Review for period to 31 March 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

Contents

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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 £32m over the first quarter of 2011, to £2,659m as at the end of March 2011.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 0.9%, underperforming the customised benchmark by 0.3%. Over the last year, the Fund produced a return of 7.9%, which marginally outperformed the customised benchmark return by 0.1%. Over 3 years, the Fund has produced a return of 6.3% p.a., underperforming the customised benchmark by 0.7% p.a.
- Over the quarter, the returns from property funds were the primary drivers of positive returns, followed by overseas equities and fund of hedge funds, with most managers delivering a positive return.
- Over the one year period, absolute performance remains positive due to strong positive returns in the third and fourth quarters of 2010 more than offsetting negative returns in the second quarter of 2010.
- The relative underperformance over the quarter resulted from the underperformance of a number of managers, namely, TT International, Invesco, Genesis, Lyster Watson, Man and Stenham. The strongest relative returns were generated from Gottex and RLAM .
- There were changes to the Fund's asset allocation during the quarter besides those driven by market movements. The decision by the Committee to increase the allocation to overseas equities within the equity portfolio, was partially implemented by rebalancing the BlackRock multi asset passive portfolio in line with this decision. The remainder of the move to the new target allocation will be completed with the vesting of the global equity portfolio in April 2011. Further funding of the property portfolios took place over the quarter.
- In May it was announced that one of the two Directors of Research in Invesco's Global Quantitative Equity (GQE) team, Anthony Shufflebotham is to leave the organisation on 1st August 2011. Invesco have also announced that Andy Waisburd will be replacing Anthony as Director of Research and will be reporting to Karl Bayer, Head of Research. We have no immediate concerns regarding these changes within the team, given the nature of the mandate which is reliant on quantitative models developed by the team, however this will be monitored closely.

Conclusion

- Strategic allocation: The Fund's strategic allocation remains well diversified in terms of asset class and regional exposure. There were changes made to the strategic asset allocation, and some of these changes implemented over the quarter via the investment made into BlackRock's multi asset passive portfolio. Further changes are due to be implemented as the Fund has now completed the appointment of Schroders to manage a global equity portfolio, following the search that took place over the latter half of 2010. We have identified no causes for concern with this strategy outside of the areas that have been discussed and progressed by the Investment Panel. We also note the Fund's search for an active hedging currency manager is drawing to a conclusion.
- Manager Performance: We have identified no areas of significant concern regarding the managers.
- The largest negative return over the quarter came from SSgA Pacific, which was driven by market returns as the manager broadly performed in line with their benchmark. The largest positive return over the quarter came from SSgA Europe, again driven by the broader market return.
- The Fund's review of the Fund of Hedge Fund allocation is now complete and the recommended changes will be implemented in July and August 2011.

Section Two – Market Background

- The table below summarises the various market returns to 31st March 2011, 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	1.0	8.7
Overseas Equities	2.1	8.5
USA	3.3	9.2
Europe	6.0	8.2
Japan	-6.9	-4.0
Asia Pacific (ex Japan)	-0.5	13.1
Emerging Markets	-1.2	11.9
Property	2.3	10.7
Hedge Funds	2.3	10.3
Commodities	9.0	16.1
High Yield	2.4	8.1
Cash	0.1	0.5

Market Returns Bond Assets	3 Mths %	1 Year %
UK Gilts (>15 yrs)	-1.5	6.9
Index-Linked Gilts (>5 yrs)	-0.2	6.7
Corporate Bonds (>15 yrs AA)	0.0	6.0
Non-Gilts (>15 yrs)	0.2	6.1
Inflation Indices	**3 Mths %**	**1 Year %**
Retail Price Index (RPI)	1.8	5.3
Consumer Price Index (CPI)	1.1	4.0
Earnings Inflation *	0.6	2.1

Change in Sterling	3 Mths %	1 Year %
Against US Dollar	2.4	5.7
Against Euro	-3.2	0.8
Against Yen	4.6	-6.3
Yields as at 31 Mar 2011	**% p.a.**	
UK Equities	2.96	
UK Gilts (>15 yrs)	4.30	
Real Yield (>5 yrs ILG)	0.63	
Corporate Bonds (>15 yrs AA)	5.53	
Non-Gilts (>15 yrs)	5.52	
Absolute Change in Yields	**3 Mths**	**1 Year**
UK Gilts (>15 yrs)	0.2	-0.2
Index-Linked Gilts (>5 yrs)	0.1	0.0
Corporate Bonds (>15 yrs AA)	0.1	0.0
Non-Gilts (>15 yrs)	0.1	0.0

* is subject to 1 month lag

Statistical highlights

- During the quarter, the rate of CPI inflation increased from 3.7% to 4.4% in February, a 28 month high. However, there was a surprise fall in inflation over March to 4.0%, mainly due to the record monthly fall in the price of food and non-alcoholic drinks, which fell 1.4%.

- The minutes of the latest Monetary Policy Committee ("MPC") meeting stated that there was a "significant risk" that inflation could exceed 5% in the coming months. The MPC kept interest rates on hold at 0.5% and unveiled no new quantitative easing measures although three members of the Committee voted in favour of raising rates and another member voted in favour of extending the policy of quantitative easing. Interest rates were last changed in March 2009 when they were reduced from 1.0%.
- The Governor of the Bank of England has warned that January's rise in VAT and other inflationary pressures mean that prices are likely to outstrip pay again this year, leaving real wages no higher than they were six years ago. The latest figures for the retail sector have been disappointing with retail sales suffering their worst fall since records began in 1996. Next, the retailer, has warned of very challenging times ahead for retailers and consumers.
- Sterling appreciated by 2.4% and 4.6% respectively against the US Dollar and Japanese Yen over the quarter but depreciated by 3.2% against the Euro despite the ongoing concerns about sovereign debt problems within the peripheral Eurozone countries.
- Japanese equities fell by almost 7.0% over the quarter although, at one stage, the market had fallen by 12% in the aftermath of the earthquake.
- Equities had a mixed quarter with Japanese, Asia ex Japan and Emerging Markets all producing negative returns in sterling terms and the US, UK and Europe ex UK producing positive returns. In Sterling terms, the best performing equity market over the quarter was Europe ex UK which achieved a return of +6.0%, with the US and UK markets producing sterling returns of +3.3% and +1.0%, respectively.
- Over 15 Year Gilts produced a return of -1.5% over the quarter and underperformed long dated corporate bonds, which produced a zero return over the period.

UK market events – Q1 2011

- **Quantitative Easing:** The Bank of England has kept its £200 billion quantitative easing programme on hold.
- **Government Debt:** As at 21 April 2011 UK national debt stood at £903.4 billion or 59.9% of GDP as compared to £760.3 billion (52.8% of GDP) at the end of March 2010.
- **Unemployment:** The number of people unemployed in the UK decreased by 36,000 over the quarter to reach 2.46 million. The unemployment rate for the three months to March 2011 was 7.7%, down 0.2 on the quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 700 between February 2011 and March 2011 to 1.45 million according to the Office for National Statistics.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell to a seasonally adjusted figure of 54.6 in April after declining to 56.7 in March, which itself was downwardly revised from 57.1 (the 50-level being the point at which 'contraction' is deemed to become 'growth').
- **Inflation:** CPI annual inflation was 4% in March 2011, down from 4.4% in February 2011. RPI annual inflation was 5.3%, down from 5.5% in February 2011. RPIX inflation, which excludes mortgage interest payments was 5.4% in March, down from 5.5% in February 2011. The equivalent annualised EU CPI figure for March was 2.7%. The largest downward pressures to the change in CPI inflation came from recreation and culture, principally from

games, toys and hobbies (particularly computer games), recording media and data processing equipment, and air transport, where fares rose by less than a year ago, particularly on European routes. The largest upward pressure came from housing and household services: prices which, overall, rose by 0.4% between February and March this year compared with 0.1% between the same two months a year ago, and the purchase of vehicles, where prices rose this year but fell a year ago, particularly for second-hand cars.

- **Gross Domestic Product (GDP):** In the first quarter of 2011, GDP increased by 0.5%. The effect of the abnormal weather conditions in December 2010 is estimated to have subtracted 0.5% from growth in the fourth quarter. GDP is estimated now to have returned to the level reduced in the third quarter of 2010. Total services output increased by 0.9% in the first quarter compared with a decrease of 0.6% in the previous quarter. The largest contribution to the growth in the latest quarter was from business services and finance.
- **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 case since March 2009. The Bank has faced 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 – Q1 2011

- **European sovereign debt crisis:** Portugal's decision to follow Greece and Ireland in seeking a European Union-led bailout may mark a watershed in the region's debt crisis. Instead of creating a 'domino effect' that threatens to topple countries higher up the credit-quality ladder, the latest aid request will likely speed up the debt restructuring of the three countries now in Europe's intensive-care unit. With help coming from the European Central Bank, Portugal will now access emergency funds from other governmental sources to meet its debt obligations and to reduce the probability of a banking crisis. While Portugal is the third Eurozone country to go down this road in less than a year, the next phase will likely play out differently. Portugal is negotiating a bailout in the run-up to its June elections. As such, it will find it hard to provide the policy commitments deemed critical for the type of EU and International Monetary Fund support keeping Greece and Ireland afloat.
- **Ireland:** Ireland has more than halved its growth forecasts for this year following weaker than expected output in the first quarter. This update was contained in a revised stability programme, which Ireland submits to the European Commission as a member of the Eurozone. The country, which in November had to seek an €85 billion bail-out by the European Union and International Monetary Fund, cut its forecast for GDP from 1.75% at the time of the budget in December to 0.9% for 2011 and from 3.25% to 2.2% for 2012.
- **Greece:** Standard and Poor's has cut Greece's credit rating by two notches, warning that any voluntary debt restructuring by Athens would amount to default. The downgrade to B, six notches into junk territory, comes after European politicians acknowledged publicly that Greece's €110 billion rescue package was insufficient and more help would be needed. S&P's move came as analysts estimated the impact of any forced Greek restructuring, which would force losses onto bondholders, banks and the ECB. Greek banks, the largest holders with about a fifth of Greece's €330 billion in outstanding debt, would see losses of about €25 billion if a so-called "haircut" of 50% were applied, according to JPMorgan. Delaying a restructuring for two years would halve the loss, it said.

- **Germany:** German GDP rose 1.5% in the first quarter of this year. After severe weather hit growth in late 2010, the pick-up highlights the country's role as Continental Europe's growth motor – and could help ease the Eurozone's recovery from its continuing debt crisis. German GDP is now above its previous peak at the start of 2008. Germany was among the industrialised countries worst hit by the collapse of Lehman Brothers investment bank in September 2008, which led to a collapse in demand for its exports. However, the recovery was far swifter than expected.
- **Unemployment:** The EU27 seasonally adjusted unemployment rate was at 9.9% in March 2011, unchanged compared to February 2011. The unemployment rate was 10.1% in March 2010. Among the Member States, the lowest unemployment rates were recorded in the Netherlands (4.2%), Luxembourg (4.5%) and Austria (4.3%), and the highest in Spain (20.7%) and Ireland (14.7%).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI registered 57.8 in April 2011 up from 57.6 in March 2011. Manufacturing again led the upturn, with output growth accelerating to a slightly greater extent than indicated by the flash estimate. The services sector saw a weaker rate of increase in March (and below the flash estimate), but saw activity rise at a marginally faster rate than the strong pace seen on average in the first quarter.
- **Inflation:** The inflation rate in Euro Area was reported at 2.8% in April 2011.
- **GDP:** GDP increased by 0.8% in the Euro area during the first quarter of 2011.
- **Interest Rate:** The European Central Bank has increased its base rate by 0.25% in early April for the first time since May 2009. Base rate now stands at 1.25%.

