

HEALTH WEALTH CAREER

AVON PENSION FUND

COMMITTEE INVESTMENT PERFORMANCE REPORT QUARTER TO 30 SEPTEMBER 2017

NOVEMBER 2017

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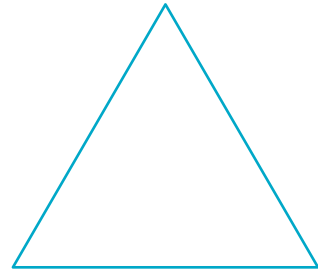
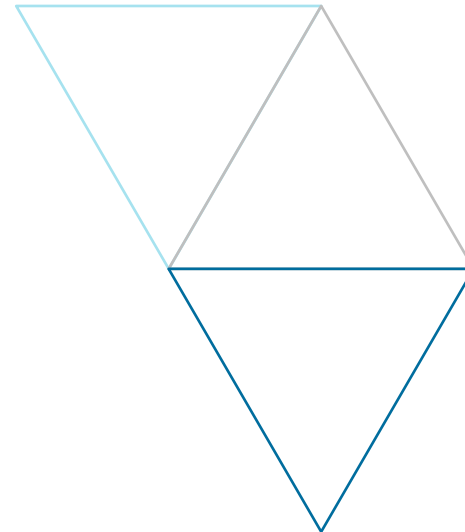
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- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, 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.

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SECTION 1

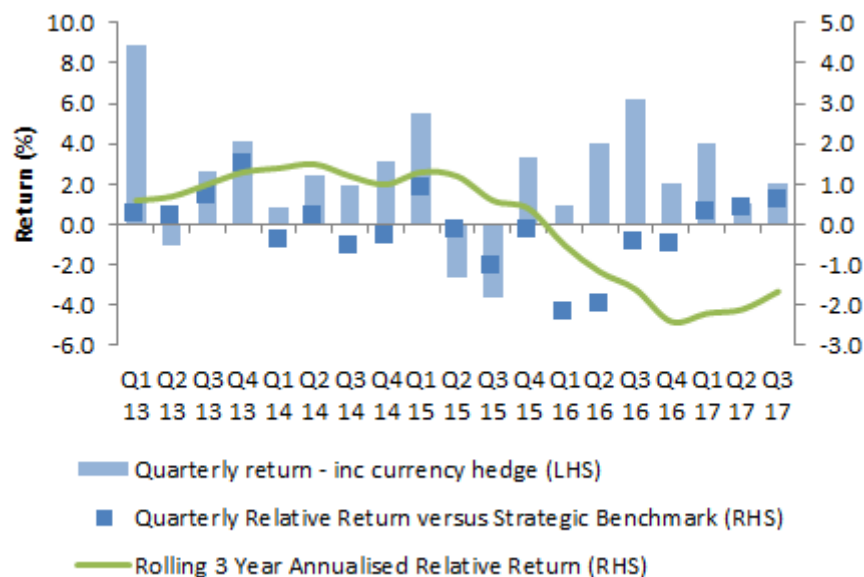
EXECUTIVE SUMMARY



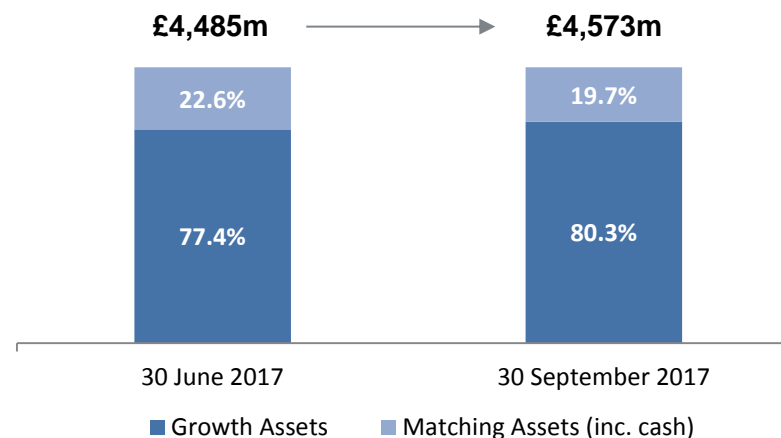
EXECUTIVE SUMMARY

	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.0	9.3	8.7
Total Fund (ex currency hedge)	1.5	8.7	10.0
Strategic Benchmark (no currency hedge)	1.4	8.5	10.4
Relative (inc currency hedge)	+0.6	+0.8	-1.7

Excess Return Chart



Asset Allocation



Quarterly Commentary

Over the quarter, total Fund assets increased from £4,485m (30 September 2017) to £4,573m. This increase was driven by positive returns from most asset classes.

At the end of the quarter, all asset classes were within the agreed tolerance ranges except the newly funded Multi Asset Credit mandate with Loomis Sayles.

The outperformance of the Fund (when the currency hedge with Record is included) relative to the unhedged Strategic Benchmark (which excludes currency hedging) over the quarter was largely a result of Sterling appreciation against the US Dollar. The Fund return excluding currency hedging slightly outperformed the unhedged Strategic Benchmark.

When the currency hedge with Record is included, the Fund outperformed its Strategic Benchmark over the one-year period but underperformed over the three years.

EXECUTIVE SUMMARY

This report has been prepared for the Avon Pension Fund (“the Fund”), to assess the performance and risks of the Fund’s investments.

Funding Level

- The estimated funding level decreased by c. 1% over the third quarter of 2017 to 98%, as the return on the assets was more than offset by the increase in liabilities.

Fund Performance

- The value of the Fund’s assets increased by £89m (2.0%) over the third quarter of 2017, to £4,573m at 30 September 2017. The Fund’s assets returned 2.0% over the quarter (1.5% excluding the Record currency hedging mandate, given the appreciation of Sterling over the quarter), as a result of positive returns from most asset classes. The return including currency hedging outperformed the Strategic Benchmark return of 1.4%.

Strategy

- Global (developed) equity returns over the last three years were 15.5% p.a., materially ahead of the assumed strategic return of 8.05% p.a. from the review in April 2017. 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 political risks in Europe and the UK persist.
- The three-year return from emerging market equities has increased to 11.6% p.a. from 11.1% p.a. last quarter. It is above the assumed strategic return of 8.70% p.a. as returns have been strong over the last year and fundamentals have improved. As with developed markets, we are neutral in our medium-term outlook for emerging market equities over the next one to three years.
- The material improvement in the Fund’s funding position, which has largely been a result of strong equity returns, combined with the current market outlook, led to the Committee agreeing to decrease the strategic allocation to equities and to implement an equity protection strategy (more details overleaf).
- UK government bond returns over the three-year period remain significantly above the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 9.5% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 10.8% p.a. versus an assumed return of 2.15% p.a. Gilt yields rose slightly over the quarter, resulting in neutral or small negative returns from gilts.

EXECUTIVE SUMMARY

Strategy (continued)

- UK corporate bonds returned 5.9% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 9.5% p.a. remains substantially above the assumed return of 5.75% p.a.
- Hedge fund returns remain below long-term averages and the strategic return of 5.10% p.a., having been affected by low cash rates. Active managers in general have struggled to generate meaningful returns in recent times.
- The Fund's currency hedging policy was positive overall for Fund performance, since Sterling rose against the US Dollar and Japanese Yen over the quarter, but fell against the Euro.

Managers

- Manager absolute returns over the quarter were largely positive. The exceptions were Pyrford and Standard Life, who delivered returns of -0.9% and -0.2% respectively. Schroder property, IFM and Genesis produced the highest returns over the quarter, all above 3%.
- Absolute returns over the year to 30 September 2017 were strong. All mandates, aside from the BlackRock corporate bond and LDI mandates, delivered positive absolute return, with overseas equities mandates leading the way, partly driven by the significant weakening of sterling over 2016. In terms of relative performance, out of the active equity managers, only Schroders and Invesco outperformed their benchmarks over the year. Of those underperforming, the emerging markets equities mandates with Unigestion and Genesis delivered the most significant underperformance. The underperformance for both of these strategies has been driven by their respective style biases, since Unigestion has a 'low market beta' tilt and Genesis has a 'quality' bias, both of which would be expected to result in underperformance versus the broader market during a rallying equity market.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. A number of active funds underperformed their benchmarks over the period: Jupiter, Genesis, Unigestion, Pyrford and Partners (see comments on the measurement of Partners' performance later). TT, Schroder global equities, Invesco, Schroder property and RLAM failed to achieve their performance objectives, but did outperform their respective benchmarks, net of fees.
- Broadly speaking, the Fund's active equity managers have a tilt towards quality and low volatility style factors, along with a lack of exposure to value. Over the three-year period, high quality, defensive stocks have underperformed the broader market, which may help to explain the recent underperformance of some of the Fund's active equity mandates. However, over the calendar year as a whole, defensive stocks have outperformed value stocks.

