

HEALTH WEALTH CAREER

AVON PENSION FUND

ANNUAL INVESTMENT REVIEW TO
31 MARCH 2019

JUNE 2019

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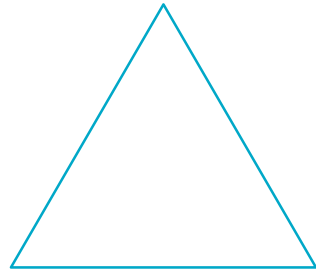
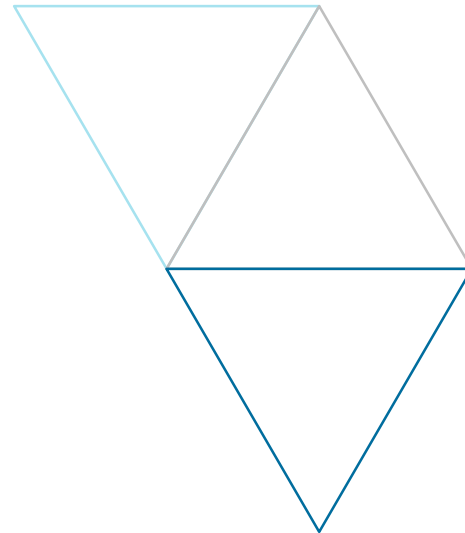
- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
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- When there is no (or limited) recognised 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

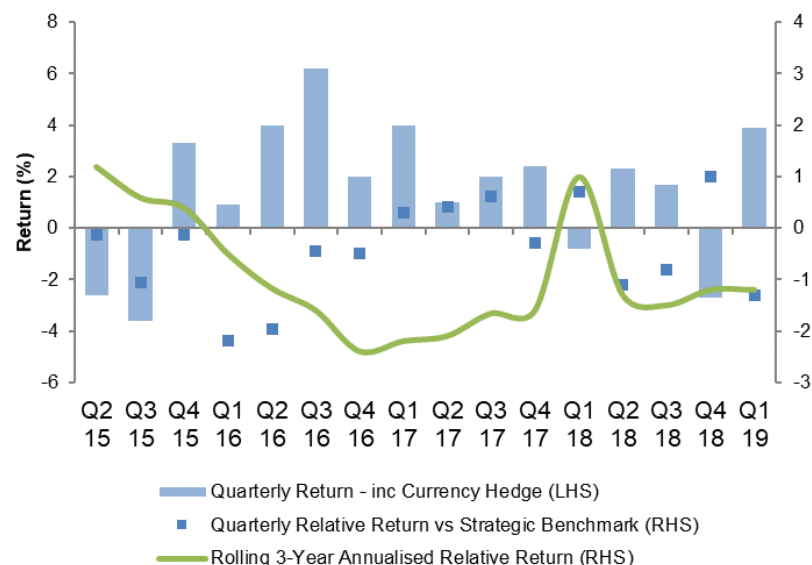
EXECUTIVE SUMMARY



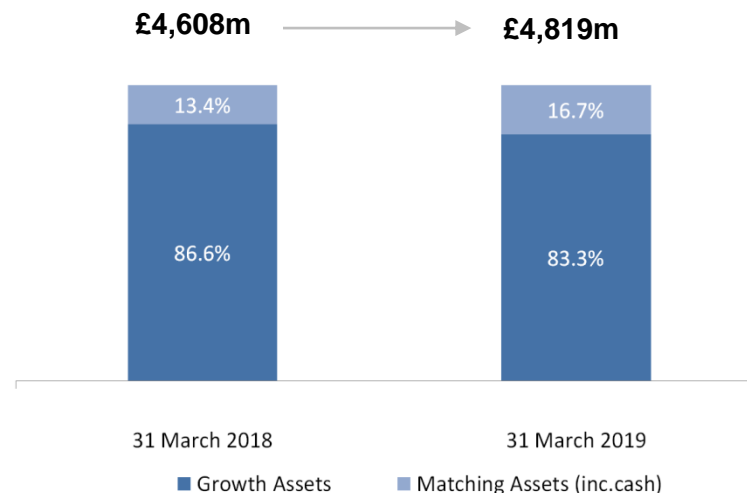
EXECUTIVE SUMMARY

	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund	3.9	5.2	8.9
Total Fund (ex currency hedge)	3.3	6.5	9.7
Strategic Benchmark (ex currency hedge)	4.9	7.7	10.0
Relative	-1.0	-2.5	-1.1

Excess Return Chart



Asset Allocation



Commentary

Over the year total Fund assets (including currency hedging) increased from £4,608m (31 March 2018) to £4,819m.

This increase was primarily due to strong performance from global equities, infrastructure and LDI.

At a strategic level, the Fund was within the tolerance ranges in the Statement of Investment Principles for all asset classes at the end of the year.

The Fund underperformed its Strategic Benchmark over the one-year period. This was a result of underperformance by a number of the Fund's mandates, in particular Partners and Ruffer. Currency hedging also detracted.

EXECUTIVE SUMMARY

This report has been prepared for the Committee of the Avon Pension Fund (“the Fund”), to assess the performance and risks of the investment managers of the Fund.

Funding level

- The estimated funding level remained stable over the year at 96%, due to the positive return on the Fund’s assets (along with positive contributions into the Fund) being broadly in line with the increase in the present value of the liabilities over the year.

Fund Performance

- The value of the Fund’s assets increased by £211m over the year, to £4,819m as at 31 March 2019. This increase was primarily due to solid performance from global equities, infrastructure and LDI.

Strategy

- Global (developed) equity returns over the last three years were 15.0% p.a., above 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). Developed market equities rebounded strongly over the quarter, with valuation metrics thus deteriorating slightly. The overall macro environment remains supportive with moderate but solid global growth and low inflation in the medium term.
- Emerging market equities have returned 14.5% p.a. over the three-year period. It is above the assumed return of 8.70% p.a. as returns have been reasonably strong and fundamentals have improved. Compared to developed market equities, we continue to be more positive in our medium-term outlook for emerging market equities over the next one to three years. The positive macro environment has improved and valuations are still attractive both on a historical basis and relative to developed markets.
- UK government bond returns over the three-year period remain materially higher than the long-term assumed strategic returns as investor demand for gilts remains high. Fixed interest gilts returned 6.3% p.a. versus an assumed return of 1.90% p.a. and index-linked gilts returned 9.1% p.a. versus an assumed return of 2.15% p.a. Gilt yields decreased over the quarter, and as a result gilt returns were positive over the period.
- UK corporate bonds returned 3.2% p.a. over the three-year period against an assumed strategic return of 3.25% p.a.
- The three-year UK property return of 6.8% p.a. remains higher than the assumed return of 5.75% p.a.
- Hedge fund returns picked up in Q1 19 but 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 years.

EXECUTIVE SUMMARY

Managers

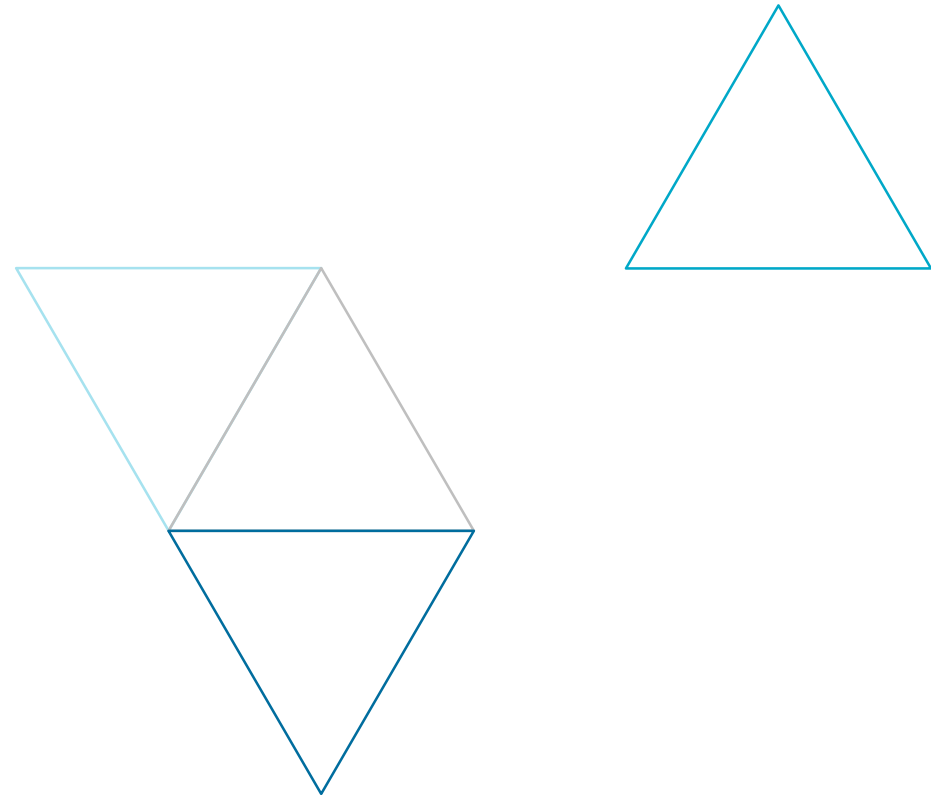
- Absolute returns over the year to 31 March 2019 were strong. All mandates (except Ruffer) delivered positive absolute return, with the Schroders Global Equity and IFM mandates leading the way. In terms of relative performance, out of the active managers, Genesis, Unigestion and IFM outperformed their benchmarks over the year. Of those underperforming, Ruffer, Partners and Loomis Sayles delivered the most significant underperformance. Ruffer suffered towards the back end of 2018, as the tilt towards cyclical and financial stocks hurt performance as market volatility picked up. Loomis Sayles' exposure to Emerging Market debt in countries in credit repair and the recovery phase of the credit cycle has hurt relative performance during the period.
- Over the three-year period all mandates with a three-year track record produced positive absolute returns. All active funds underperformed their benchmarks over the period (in local currency terms), with the exception of IFM who delivered material outperformance over their benchmark.

Key Points for Consideration

- The Fund's investment strategy remained stable over the year although there were a number of changes to the Fund's mandates.
- The Fund made an allocation of £10m to the Jupiter Global Sustainable Equity Strategy in Q2 2018, which was funded from the existing UK equity holding with Jupiter.
- The TT International UK Equity mandate was terminated in Q4 2018, with the proceeds allocated to the Brunel Active UK Equity strategy.
- The Fund's Aberdeen Standard Diversified Growth Fund ("DGF") mandate was terminated in Q4 2018, with the proceeds allocated proportionately to the Fund's two other DGF mandates, Ruffer and Pyrford.
- In Q1 2019 the Fund invested in the Brunel Infrastructure and Secured Income funds. A cash management ETF strategy, managed by BlackRock, was also implemented.