US market events – Q1 2011

- **Unemployment:** The rate of unemployment in the US increased from 8.8% in March 2011 to 9% in April 2011. However, the unemployment rate decreased from 9.4% in December 2010 to 8.8% in March 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.8% in March 2011 after having risen 0.1% in February 2011. For the first quarter as a whole, industrial production increased at an annual rate of 6.0%. In the manufacturing sector, output moved up 0.7% in March, the fourth consecutive month of strong expansion.
- **Inflation:** US CPI rate increased from 1.5% in December 2010 to 2.7% in March 2011. The inflation rate further increased to 3.2% in April 2011, the highest figure since October 2008.
- **GDP:** US real GDP increased by 1.8% over the first quarter of 2011, against a (revised upward) 3.1% increase in the previous quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q1 2011

- China may limit interest-rate increases over the rest of the year, focusing on other tools for combating inflation as the government seeks to cool prices without choking off growth. The central bank in the month of May raised banks' reserve requirements for the fifth time this year. The half-point increase takes effect May 18 and will boost levels for the nation's biggest lenders to a record 21%.

- Sharp falls in investment and soaring capital outflows are undermining the Russian economic recovery and offsetting the benefits of high oil prices. According to prominent economists, political risk in the run-up to next year's elections is behind sharp falls in investment and sizeable capital outflows.
- India's finance minister warned that unsustainably high fuel costs could slow India's GDP growth to 8% this year. New Delhi was predicting GDP to grow by between 8.75% and 9.25% in the current financial year – but that forecast would come under threat if the cost of importing energy to fuel India's booming economy remained high, or indeed continued to rise.

Market events – Global summary – 1 year

- The Chancellor of the Exchequer's budget contained few surprises and was broadly neutral in terms of public spending. The surprise announcement was the 1 penny per litre cut in the duty on petrol, which was to be paid for by increasing the supplementary charge on North Sea oil and gas exploration. This will raise an extra £2 billion and sent shockwaves through the North Sea oil and gas companies.
- The rate of CPI inflation rose from 3.7% to 4.4% in February, a 28 month high. But there was a surprise fall in inflation in March to 4.0%, mainly due to the record monthly falls in the price of food and non-alcoholic drinks, which fell 1.4%. The rising cost of petrol, energy and clothes has continued to drive up the cost of living. Despite the fall in inflation in March, many Analysts believe that the Bank of England will raise interest rates this year with some even expecting a rise early in the second half of 2011.
- The Bank of England's Monetary Policy Committee 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%). The hawks amongst the Committee, Spencer Dale, Martin Weale and Andrew Sentence were unable to win other members over to their side. The minutes from the March meeting stated that there is a "significant risk" that inflation could exceed 5% over the coming months. Adam Posen was again the lone voice calling for an additional £50 billion of quantitative easing.
- The Office for National Statistics ("ONS") once again revised the figure for GDP growth in the UK economy over the fourth quarter of 2010. The initial estimate of -0.5% had been revised down to -0.6% but it has now been further revised back to -0.5%. The UK trade balance with the rest of the world, was in deficit by almost £27 billion in the final quarter of 2010. The £10.5 billion deficit in physical goods produced was the largest since records began in 1955.
- In March, the US unemployment rate fell to its lowest level in two years, pushing down unemployment to 8.8% which, perhaps, suggests a sustainable recovery in the US economy. Record exports and an improvement in business and consumer confidence have prompted companies such as Chrysler and Kohl's to increase employment.
- The earthquake disaster in Japan has caused supply chain problems for some of Japan's leading multinationals, which has led to a widespread disruption in production. Given the 'just in time' nature of many manufacturing operations, supply shortages are becoming evident. For example, Toyota halting overtime at its Derby factory, Sony Ericsson stating that it may be

unable to source parts for its mobile phones and a rise in the price of memory chips and display panels for computers.

- The high price of oil is beginning to effect demand for energy, according to the International Energy Agency ("IEA"), which is seeing signs of the growth in world oil demand slowing. The IEA remains concerned about supply shortages, particularly as global oil output fell by around 700,000 barrels per day in March due to the problems in Libya. The uncertainty in the Middle East and North Africa remains unresolved. This is likely to lead to uncertainty for global markets and ongoing volatility in oil prices.
- Portugal has gone to the European Union with a formal request for a bailout. EU finance ministers have been discussing the details of the proposed rescue and during the meeting Spain's finance minister stressed that it was out of the question for Spain to receive a financial rescue. The Chancellor, George Osborne, has seized on Lisbon's debt crisis to warn that those opposed to the British government's deficit reduction plans were playing "Russian Roulette" with UK sovereignty.
- Economic growth in the Emerging Markets was clouded with uncertainty as inflation is in danger of becoming an entrenched problem whilst the rapid pace of growth has lost momentum.

Equities

- Equities had a mixed quarter with Japan Asia ex Japan and Emerging Markets all producing negative returns in sterling terms and the US, UK and Europe ex-UK markets producing positive returns. Although the fallout from the Japanese earthquake mainly affected the Japanese market, all the major markets were unsettled by the problems in the Middle East and North Africa and an increase in inflationary pressure resulting from a rise in food prices and the sharp increase in the price of oil.
- Japanese equities fell by almost 7.0% over the quarter although, at one stage, the market had fallen by 12% in the aftermath of the earthquake disaster. The destruction of transport links and the disruption to power supplies is leading to supply shortages.

Bonds & credit

- The European debt crisis remained at the fore throughout the quarter as Greece denied that it needed to restructure further its debt and Portugal sought a European bailout. Irish banks credit ratings have been cut to junk status and European leaders appealed for calm as the yield on Irish, Greek, Portuguese and Spanish government bonds all increased.
- Over 15 Year Gilts produced a return of -1.5% over the quarter whilst long dated corporate bonds remained relatively unchanged.
- Index-linked fixed interest assets produced a slight negative return over the quarter with the return on Over 5 Year Index-Linked Gilts being -0.2%. Concerns about inflation remain, despite the unexpected fall in inflation in March.

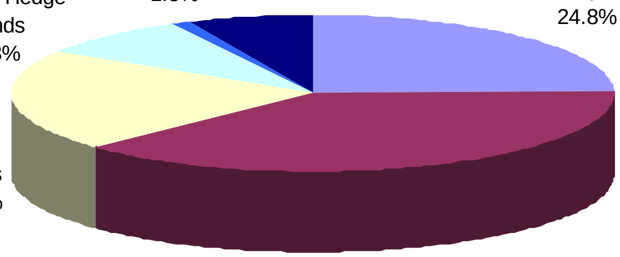
Alternative asset classes

- Commodities were the best performing assets over Q1 2011, as increasing political unrest in the Middle East and North Africa, notably in Libya, contributed to a rise in the price of oil and has reminded investors of the importance of oil to the global economy. Against this backdrop many investors are switching into commodities for diversification benefits.
- The price of gold continued to rise amidst concerns about the Japanese economy following the earthquake disaster, with investors continuing to move to a perceived safe haven asset class.
- Commercial property continued to produce positive returns despite the ongoing concerns of retailers in the high street.
- Hedge funds produced a positive return over the quarter, but lagged equity returns from the US and Europe ex-UK.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 31 March 2011, 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 allocation as at 31 March 2011



Asset Class	31 March 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	659,595	24.8	21.0
Overseas Equities	1,008,813	37.9	39.0
Bonds	562,418	21.2	20.0
Fund of Hedge Funds	222,293	8.3	10.0
Cash	34,938	1.3	-
Property	174,637	6.6	10.0
Reconciling differences and rounding	-4,077	-0.1	-
TOTAL FUND VALUE	**2,658,617**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £32m over the first quarter of 2011 to £2,659m, as a result of positive absolute investment performance from most funds. Property produced the highest absolute returns over the quarter at 2.3%. Overseas Equities were key contributors to the absolute return, producing returns of 1.2%. Equities comprise approximately 63% of the Fund's investments.
- In terms of asset allocation, there were several changes to note over the quarter:
  - Changes were made at the strategic level to the proportion of the Fund held in UK and overseas equities. The allocation was reduced for UK equities from 27% to 21%, and increased for overseas equities from 33% to 39%.

- This new strategic benchmark was implemented by changes within the BlackRock portfolio, with the manager increasing their exposure to overseas equities and reducing exposure to UK equities in a cost effective way.
- The appointment of Schroders, the Fund's new global equity manager, will complete the changes to the strategic asset allocation. The funding of this new manager is due to begin in Q2 2011.
- 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	31 December 2010		Net New Money £'000	31 March 2011	
		Value £'000	Proportion of Total %		Value £'000	Proportion of Total %
Jupiter	UK Equities	107,692	4.1	-	109,260	4.1
TT International	UK Equities	132,581	5.0	-	132,073	5.0
Invesco	Global ex-UK Equities	166,525	6.3	-	169,742	6.4
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	91,189	3.5	-	91,405	3.4
Genesis	Emerging Market Equities	149,537	5.7	-	147,096	5.5
Lyster Watson	Fund of Hedge Funds	9,752	0.4	-	9,582	0.4
MAN	Fund of Hedge Funds	99,699	3.8	-	100,418	3.8
Signet	Fund of Hedge Funds	46,867	1.8	-	47,225	1.8
Stenham	Fund of Hedge Funds	11,689	0.4	-	11,665	0.4
Gottex	Fund of Hedge Funds	52,232	2.0	-	53,490	2.0
BlackRock	Passive Multi-asset	1,362,979	51.9	12,350	1,390,146	52.3
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	93,157	3.5	-13,710	79,793	3.0
RLAM	Bonds	128,979	4.9	-	131,992	5.0
Schroder	UK Property	115,988	4.4	2,156	120,487	4.5
Partners*	Property	41,786	1.6	10,013	53,129	2.0
Internal Cash*	Cash	15,491	0.6	-10,809	11,115	0.4
Rounding		1	0.1	-	-1	0.0
TOTAL		**2,626,144**	**100.0**	**-**	**2,658,617**	**100.0**

