Review for period to 30 June 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

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August 2011

Avon Pension Fund

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 £42m over the second quarter of 2011, to £2,701m as at the end of June 2011.
- Over the last quarter, the total Fund's assets produced a positive absolute investment return of 1.5%, performing in line with the customised benchmark. Over the last year, the Fund produced a return of 16.5%, which was behind the customised benchmark return by 0.2%. Over 3 years, the Fund has produced a return of 7.2% p.a., underperforming the customised benchmark by 0.7% p.a.
- Over the quarter, the returns from bonds, and UK index-linked bonds in particular, were the primary drivers of positive returns, with positive contributions also coming from most equity regions and the property funds.
- Over the one year period, absolute performance remains positive due to 4 consecutive quarters of positive returns.
- This quarter the Fund performed in line with the benchmark. This was due to the positive performances by most managers being largely offset by the underperformance of the fund of hedge fund managers. The strongest relative returns were generated from Jupiter and Genesis.
- 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 completed with the implementation of the Schroder global equity mandate. Further funding of the property portfolios also took place over the quarter.

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, mainly the appointment of Schroder to manage a global equity portfolio. The changes to the strategic asset allocation are now complete following this implementation. 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 has concluded and Record Currency Management is due to be implemented during the third quarter of 2011.
- Manager Performance: We have identified no areas of significant concern regarding the managers. However, it should be noted that the SSgA Europe (ex UK) Enhanced Index Fund fell in size from £306.12million as at 31 March 2011 to £46.85million as at 30 June 2011. SSgA has stated that this was due to one of its largest investors in this fund withdrawing their assets as part of a strategic review.
- The largest negative return over the quarter came from Lyster Watson, and all but one of the fund of hedge fund managers produced negative absolute returns. The largest positive return over the quarter came from Jupiter.

- 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 30 June 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	1.9	25.6
Overseas Equities	0.2	21.5
USA	0.0	21.8
Europe	2.6	29.5
Japan	0.2	5.4
Asia Pacific (ex Japan)	-0.1	21.3
Emerging Markets	-1.8	17.5
Property	2.1	9.1
Hedge Funds	-0.4	12.5
Commodities	-8.1	17.5
High Yield	1.1	10.1
Cash	0.1	0.5

Market Returns Bond Assets	**3 Mths %**	**1 Year %**
UK Gilts (>15 yrs)	2.3	2.8
Index-Linked Gilts (>5 yrs)	4.5	9.7
Corporate Bonds (>15 yrs AA)	1.2	3.5
Non-Gilts (>15 yrs)	1.3	4.3

Inflation Indices	**3 Mths %**	**1 Year %**
Price Inflation - RPI	1.2	5.0
Price Inflation - CPI	1.1	4.2
Earnings Inflation *	0.9	2.4

Change in Sterling	**3 Mths %**	**1 Year %**
Against US Dollar	0.2	7.3
Against Euro	-2.0	-9.3
Against Yen	-2.4	-2.1

Yields as at 30 June 2011	**% p.a.**
UK Equities	2.99
UK Gilts (>15 yrs)	4.22
Real Yield (>5 yrs ILG)	0.48
Corporate Bonds (>15 yrs AA)	5.54
Non-Gilts (>15 yrs)	5.53

Absolute Change in Yields	**3 Mths %**	**1 Year %**
UK Gilts (>15 yrs)	-0.1	0.1
Index-Linked Gilts (>5 yrs)	-0.2	-0.2
Corporate Bonds (>15 yrs AA)	0.0	0.2
Non-Gilts (>15 yrs)	0.0	0.1

* is subject to 1 month lag

Statistical highlights

- The rate of CPI inflation rose from 4.0% in March to 4.2% in June, and has overshot the Bank of England's 2% target for 34 of the past 40 months. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter.
- UK retailers continue to suffer as consumer spending falls; Thorntons and Carpetright both announced their intention to close stores. Meanwhile TJ Hughes has gone into administration following Jane Norman, Homeform and the furniture firm Habitat.
- The Office for National Statistics ("ONS") reported that the number of people unemployed increased by 38,000 over the quarter to reach 2.49million in June 2011. The unemployment rate was 7.9%, up 0.1% on the quarter.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets.
- The pound depreciated against the Euro and Yen over the quarter but was little changed against the US Dollar. Fears about the pace of the UK's economic recovery and the likelihood that interest rates will remain at a low level have unsettled the currency markets.
- The FTSE All-Share Index achieved a positive return over the quarter of 1.9%, despite moderating economic data, a sudden increase in the number of profit warnings, heightened anxiety over the potential risk of default in Greece and the uncertainty regarding the strength of the global economic recovery. The quarter saw sharp intra-day moves at the market and stock level and unseasonably low liquidity. Although the equity market rose sharply in the latter part of June after the Greek Parliament approved austerity measures, which gave the positive return for the quarter as a whole, it has subsequently lost most of these gains as the risk of contagion to Italy and Spain became the focus of attention.
- Overall equities had a somewhat muted quarter with the Asia Pacific ex Japan and Emerging Markets regions again producing negative returns in sterling terms. The US and Japanese markets were little changed over the quarter while the Europe ex UK region produced a return of 2.6%. The performance of global equities over the quarter was largely impacted by falls in commodity prices, which achieved a return of -8.1% amid concerns about the stalling recovery in developed economies and a slowdown in growth in emerging markets.
- Gilts produced a return of 2.3% over the quarter and corporate bonds produced a return of 1.2%.