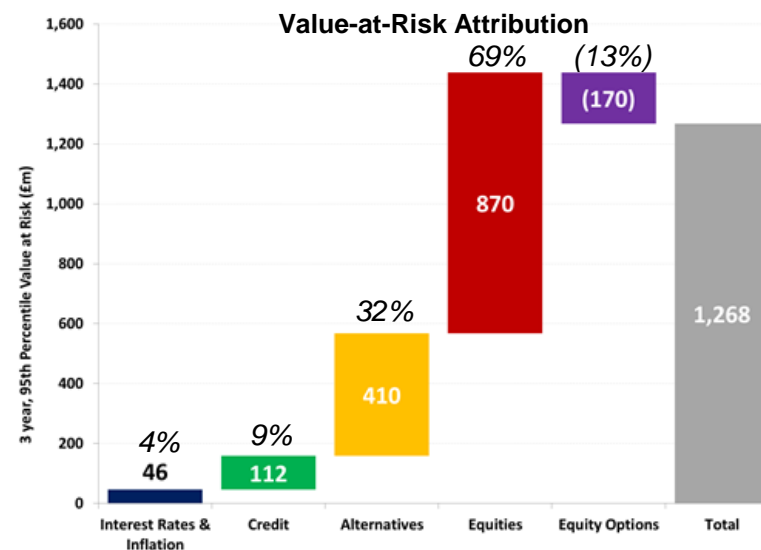
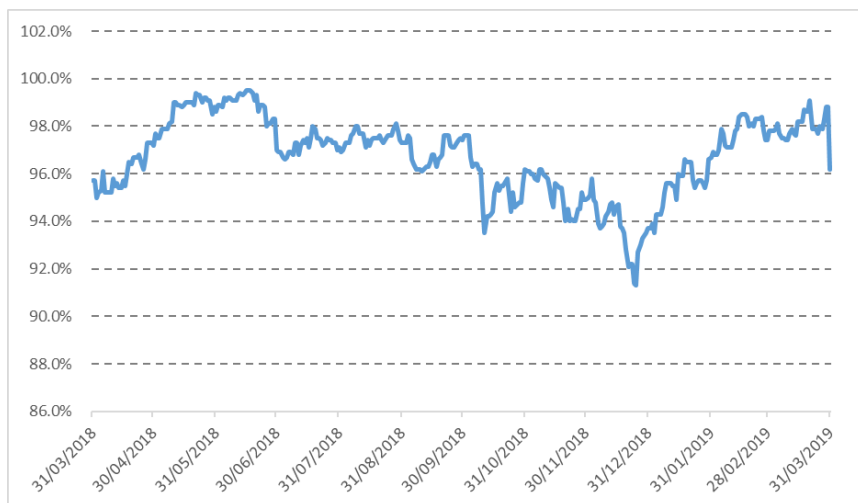
SECTION 2

CONSIDERATION OF FUNDING LEVEL



CONSIDERATION OF FUNDING LEVEL YEAR TO 31 MARCH 2019

Estimated Funding Level – Year to 31 March 2019



The charts above illustrate the estimated progression of the funding level (on the 2016 actuarial valuation basis) over the year to 31 March 2019 on the left hand side, and the main risks the Fund is exposed to on the right side (again on the 2016 valuation basis), including the size of these risks in the context of the deficit position. The purpose of showing this chart is to provide 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.

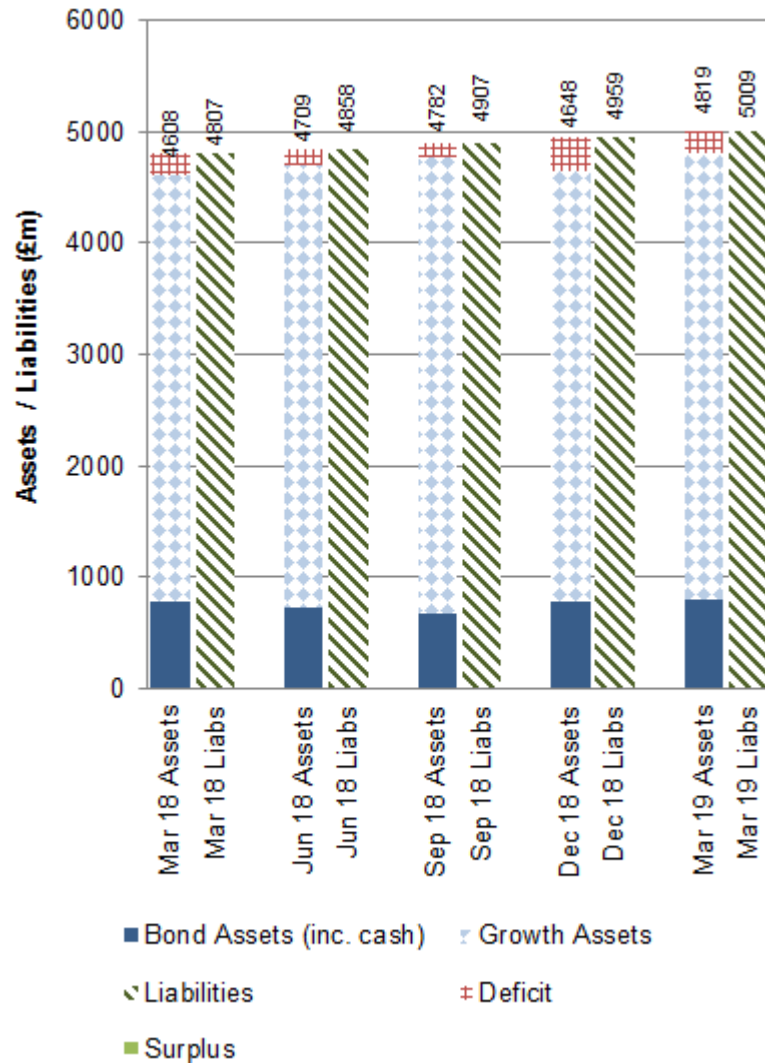
The grey column on the right hand side of this chart shows the estimated 95th percentile (1-in-20) Value-at-Risk figure relative to our 'best estimate' of what the deficit would be in three years time. As at 31 March 2019, the chart shows that if a 1-in-20 downside event occurred, we would expect that in three years time, the deficit would worsen by at least an additional **£1,268m** on top of the expected deficit at that time. This compares to an equivalent figure of £1,144m as at 31 March 2018, although this is not unexpected given the increase in the Fund's asset value over the period.

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). **It should be noted that while these figures indicate levels of volatility on the downside, there is also a potential upside benefit from taking these risks.** Equity risk continues to be the largest driver of volatility (net 55% including options), but to a lesser degree than last year due to the reduction in equity allocation and implementation of the option strategy.

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.

CONSIDERATION OF FUNDING LEVEL

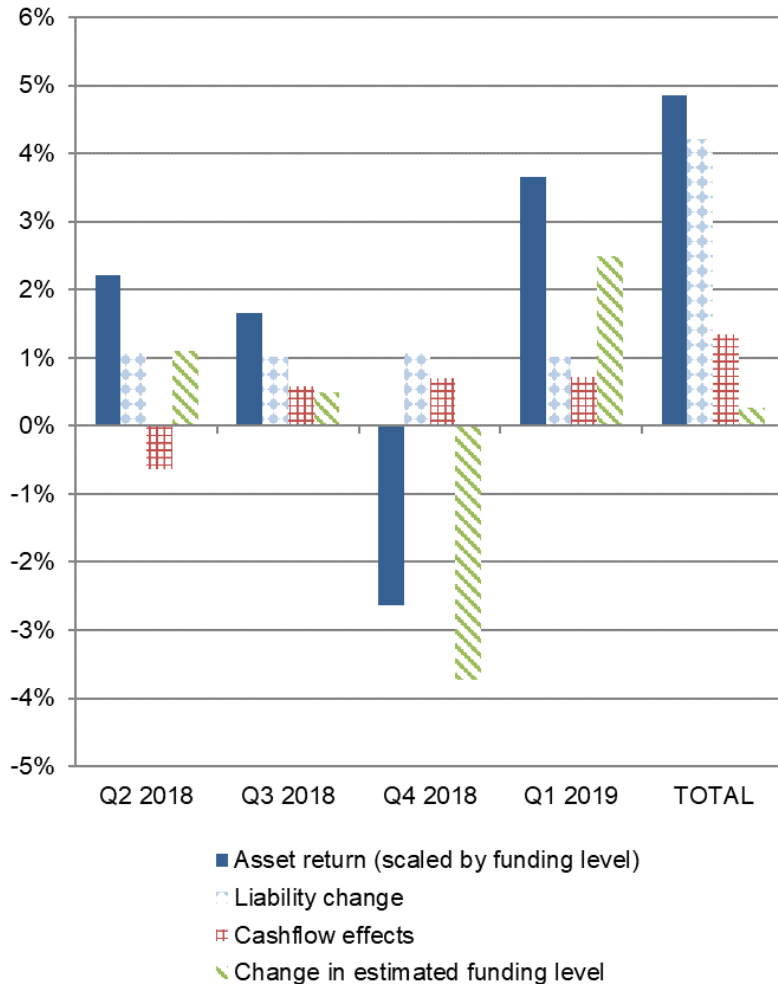
ASSET ALLOCATION AND FUNDING LEVEL



- Based on financial markets, investment returns and cashflows into the Fund, the estimated funding level remained at 96% over the year. The positive returns on assets (along with positive contributions into the Fund) was broadly matched by the increase in the present value of the liabilities.
- This is calculated using the new actuarial valuation as at 31 March 2016 and the “CPI plus” discount basis.