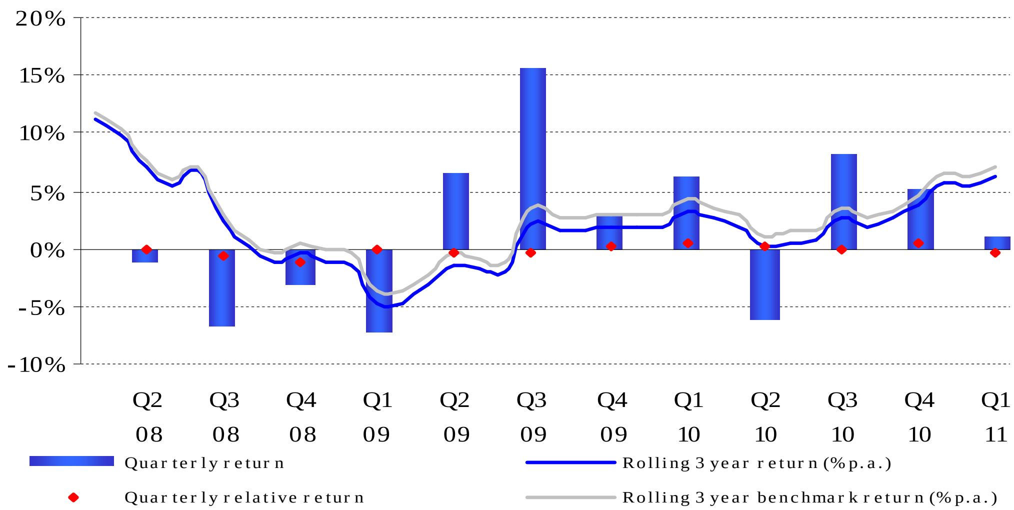
Source: Data provided by WM Performance Services
* Cashflows includes one transaction which has been converted to GBP

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

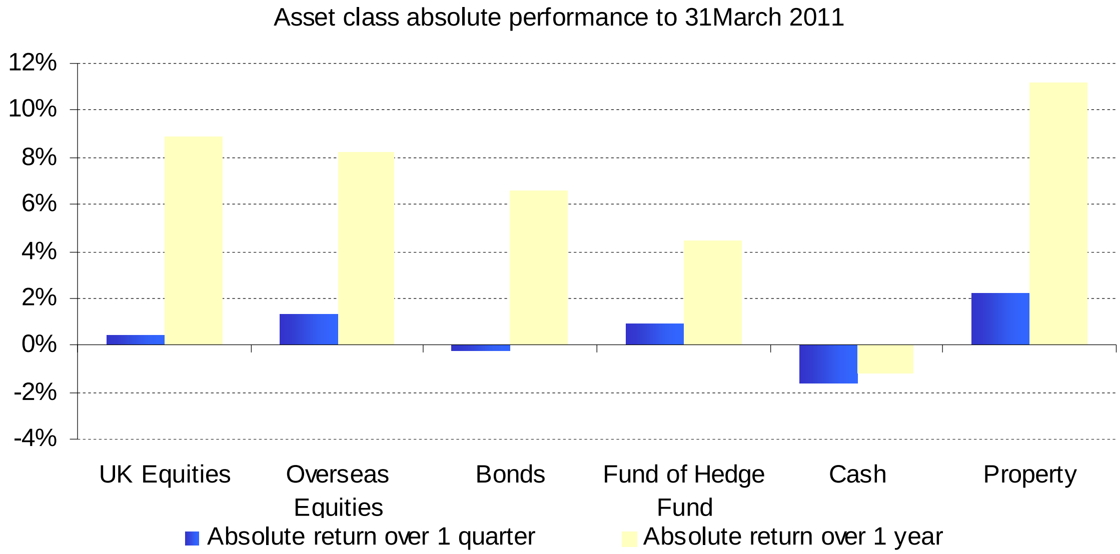


Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 0.9%, underperforming the customised benchmark by 0.3%.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 7.9%, marginally outperforming the customised benchmark.
- Over the last 3 years (blue versus grey line), the total Fund's assets produced a positive return of 6.3% 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 most of the Fund's managers.
- The slight relative underperformance over the quarter arose from negative relative returns from a number of managers, most notably Genesis, Lyster Watson, Invesco, TT International, Stenham and Man. Both BlackRock funds and the SSgA Europe Fund performed broadly in line with their benchmarks. The strongest outperformance, over the quarter, came from Gottex and RLAM of 1.5% and 1.4% respectively.

Asset classes' performance

- The chart below and the table on the following page show the absolute performance of the Fund's assets by asset class over the quarter and year to 31 March 2011. 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 first quarter of 2011, all asset classes produced positive absolute returns except bonds and cash.
- The key drivers of absolute performance are:
- UK and overseas equity markets produced returns of 0.4% and 1.4% respectively.
- Sterling depreciated against the Euro over the quarter, meaning a higher return on the Euro denominated overseas equities in sterling terms. Sterling appreciated against the Dollar and Yen, meaning a lower return on the Dollar and Yen denominated overseas equities in sterling terms. Most of the major markets produced positive returns for the quarter in local currency terms. The highest local currency return came from the Europe (ex UK) region and the lowest from the Japan region.
- Bonds produced negative absolute returns of 0.2% over the quarter, primarily due to negative returns from UK Index linked and Overseas bonds, which was partially negated by 0.1% return on UK Bonds.
- The fund of hedge fund portfolio produced a positive return of 0.9% over the quarter.
- Property generated the highest absolute return, of 2.3%, over the quarter.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 31 March 2011.

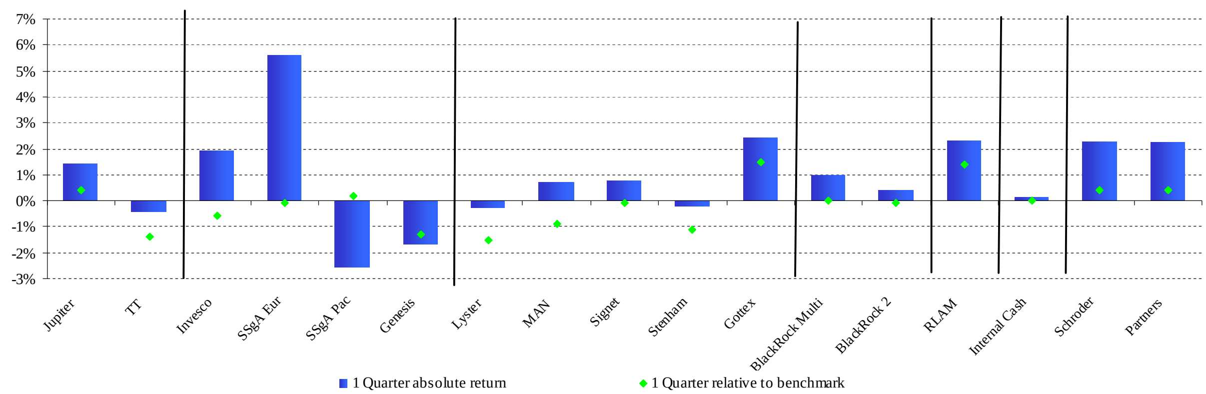
Asset Class	Weight in Strategic Benchmark	Q1 2011 (index returns)	1 year (index returns)
UK Equities	27%	1.0%	8.7%
Overseas Equities	33%	2.1%	8.5%
Index Linked Bonds *	6%	0.0%	6.5%
Gov Bonds – Fixed *	14%	-0.8%	5.2%
Corporate Bonds *		1.5%	5.5%
Hedge Funds	10%	2.3%	10.3%
Property	10%	2.3%	10.7%
Total 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.

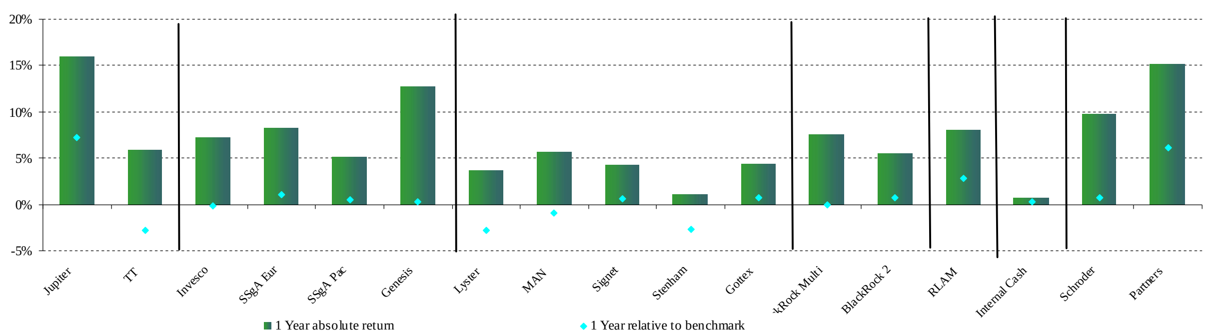
Manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of March 2011. The relative quarter and one year returns are marked with green and blue dots respectively.

Absolute and relative performance - quarter to 31 March 2011



Absolute and relative performance - year to 31 March 2011

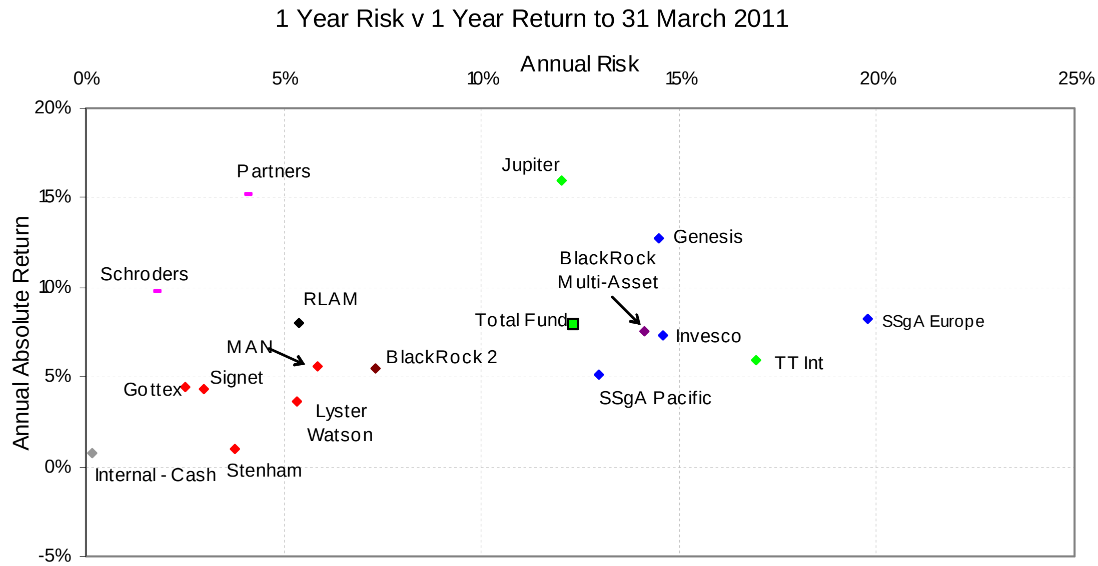


Source: Data provided by WM Performance Services

- Most of the Fund's Investment managers produced positive absolute returns.
- Over the quarter, the strongest absolute performance came from SSgA Europe. In relative terms, Gottex performed the best over the quarter, outperforming their benchmark by 1.5%, whilst the worst relative performance came from TT International, Lyster Watson and Genesis who each underperformed their respective benchmarks by 1.4%.
- Over the year, all absolute returns were positive. In both absolute and relative terms, Jupiter performed better than any other manager producing an absolute return of 15.9%, outperforming their benchmark by 7.2%.

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 March 2011 of each of the funds, along with the total Fund.