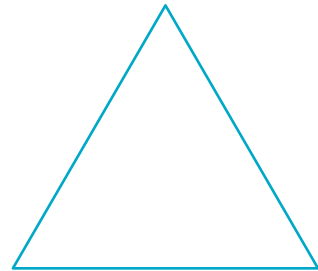
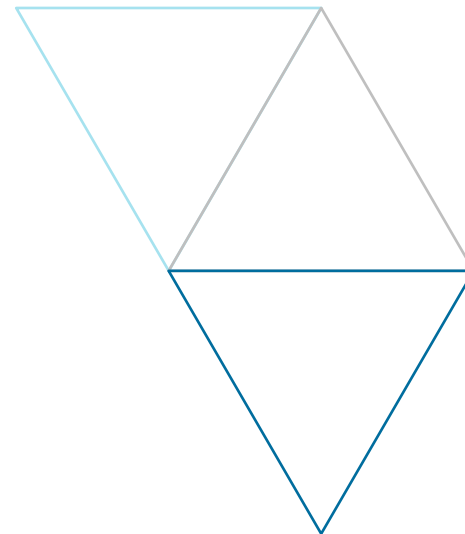
EXECUTIVE SUMMARY

Key Points for Consideration

- The liability risk management strategy went live at the beginning of the quarter, with the Fund's gilts switched into the QIF structure at BlackRock and the de-risking triggers turned on. A number of inflation triggers were subsequently hit during the quarter and the implied levels of hedging were implemented.
- The implementation of the following strategic changes agreed by the Committee took place over the quarter:
 - 1) Switch from equities to a new Diversified Growth Fund ("DGF") mandate, managed by Ruffer.
 - 2) Switch from equities and corporate bonds to a Multi-Asset Credit ("MAC") mandate, managed by Loomis Sayles.
- The agreed equity protection strategy is being implemented during Q4 2017.

SECTION 2

MARKET BACKGROUND



MARKET BACKGROUND

INDEX PERFORMANCE

Equity Market Review

All major equity markets moved higher over the quarter in local currency and sterling terms. Emerging Markets equities were the strongest performing region, posting gains of 7.6% in local currency terms, and 4.5% in sterling terms.

Within UK equities, small capitalisation stocks outperformed larger capitalization stocks over the quarter, returning 3.0% against a return of 2.1% for the broader market. UK economic growth is estimated to have increased by 0.3% to Q2 2017. Brexit negotiations continued with little progress whilst consumer confidence and household spending fell. Year on year CPI rose from 2.7% to 2.9% to the end of August.

Within global equity markets, US equities performed well amid continued strong household spending, business investment and a healthy job market. In September, the Federal Reserve announced the start of its balance sheet reduction programme and reiterated that a rate hike is still expected in Q4 this year, despite core inflation and wage growth remaining at low levels. The Eurozone continued its recovery, benefitting from strong manufacturing and high business and consumer confidence levels, particularly following the German elections. In Japan, President Abe called for a snap general election in October, whilst North Korea's nuclear tests weighed on market sentiment and added to market volatility. Emerging markets rallied over the quarter, driven by higher commodity prices, a weak US dollar and promising corporate earnings growth. Latin America led performance within emerging markets, with Brazil in particular benefiting from increased oil prices, positive macroeconomic data releases and some political progress.

Bond Market Review

Bond market returns were mixed over the quarter. Strong demand for risk assets boosted global corporate credit, emerging market debt and high yield bond returns, which were all positive in local currency terms. However, due to sterling appreciation over the quarter, returns were weaker in sterling terms and even negative for some credit assets.

In the UK, gilt yields rose, particularly at the short end of the curve. The Over 15 Year Gilt Index underperformed the broader global bond market, generating a negative return of 0.5%, over the quarter.

Real yields also rose marginally over the quarter. The Over 5 Year Index-Linked Gilts Index fell 0.8% over the quarter.

Movements in credit spreads were marginal over the quarter, with the Sterling Non-Gilts All Stocks Index ending the quarter at c.1.0%. UK credit assets returned 0.1% over the quarter, which was inferior to the return of global credit in local currency terms.

Currency Market Review

Over the quarter, sterling appreciated against the dollar and marginally more so against the Yen (by 3.3% and 3.5% respectively). Sterling depreciated against the euro over the quarter by 0.3%. The same trends hold when compared to six months and one year ago.

Commodity Market Review

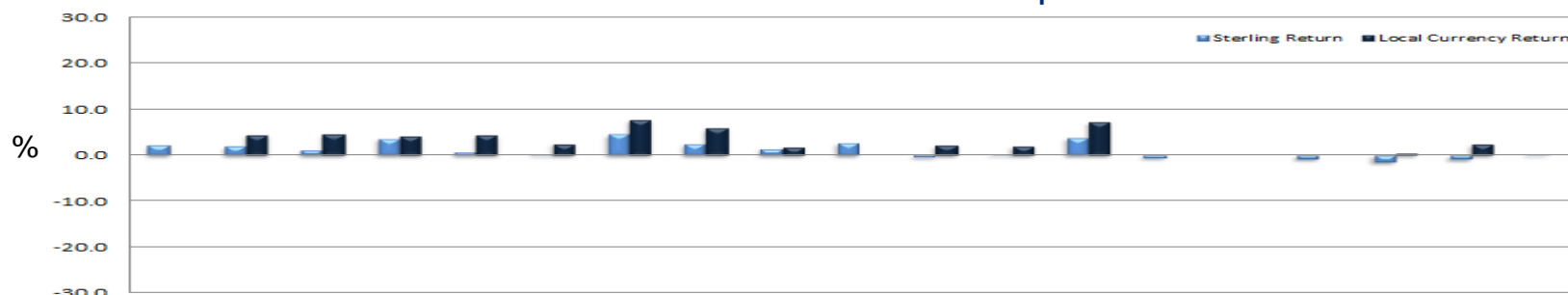
Commodities produced mixed returns over the quarter, with the overall index rising by 7.2% in US dollar terms. Energy was the strongest performer, instigated by the increase in the Brent Crude Oil price, from US\$ 47.82/barrel to US\$ 57.6/barrel following increased Chinese demand, temporary supply disruptions from Hurricane Harvey and added pressure from Turkey's threat to Iraqi Kurdistan's crude exports.

Industrial metals were also strong over the quarter, with nickel and copper rising by 11.4% and 8.5% respectively amid robust Chinese demand. The price of gold increased from c.\$1,244/oz to c.\$1,284/oz over the quarter.

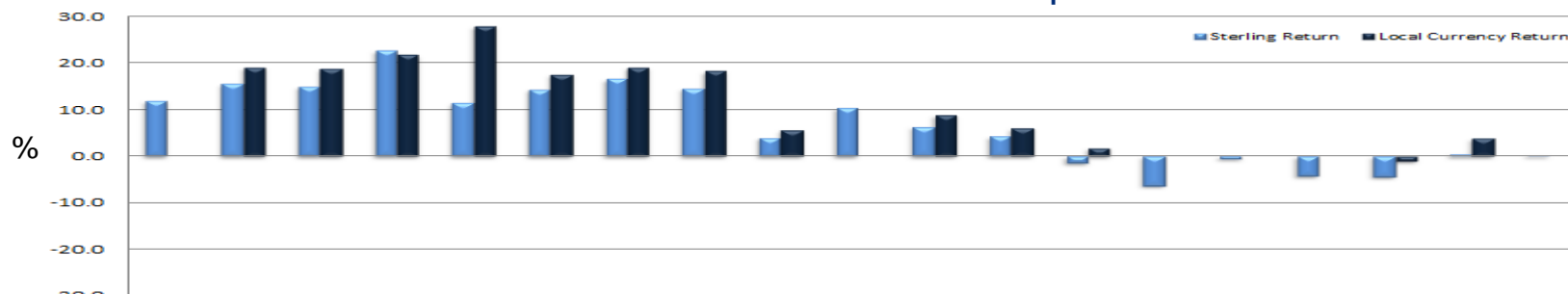
Source: Thomson Reuters Datastream.

MARKET BACKGROUND INDEX PERFORMANCE

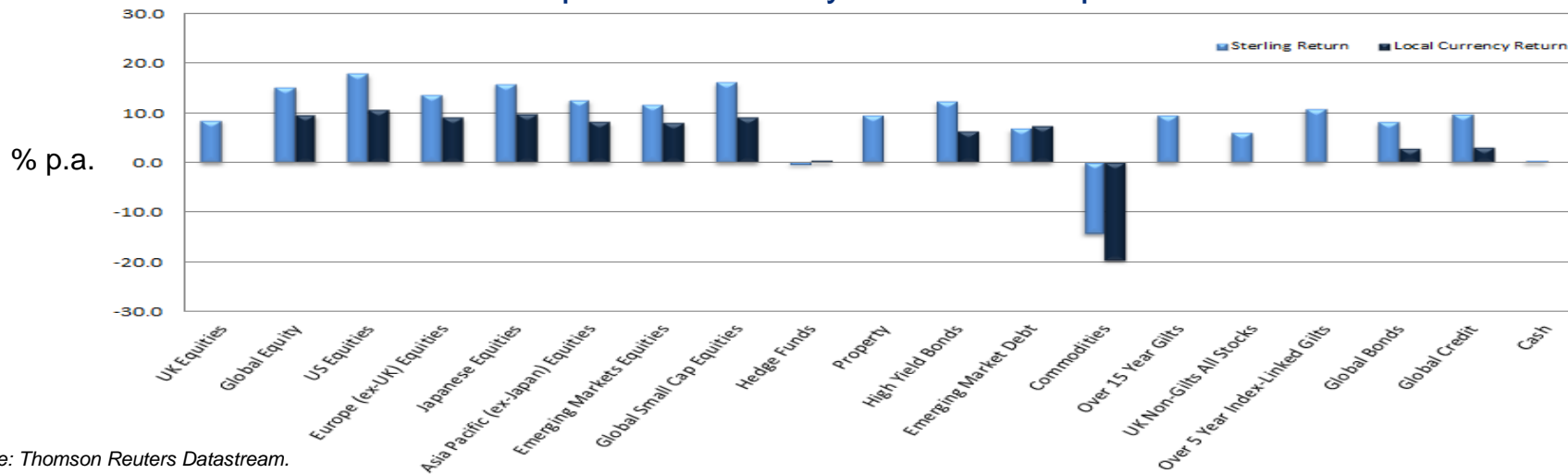
Return over the 3 months to 30 September 2017