CONSIDERATION OF FUNDING LEVEL

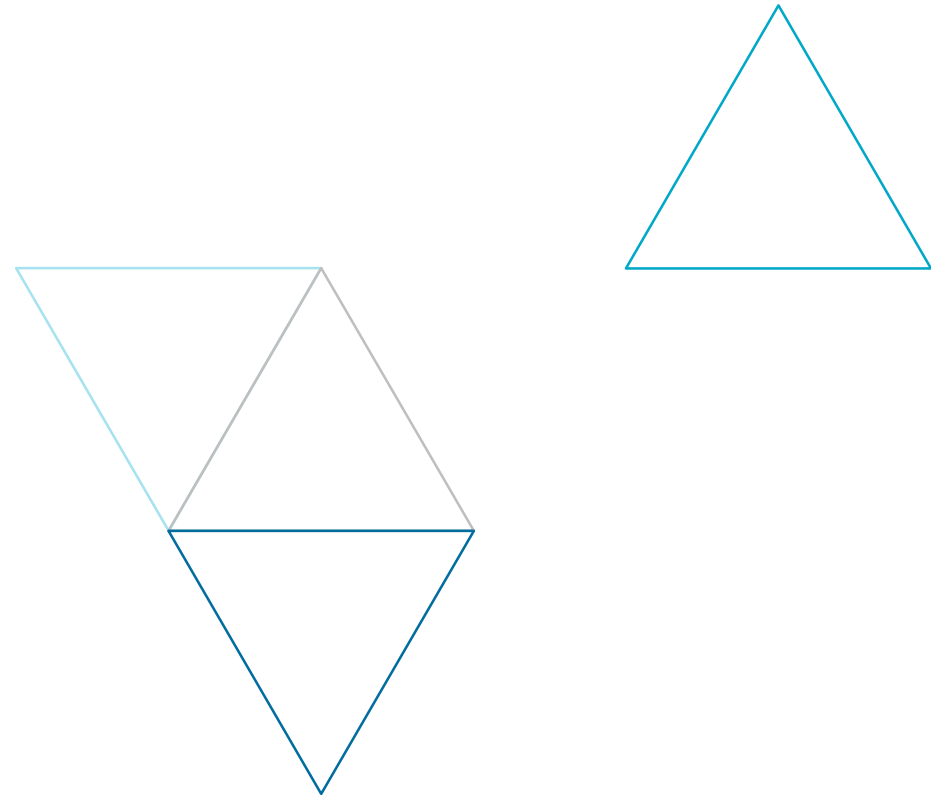
FUND PERFORMANCE RELATIVE TO ESTIMATED LIABILITIES



- Over the 12 month period, the funding level remained 96% with positive return on the Fund's assets (along with positive contributions into the Fund) being broadly in line with increase in the present value of the liabilities over the year.
- The Fund's assets returned 5.2% over the year, and, when allowing for the funding position, the funding level remained stable.

SECTION 3

FUND VALUATIONS



FUND VALUATIONS

VALUATION BY ASSET CLASS

Asset Allocation							
Asset Class	31/03/2018 (£'000)	31/03/2019 (£'000)	31/03/2018 (%)	31/03/2019 (%)	Target Strategic Benchmark (%)	Ranges (%)	Difference (%)
Developed Market Equities	1,588,295	1,744,532	34.5	36.2	34.0	29 - 39	+2.2
Emerging Market Equities	221,708	228,531	4.8	4.7	6.0	3 - 9	-1.3
Diversified Growth Funds	602,104	597,717	13.1	12.4	15.0	10 - 20	-2.6
Fund of Hedge Funds	211,766	232,127	4.6	4.8	5.0	0 - 7.5	-0.2
Property	426,039	458,157	9.3	9.5	10.0	5 - 15	-0.5
Infrastructure	283,594	342,723	6.2	7.1	5.0	0 - 7.5	+2.1
Multi-Asset Credit	482,296	410,444	10.5	8.5	11.0	6 - 16	-2.5
Corporate Bonds	82,124	86,168	1.8	1.8	2.0	No set range	-0.2
LDI*	536,222	568,083	11.6	11.8	12.0	No set range	+0.2
Cash (including currency instruments)	174,159	150,553	3.8	3.1	-	0 - 5	+3.1
Total	4,608,307	4,819,035	100.0	100.0	100.0		0.0

Source: Investment Managers, Mercer. Green numbers indicate the allocation is within tolerance ranges, whilst red numbers indicate the allocation is outside of tolerance ranges.

* Valuation includes mark-to-market value of equity protection strategy.

- Invested assets increased over the year by £211m. This increase was primarily due to solid performance from developed market equities, property and infrastructure. At the end of the year, all asset classes were within the agreed tolerance ranges.

FUND VALUATIONS

VALUATION BY MANAGER

Manager Allocation					
Manager	Asset Class	31/03/2018 (£'000)	31/03/2019 (£'000)	31/03/2018 (%)	31/03/2019 (%)
BlackRock	Global Equities	853,002	440,339	18.5	9.1
BlackRock	Corporate Bonds	82,124	86,168	1.8	1.8
BlackRock	LDI*	536,222	568,083	11.6	11.8
BlackRock	Cash	-	71,639	-	1.5
Brunel	Global Low Carbon Equities	-	520,926	-	10.8
Brunel	UK Equities	-	187,270	-	3.9
TT International	UK Equities	184,557	305	4.0	0.0
Jupiter	UK Equities	196,870	194,848	4.3	4.0
Jupiter	Global Sustainable Equities	-	10,740	-	0.2
Schroder	Global Equities	353,866	390,103	7.7	8.1
Genesis	Emerging Market Equities	113,788	117,600	2.5	2.4
Unigestion	Emerging Market Equities	107,920	110,931	2.3	2.3

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

* Valuation includes mark-to-market value of equity protection strategy.

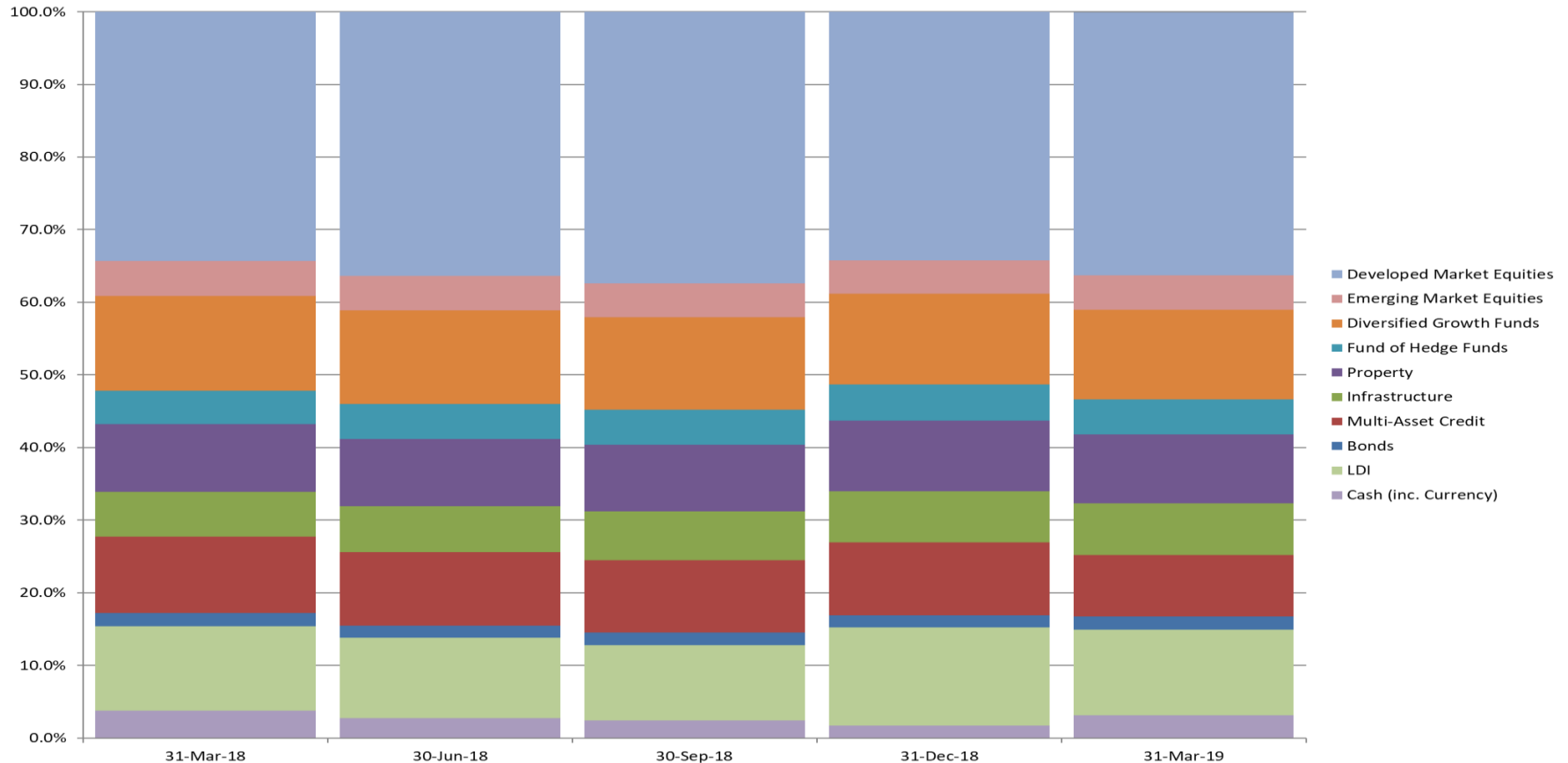
FUND VALUATIONS

VALUATION BY MANAGER

Manager	Asset Class	31/03/2018 (£'000)	31/03/2019 (£'000)	31/03/2018 (%)	31/03/2019 (%)
Aberdeen Standard	DGF	240,709	-	5.2	-
Pyrford	DGF	135,269	218,582	2.9	4.5
Ruffer	DGF	226,126	379,136	4.9	7.9
JP Morgan	Fund of Hedge Funds	210,133	232,127	4.6	4.8
Signet	Fund of Hedge Funds	1,633	-	0.0	-
Schroder	UK Property	224,719	240,276	4.9	5.0
Partners	Property	201,320	201,187	4.4	4.2
Brunel	Secured Income	-	16,695	-	0.3
IFM	Infrastructure	283,594	331,571	6.2	6.9
Brunel	Infrastructure	-	11,152	-	0.2
Loomis Sayles	Multi-Asset Credit	482,296	410,444	10.5	8.5
Record Currency Management	Currency Hedging	86,436	29,631	1.9	0.6
Internal Cash	Cash	87,723	49,283	1.9	1.0
Total		4,608,307	4,819,035	100.0	100.0

Source: Investment Managers, Mercer. Totals may not sum due to rounding.