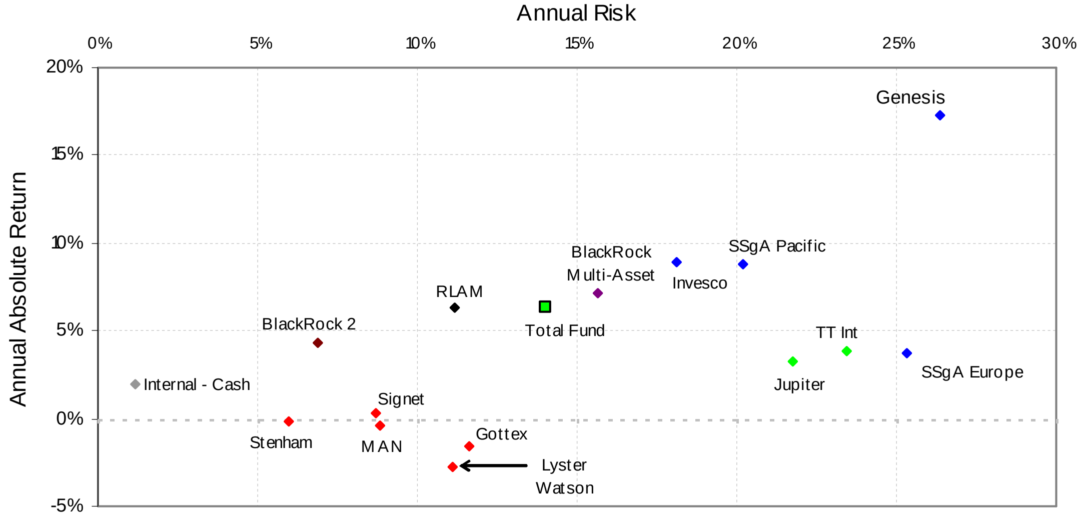


Source: Data provided by WM Performance Services

- 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
  - Pink: Property
  - Green Square: total Fund

- The volatility of returns over the year has remained broadly in line with the previous quarter.
- 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 considerably lower volatility (to the extreme left).
- Most notable risk-adjusted returns came from Partners and Jupiter over the past one year. This space had been dominated by Genesis over the last few quarters, but a weak Q1 2011 and the rolling out of a strong Q1 2010 performance means that the annual absolute return has decreased, while the annual risk has remained broadly consistent.
- 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 March 2011



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.

- A notable change has been the improvement in the 3 year annual absolute return for Jupiter, whilst the risk has remained at a similar level. Compared to negative 3-year returns in the previous quarter, the Fund's absolute returns increased this quarter whilst the risk also marginally reduced, resulting in them achieving a better 3-year risk adjusted return.

- 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

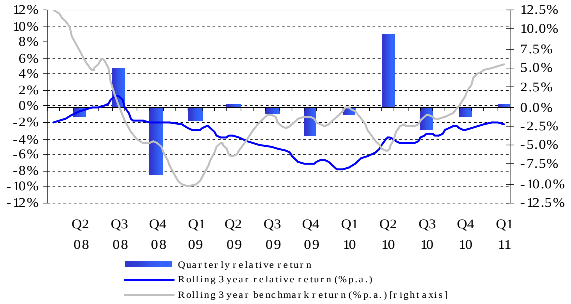
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. The review of the fund of hedge fund allocation is now complete, as is the appointment of a global unconstrained equity manager, and the changes to these parts of the portfolio will be seen in future reports. We note that the review of SRI remains ongoing by 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.
- UK Equity Funds:
  - Jupiter outperformed their benchmark over the quarter by 0.5%. The Fund produced strong risk-adjusted returns for the year ended 31 March 2011. Turnover of the Fund increased significantly to 7.2% for the quarter compared to 3.2% for the previous quarter, but remains relatively low.
  - TT International underperformed its benchmark over the quarter as well as for the year ended 31 March 2011. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions in Financials.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds produced marginal outperformance relative to their respective benchmarks over the quarter. Invesco, however, produced negative 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 underperformed their benchmark over the quarter and produced a negative absolute return.
- Fund of Hedge Funds:
  - Lyster Watson produced negative absolute and relative returns. As noted earlier in the report, as a result of the review of the Fund's allocation to fund of hedge funds, Lyster Watson will be removed from this part or the portfolio in the future.
  - Man produced a negative relative return of 0.9%, producing an absolute return of 0.7%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 0.1%. In absolute terms, Signet produced a return of 0.8%.
  - Stenham Asset Management produced a negative relative return for the quarter, 1.1% behind their benchmark, with an absolute return of -0.2%.

- Gottex outperformed their benchmark over the quarter by 1.5%, producing an absolute return of 2.4%.
- Hedge funds continued to underperform equities, now for three consecutive calendar quarters, as compared to Q2 2010 when hedge funds outperformed equities, although this is not unexpected.
- Over the year to 31 March 2011, only Gottex and Signet were ahead of their benchmarks.

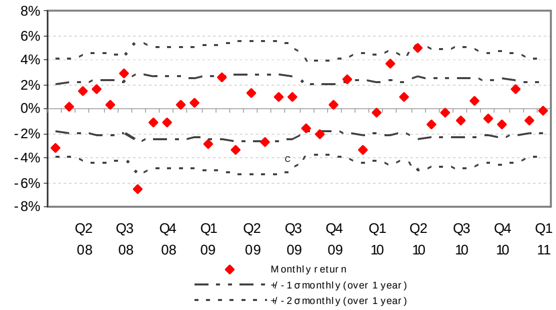
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive funds.
- Fixed Interest: RLAM have outperformed their benchmark in the last quarter. There are no notable changes in the risk profile of their Fund.
- Property: Performance of the property funds over the quarter was positive in both absolute and relative terms. Due to the short period since investment in the property funds commenced, 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)

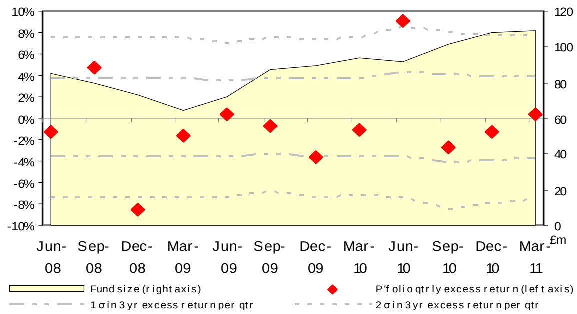
Relative returns #1



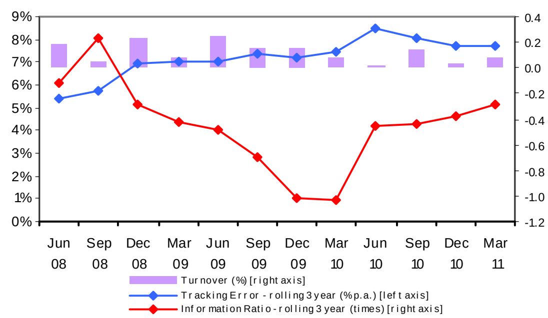
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



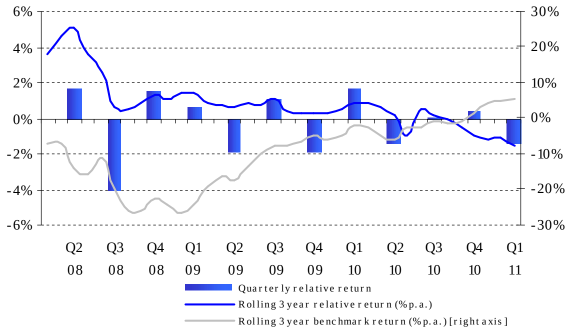
Source: Data provided by WM Performance Services, and Jupiter

Comments:

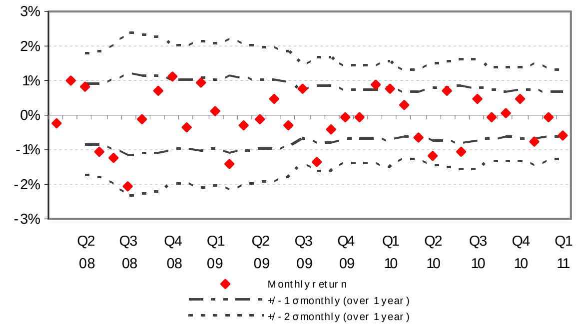
- Over the last quarter, the Fund outperformed the benchmark by 0.5%, producing an absolute return of 1.5%.
- Over the last year, the Fund outperformed the benchmark by 7.2%, producing an absolute return of 15.9%. Over the last 3 years, the Fund underperformed the benchmark by 2.2% p.a., producing an absolute return of 3.2% p.a.
- For the first time in six quarters has the Fund's allocation to Cash (5.5%) reduced compared to the preceding quarter (6.6%).
- 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 Q1 2011, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer Goods and Financials, with significantly overweight positions in Industrial, Consumer Services and Utilities. These relative allocations were also consistent with most recent historical quarters.

TT International – UK Equities (Unconstrained)

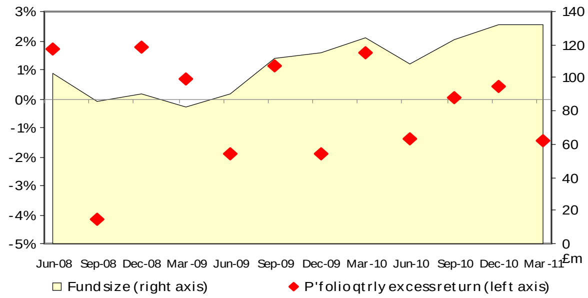
Relative returns [#1]



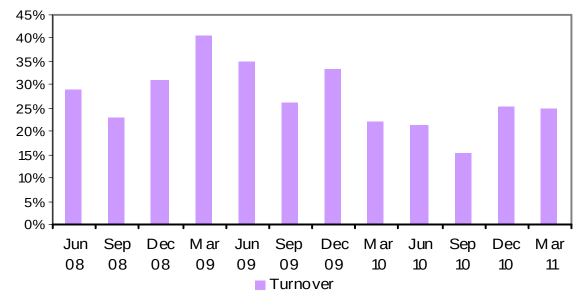
Monthly relative returns [#2]



Performance v fund size [#3]



Turnover [#4]



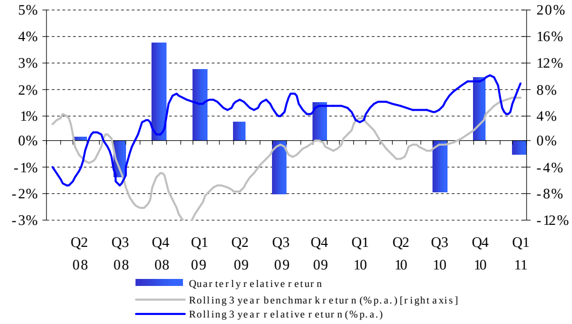
Source: Data provided by WM Performance Services, and TT International

Comments:

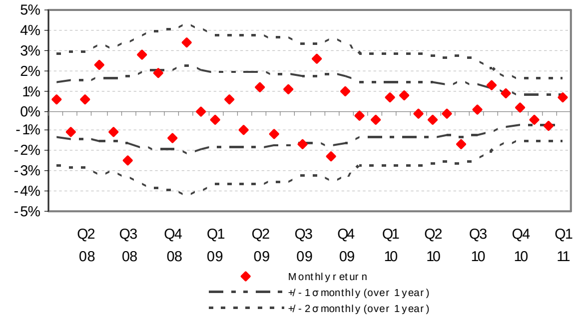
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -0.4%.
- Over the last year, the Fund underperformed the benchmark by 2.8%, producing an absolute return of 5.9%. Over the last three years, the Fund underperformed the benchmark by 1.5% p.a., producing an absolute return of 3.9% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials by 5.8% and 5.6% respectively, and is underweight to Financials and Health Care by 6.9% and 4.5% respectively, which also represents a continued increase in underweight position compared to the preceding quarter.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 25.1% has remained in line compared to the previous quarter turnover of 25.3%.
- 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 Indexation)