Return over the 12 months to 30 September 2017

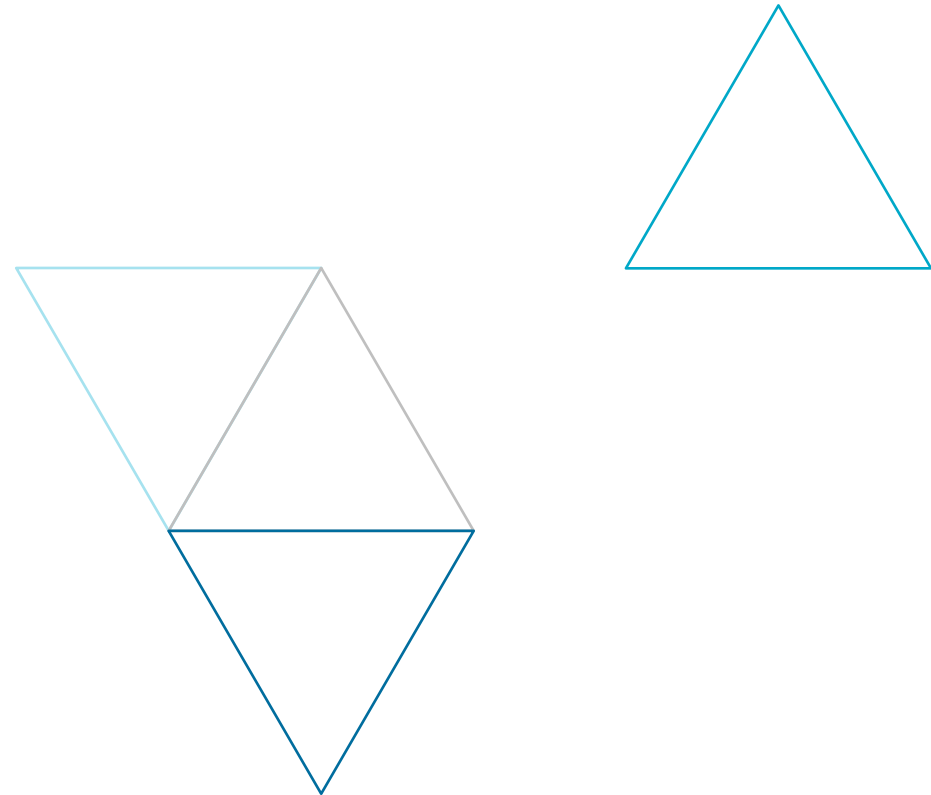


Return p.a. over the 3 years to 30 September 2017



SECTION 3

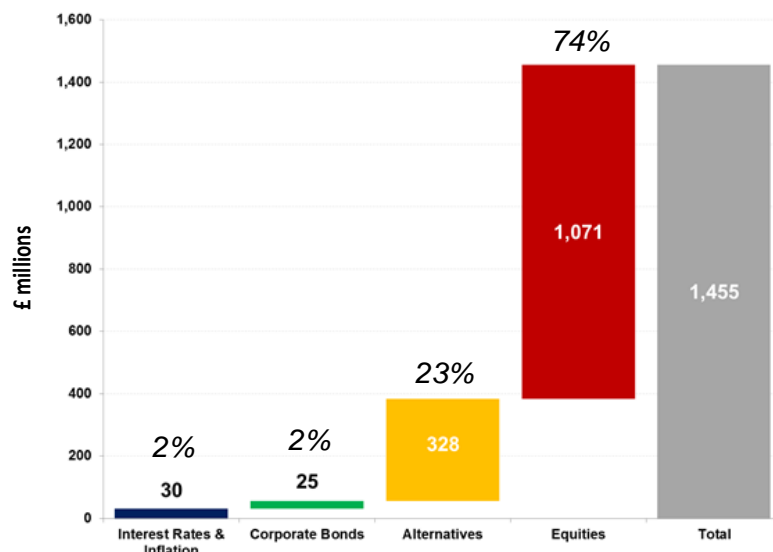
STRATEGIC CONSIDERATIONS



STRATEGIC CONSIDERATIONS

RISK DECOMPOSITION

30 June 2017



The two charts to the left illustrate the main risks that the Fund is exposed to on the 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 grey 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 2017, it shows that if a 1 in 20 “downside event” occurred, we would expect that in three years’ time, the deficit would increase by at least an additional **£1.4b** on top of the current deficit of **£0.1b**, creating a deficit of at least c. **£1.5b**.

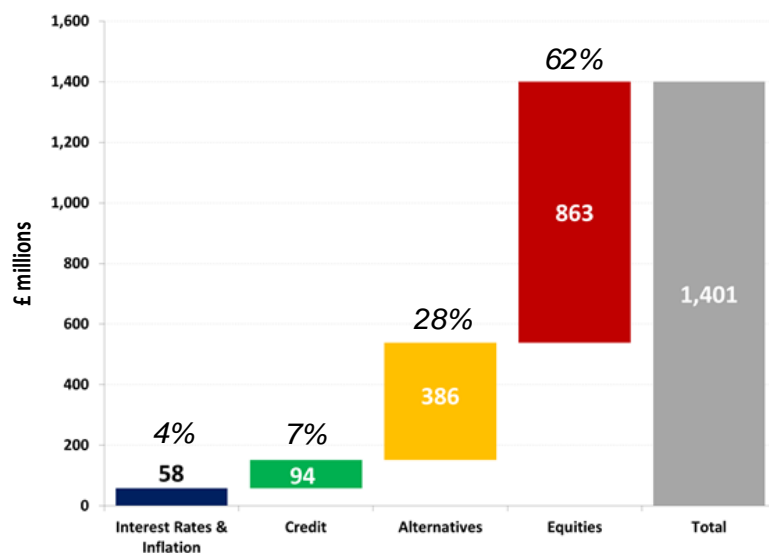
Each bar to the left of the grey bar represents the contribution to this total risk from the primary underlying risk exposures (interest rates and inflation, changes in credit spreads and volatility of equity markets and alternative assets).

The two charts show that the three-year risk over the quarter has increased slightly. The increase in VaR is largely attributable to the increase in assets over the quarter, which has served to increase the individual asset VaR figures.

The contributions to the total risk from the various return drivers have, as expected, changed little; equity market risk continues to dominate.

The VaR figures shown are based on approximate liability data rather than actual Fund cashflows, and are based on the strategic asset allocation. They are therefore illustrative only and should not be used as a basis for taking any strategic decisions.

30 September 2017



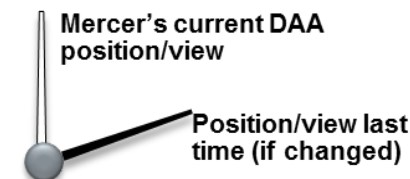
MARKET BACKGROUND

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)	8.05	15.5	<i>Remains significantly ahead of the assumed strategic return. This has decreased from 16.0% p.a. last quarter as the latest quarter's return of 1.6% was lower than the 3.2% return of Q3 2014, which fell out of the 3 year return.</i>
Emerging Market Equities (FTSE AW Emerging)	8.70	11.6	<i>The three year return from emerging market equities has increased from 11.1% p.a. last quarter, as the return of 4.5% experienced last quarter was higher than the quarter that fell out of the period (3.2%). The three year return is above the assumed strategic return.</i>
Diversified Growth	6.95 (Libor + 4% / RPI + 5%)	6.0 (4.5 / 7.2)	<i>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. An absolute strategic return of 6.95% has been used, along with the specific manager targets for comparison. During periods of strong equity returns we would expect DGFs to underperform equities.</i>
UK Gilts (FTSE Actuaries Over 15 Year Gilts)	1.90	9.5	<i>UK gilt returns remain considerably above the long term strategic assumed return as yields remain low relative to historic averages. Over Q3, returns were negative as yields increased marginally, leading to a decrease of the long-term returns. Corporate bond returns are also ahead of the strategic assumed return.</i>
Index Linked Gilts (FTSE Actuaries Over 5 Year Index-Linked Gilts)	2.15	10.8	
UK Corporate Bonds (BofAML Sterling Non Gilts)	3.25	5.9	
Fund of Hedge Funds (HFRX Global Hedge Fund Index)	5.10	-0.4	<i>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.</i>
Property (IPD UK Monthly)	5.75	9.5	<i>Property returns continue to be ahead of the expected returns. Slowing rental growth post-Brexit has meant fundamentals have weakened and a more cautious outlook may be required. Nevertheless, property returned 2.7% over the third quarter of 2017.</i>
Infrastructure (S&P Global Infrastructure)	6.95	12.8	<i>Infrastructure returns are well above the expected returns, driven by a strong return in the first half of 2016. This return was in part driven by currency as sterling depreciated significantly following the EU Referendum. Returns of this index have been largely driven by currency moves. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned. This is also true for the global property mandate with Partners.</i>

