroder by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Due to the recency of the first investments into the portfolio, a full quantitative assessment of Schroder is not yet possible. However, we provide here a qualitative update and assessment of the manager.

Portfolio update

As at 31 December 2010, approximately 96% of the Fund's commitment of £120 million had been drawn by Schroder.

To date, the drawn down monies have been invested across 15 different underlying funds. Of these funds, 6 are "core" investments (comprising 63% of the total portfolio) and 9 are "value add" investments (the remaining 37% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 31 December 2010, was split between sectors as shown in the following chart.



In terms of relative positioning, the allocations above are, compared with the benchmark (the UK IPD Pooled Property Index), underweight standard retail and non-London offices and overweight in the other sectors. The most significant overweights are to central London offices and Alternatives.

Schroder believe that there is increasing evidence of a divide in property between London and the rest of the UK. Most parts of the market saw a further small fall in open markets rents, with the exception of offices and shops in central London, which have experienced some rental growth.

Schroder's current approach is to tilt portfolios moderately towards their favoured sectors, while seeking to balance funds which invest in assets with more stable income streams with those with more active management policies. While prime property is expected to continue to outperform in the near term, the pricing differential between prime and other property is at historical highs. Schroder believe that managers with undrawn commitments are in a good position to take advantage of opportunities in 'near prime' assets which are attractively valued.

Of the remaining equity, £3.1 million is committed to existing investments (i.e. Columbus UK Real Estate Fund and Threadneedle Strategic Property Fund IV) and the balance will be used to invest in an existing core fund. After this money is drawn, Schroder may consider some minor rebalancing to achieve their favoured sector positions, although they are broadly happy with the current sector weightings within the portfolio.

Performance over Q4 2010

- Schroder produced a return of 2.0% net of fees over the three months to 31 December 2010, versus the benchmark return of 1.9%. The key drivers of the relative return over the period were:
  - Performance attribution over the quarter is dominated by the positive contribution from value added funds which were exposed to central London offices and good quality shopping centres, and negative contributions from the core funds partly due to the transaction costs incurred on Hermes PUT and Aviva Investors Pensions Property Fund. The West End of London PUT, a fund specialising in London offices, was the strongest contributor to relative returns for the quarter followed by the Standard Life Investments UK Shopping Centre Trust.
  - The costs associated with buying property (and therefore property funds) has weighed on short term returns as capital has been invested. A further £21 million of investments were made in the fourth quarter, representing approximately 22% of the end of Q3 2010 portfolio value.
  - Twelve month returns were negatively impacted by transaction costs of approximately 2% during which approximately £55 million of investments were made into property funds. Excluding the impact of these costs, Schroder estimates that the portfolio would have outperformed the benchmark by approximately 0.4%. The strongest contributor to relative returns over the 12 month period was the Standard Life Investments UK Shopping Centre Trust, whilst the Hansteen UK Industrial PUT negatively contributed to relative returns over the same period.

Conclusion

The Schroder property portfolio is almost fully invested, this having occurred in the expected time since they were appointed. The portfolio is well diversified by manager and sector while still showing active sector allocation according to the views of the Schroder Property Multi-Manager team. Transaction costs have a large impact in the shorter term and Schroder have shown that they take these into consideration in determining if and when to make an investment.

We have no concerns with Schroder.

Partners – Overseas Property

- The mandate awarded to Partners by the Fund commenced in August 2009, although draw downs are being made gradually over time, and the full extent of the Fund's commitment has not yet been invested.
- Partners invest in direct, primary and secondary private real estate investments on a global basis.

Portfolio update

To date, Partners have drawn down approximately £40 million of the Fund's intended commitment of approximately £120 million. The draw downs commenced in September 2009.