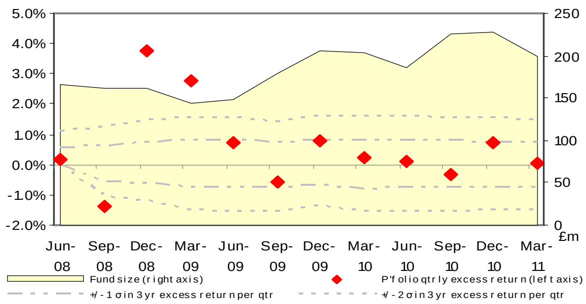
Relative returns #1



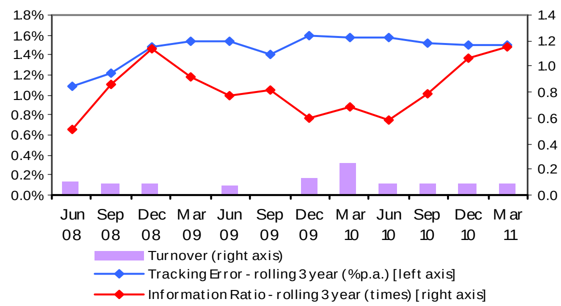
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



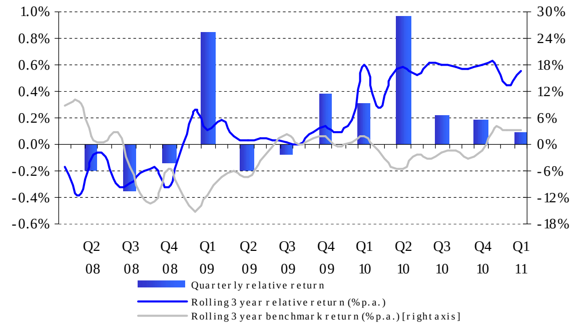
Source: Data provided by WM Performance Services, and Invesco

Comments:

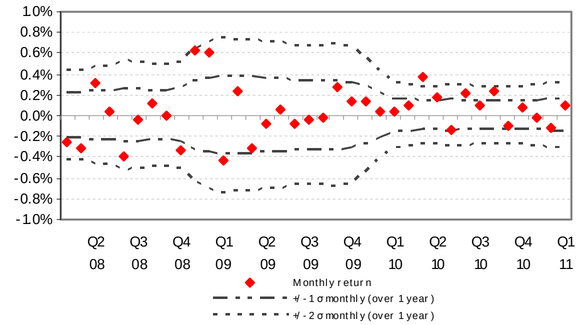
- Over the last quarter the Fund underperformed its benchmark by 0.6%, producing an absolute return of 1.9%.
- Over the last year, the Fund tracked its benchmark, producing an absolute return of 7.3%. Over three years, the Fund outperformed, by 1.5% p.a., producing an absolute return of 8.9% p.a.
- Over the last quarter, stock selection was the only positive contributor to relative returns. Country, Industry and style selection negatively affected contribution to excess returns. 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.
- The turnover of 9.0% remained constant as compared to the previous quarter, and remained low, as expected for this mandate. The number of stocks, however reduced to 417 as compared to 495, at the end of 4Q 2010.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were inside +/- 1% of benchmark weightings as expected from this mandate.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

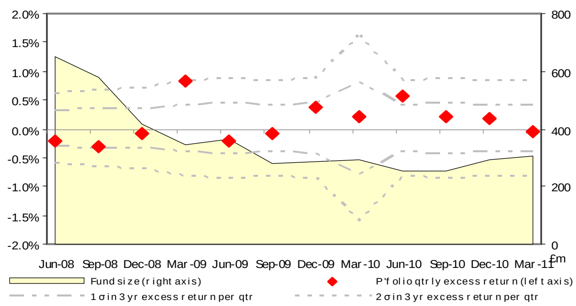
Relative returns #1



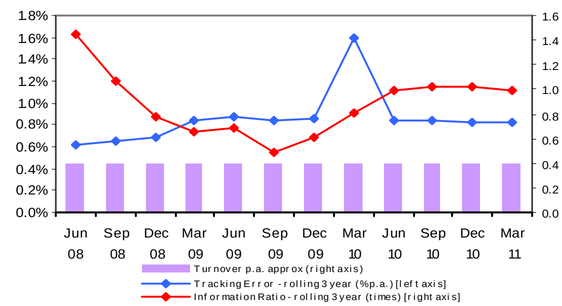
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



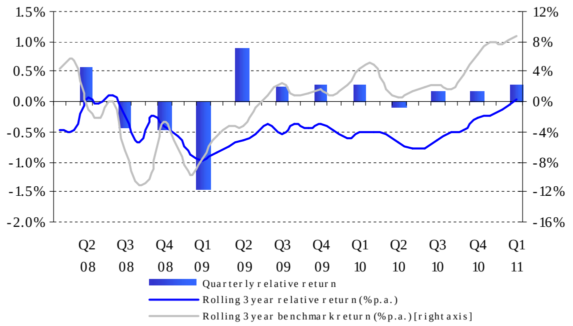
Source: Data provided by WM Performance Services, and SSgA

Comments:

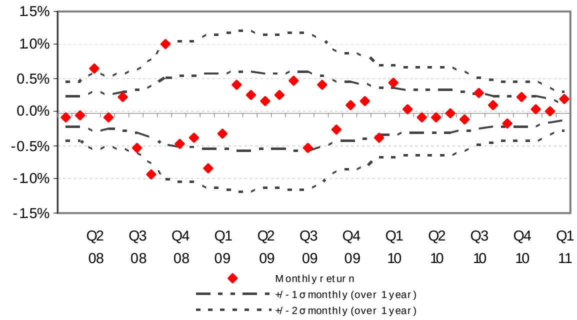
- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of 5.6%.
- Over the last year, the Fund outperformed the benchmark by 1.8%, producing an absolute return of 8.3%. Over the last 3 years, the Fund outperformed the benchmark by 1.3% p.a., producing an absolute return of 3.7% p.a.
- Stock selection continued to be the primary driver of relative performance, accounting 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 increasing very slightly over the quarter. The tracking error has remained constant over the last four quarters.
- 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)

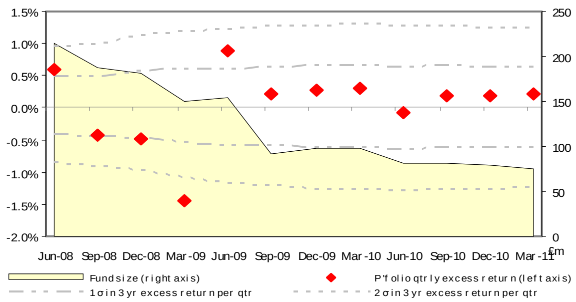
Relative returns #1



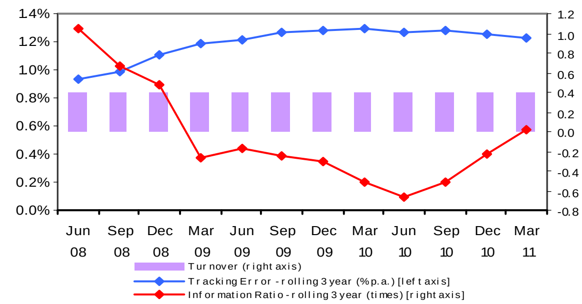
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



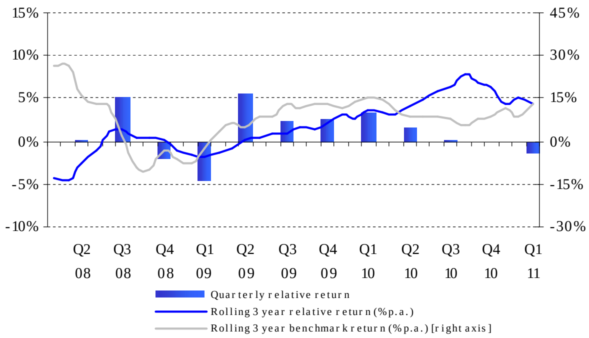
Source: Data provided by WM Performance Services, and SSgA

Comments:

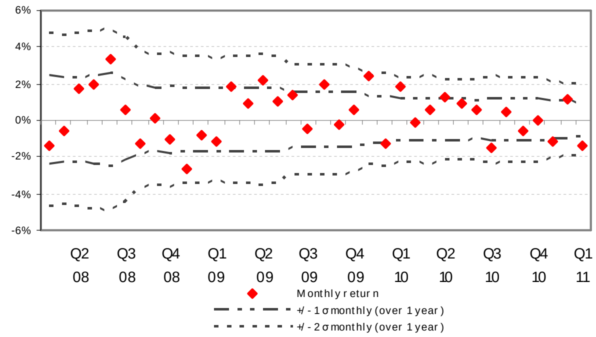
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of -2.6%.
- Over the last year, the Fund outperformed the benchmark by 0.9%, producing an absolute return of 5.4%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.9% 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

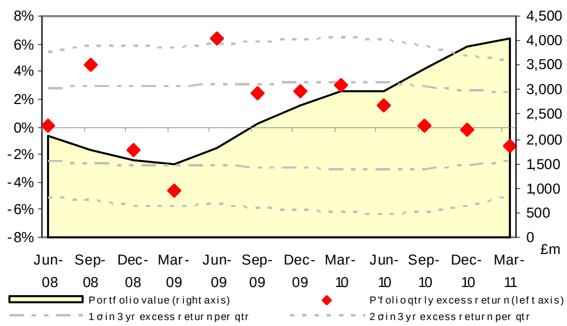
Relative returns #1



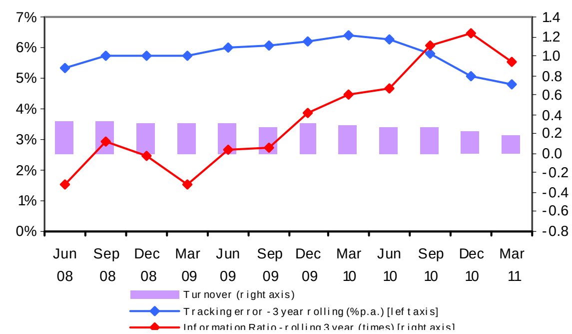
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



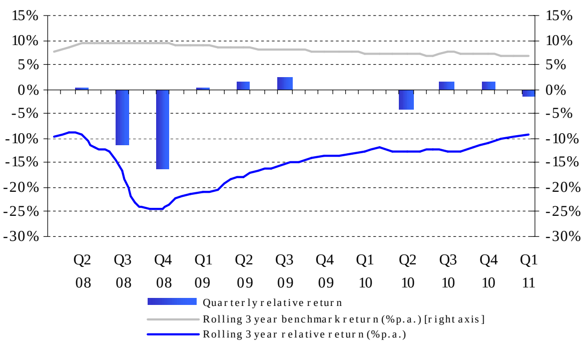
Source: Data provided by WM Performance Services, and Genesis