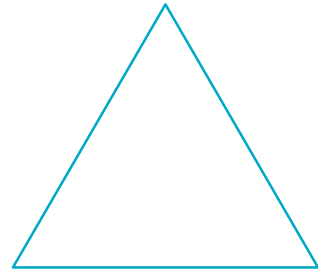
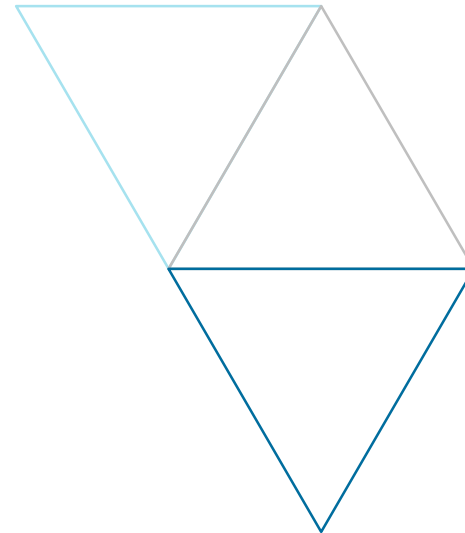
COMMENTARY ON CHANGE IN ASSET ALLOCATION OVER THE YEAR



- The Fund invested in the Jupiter Global Sustainable Equity strategy (Q2 2018), funded from the Jupiter UK equity mandate
- The Fund terminated its UK equity portfolio with TT International (Q4 2018), with the proceeds allocated to the Brunel active UK Equity strategy. The Fund terminated DGF portfolio with Aberdeen Standard Investment (Q4 2018) with the proceeds allocated to the Fund's two other DGF mandates.
- In Q1 2019, the Fund invested in the Brunel Infrastructure and Secured Income funds and the BlackRock cash management ETF was also implemented.

SECTION 4

MARKET BACKGROUND



MARKET BACKGROUND INDEX PERFORMANCE OVER THE YEAR TO 31 MARCH 2019

Equity Market Review

It was a mixed year for investment markets with a rather strong first half followed by significant bouts of volatility in the second half. The second and third quarter of 2018 saw strong global equity market performance on the back of a continued broad economic expansion on a global basis. During the fourth quarter of 2018 the outlook for global growth started to soften, which combined with investor concerns over monetary tightening by the Federal Reserve, as well as uncertainty over trade, led to the largest sell-off in equity markets since 2008. Following the Federal Reserve softening their tone on monetary policy and the prospect of a trade settlement between the US and China in mid-2019 as well as slower but still solid economic data from the US led investors to re-evaluate their initial reaction and a strong rebound in equity markets ensued the first quarter of 2019. At a global level, developed markets as measured by the FTSE World index, returned 11.1%. Meanwhile, a return of 1.9% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 2.6% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 6.4%. The FTSE USA index returned 17.7% while the FTSE Japan index returned -0.9%.

Bond Market Review

UK Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 3.7%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 4.7% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 1.54% to 1.36%.

The FTSE All Stocks Index Linked Gilts index returned 5.5% with the corresponding over 5-year index exhibiting a return of 5.7%.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 3.7%.

Currency Market Review

Over the 12 -month period to 31 March 2019, Sterling depreciated by 7.1% against the US Dollar from \$1.40 to \$1.30. Sterling depreciated by 3.3% against the Yen from ¥149.19 to ¥144.23. Sterling appreciated against the Euro by 1.7% from €1.14 to €1.16 over the same period.

Commodity Market Review

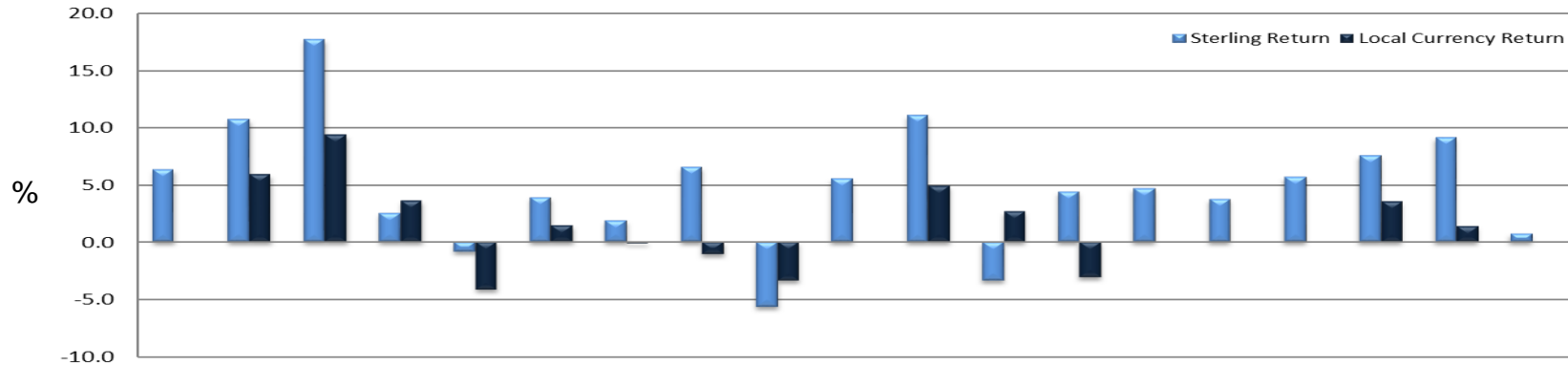
The price of Brent Crude decreased 2.2% from \$70.09 to \$68.55 per barrel over the one-year period. Over the same period, the price of Gold fell 2.1% from \$1323.43 per troy ounce to \$1295.72.

The S&P GSCI Commodity Spot Index returned 3.2% over the one-year period to 31 March 2019 in Sterling terms.

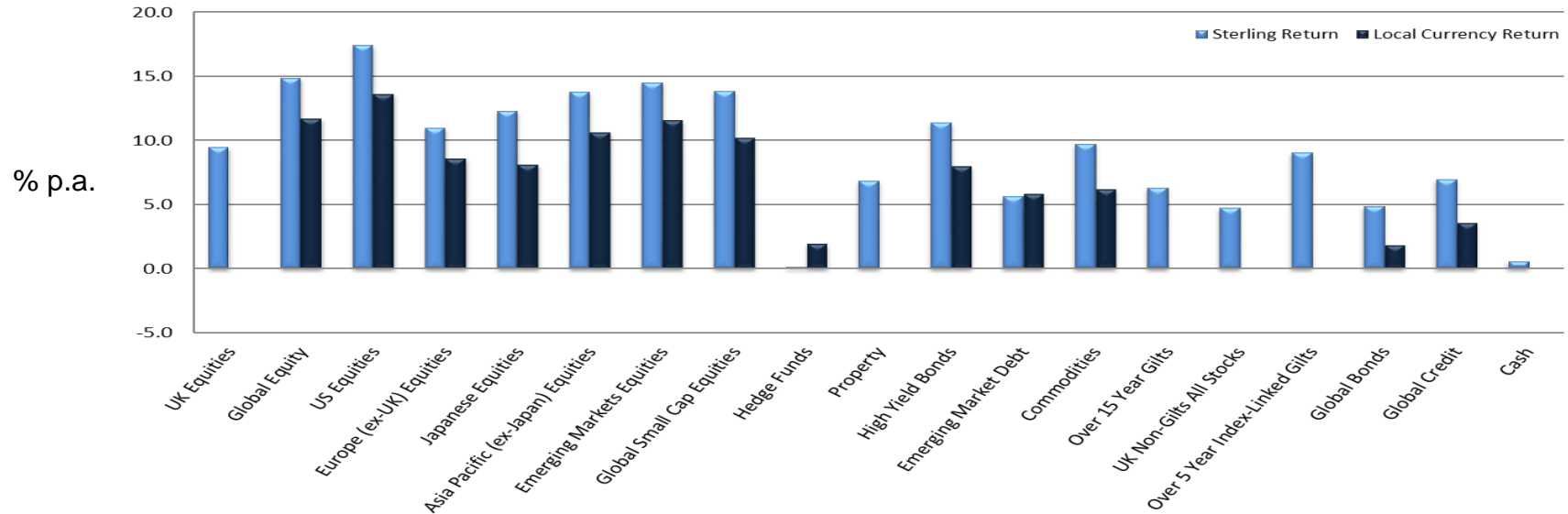
Source: Thomson Reuters Datastream.

MARKET BACKGROUND INDEX PERFORMANCE

Return over the 12 months to 31 March 2019



Return p.a. over the 3 years to 31 March 2019

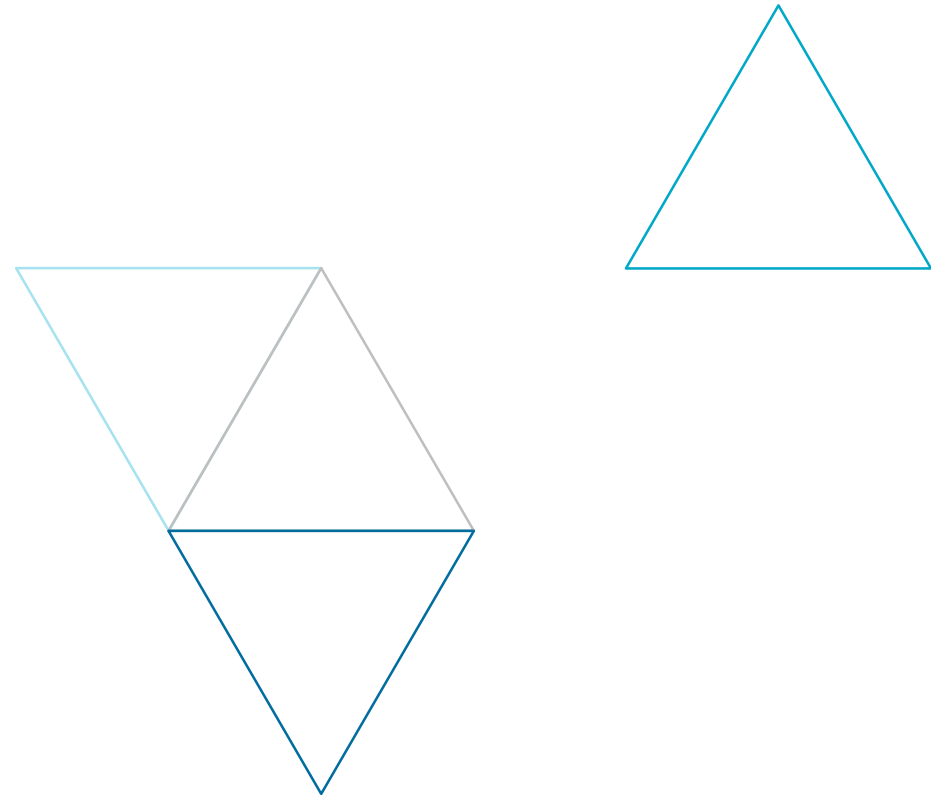


Source: Thomson Reuters Datastream.