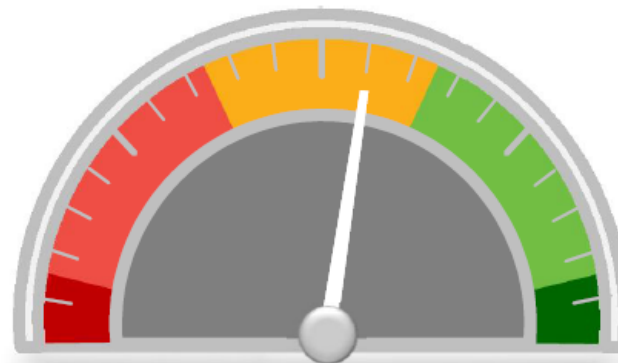
DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2017

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



DEVELOPED MARKET EQUITIES

- ✓ Strong global economic data continues to support developed equity markets
- ✓ Relatively loose monetary policy remains supportive of equity markets, albeit gradual tightening by central banks is expected.
- ⚠ Valuations are starting to appear stretched, while geopolitical issues remain a key risk in the short term

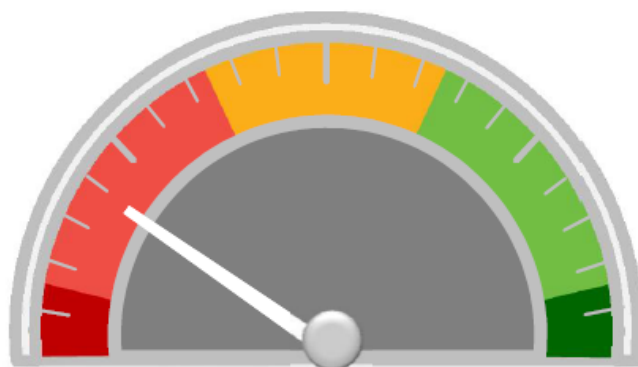


EMERGING MARKET EQUITIES

- ✓ Continue to be supported by strong economic fundamentals whilst valuations remain around their long-term averages
- ✓ Resilience to developed market shocks is increasingly evident as domestically-driven growth continues
- ⚠ North Korea geopolitics and Chinese credit tightening present potential headwinds to this 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 2017



FIXED INTEREST GILTS (ALL STOCK)



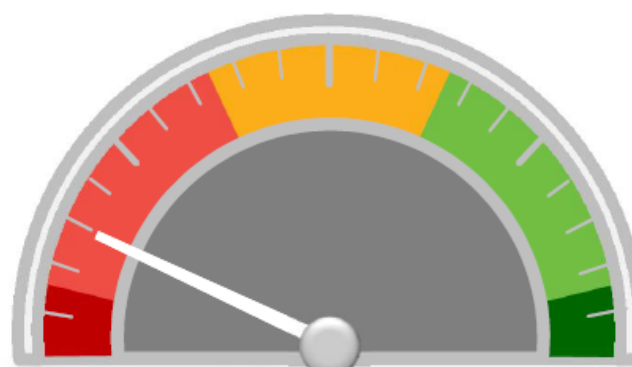
Geopolitical uncertainties could result in safe haven demand, restricting yields from increasing significantly



The market continues to be sensitive to monetary policy as demonstrated by the recent yield spikes



Valuations remain expensive with yields extremely low relative to historic averages



INDEX-LINKED GILTS



Expectations of growth and inflationary increases improve the outlook, albeit inflation has been below expectations



Valuations remain expensive as real yields remain extremely low relative to long-term averages

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2017



NON-GOVERNMENT BONDS (£ ALL-STOCK)

- ✓ Credit spreads have tightened, but provide some coverage given expectations that the downgrade environment should remain benign
- ! Prospective total returns are limited and yields remain historically low, as do credit spreads
- ! Hawkish signals from the BoE could give rise to further market volatility, albeit generally shorter duration relative to government bonds



UK PROPERTY

- ✓ Values are being supported by capital markets, whilst the industrial sector is performing strongly and rental growth is expected to be strong
- ! Concerns surrounding Brexit negotiations remain a key risk to occupiers.
- ! Fundamentals appear to be showing early signs of weakness whilst yields remain low, but not compared to bonds

DYNAMIC ASSET ALLOCATION (DAA) DASHBOARD – Q4 2017

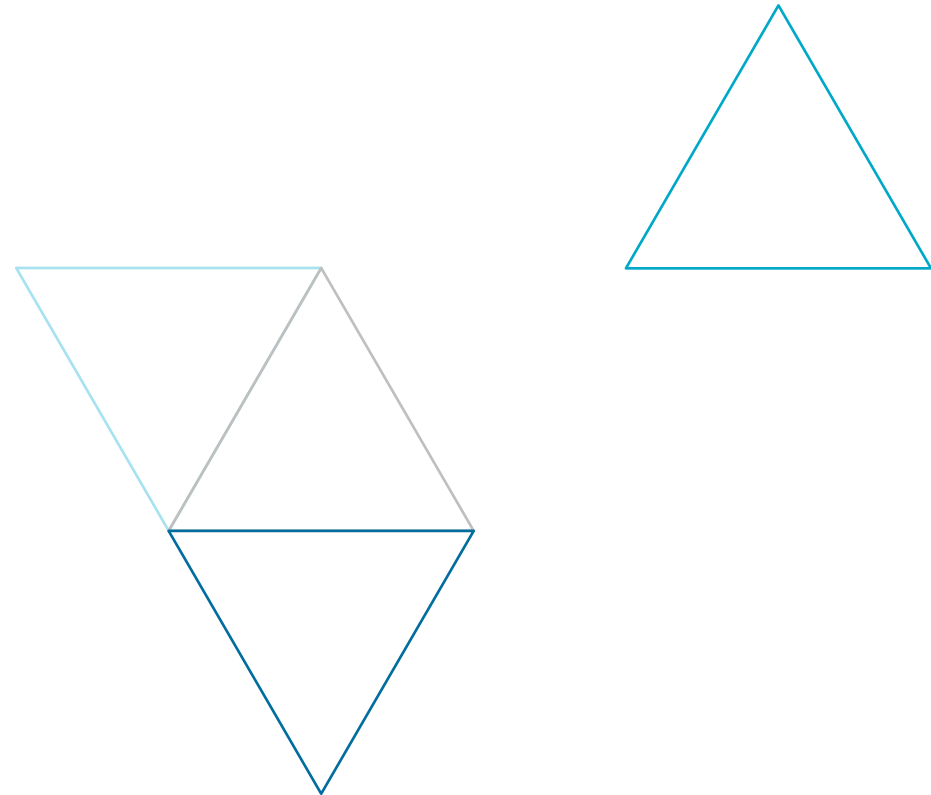


GROWTH VERSUS DEFENSIVE

Asset Class	Apr 2017	Jul 2017	Oct 2017
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	Unattractive	Unattractive	Unattractive
UK Property	Unattractive	Unattractive	Unattractive
High yield bonds	Unattractive	Unattractive	Unattractive
Local currency emerging market debt	Neutral	Neutral	Neutral