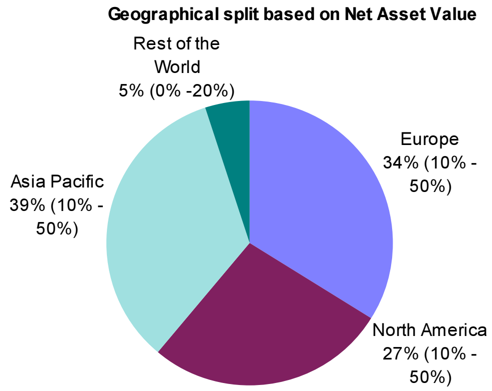
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

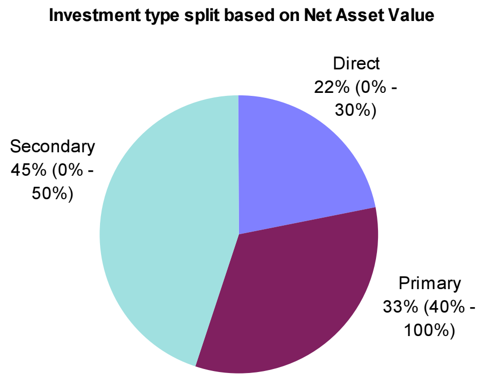
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ m)	Net Asset Value as at 31 December 2010 (£m)
Asia Pacific and Emerging Market Real Estate 2009	5.74	5.96
Distressed US Real Estate 2009	9.53	10.22
Global Real Estate 2008	20.07	20.50
Global Real Estate 2011	1.49	1.50
Real Estate Secondary 2009	3.28	3.61
Total	**40.11**	**41.79**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 31 December 2010, split regionally as shown in the chart on the left below, and across different investment types as shown on the right. We show in brackets for each region the current guideline allocations to each region that are in place for the Fund's portfolio.





Source: Partners

The geographical allocation shown is consistent with Partners' current investment outlook, which favours Asia Pacific and Emerging Markets on the grounds that such economies will drive future global growth. Partners are have a broadly neutral view with respect to North America, and the current allocation to this region is expected to reduce as further draw downs are made.

In terms of the portfolio allocation by investment type, Partners continues to be underweight primary investments and this allocation is below the lower bound of the investment restrictions in place for the longer term portfolio, with a commensurate high allocation to secondary investments.

Changes with respect to the asset allocation investment guidelines were implemented in October 2010 (the new guidelines are reflected in charts above); these changes included increases to the range of minimum and maximum permitted holdings for Primaries, Secondaries and Direct Investment holdings as compared to older guidelines. With a broader permissible range of allocating monies, Partners has made the fund allocations more flexible.

Short term deviation from the allocation restrictions in place can be expected at such an early stage of investment and we do not believe the current positioning to be of concern. Additionally, the high allocation to secondary investments reflects Partners' strong view that this market offers attractive value.

Performance over Q4 2010

Partners produced a return of 6.4% over the three months to 31 December 2010. The Fund significantly outperformed its benchmark by 4.5% for the quarter.

Conclusion

Partners Group have recognised that market conditions have changed since they were appointed and therefore the change in increasing the ranges for investments in Primary, Secondary and Direct investments is sensible.

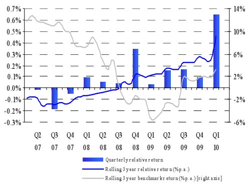
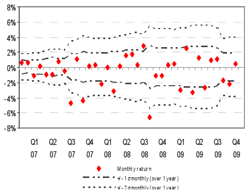
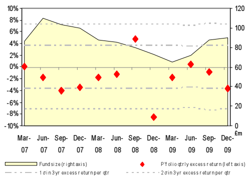
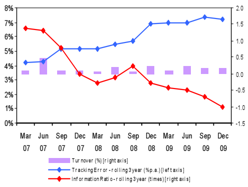
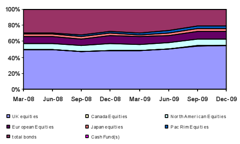
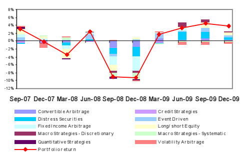
The underweight to Primary investments will reduce the initial costs expected in the private real estate investment although these costs will increase as and when Partners identifies suitable opportunities for Primary investment.

Drawdown will continue to be staggered to ensure diversification by vintage year.

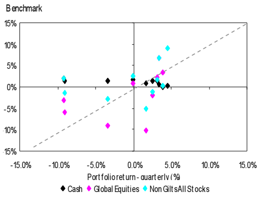
We have no concerns with Partners.

Appendix A – Glossary of Charts

The following provides a description of the charts used in Section 5 and a brief description of their interpretation.