SECTION 5

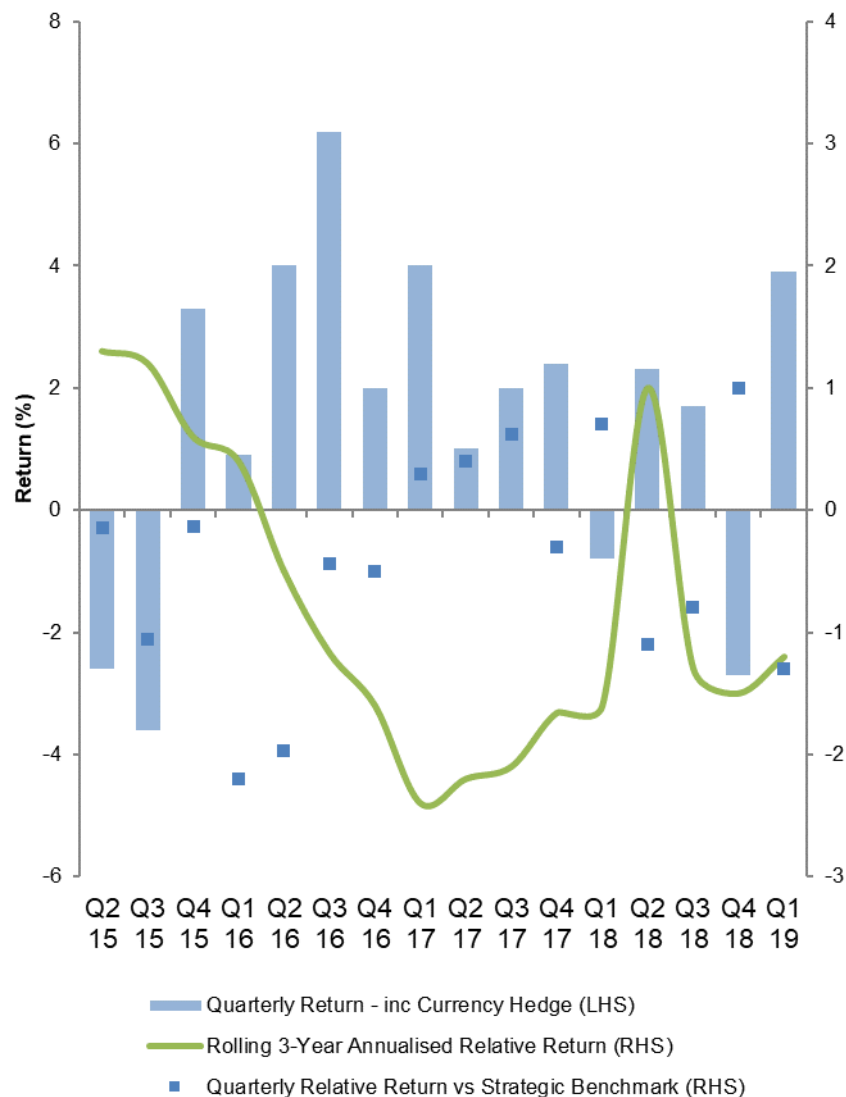
PERFORMANCE

SUMMARY



PERFORMANCE SUMMARY

TOTAL FUND PERFORMANCE



	3 Months (%)	1 Year (%)	3 Years (% p.a.)
Total Fund	3.9	5.2	8.9
Total Fund (ex currency hedge)	3.3	6.5	9.7
Strategic Benchmark (ex currency hedge)	4.9	7.7	10.0
Relative (ex currency hedge)	-1.0	-2.5	-1.1

- Over the quarter, the Fund underperformed the Strategic Benchmark by 1.0%. When excluding the currency hedging mandate, the Fund underperformed by 1.6%.
- The Fund underperformed the Strategic Benchmark over the year by 2.5%, which was broadly half down to manager underperformance and half down to the currency hedging mandate detracting, as Sterling weakened.
- The Fund underperformed the Strategic Benchmark by 1.1% p.a. over the three-year period, which was predominately down to the currency hedging mandate detracting.

PERFORMANCE SUMMARY

INDEX PERFORMANCE VS STRATEGIC BENCHMARK

Asset Class	Weight in Strategic Benchmark		Index Returns		Contribution to Total Benchmark		Assumed Strategic Return	
	Start (%)	End (%)	1 Year (%)	1 Year (%)	3 Years (% p.a.)	3 Years (% p.a.)	Return (% p.a.)	Contribution vs Assumption* (% p.a.)
UK Equities	10.0	10.0	6.4	0.6	9.5	1.0	8.05	0.1
Overseas Equities	24.0	24.0	11.1	2.8	15.4	4.1	8.05	2.4
Emerging Market Equities	6.0	6.0	0.1	0.0	14.8	0.9	8.7	0.4
Diversified Growth Funds	15.0	15.0	6.5	1.0	7.0	1.1	6.95	0.0
Fund of Hedge Funds	5.0	5.0	3.5	0.2	3.5	0.2	5.1	-0.1
Property	10.0	10.0	7.4	0.7	8.0	0.8	5.75	0.2
Infrastructure	5.0	5.0	6.0	0.3	4.2	0.2	6.95	-0.1
Multi-Asset Credit	11.0	11.0	4.8	0.6	4.7**	0.3	3.5	-0.1
UK Corporate Bonds	2.0	2.0	4.9	0.1	7.4	0.1	3.25	0.1
LDI	12.0	12.0	11.6	1.4	9.4	1.1	2.15	0.9
Total Fund	100.0	100.0	7.7	7.7	10.0	10.0	6.2	+3.8

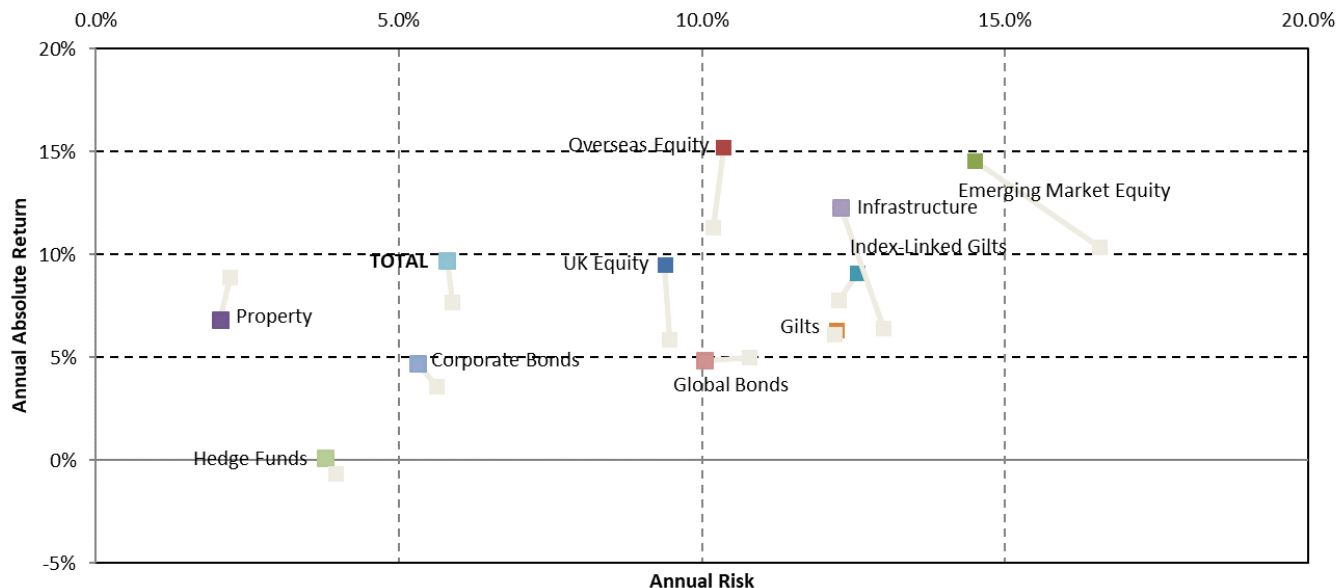
Source: Mercer estimates. May not sum due to rounding.

* Contribution to total difference between strategic benchmark return over last three years (10.0% p.a.) and overall assumed strategic return (6.8% p.a.).

** Index return shown only for the period when there were investments held in this asset class.

MANAGER MONITORING RISK RETURN ANALYSIS

3 Year Risk v 3 Year Return to 31 March 2019 (31 March 2018)



This chart shows the 3 year absolute returns against three year volatility (based on monthly data in sterling terms), to the end of March 2019, for each of the broad underlying asset benchmarks (using the indices set out in the Appendix), along with the total Fund strategic benchmark. We also show the positions as at 31 March 2018, in grey.

Comments

- The most significant upward shifts observed in asset class returns were in equity, including all of UK, overseas and emerging. Infrastructure also saw a material increase in its return.
- The improvement in hedge fund returns also meant that all of the asset classes had positive absolute returns in the three years to 31 March 2019.

MANAGER MONITORING

MANAGER PERFORMANCE TO 31 MARCH 2019

Manager/ Asset Class	1 Year			3 Year			3 Year Performance Target (% p.a.)	3 Year Performance vs Target
	Fund (%)	B'mark (%)	Relative (%)	Fund (% p.a.)	B'mark (% p.a.)	Relative (% p.a.)		
BlackRock Equities	15.6	15.3	+0.2	14.9	14.7	+0.2	-	N/A
BlackRock Corp Bonds	4.9	4.9	0.0	7.4	7.4	+0.1	-	N/A
BlackRock LDI	11.6	11.6	0.0	9.7	9.7	0.0	-	N/A
BlackRock Cash ETF	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel UK Equity	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Brunel Passive Low Carbon Equity	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Jupiter UK Equity	3.7	6.4	-2.5	5.3	9.5	-3.8	+2	Target not met
Jupiter Glb Sust Equity	N/A	N/A	N/A	N/A	N/A	N/A	+2-4	N/A
Schroder Equity	10.1	11.1	-0.9	15.0	15.0	0.0	+4	Target not met
Genesis	3.0	0.1	+2.9	14.4	14.8	-0.3	-	Target not met
Unigestion	2.6	-0.3	+2.9	10.5	14.4	-3.4	+2-4	Target not met
Pyrford	3.8	7.6	-3.5	3.4	8.1	-4.3	-	Target not met
Ruffer	-0.9	5.9	-6.4	N/A	N/A	N/A	-	N/A
JP Morgan	3.0	5.6	-2.4	4.0	4.7	-0.6	-	Target not met
Schroder Property	4.7	4.8	-0.1	6.0	6.2	-0.2	+1	Target not met
Partners Property	4.2	10.0	-5.3	5.2	10.0	-4.4	-	Target not met
Brunel Secured Income	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
IFM	8.5	N/A	N/A	14.5	N/A	N/A	-	N/A
Brunel Infrastructure	N/A	N/A	N/A	N/A	N/A	N/A	-	N/A
Loomis Sayles	0.9	4.8	-3.7	N/A	N/A	N/A	-	N/A

Source: Investment Managers, 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, those in black performed 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.