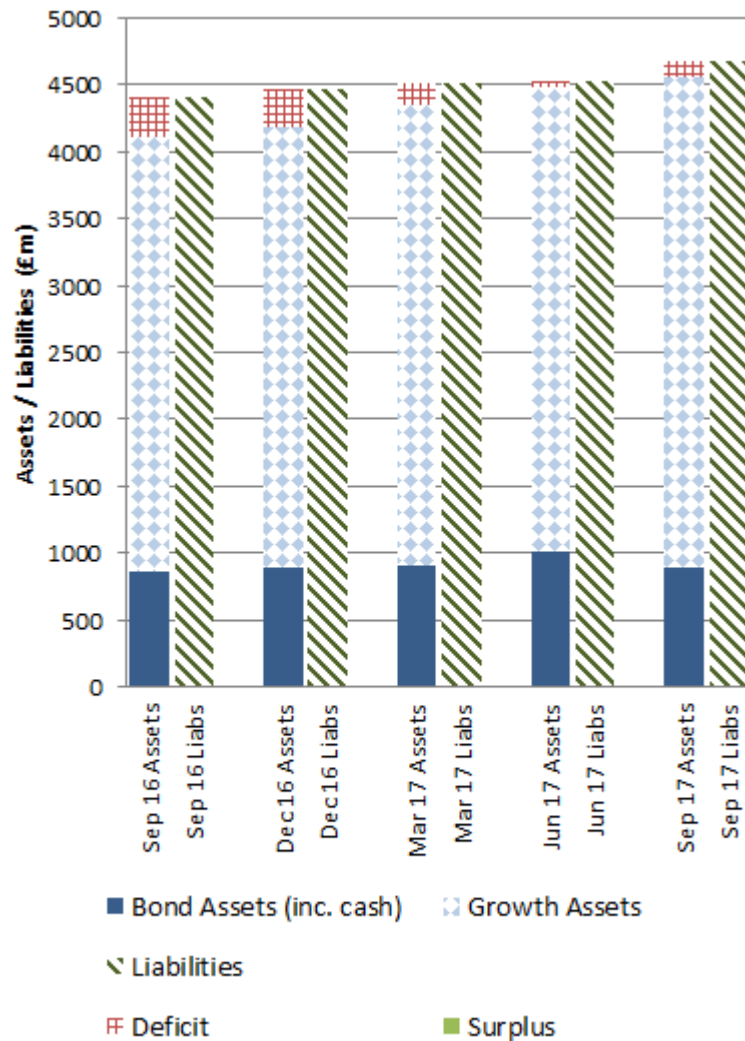
SECTION 4

CONSIDERATION OF FUNDING LEVEL



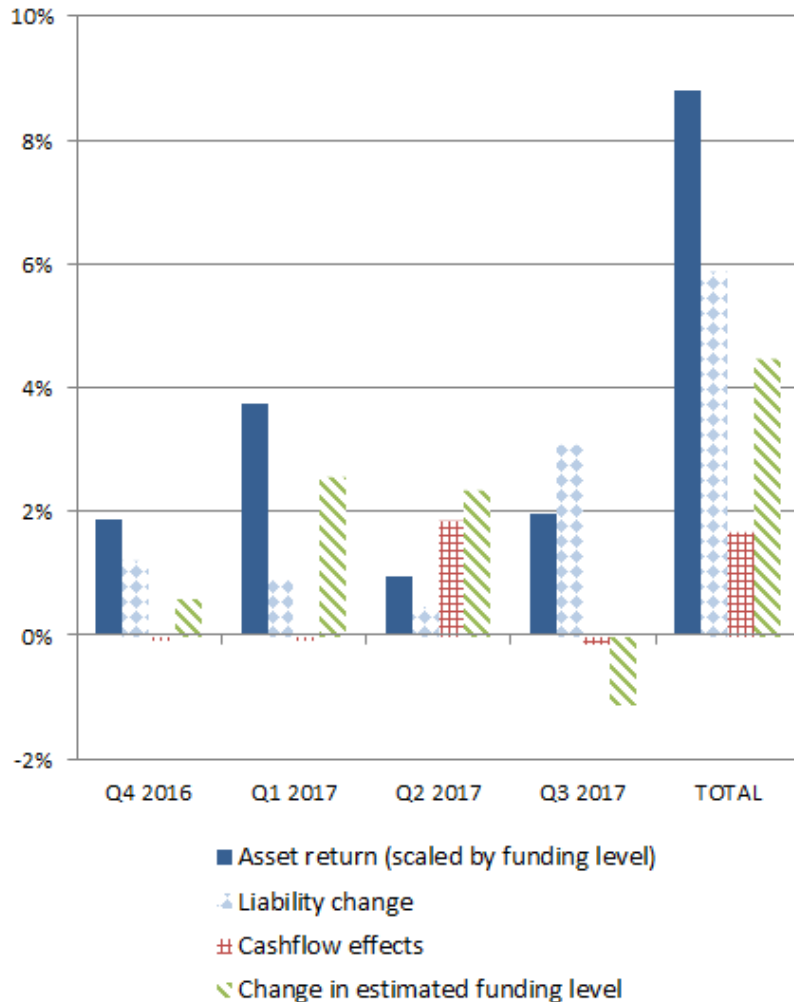
CONSIDERATION OF FUNDING LEVEL

ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and net cashflows into the Fund, the estimated funding level decreased by c .1% over the third quarter of 2017 from 99% to 98%, all else being equal.
- This stability resulted from the positive return on the Fund's assets offsetting the increase in the present value of the liabilities over the quarter.
- This is calculated using the actuarial valuation as at 31 March 2016 and the "CPI plus" discount basis.

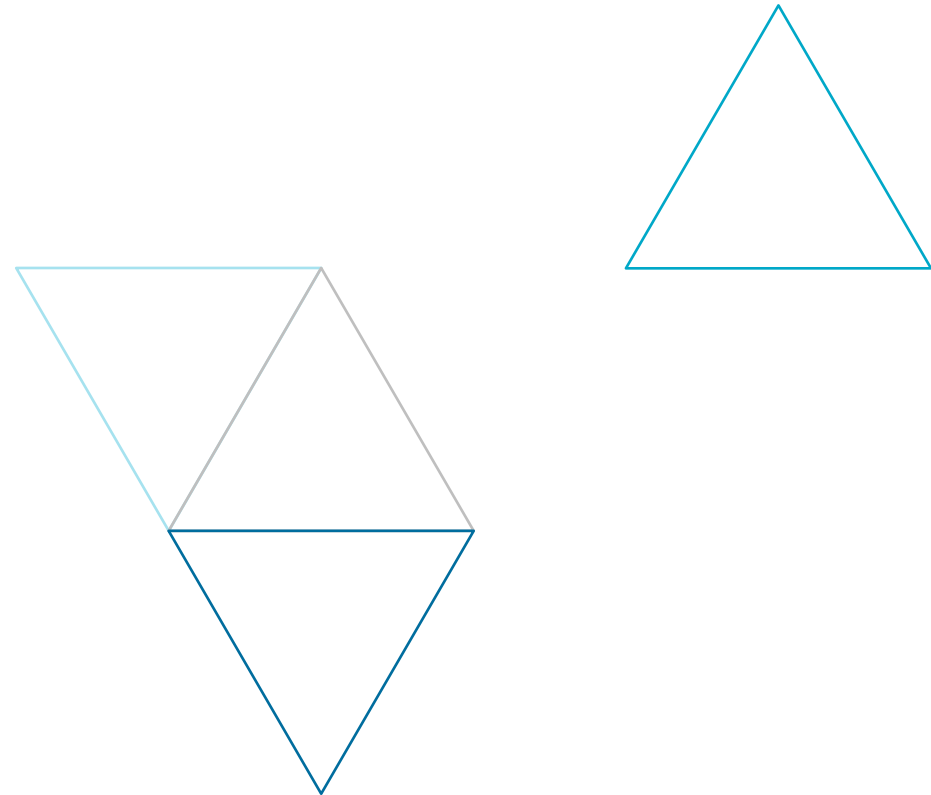
CONSIDERATION OF FUNDING LEVEL FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- The Fund's assets returned 2.0% over the quarter which, when allowing for the funding position, decreased the funding level by 1.1%.
- The Fund's estimated liabilities increased by 3.1% over the quarter.
- Over this quarter, the "cashflow effect" from contributions was negative but small.
- Overall, the combined effect has led to a decrease in the estimated funding level to 98% (from 99% at 30 June 2017).
- Over the 12 month period, the estimated funding level has risen by 4.5%.

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	1,805,599	1,612,150	40.3	35.3	34.0	29	-	39	+1.3
Emerging Market Equities	424,359	372,208	9.5	8.1	6.0	3	-	9	+2.1
Diversified Growth Funds	378,846	603,476	8.4	13.2	15.0	10	-	20	-1.8
Fund of Hedge Funds	220,527	217,511	4.9	4.8	5.0	0	-	7.5	-0.2
Property	401,527	431,845	9.0	9.4	10.0	5	-	15	-0.6
Infrastructure	259,393	259,560	5.8	5.7	5.0	0	-	7.5	+0.7
Multi Asset Credit	-	194,000	-	4.2	11.0	6	-	16	-6.8
Corporate Bonds	344,522	213,668	7.7	4.7	2.0	No set range			+2.7
LDI	500,638	512,927	11.2	11.2	12.0	No set range			-0.8
Cash (including currency instruments)	149,205	155,874	3.3	3.4	-	0	-	5	+3.4
Total	4,484,616	4,573,218	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 £89m due to positive returns from most asset classes. At the end of the quarter, all asset classes were within the agreed tolerance ranges except the newly funded Multi Asset Credit mandate with Loomis Sayles. This has been implemented in two tranches, with the second tranche completed on 20 October 2017.

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	Equities	468,029	-5,611	472,015	10.4	10.3
BlackRock	Corporate Bonds	80,731	-112	80,678	1.8	1.8
BlackRock	LDI	506,547	-	518,172	11.3	11.3
Jupiter	UK Equities	204,319	-	208,038	4.6	4.5
TT International	UK Equities	239,949	-60,000	185,815	5.4	4.1
Schroder	Global Equities	343,132	-	353,548	7.7	7.7
Genesis	Emerging Market Equities	200,626	-	208,376	4.5	4.6
Unigestion	Emerging Market Equities	223,733	-62,000	163,832	5.0	3.6
Invesco	Global ex-UK Equities	385,705	-	392,733	8.6	8.6
SSgA	Europe ex-UK & Pacific inc. Japan Equities	164,465	-165,261	-	3.7	-
Pyrford	DGF	138,603	-	137,379	3.1	3.0
Standard Life	DGF	240,243	-	240,097	5.4	5.3

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 (%)
Ruffer	DGF	-	226,000	226,000	-	4.9
MAN	Fund of Hedge Funds	406	-	270	0.0	0.0
Signet	Fund of Hedge Funds	1,389	-	1,501	0.0	0.0
JP Morgan	Fund of Hedge Funds	218,731	-	215,739	4.9	4.7
Schroder	UK Property	206,066	-	216,781	4.6	4.7
Partners	Property	195,461	14,533	215,063	4.4	4.7
IFM	Infrastructure	259,393	-	259,560	5.8	5.7
Loomis Sayles	Multi-Asset Credit	-	194,000	194,000	-	4.2
RLAM	Bonds	263,791	-132,000	132,990	5.9	2.9
Record Currency Management	Currency Hedging	38,748	-8,799	59,635	0.9	1.3
Internal Cash	Cash	104,547	-192	90,994	2.3	2.0
Total		4,484,616	557	4,573,218	100.0	100.0