Comments:

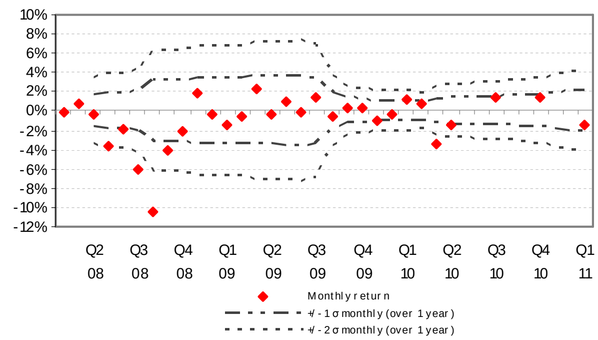
- Over the last quarter the Fund underperformed the benchmark by 1.4%, producing an absolute return of -1.6%.
- Over the last year, the Fund outperformed the benchmark by 0.3%, producing an absolute return of 12.7%. Over the last 3 years, the Fund outperformed the benchmark by 4.8% p.a., producing an absolute return of 17.2% p.a.
- The Fund remains overweight to South Africa and India, and underweight China and South Korea. 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 underweight's 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), fell to 0.9% in the most recent quarter from 1.2% in the previous quarter.
- On an industry basis, the Fund continued to be significantly overweight in Consumer Staples (+8.3%) and underweight Energy (-5.4%), Consumer Discretionary (-3.9%) and Industrials (-2.0%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns [1]

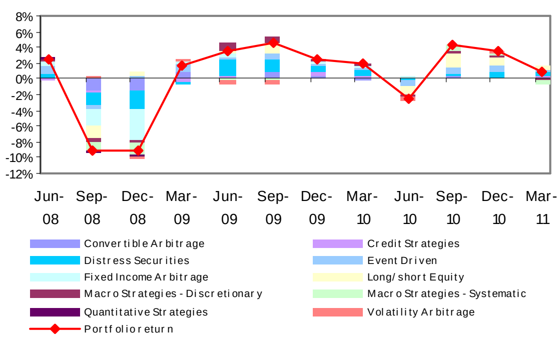


Monthly / Quarterly relative returns [2]

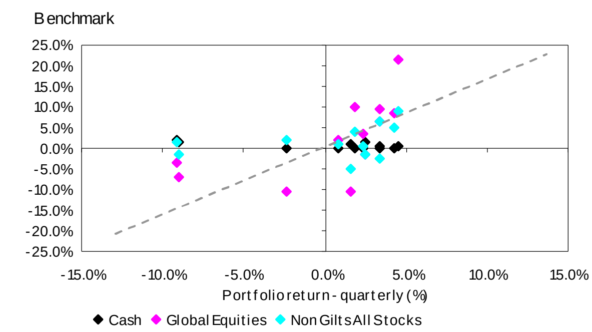


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return [6]



Correlation with indices [7]



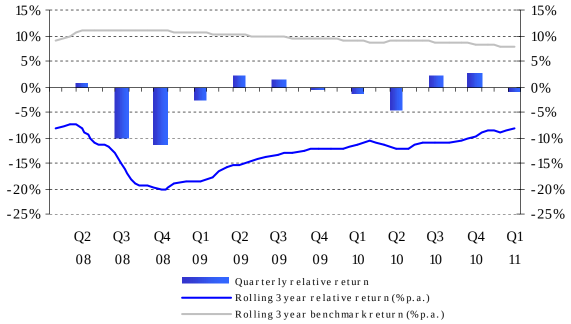
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

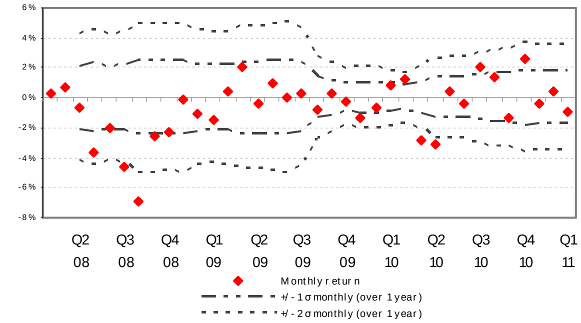
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.3%.
- Over the last year, the Fund underperformed the benchmark by 1.5%, producing an absolute return of 3.2%. Over the three year period, the Fund underperformed the benchmark by 8.8% p.a., producing an absolute return of -2.7% p.a.
- The Fund continues to have a diverse exposure to hedge fund strategies, although there is a continued high allocation (now 42.8%) to Distressed Securities and Long / Short Equity strategies.
- There is no clear correlation between this Fund and cash, global equities or non gilt bonds.
- The allocation to Lyster Watson is to be removed from this part of the portfolio in due course. Updates will be provided in future reports.

MAN – Fund of Hedge Funds

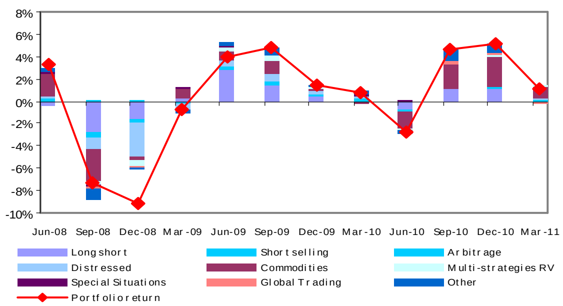
Relative returns #1



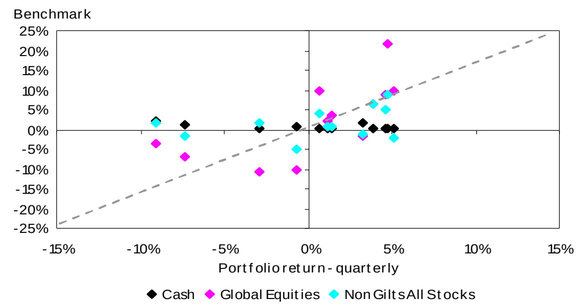
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



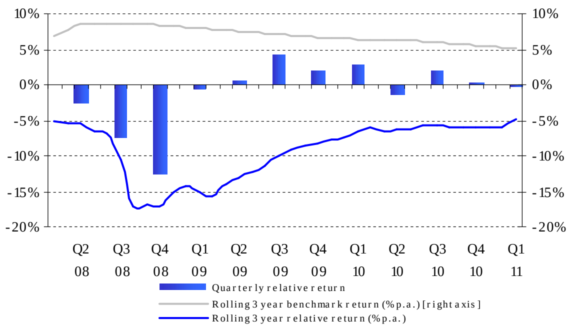
Source: Data provided by WM Performance Services, and MAN

Comments:

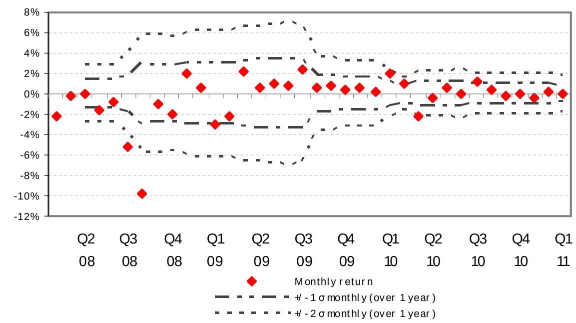
- Over the last quarter, the Fund underperformed the benchmark by 0.9%, producing an absolute return of 0.7%.
- Over the last year, the Fund underperformed the benchmark by 0.8%, producing an absolute return of 5.7%. Over the last 3 years, the Fund underperformed the benchmark by 8.2% p.a., producing an absolute return of -0.4% 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 APAC and Europe strategies, which produced, negative returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, although 63.6% 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.
- As part of the recent review of Fund of Hedge Funds, it was decided that the allocation to Man should be reduced. Updates will be provided in future reports.

Signet – Fund of Hedge Funds

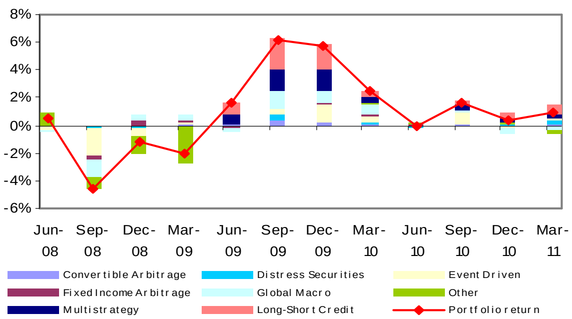
Relative returns #1



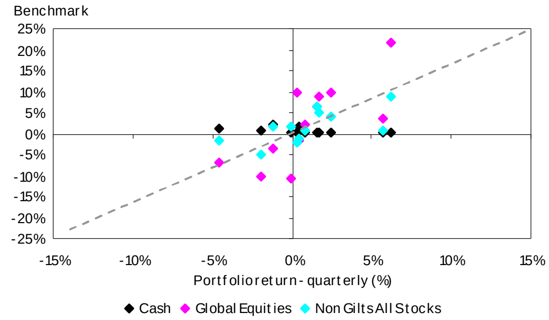
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



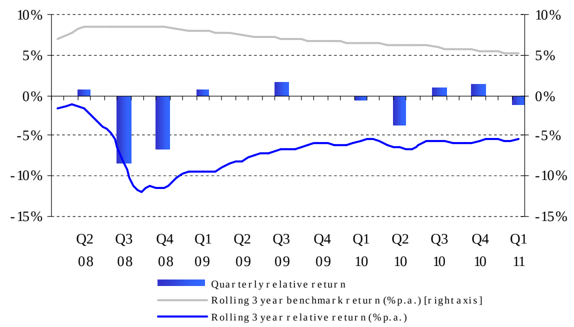
Source: Data provided by WM Performance Services, and Signet

Comments:

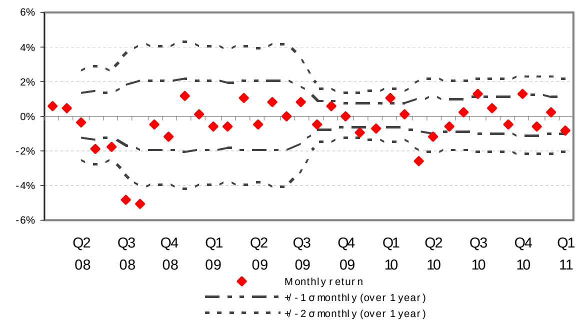
- Over the last quarter, the Fund underperformed the benchmark by 0.1%, producing an absolute return of 0.8%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 4.3%. Over the 3 year period, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of 0.3% 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

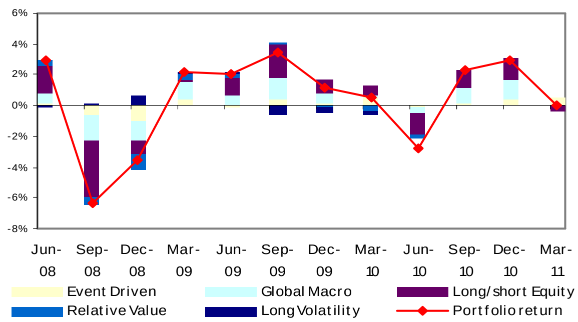
Relative returns #1



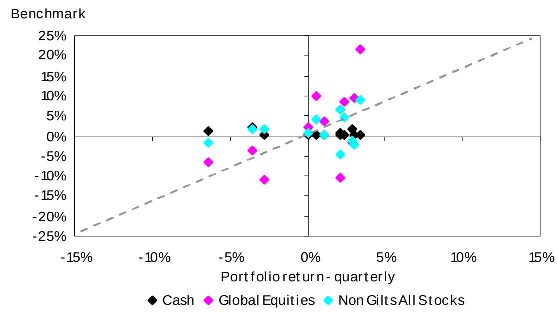
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