ACTIVE INVESTMENT MANAGER CONTRIBUTION YEAR TO 31 MARCH 2019

Asset Class	Weight in Strategic Benchmark		Average Relative Position*	Fund Return	Index Return	Asset Allocation Impact	Active Manager Impact	Total Manager Impact
	Start	End						
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
UK Equities	10.0	10.0	-1.9	2.9	6.4	0.0	-0.3	-0.3
Overseas Equities	24.0	24.0	3.7	9.1	11.1	0.1	-0.8	-0.7
Emerging Market Equities	6.0	6.0	-1.3	3.3	0.1	0.1	0.2	0.3
Diversified Growth Funds	15.0	15.0	-2.3	-0.5	6.5	0.0	-0.9	-0.9
Fund of Hedge Funds	5.0	5.0	-0.2	10.5	3.5	0.0	0.3	0.3
Property	10.0	10.0	-0.6	6.0	7.4	0.0	-0.2	-0.2
Infrastructure	5.0	5.0	1.7	16.8	6.0	0.0	0.7	0.7
Multi-Asset Credit	11.0	11.0	-1.1	0.9	4.8	0.0	-0.4	-0.4
UK Corporate Bonds	2.0	2.0	-0.3	4.9	4.9	0.0	0.0	0.0
LDI	12.0	12.0	-0.2	11.6	11.6	0.0	0.0	0.0
Total Fund	100.0	100.0	-	6.5	7.7	0.2	-1.4	-1.2

Source: Avon, Investment Managers and Mercer estimates. Figures may not sum due to rounding.

* Average overweight position taken as the average of the beginning and end of year weights.

FORWARD LOOKING RETURN EXPECTATIONS 31 MARCH 2019

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

Mercer's current DAA position/view

Position/view last time (if changed)

Equities



LISTED EQUITIES



EMERGING MARKETS



DEVELOPED SMALL CAP



DEFENSIVE EQUITIES

Growth Fixed Income & Property (Core)



GROWTH FIXED INCOME



EM DEBT (LOCAL CURRENCY)



GLOBAL HIGH YIELD



PROPERTY

Protective Assets



UK INFLATION-LINKED BONDS



UK SOVEREIGN BONDS



DEFENSIVE FIXED INCOME



LIQUID ALTERNATIVES/CASH

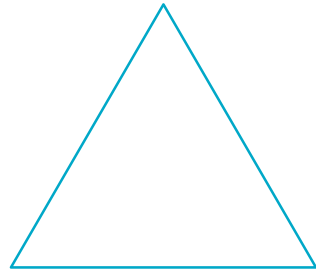
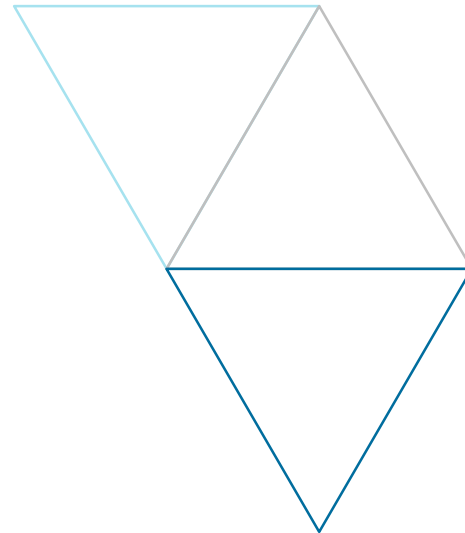
The charts above summarise Mercer's views on the medium term (1-3 years) outlook for returns from the key asset classes. These views are relevant for reflecting medium term market views in determining appropriate asset allocation. We do not expect the Fund to make frequent tactical changes to their asset allocation based upon these views.

FORWARD LOOKING RETURN EXPECTATIONS CHANGES OVER THE LAST YEAR

Asset Class	Apr 2018	July 2018	October 2018	January 2019	April 2019
Index-Linked Gilts	Unattractive	Attractive	Neutral	Neutral	Neutral
Global Equities	Neutral	Neutral	Neutral	Neutral	Neutral
Emerging Market Equities	Neutral	Attractive	Attractive	Attractive	Attractive
Small Cap Equities	Neutral	Neutral	Neutral	Neutral	Neutral
UK Property	Unattractive	Neutral	Neutral	Neutral	Neutral
High Yield Bonds	Unattractive	Unattractive	Unattractive	Neutral	Neutral
Local Currency Emerging Market Debt	Neutral	Attractive	Attractive	Neutral	Neutral

APPENDIX 1

MANAGER MONITORING



MANAGER MONITORING

UK EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance *	Fund	B'mark	Relative	Target	Contribution to outperformance *
Jupiter	3.7	6.4	-2.5	-0.11	5.3	9.5	-3.8	+2	-0.18
TT International (terminated) **	-0.7	2.7	-3.3	-0.14	6.4	8.2	-1.7	+3-4	-0.09

Source: Avon, Investment Managers and Mercer estimates.

* "Contribution to outperformance" is the annualised impact on total return of the individual managers' performance relative to their benchmark over the periods measured, and provides an indication of the relative impact of manager out- or under-performance.

** Performance shown up to 31 October 2018, which is the closest month end to termination, e.g. for the last year performance is shown from 31 March 2018 to 31 October 2018 and 3 year performance is shown from 31 March 2016 to 31 October 2018

Market Commentary

- UK equities rose over the year by 6.4%, lagging global markets which returned 10.7% in sterling terms, as Brexit uncertainty weighed down on UK stocks.

Performance Commentary

- Both managers, underperformed their benchmark over the one and three year periods.
- Jupiter's tracking error was 4.7% p.a. Jupiter's holdings remain noticeably different from the benchmark, due in large part to its Socially Responsible Investment objectives – having a significant underweight to large cap stocks and overweight to midcap stocks.
- The TT International mandate was terminated in November 2018 with the proceeds allocated to the Brunel active UK Equity strategy.

MANAGER MONITORING

DEVELOPED GLOBAL EQUITIES

Manager / fund	1 Year (%)				3 Years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroder	10.1	11.1	-0.9	-0.06	15.0	15.0	-	+4	+0.02
Jupiter	N/A	N/A	N/A	N/A	N/A	N/A	N/A		N/A

Source: Avon, Investment Managers and Mercer estimates.

Market Commentary

- Global equities returned 10.7% over the year in sterling terms, with positive performance across almost all the major regions, which Japan being the only exception: US equities delivered a return of 17.7%, Asia Pacific (ex-Japan) 3.9% and Europe 2.6% (all in sterling terms).

Performance Commentary

- Schroders has underperformed its benchmark over last year, but matched its performance over three years. It has lagged its target for both of the periods. Tracking error was 1.3% p.a.
- The Jupiter Global Sustainable Equity strategy was implemented in Q2 2018 and Brunel, hence 1 year and 3 year performance figures are not yet available.

MANAGER MONITORING

EMERGING MARKET EQUITIES

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Genesis	3.0	0.1	+2.9	+0.07	14.4	14.8	-0.3	-	-0.04
Unigestion	2.6	-0.3	+2.9	+0.07	10.5	14.4	-3.4	+2-4	-0.20

Source: Avon, Investment Managers and Mercer estimates.

Market Commentary

- The emerging markets equities performed modestly, returning flat to small positive returns in sterling terms (depending on the index observed) over the year to 31 March 2019. Ongoing trade tensions between the US and China along with often corresponding fluctuations in the US dollar have been headwinds to emerging market equities over the period.

Performance Commentary

- Genesis outperformed by 2.9% over the year, but slightly underperformed over the three years by 0.3% p.a. The largest regional weighting of the portfolio is in China (c. 25%).
- Unigestion also outperformed over the year by 2.9%, but underperformed over three years by 3.4% p.a. The largest regional weighting of the portfolio is in India (c.18%).

MANAGER MONITORING FUND OF HEDGE FUNDS

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
JP Morgan	3.0	5.6	-2.4	-0.13	4.0	4.7	-0.6	-	-0.03

Source: Avon, Investment Managers and Mercer estimates.
Returns are in local currency terms.

Market Commentary ¹

- Fund of Hedge Funds returns were mixed over the year, being one of the poorer performing assets. The HFRX index fell by 3.3%, the HFRI index rose by 1.0%, and the Dow Jones Credit Suisse Hedge Fund index rose by 0.2%.
- Looking at specific sectors, merger arbitrage strategies produced the highest returns of 6.0% over the year following a banner year for deal volume. Relative value strategies generated a return of 3.0% over the year as rate uncertainty and divergent global monetary policy has provided attractive trading opportunities for managers. Systematic and equity market neutral strategies found it more difficult over the year, generating returns of -1.3% and -0.5% respectively.
- We continued to see dispersion in manager results across strategies.

Performance Commentary

- JP Morgan returned 3.0% over the year (in local currency terms), against a benchmark of 5.6%. Relative value and credit strategies were the biggest contributors to performance over the period.

¹ Returns are in US dollar terms; source: Hedge Fund Research Inc.

MANAGER MONITORING

DGF

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Pyrford	3.8	7.6	-3.5	-0.09	3.4	8.1	-4.3	-	-0.12
Aberdeen Standard (terminated)*	-3.9	4.3	-7.9	-0.17	-0.7	5.3	-5.7	-	-0.24
Ruffer	-0.9	5.9	-6.4	-0.32	N/A	N/A	N/A	-	N/A

Source: Avon, Investment Managers and Mercer estimates.