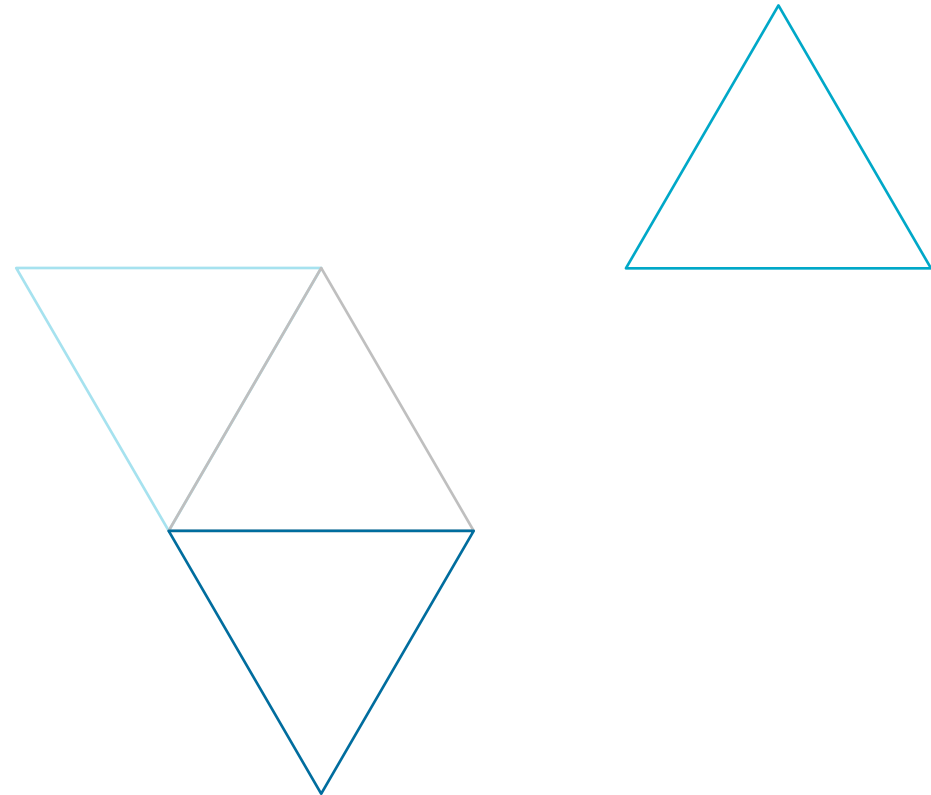
Source: BNY Mellon, Avon. Totals may not sum due to rounding.

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

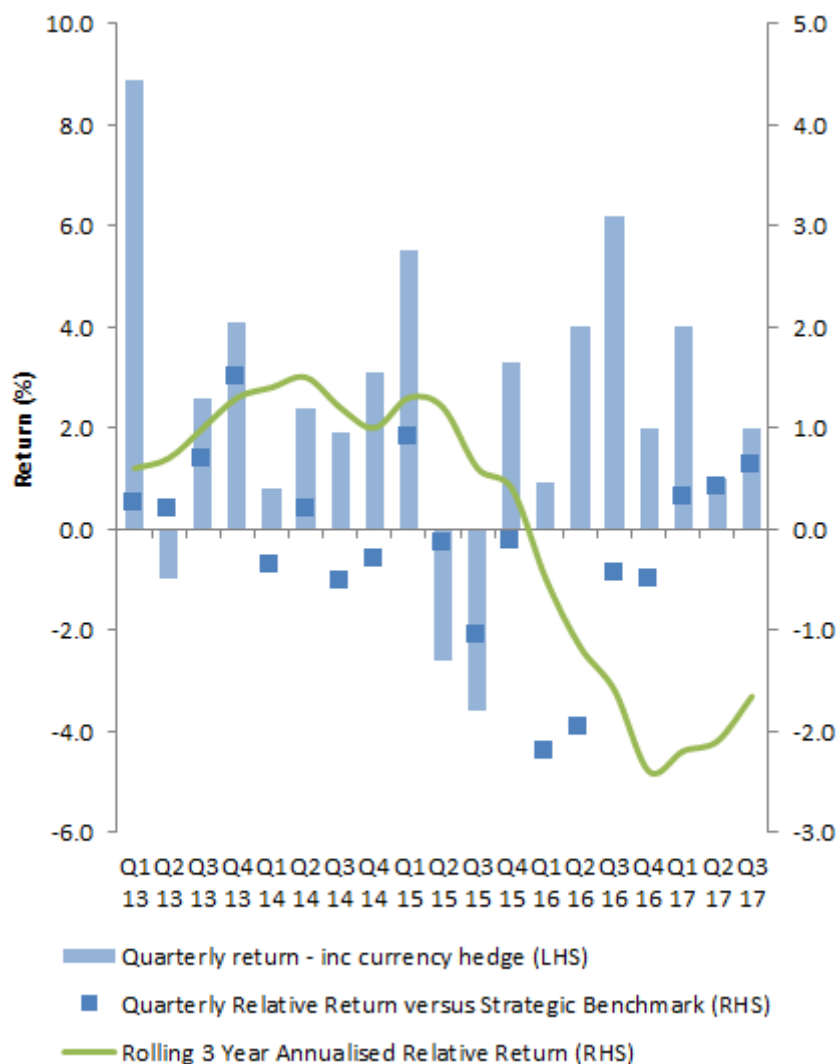
PERFORMANCE

SUMMARY



PERFORMANCE SUMMARY

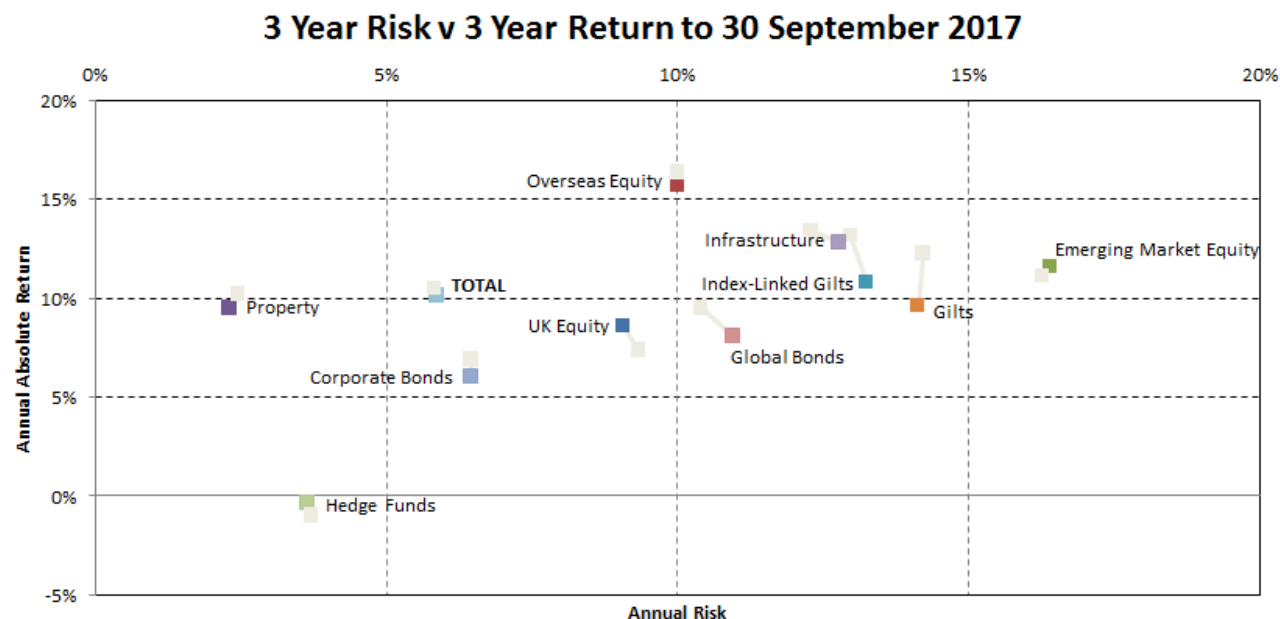
TOTAL FUND PERFORMANCE



	3 months (%)	1 year (%)	3 years (% p.a.)
Total Fund (inc currency hedge)	2.0	9.3	8.7
Total Fund (ex currency hedge)	1.5	8.7	10.0
Strategic Benchmark (no currency hedge)	1.4	8.5	10.4
Relative (inc currency hedge)	+0.6	+0.8	-1.7

- Over Q3 2017, the Fund outperformed its Strategic Benchmark by 0.6% when including the currency hedge and slightly outperformed by 0.1% excluding the currency hedge (as Sterling appreciated).
- The Fund has outperformed the Strategic Benchmark over the year by 0.8%. The outperformance was mainly due to Sterling appreciation against the US Dollar and to a lesser degree manager outperformance (particularly the alternatives asset classes). Some of the most notable outperformance over the one-year period came from the following managers:
 - JP Morgan (+2.2%) – long/short equities strategy as the main contributor;
 - IFM (+14.0%) – robust yield from various assets delivering a total net IRR of 17.5%; and
 - RLAM (+2.3%) – the bias towards subordinated financials and the underweight allocation to consumer-orientated sector aided performance.
- Rolling three year underperformance moved from -2.1% p.a. to -1.7% p.a. over the quarter.