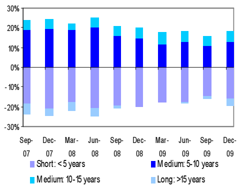
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.
#2		This chart shows the relative monthly returns for 3 years/since inception. It shows the level of fluctuation about the zero axis, i.e. the level of volatility of monthly returns and any tendency for positive or negative returns. The dotted lines show the standard deviation of returns over 1 year periods - this is a standard measure of risk which shows the magnitude of fluctuations of monthly returns. Under common **assumptions**, being within the inside dotted lines (i.e. 1 standard deviation) is roughly likely to occur 2/3rds of the time, while being within the outside lines is roughly likely to occur 1 in 20 times (i.e. 2 standard deviation - which is considered unlikely).
#3		This chart shows the relative performance on a quarterly basis. The dotted lines show the standard deviation of returns for a quarter - based on the latest quarter 3 year standard deviation. (See #2 above for further detail on interpretation). The total size of the underlying fund is overlayed in yellow (portfolio value in blue) to identify any trend in diminished performance with increasing fund (portfolio) size, as sometimes observed.
#4		This chart shows the 3 year annualised tracking error (this is the standard deviation of returns which shows the magnitude of the fund returns compared to the benchmark) and the 3 year information ratio (this is the excess return divided by the tracking error). If tracking error increases, the risk taken away from the benchmark increases, and we would expect an increase in the excess return over time (albeit more variable). The turnover is provided to show if any increase in risk is reflected in an increase in the level of active management, i.e. purchases/sales in the portfolio.
#5		This chart shows the absolute asset allocation or hedge fund strategy allocation over time. This helps to identify any significant change or trends over time in allocation to particular asset allocations/hedge fund strategies.
#6		These charts show the breakdown of the return provided by each of the different hedge fund strategies or asset classes over time - this provides a profile of where the returns come from, and should be compared with the volatility chart above to see if risk taken is being rewarded accordingly. The total portfolio return is also shown.

#7



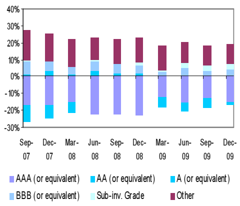
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. This is to highlight any apparent correlation between the fund returns and any particular index. If a fund is used as a diversifier from, say equities, we would expect to see a lack of returns plotted close to the diagonal line.

#8



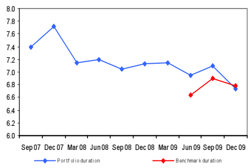
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#9



This chart shows the holding in bonds with different credit ratings. AAA is the highest grading (usually for government or supranational organisation bonds) while below BBB is sub-investment grade and has a considerably higher risk of default. The lower the grade the higher the risk and therefore the higher the return expected on the bond.

#10



This chart shows the duration of the fund against the benchmark duration. It shows whether the fixed interest fund manager is taking duration bets against the benchmark.

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Appendix B – Summary of Mandates

Manager	Mandate	Benchmark	Outperformance target (p.a.)
Jupiter	UK Equities (Socially Responsible Investing)	FTSE All Share	+2%
TT International	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Invesco	Global ex-UK Equities Enhanced (En. 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%
Genesis	Emerging Market Equities	MSCI EM IMI TR	-
Lyster Watson	Fund of Hedge Funds	3M LIBOR + 4%	+0-2%
MAN	Fund of Hedge Funds	3M LIBOR + 5.75%	+0-0.25%
Signet	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Stenham	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
Gottex	Fund of Hedge Funds	3M LIBOR + 3%	+1-3%
BlackRock	Passive Multi-asset	In line with customised benchmarks using monthly mean fund weights	0%
BlackRock	Overseas Property	Customised benchmarks using monthly mean fund weights	0%
RLAM	UK Corporate Bond Fund	iBoxx £ non-Gilts all maturities	+0.8%
Schroder	UK Property	IPD UK pooled	+1.0%
Partners	Global Property	IPD Global pooled	+2.0%
Cash	Internally Managed	7 day LIBID	

JLT Investment Consulting

St James's House, 7 Charlotte Street
Manchester, M1 4DZ
Fax +44 (0) 161 253 1169

CONTACTS

Dave Lyons
JLT Investment Consulting
Tel: +44 (0) 0161 253 1153
Email: dave_lyons@jltgroup.com

Bekki Jones
JLT Investment Consulting
Tel: +44 (0) 0161 253 1159
Email: bekkijones@jltgroup.com