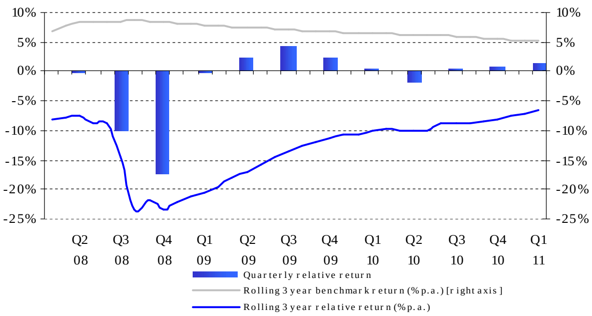
Source: Data provided by WM Performance Services, and Stenham

Comments:

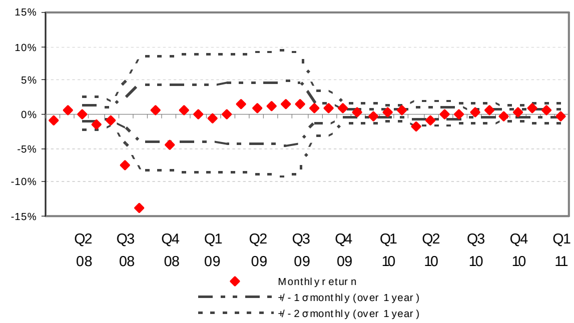
- Over the last quarter, the Fund underperformed the benchmark by 1.1%, producing an absolute return of -0.2%.
- Over the last year, the Fund underperformed the benchmark by 2.6%, producing an absolute return of 1.1%. Over the last 3 years, the Fund underperformed the benchmark by 5.3% p.a., producing an absolute return of -0.2% p.a.
- Event driven strategy was the main contributor to absolute returns while both Long/Short Equity and Global Macro strategies produced negative absolute returns for the first time since Q4 2008.
- The allocation to the Global Macro and Long / Short Equity strategies made up 67.5% of the total Fund allocation. The allocation to Event Driven strategies marginally rose from 16.5% to 17.0% 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

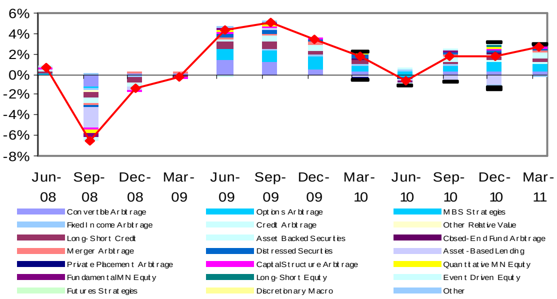
Relative returns [#1]



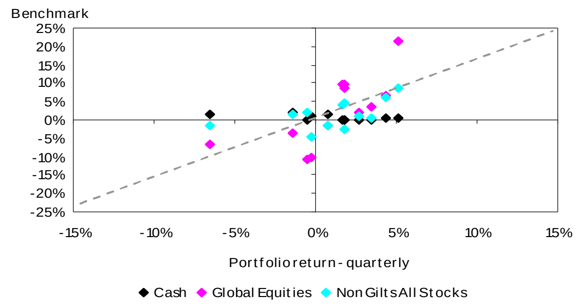
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



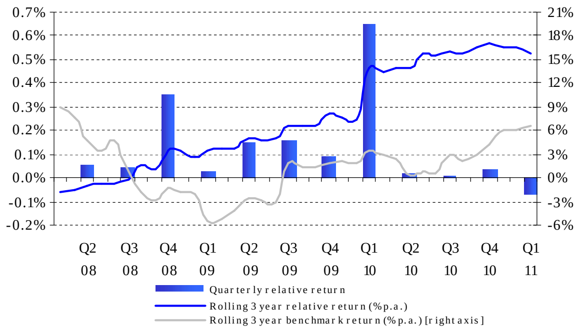
Source: Data provided by WM Performance Services, and Gottex

Comments:

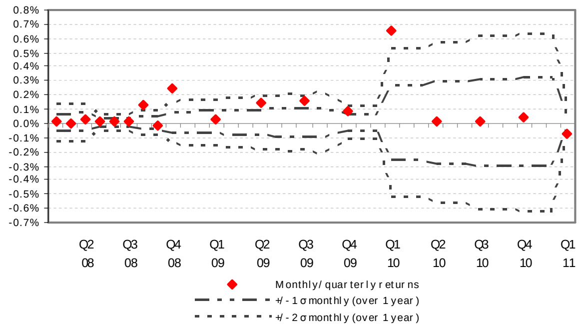
- Over the last quarter, the Fund outperformed the benchmark by 1.5%, producing an absolute return of 2.4%.
- Over the last year, the Fund outperformed the benchmark by 0.8%, producing an absolute return of 4.5%. Over the last 3 years, the Fund underperformed the benchmark by 6.6% p.a., producing an absolute return of -1.5% p.a.
- The key drivers of performance were MBS strategies, Asset-backed securities, Long / Short credit and Distressed Securities. Performance for the quarter was negatively impacted by Other strategies, Insurance strategies and Short credit.
- The Fund has a diverse range of strategy exposures, with the major exposures to ABS, MBS, Fundamental MN Equity, Long-Short Credit and Convertible Arbitrage Strategies. Allocations to Asset-Backed Securities increased further, continuing the gradual increase seen over the past seven 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

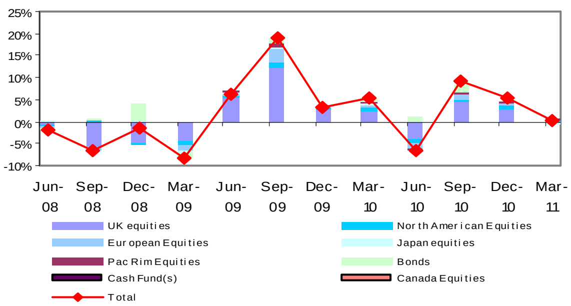


Monthly/Quarterly relative returns #2

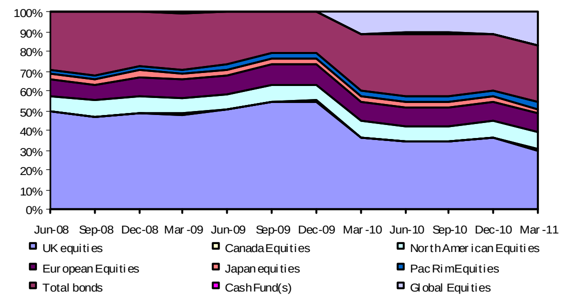


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5



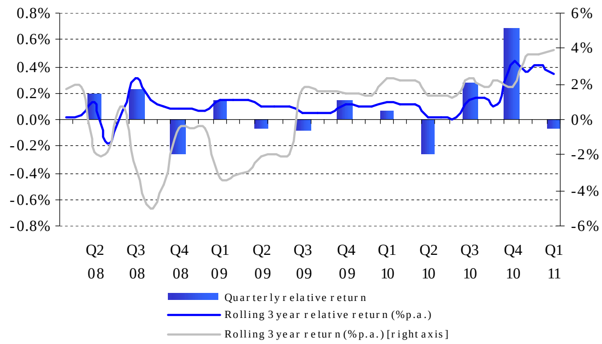
Source: Data provided by WM Performance Services, and BlackRock

Comments:

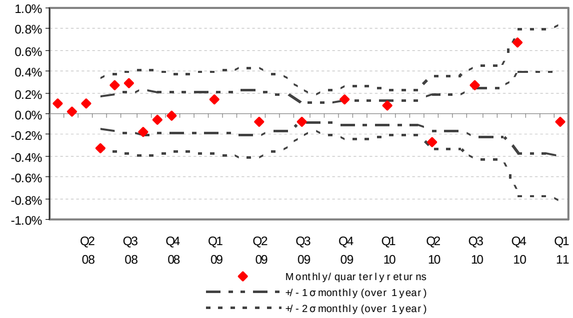
- Over the last quarter, the Fund has marginally underperformed its benchmark by 0.1%, producing an absolute return of 1.0%.
- Over the last year, the Fund tracked its benchmark, producing an absolute return of 7.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 7.1% 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.
- For the first time in 13 quarters the portfolio has marginally underperformed its benchmark as opposed to marginally outperforming. Being a passive Fund, the underperformance was marginal.
- The magnitude of the relative volatility in the portfolio is very small.
- Allocations to UK equities have reduced by 6.2%, whereas allocation to Global Equities has increased by 6.1%, compared to Q4 2010. These changes are in line with the changes made to the total Fund strategic asset allocation.

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.

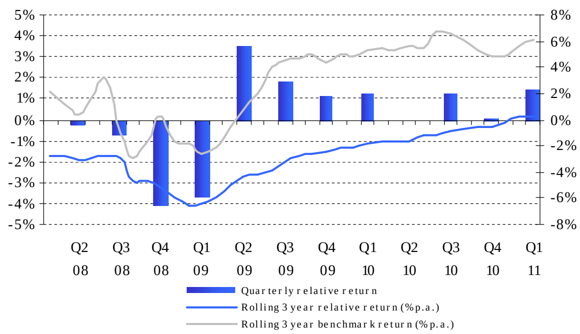
Source: Data provided by WM Performance Services, and BlackRock

Comments:

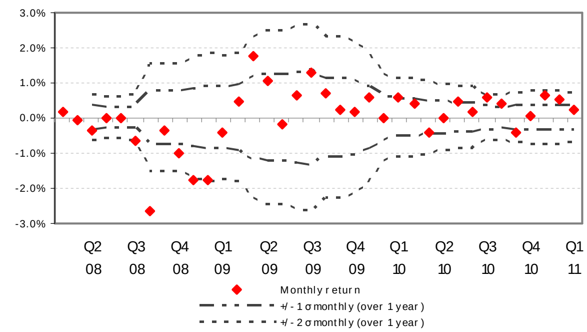
- Over the last quarter, the Fund marginally underperformed the benchmark by 0.1%, producing an absolute return of 0.4%.
- Over the last year, the Fund produced a return of 5.5%, outperforming the benchmark by 0.5%. Over a rolling 3 year period, the Fund produced an absolute return of 4.3% p.a., outperforming the benchmark return by 0.2% p.a.
- Over the quarter the Fund's holding in cash declined by 12.0%, representing investments made into the Fund's property managers.
- Over the quarter, US Equities and European Equities contributed positively to the absolute performance, while UK Gilts were negative contributors.