MANAGER MONITORING RISK RETURN ANALYSIS



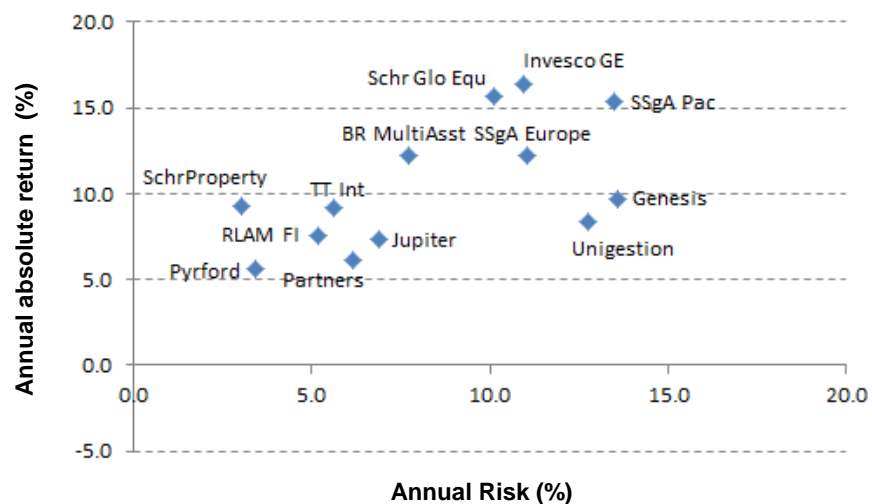
This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of September 2017, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark (using the benchmark indices and allocations from BNY Mellon). We also show the positions as at last quarter, in grey.

Comments

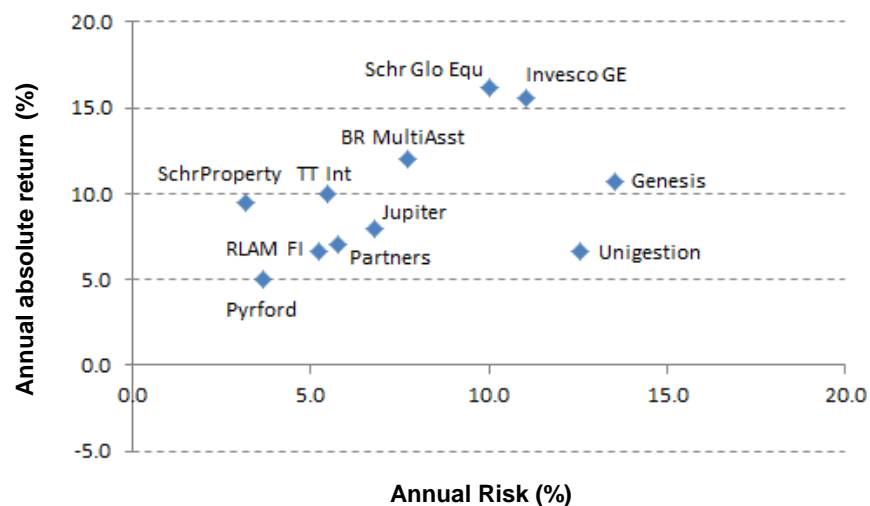
- Changes in observed returns and volatilities over the quarter were very limited. Still, the asset classes saw their 3-year returns broadly decreasing. The major exception to that were the UK equities.

MANAGER MONITORING RISK RETURN ANALYSIS

3 year Risk vs 3 year Return to 30 June 2017



3 year Risk vs 3 year Return to 30 September 2017



Comments

- TT and Genesis saw their three-year return increasing over the quarter, whilst returns from Unigestion, Invesco and RLAM decreased.

MANAGER MONITORING

MANAGER PERFORMANCE TO 30 SEPTEMBER 2017

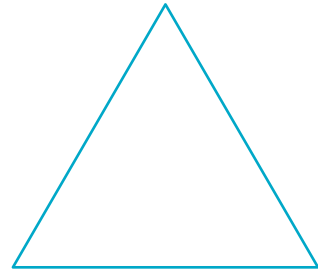
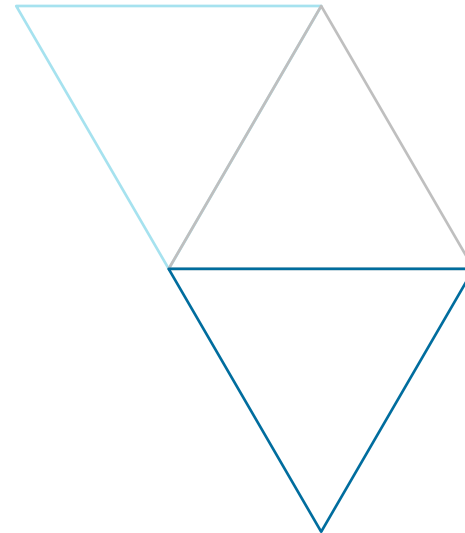
Manager / fund	3 months (%)			1 year (%)			3 year (% p.a.)			3 year outperformance target (% p.a.)	3 year performance versus target
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative		
BlackRock Equities	2.0	2.0	0.0	15.6	15.3	+0.3	13.4	13.0	+0.4	-	N/A
BlackRock Corp Bonds	-0.1	-0.1	0.0	-2.8	-2.7	-0.1	8.7	8.6	+0.1	-	N/A
BlackRock LDI	0.6	0.3	+0.3	-2.0	-2.3	+0.3	8.7	8.7	0.0	-	N/A
Jupiter	1.7	2.1	-0.4	9.6	11.9	-2.1	7.8	8.5	-0.6	+2	Target not met
TT International	2.5	2.1	+0.3	10.4	11.9	-1.4	9.9	8.5	+1.3	+3-4	Target not met
Schroder Equity	2.9	2.0	+0.9	16.7	15.5	+1.0	16.0	15.1	+0.8	+4	Target not met
Genesis	3.9	4.6	-0.7	16.3	19.0	-2.3	10.7	12.1	-1.3	-	Target not met
Unigestion	0.9	4.5	-3.4	9.6	18.6	-7.6	6.8	11.7	-4.4	+2-4	Target not met
Invesco	1.8	1.5	+0.3	16.3	14.7	+1.4	15.5	15.3	+0.2	+0.5	Target not met
SSgA Europe (terminated)	1.9	2.3	-0.5	22.3	20.7	+1.3	14.2	13.1	+1.0	+0.5	Target met
SSgA Pacific (terminated)	-0.4	0.4	-0.8	12.7	12.3	+0.3	14.7	14.4	+0.3	+0.5	Target not met
Pyrford	-0.9	2.2	-3.0	1.6	8.9	-6.7	5.0	7.2	-2.1	-	Target not met
Standard Life	-0.2	1.3	-1.5	2.2	5.5	-3.1	N/A	N/A	N/A	-	N/A
JP Morgan	1.9	0.8	+1.0	5.7	3.4	+2.2	N/A	N/A	N/A	-	N/A
Schroder Property	5.1	2.4	+2.7	11.4	9.3	+1.9	9.2	8.9	+0.2	+1	Target not met
Partners Property	N/A	N/A	N/A	N/A	N/A	N/A	7.3 *	10.0 *	-2.5 *	-	Target not met
IFM	4.2	0.7	+3.4	17.5	3.0	+14.0	13.5*	3.1 *	+10.1*	-	N/A
RLAM	0.2	0.1	+0.1	2.1	-0.2	+2.3	6.6	5.9	+0.7	+0.8	Target not met
Internal Cash	0.0	0.0	0.0	-1.5	0.1	-1.6	-0.3	0.3	-0.5	-	N/A

- Source: BNY Mellon, Avon, Mercer estimates.
- **Returns are in GBP terms**, consistent with overall fund return calculations before currency hedging is applied, **except for JP Morgan, Partners and IFM, whose performance is shown as IRR in local currency terms.**
- 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).
- In the table above, Partners performance is measured against an IRR target of 10% p.a.
- A summary of the benchmarks for each of the mandates is given in Appendix 1.

* Performance is shown since inception.