* Performance shown up to 31 October 2018 which is the closest month end to termination, e.g. for the last year performance is shown from 31 March 2018 to 31 October 2018 and 3 year performance is shown from 31 March 2016 to 31 October 2018

Performance Commentary

- Over the last year, all of the Fund's DGF managers underperformed their benchmarks. Pyrford and Ruffer underperformed by 3.5% and 6.4% respectively in the one year to the 31 March 2019 whilst Aberdeen Standard underperformed by 7.9% from the 31 March 2018 to 31 October 2018.
- Pyrford and Aberdeen Standard also underperformed their benchmarks over three years by 4.3% and 5.7% respectively, whilst 3 year performance track record is not yet available for the Ruffer mandate.
- The benchmark used for the DGFs includes their outperformance target above cash. 2018 was generally speaking a difficult period for DGF managers with the majority of asset classes generating negative returns over the period.
- Whilst Pyrford has a largely static asset allocation investment strategy, the DGF portfolio managed Ruffer is dynamic.
- The Aberdeen Standard mandate was terminated in November 2018 with the proceeds allocated to Pyrford and Ruffer.

MANAGER MONITORING CORPORATE BONDS

Market Commentary

- In a broad risk-on environment, credit spreads tightened over the year resulting in a total return of 3.7% for UK corporate bonds.

Performance Commentary

- BlackRock provides passive corporate bond exposure, with 1.8% of total Fund's assets invested in the asset class at the end of the year.

MANAGER MONITORING PROPERTY

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Schroder	4.7	4.8	-0.1	0.00	6.0	6.2	-0.2	+1	-0.01
Partners	4.2	10.0	-5.3	-0.25	5.2	10.0	-4.4	-	-0.21
Brunel	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Avon, Investment Managers and Mercer estimates.
Returns for Partners are in local currency terms.

Market Commentary

- The UK property market returned 4.8% over the year (measured by the UK IPD PPF All Balanced Funds Index – the benchmark for the Schroder mandate). The UK property market is clearly being supported by low gilt yields, and healthy occupier take-up, but is susceptible to rate rises.
- Partners' performance target is 10% p.a. and benchmark taken as 8% p.a. (estimated net IRR, in local currency terms).

Performance Commentary

- Schroder slightly underperformed the benchmark over the one year and three year period. Value Add strategies have been the largest contributors to performance over the various time spans.
- Partners' drawdowns are made gradually over time, and the Fund is not yet fully invested. As a result of the volatile timing of cash flows for such investments, for example the initial costs of purchasing and developing properties, focus should be on longer term performance. Their IRR from inception to 31 March 2019 at 7.0% p.a. (in local currency) is below their target of 10% p.a.

MANAGER MONITORING INFRASTRUCTURE

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
IFM	8.5	5.1	+3.3	+0.23	14.5*	4.1*	+10.0	-	+0.57
Brunel	N/A	N/A	N/A	-N/A	N/A	N/A	N/A	-	N/A

Source: Avon, Investment Managers and Mercer estimates.

Returns for IFM are in local currency terms.

* Performance is shown since inception

Market Commentary

- The infrastructure market was strong over the year, returning 17.6% as measured by the S&P Global Infrastructure Index in sterling terms, as investors sought out the predictable and stable cash flows of listed real assets. The 100% hedge in place for the infrastructure mandate removes the currency effect from the actual returns earned.

Performance Commentary

- Over the year, IFM delivered a strong positive performance, in local currency terms.
- The portfolio consists of 15 holdings and most of it is invested in the United States, United Kingdom and Mexico. Toll roads and airports represent the main sub-sector allocations of the fund.

MANAGER MONITORING

MULTI-ASSET CREDIT

Manager / fund	1 Year (%)				3 years (% p.a.)				
	Fund	B'mark	Relative	Contribution to outperformance	Fund	B'mark	Relative	Target	Contribution to outperformance
Loomis Sayles	0.9	4.8	-3.7	-0.40	N/A	N/A	N/A	-	N/A

Source: Avon, Investment Managers and Mercer estimates. .

Performance Commentary

- Over the one year period to 31 March 2019, Loomis underperformed its composite benchmark by 3.7%
- The portfolio is mainly invested in high yield, investment grade, and emerging market bonds, and has a duration of 4.9 years.

MANAGER MONITORING CURRENCY

Market Commentary

- Over the 12 -month period to 31 March 2019, Sterling depreciated by 7.1% against the US Dollar from \$1.40 to \$1.30. Sterling depreciated by 3.3% against the Yen from ¥149.19 to ¥144.23. Sterling appreciated against the Euro by 1.7% from €1.14 to €1.16 over the same period.
- A lack of clarity over Brexit has weighed down on Sterling over the period particularly against the US Dollar. Political disruption and the ECB's ongoing dovish stance has driven Euro softness, and GBPEUR appreciating over the period.

Performance Commentary

- Over the 12 month period to 31 March 2019, the hedging mandates have all slightly outperformed their informal benchmark returns.

Currency Hedging 12 Month Performance (£ terms)

Passive Developed Equity Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	50% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	752,603,044	821,305,387	7.66%	(4.61%)	(4.51%)	3.00%
EUR	164,576,524	158,973,157	(1.71%)	1.38%	1.49%	(0.17%)
JPY	105,780,087	93,930,678	3.44%	(1.50%)	(1.26%)	2.52%
Total	1,022,959,655	1,074,209,223	5.69%	(3.37%)	(3.25%)	2.41%

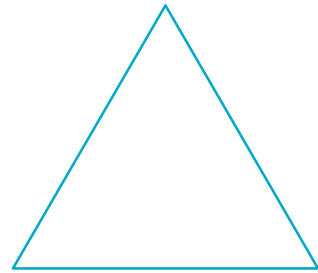
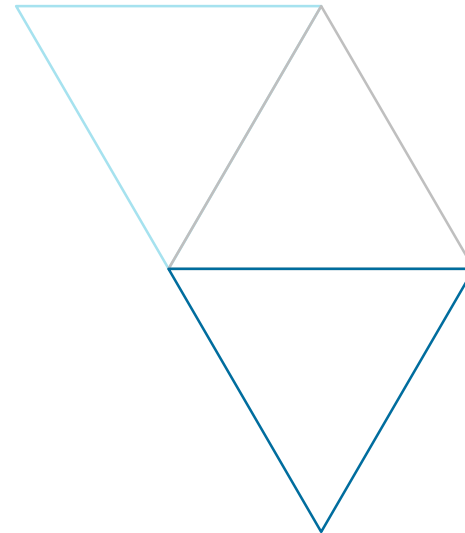
Passive Hedge Fund Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	214,064,666	227,347,568	7.66%	(9.23%)	(9.12%)	(1.44%)
Total	214,064,666	227,347,568	7.66%	(9.23%)	(9.12%)	(1.44%)

Passive Property Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	27,616,464	23,879,908	7.66%	(9.22%)	(9.10%)	(1.42%)
EUR	177,024,039	176,095,090	(1.71%)	2.70%	2.88%	1.39%
Total	204,640,503	199,974,998	(0.50%)	1.07%	1.24%	1.02%

Passive Infrastructure Hedge						
Currency	Start Exposure (£)	End Exposure (£)	Currency Return (%)	100% Benchmark Return (%)	Record Hedge Return (%)	Net Return (%)
USD	114,820,336	138,747,130	7.66%	(9.26%)	(9.20%)	(1.61%)
EUR	42,928,700	50,028,494	(1.71%)	2.72%	2.80%	1.31%
Total	157,749,036	188,775,625	5.33%	(6.51%)	(6.42%)	(0.93%)

APPENDIX 2

SUMMARY OF MANDATES

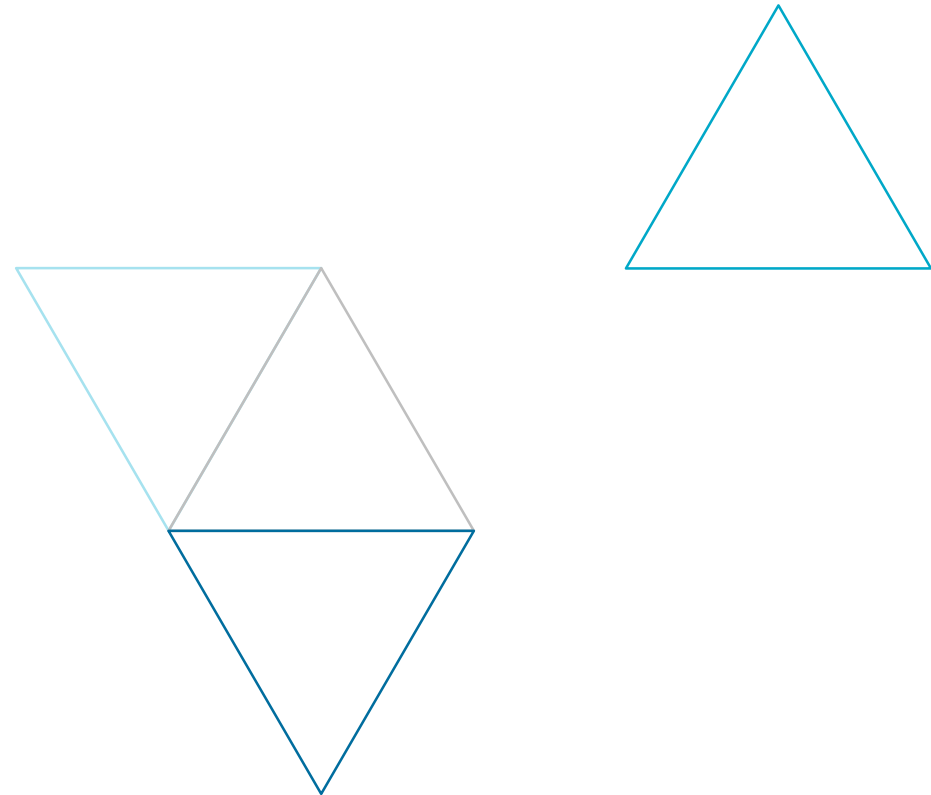


SUMMARY OF MANDATES

Manager	Mandate	Benchmark	Outperformance Target (p.a.)
Brunel	Passive Global Low Carbon Equity	MSCI World Low Carbon	-
BlackRock	Passive Global Equity	MSCI World	-
BlackRock	Passive Corporate Bond	iBoxx £ Non-Gilts Over 15 Years	-
BlackRock	Matching (Liability Driven Investing)	Return on liabilities being hedged	-
Brunel	Active UK Equities	FTSE All Share	+2%
Jupiter Asset Management	UK Equities (SRI)	FTSE All Share	+2%
Jupiter Asset Management	Global Sustainable Equities (SRI)	MSCI AC World	+2-4%
TT International (terminated)	UK Equities (Unconstrained)	FTSE All Share	+3-4%
Schroder	Global Equities (Unconstrained)	MSCI AC World	+4%
Genesis	Emerging Market Equities	MSCI Emerging Markets IMI TR	-
Unigestion	Emerging Market Equities	MSCI Emerging Markets NET TR	+2-4%
Aberdeen Standard (terminated)	Diversified Growth Fund	6 Month LIBOR +5% p.a.	-
Pyrford	Diversified Growth Fund	RPI +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)	-
Brunel	Secured Income	CPI	+2%
IFM	Infrastructure	6 Month LIBOR +2.5% p.a.	-
Brunel	Infrastructure	CPI	+4%
Loomis Sayles	Multi-Asset Credit	3 Month LIBOR +4% p.a.	-
Record	Passive Currency Hedging	N/A	-
Cash	Internally Managed	7 Day LIBID	-