Royal London Asset Management – Fixed Interest

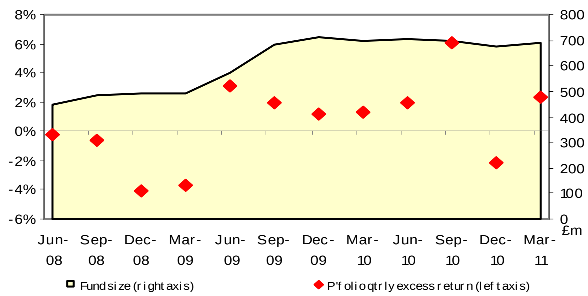
Relative returns [#1]



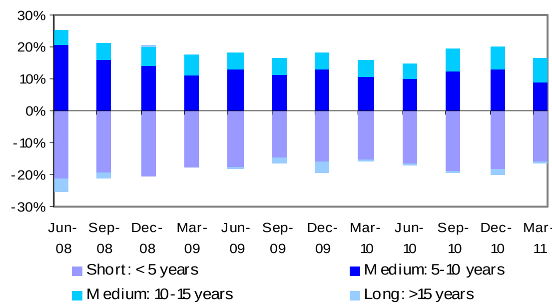
Monthly relative returns [#2]



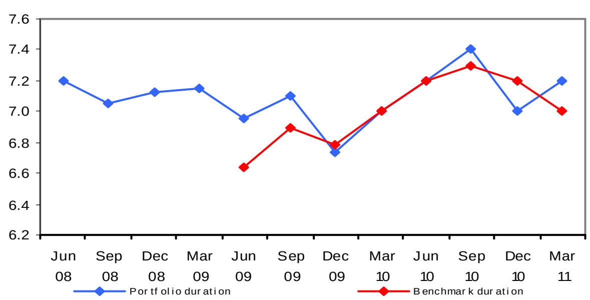
Performance v fund size [#3]



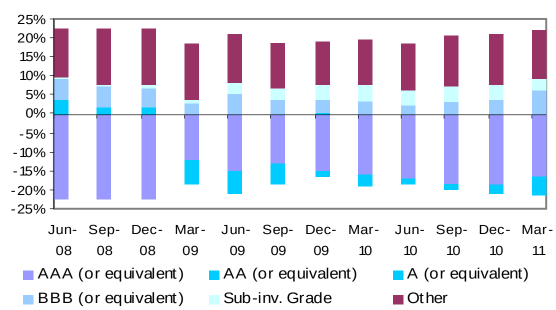
Relative Maturity exposure [#8]



Duration [#10]



Relative Ratings exposure [#9]



Source: Data provided by WM Performance Services, and RLAM

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 1.4%, producing an absolute return of 2.3%.
- Over the last year, the Fund outperformed the benchmark by 2.8%, producing an absolute return of 8.0%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 6.4% p.a.
- The Fund 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

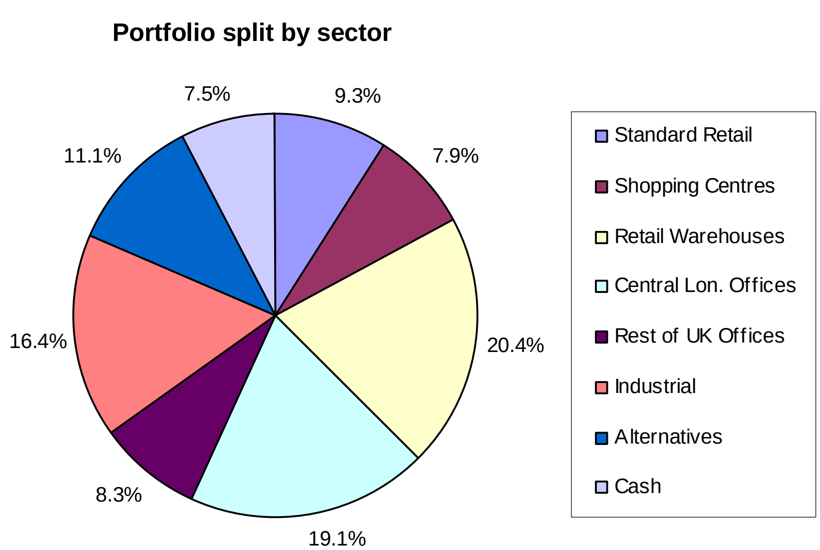
- The mandate awarded to Schroder by the Fund commenced in February 2009.
- The Fund appointed Schroder to manage UK property on a segregated, multi-manager basis. The investments held within the underlying funds are primarily direct, although some managers might use listed securities for diversification.
- Once a 3 year track record is available for a meaningful proportion of the Fund's commitment, a fuller quantitative assessment of Schroder will be available. However, we provide here a qualitative update and assessment of the manager.

Portfolio update

As at 31 March 2011, approximately 98% 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 62% of the total portfolio) and 9 are "value add" investments (the remaining 38% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 31 March 2011, 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 underweight position to the high street retail sector appears beneficial as retailers suffer from the effects of weakening consumer demand and structural change. Elsewhere, the performance of central London offices is benefiting from a relatively strong global economy coupled with a constrained supply of available space. These are themes that they have held for some while, and which they expect to maintain in the coming quarters.

Schroder believe that there is value in a number of sectors outside of the mainstream. They are currently considering several investments that are capable of providing returns, which are relatively uncorrelated to the broad property market. Here their focus is on an attractive initial yield with rental growth potential supported by underlying occupier demand.

Of the remaining equity, £1.7 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 increasing the portfolio's sector exposure to 'alternatives', in line with the themes.

Performance over Q1 2011

- Schroder produced a return of 2.2% net of fees over the three months to 31 March 2011, versus the benchmark return of 1.9%. The key drivers of the relative return over the period were:
  - The positive contribution from value added funds, which continue to dominate performance. In particular, central London offices and retail warehouse funds produced returns well ahead of benchmark. The West End of London Property Unit Trust (WELPUT), which specialises in central London offices, and the Hercules Unit Trust, which specialises in retail warehouse funds, were notable outperformers.
  - Of the core fund holdings, the BlackRock UK Property Fund and the newly acquired M&G Pooled Pensions Property Fund both outperformed the benchmark during the quarter. In aggregate however the core funds provided a small negative contribution as others marginally underperformed.
- Over the 12 months, performance is ahead of the benchmark, 9.6% (net of fees) versus 9.1%. Value added funds have outperformed the portfolio's benchmark over twelve months by 1.1%, despite purchase costs of 0.3%. WELPUT was again the greatest contributor, making a +1.0% contribution to relative returns. The core funds have provided a -0.4% contribution relative to the benchmark, however Schroder estimate that half of this negative contribution is attributable to purchase costs.
- Schroder estimates that transaction costs impacted quarterly results by 0.1% and 0.6%, over the year ended 31 March 2011. Now that the investment programme is substantially complete, Schroder expects the portfolio's relative returns to improve.

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 £52 million of the Fund's intended commitment of approximately £122 million. A total of £11.4 million was drawn down over the quarter. The draw downs commenced in September 2009.

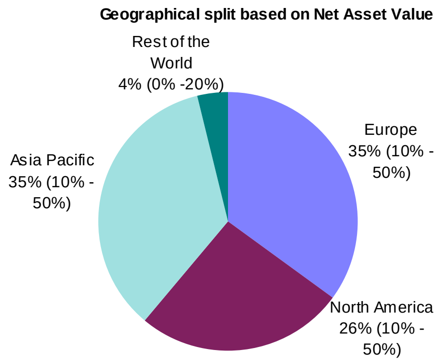
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

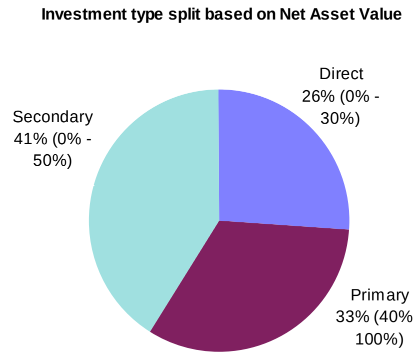
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 31 March 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.00	9.00
Distressed US Real Estate 2009	9.53	9.66
Global Real Estate 2008	23.56	24.12
Global Real Estate 2011	3.63	3.48
Real Estate Secondary 2009	5.78	5.99
Total	**51.50**	**52.25**

Source: Partners

The investments in the funds noted above have resulted in a portfolio that was, as at 31 March 2011, 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 has a broadly neutral view with respect to North America. Minimal changes have been made to the geographical allocation; however the changes are in line with this view. The exposure to North America and Rest of World has reduced slightly in favour of increases to the Asia Pacific and Europe.

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. Over the first quarter there has been no change to the allocation to primary investments, the allocation to direct holdings has marginally increased and the allocation to secondary investments has marginally decreased.

Changes with respect to the asset allocation investment guidelines were implemented in October 2010 (the new guidelines are reflected in the 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.

Performance over Q1 2011

Partners produced a return of 2.3% over the three months to 31 March 2011. The Fund outperformed its benchmark by 0.4% for the quarter. Over the 1 year to 31 March 2011, Partners produced a return of 15.2% versus the benchmark return of 9.1%.

Distributions over the quarter totalled £1.9m, nearly as much as all distributions from inception to the end of 2010.

Conclusion

Over the quarter Partners increased the amount drawn down by £11.4 million. This was allotted across all the investments that existed as at the end of 2010. The allocation was such that, along with investment performance, the allocation to Primary investments has stayed the same whilst the allocation to Direct investments has increased at the expense of the allocation to Secondary Investments. There has been no significant change to the geographical split of the Fund's investment.

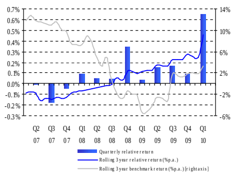
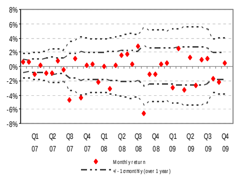
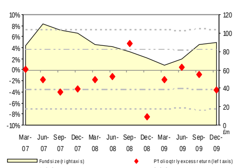
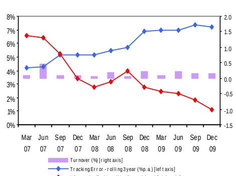
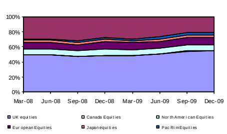
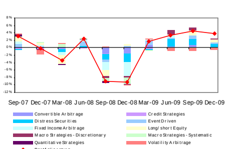
The net asset value for the Global Real Estate 2011 vintage is below the investment amount, likely due to transaction costs associated with the start up of these types of investments.

Over the quarter only modest changes to asset allocation have been made and Partners appear to be continuing to invest according to the views most recently expressed, that led to changes in the investment guidelines in October 2010.

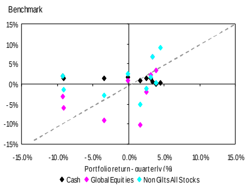
We have no concerns with Partners.

Appendix A – Glossary of Charts

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

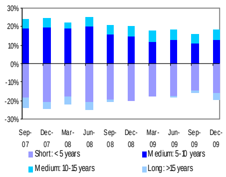
Reference		***Description***
#1		This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year 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



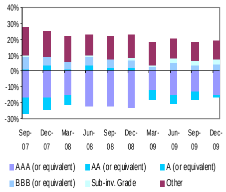
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance. 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



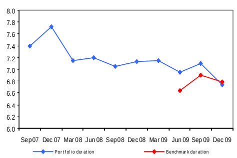
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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.

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	

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