APPENDIX 1

SUMMARY OF MANDATES

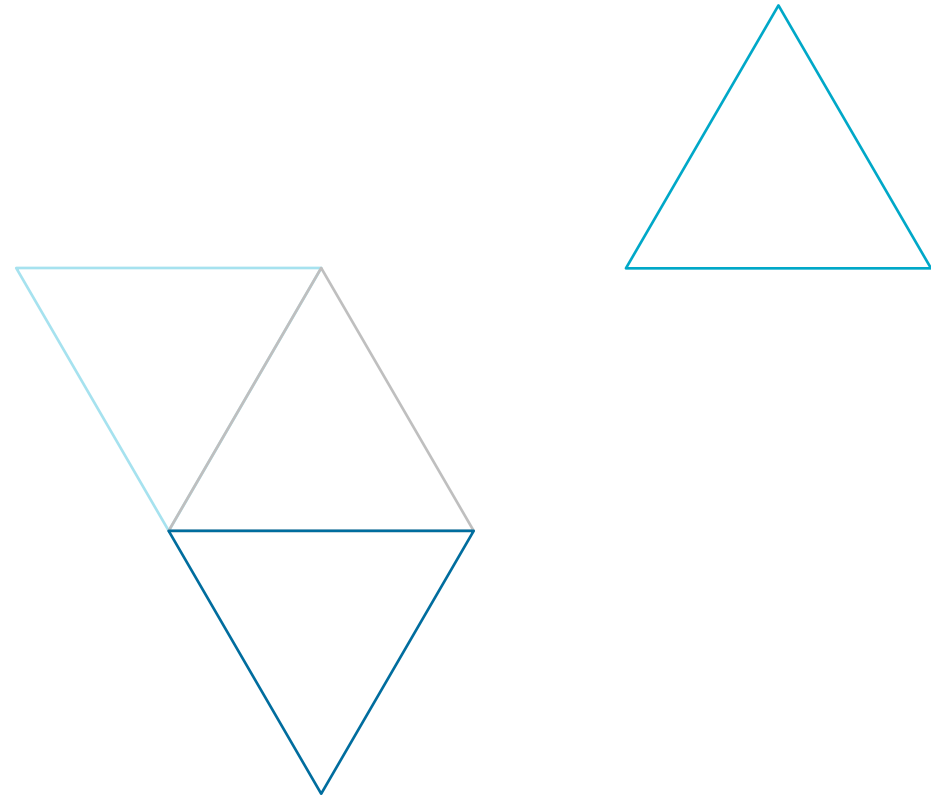


SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
BlackRock	Passive Global Equity	Composite using monthly mean fund weights	-
BlackRock	Passive Corporate Bond	Composite using monthly mean fund weights	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
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%
Pyrford	Diversified Growth Fund	RPI +5% p.a.	-
Standard Life	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
Ruffer	Diversified Growth Fund	3 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	Net IRR of 10% p.a. (local currency)	-
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Loomis Sayles	Multi-Asset Credit	50% Barclays Global Agg, 25% Barclays Global HY, 15% JPM CEMBI, 10% S&P/LSTA Leveraged Loan	+0.5-1.0%
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



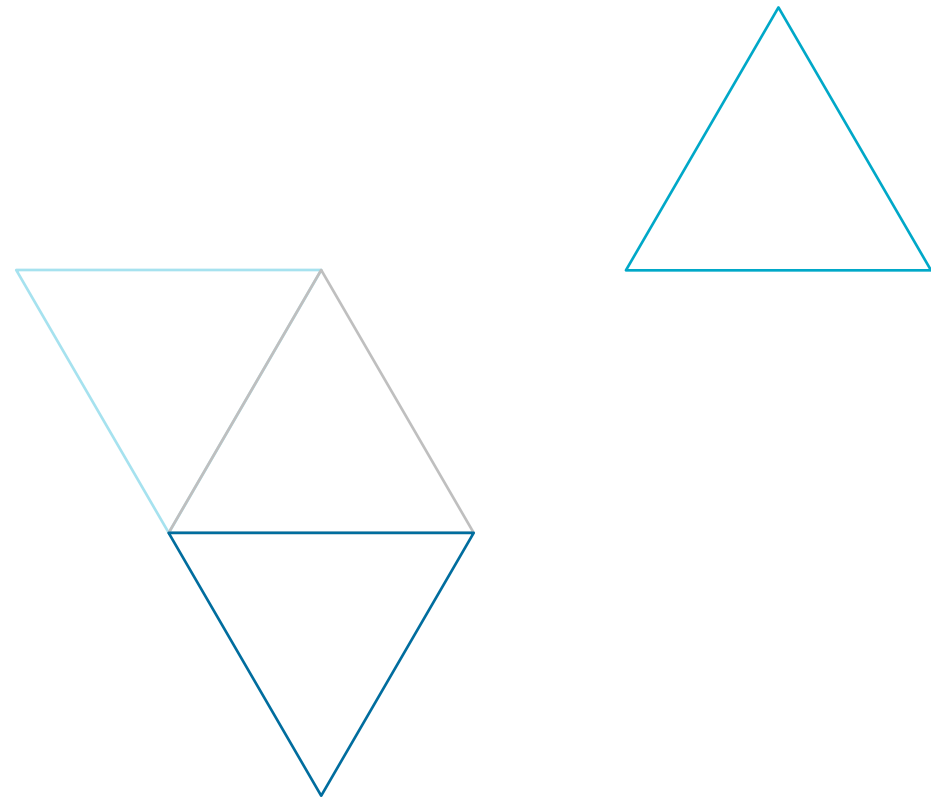
MARKET STATISTICS INDICES

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

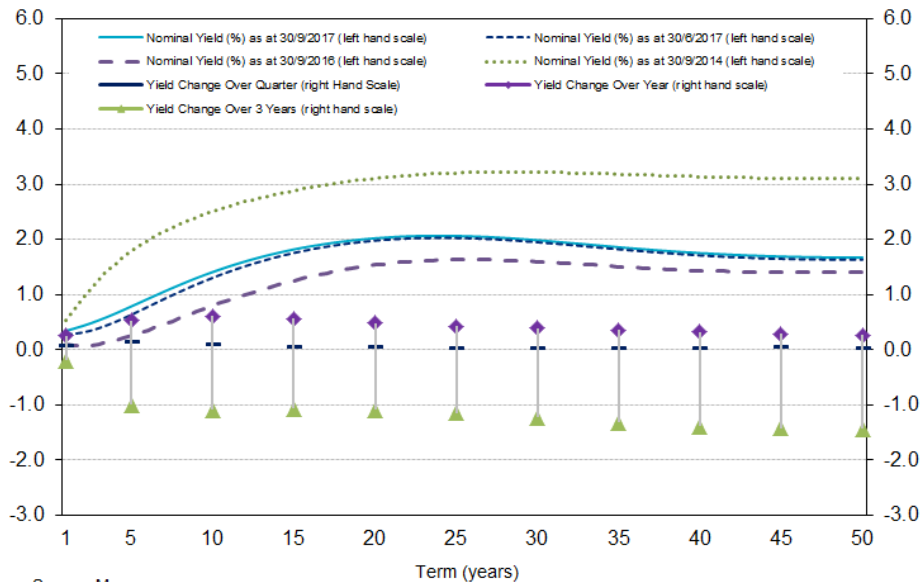


CHANGES IN YIELDS

Asset Class Yields (% p.a.)	30 Sep 2017	30 Jun 2017	30 Sep 2016	30 Sep 2015
UK Equities	3.68	3.61	3.46	3.71
Over 15 Year Gilts	1.84	1.80	1.42	2.38
Over 5 Year Index-Linked Gilts	-1.51	-1.57	-1.78	-0.83
Sterling Non Gilts	2.30	2.24	1.99	3.16

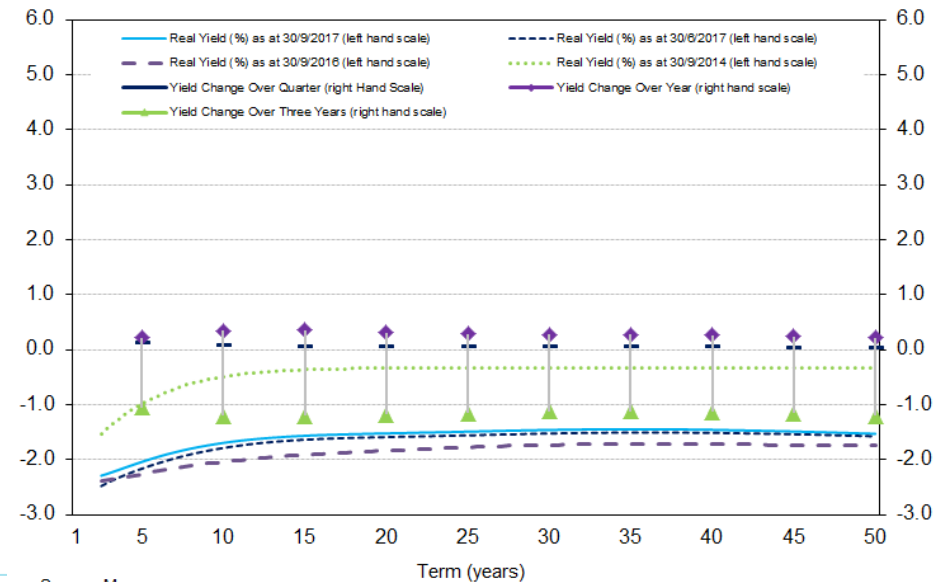
- Bond yields in the UK and the US fell slightly over the quarter, despite the Federal Reserve raising its interest rate by 0.25% at the March meeting, a move that had been predicted by markets.
- In the UK, there was a slight downward shift in the yield curve over the quarter for terms over five years. The Over 15 Year Gilt Index outperformed the broader global bond market over the quarter, generating a return of 2.6%.
- Real yields were slightly down over the quarter. This led to the Over 5 Year Index-Linked Gilts Index returning 2.0%.
- Credit spreads remained largely unchanged over the quarter, with the sterling Non-Gilts All Stocks index ending the quarter at c.1.2% and the Sterling Non-Gilts All Stocks over 10 years index ending the quarter at c.1.3%. UK credit assets returned 1.8% over the quarter. This broadly matched the return of global credit in local currency terms.

Nominal yield curves



Source: Mercer.

Real yield curves



Source: Mercer.

MAKE
TOMORROW,
TODAY



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