UK market events – Q2 2011

- **Quantitative Easing:** The Bank of England has not extended its £200 billion quantitative easing programme.
- **Government Debt:** At the end of June 2011 UK national debt stood at £944.3 billion, or 61.9% of GDP, as compared to £803.7 billion (55.3% of GDP) at the end of June 2010.
- **Unemployment:** The number of people unemployed in the UK increased by 38,000 over the three months to June to reach 2.49 million. The unemployment rate for the three months to June 2011 was 7.9%, up 0.1% over the quarter. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 24,500 between May 2011 and June 2011 to 1.52 million according to the ONS.

- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey fell to a twenty one month low, seasonally adjusted figure of 51.3 in June after declining to 52.0 in May. The 50-level being the point at which 'contraction' is deemed to become 'growth'.
- **Inflation:** CPI annual inflation was 4.2% in June 2011, down from 4.5% in May 2011. RPI annual inflation was 5.0%, down from 5.3% in May 2011. RPIX inflation, which excludes mortgage interest payments, was 5.0% in June 2011, down from 5.3% in May 2011. The equivalent annualised EU CPI figure for March was 3.2%. The largest downward pressures to the change in CPI inflation came from recreation and culture where prices, overall, fell by 0.9% between May and June 2011. The largest upward pressure came from food and non-alcoholic beverages where prices, overall, rose by 0.9% between May and June this year compared with a decrease of 0.1% between the same two months a year ago.
- **Gross Domestic Product ("GDP"):** In the second quarter of 2011, GDP increased by 0.2%. There were a number of special events cited as the reasons for lower than expected growth in the second quarter, including the additional April bank holiday, the royal wedding and the after-effects of the Japanese tsunami and subsequent nuclear failure. These special events are estimated to have had a net downward impact on second quarter GDP. Total services output increased by 0.5% in the second quarter compared with an increase of 0.9% in the previous quarter.
- **Interest Rate:** Despite inflation remaining well above the Bank of England's target of 2.0%, the Bank's Monetary Policy Committee maintained interest rates at a record low of 0.5%, which has been the 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 – Q2 2011

- **European sovereign debt crisis:** In Europe, concern is growing that Spain, the Eurozone's fourth-largest economy, hamstrung by meagre growth and high unemployment, will fail to put its finances in order and need a Greek-style bailout. Financial markets too face more turmoil after Moody's put Spain's Aa2 credit rating on review for possible downgrade while US debt talks are still deadlocked. The news sent the Euro falling and stock markets across the Eurozone down. Moody's mentioned that the recent Greek aid package set a precedent for private sector participation in future debt restructurings in the Eurozone. The credit rating agency added that a downgrade is likely to be limited to one notch.
- **Spain and Italy:** Spain and Italy were forced to pay a higher price to sell short-term debt amid concerns that the recent Greek bailout had failed to solve the problems in the Eurozone. Spain's short-term cost of borrowing hit three-year highs and demand fell at its Treasury bills auction, while yields at a sale of six-month Italian paper hit their highest since November 2008. Spanish and Italian benchmark bond yields rose after the auctions, and the premium demanded to hold Spanish debt rather than lower-risk German bonds widened.
- **Greece:** After securing a second rescue package to prop up its debt-stricken economy, Greece has implored its citizens to honour the agreement by repatriating cash whisked abroad during the crisis. Appealing to businessmen, ship owners and financiers who transferred large amounts of wealth out of the crisis-hit country, finance minister Evangelos Venizelos said that the bailout had ensured that Greek banks were now among the safest in the world. Having said that, ratings agency Moody's has cut Greece's debt rating by three notches to Ca, leaving it just one notch above what is considered default. The ratings agency also stated that chances of default were now virtually 100%.

- **Unemployment:** The EU27 unemployment rate was at 9.4% in June 2011, unchanged compared with May 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (4.0%), the Netherlands (4.1%) and Luxembourg (4.5%), and the highest in Spain (21.0%), Lithuania (16.3% in the first quarter of 2011) and Latvia (16.2% in the first quarter of 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI registered 50.8 in July 2011 down from 53.3 in June 2011. Manufacturing PMI fell to 50.4 from 52.0 in June while services PMI declined to 51.4 from 53.7 in June.
- **Inflation:** The inflation rate in the Euro Area was reported at 2.7% in June 2011.
- **GDP:** GDP growth for the second quarter was not available at the time of writing, although it is expected to be below the 0.8% achieved during the first quarter of 2011.
- **Interest Rate:** The European Central Bank has increased its base rate by 0.25% in July 2011. The base rate now stands at 1.50%.