APPENDIX 3

MARKET STATISTICS INDICES



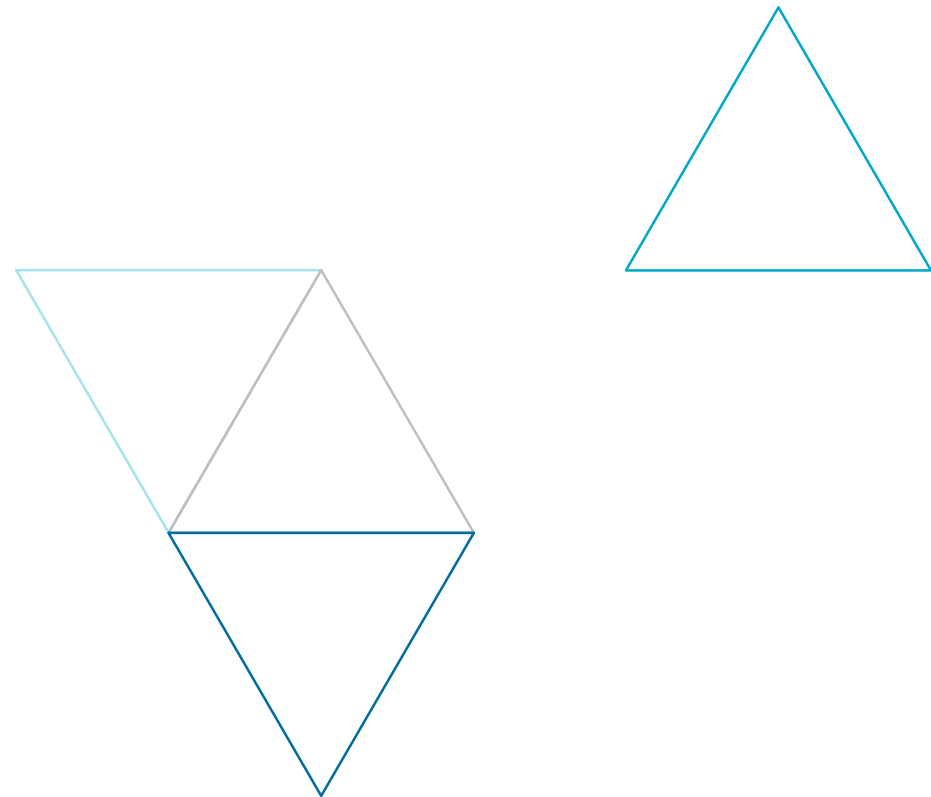
MARKET STATISTICS INDICES

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 4

CHANGES IN YIELDS

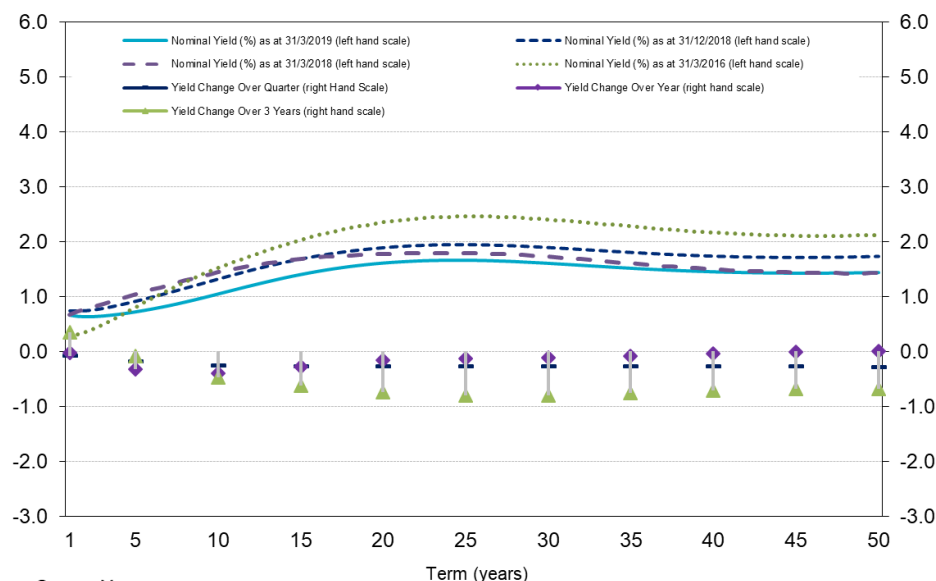


CHANGES IN YIELDS

Asset Class Yields (% p.a.)	31 Mar 2019	31 Dec 2018	31 Mar 2018	31 Mar 2017
UK Equities	4.22	4.46	3.85	3.47
Over 15 Year Gilts	1.48	1.76	1.63	1.65
Over 5 Year Index-Linked Gilts	-1.85	-1.58	-1.65	-1.71
Sterling Non Gilts	2.34	2.75	2.47	2.20

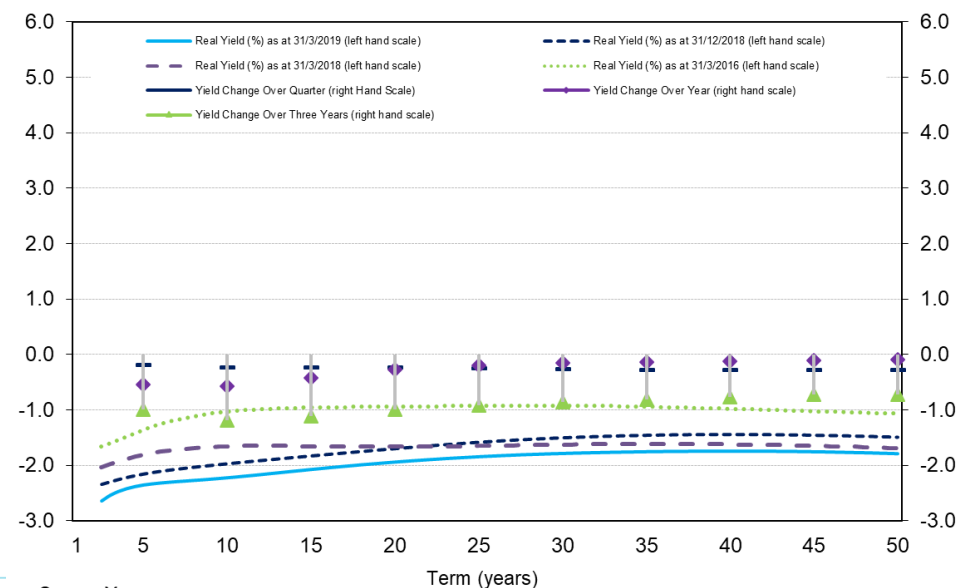
- UK Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned 3.7%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 4.7% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 1.54% to 1.36%.
- The FTSE All Stocks Index Linked Gilts index returned 5.5% with the corresponding over 5-year index exhibiting a return of 5.7%.
- Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 3.7%.

Nominal yield curves



Source: Mercer.

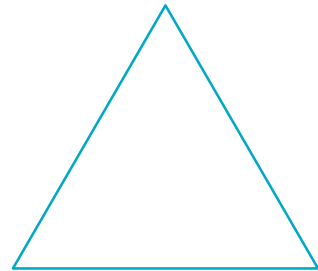
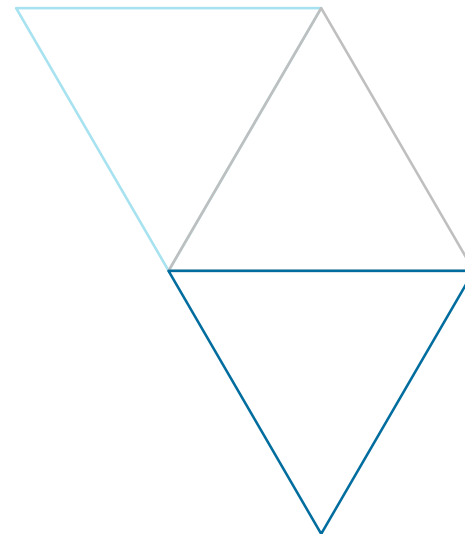
Real yield curves



Source: Mercer.

APPENDIX 5

HEDGE FUND INDICES



HEDGE FUND INDICES

HFRI Diversified Fund of Fund Index

- The Diversified Fund of Fund Index is an equally-weighted index comprising fund of fund managers that satisfy the following criteria: Invest in a variety of strategies across multiple managers, exhibit standard deviation and returns correlation similar to the HFR Fund of Funds composite index.
- The trailing four months' performance figures are left as estimates and are subject to change; performance beyond four months is locked and not subject to change.
- If a fund liquidates or closes, that fund's performance will be included in the index as of the fund's last reported performance.
- There is no minimum asset size or minimum track record length requirement for inclusion in the index.
- Both domestic and offshore funds are included.

HFRX Global Hedge Fund Index

- The HFRX Global Hedge Fund Index is an “investible” index designed to be representative of the overall composition of the hedge fund universe (it is termed “investible” because investors are able to access all of the underlying funds and as such generate a return in line with the index).
- It is comprised of eight strategies: convertible arbitrage, merger arbitrage, equity hedge, equity market neutral, relative value arbitrage, event driven, distressed securities, and global macro.
- The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

Credit Suisse Hedge Fund Index

- The Credit Suisse Hedge Fund Index (formerly the Dow Jones Credit Suisse/Tremont Hedge Fund Index) is an asset weighted index of hedge funds.
- Funds in the Dow Jones Credit Suisse Hedge Fund universe must have a minimum of US \$10 million assets under management ("AUM"), a minimum one-year track record and current audited financial statements.

MAKE
TOMORROW,
TODAY



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