US market events – Q2 2011

- **Unemployment:** The rate of unemployment in the US increased from 8.8% in March 2011 to 9.2% in June 2011. However, this was a decrease from the 9.4% rate in December 2010.
- **Manufacturing and Industrial Production:** Industrial production increased 0.2% in June 2011 after having edged down 0.1% in May 2011. For the second quarter as a whole, total industrial production increased at an annual rate of 0.8%. In the manufacturing sector, output remained unchanged, ending four consecutive months of strong expansion.
- **Inflation:** The US CPI rate increased from 2.7% in March 2011 to 3.6% in June 2011.
- **GDP:** US real GDP increased by 1.3% over the second quarter of 2011, against a 0.4% increase in the first quarter. First-quarter growth was revised down sharply to a 0.4% rate from the earlier estimate of a 1.9% gain.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q2 2011

- Emerging market assets could lose their appeal as safe havens for global investors despite their recent rally, as mounting global risks threaten to undermine sentiment in the remainder of the year, leading industry players have warned. Emerging market stocks, currencies and bonds surged after Greece secured the approval for a new set of austerity measures. However, experts say that returns on emerging market equities and bonds are likely to be subdued for the remainder of the year as fears resurface over the Eurozone's debt crisis and rising inflation across emerging economies.
- South Africa could see significant currency depreciation during the second half of this year due to the increasingly risk-averse global investment climate and government recognition that the currency is overvalued. The country, Africa's largest economy, has seen a sustained surge in capital inflows since early 2009, resulting in significant appreciation of the rand.
- Brazil has signed a ground-breaking agreement with the African Development Bank to set up a South-South cooperation fund in a move it dubbed a 'kind provocation' to its Latin American trading rivals. Brazil hopes that other countries from the Southern hemisphere, such as South Africa, India and Argentina will also take part in the fund, while China had also been approached. Brazilian

diplomats have been strengthening ties with Africa in recent years as part of Brazil's push to gain the region leaders' support in order to gain a permanent seat at the UN's Security Council.

Market events – Global summary – 1 year

Economy

- The rate of inflation, as measured by the Consumer Prices Index ("CPI") rose from 3.2% in June 2010 to 4.5% in June 2011. CPI peaked at 4.5% in April and May 2011 but there is widespread expectation that this level may be further surpassed in the coming months. The Retail Prices Index (RPI) reached its highest ever level, 5.5%, in February 2011 before falling back to 5.0% in June 2011.
- The Bank of England's Monetary Policy Committee have held the base rate constant at 0.5% over the course of the year, the last change having come in March 2009, meaning that the base rate has now been at this level for 28 consecutive months. The decision in early June was voted through seven against two with Spencer Dale and Martin Weale voting in favour of an increase of 25 basis points. The Committee also voted, eight against one, to maintain the asset purchase program at £200 billion, Adam Posen being the lone voice preferring an increase of £50 billion.
- Gross Domestic Product (GDP) grew at an annualised rate of 0.7% over the year to 30 June 2011. GDP turned negative in the fourth quarter of 2010 but fears of a double recession were averted after a positive quarter in Q1 2011. Growth in Q2 2011 was weaker than expected, the Office for National Statistics ("ONS") cited additional bank holiday weekends for the royal wedding and the after effects of the Japanese tsunami.
- The UK unemployment rate stood at 7.7%, or 2.45 million, while those unemployed for a year or longer was 807,000, as at May 2011. The ONS noted that the fall in unemployment occurred mainly among the young (16 to 24 year olds). Despite the fall in unemployed, the claimant count (Jobseeker's allowance) increased to 1.52 million.
- The Federal Reserve maintained the US base rate at 0.25%. The US unemployment rate, an important factor in determining market sentiment, has decreased over the year as whole from 9.7% to 9.1%. The unemployment rate had fallen to 8.8% in April 2011 before creeping back up. The US trade deficit widened over the year to over $50 billion.
- The European Central Bank ("ECB") has raised interest rates from 1.25% to 1.5% in a bid to curb inflation and signalled further potential rate rises, despite faltering growth in southern Europe and the crisis facing the peripheral European Government bond markets. The ECB is becoming increasingly concerned about the rate of inflation, which has risen from 2.2% to 2.7% during 2011.
- Sterling strengthened by 7.3% against $US due but weakened against the Euro despite widespread economic woes in the periphery Eurozone countries, such as Greece and Ireland. Sterling also depreciated against the Yen as the Japanese repatriated its currency following the tsunami in Q1 2011.
- The Irish and Portuguese governments have followed their Greek counterpart cap in hand to the ECB to request a bailout. The Greek government passed stringent austerity measures despite fierce protests from its citizens and narrowly avoided defaulting by managing to roll over its current debt into longer term obligations. Many commentators believe that the current measures have just moved the default "down the road".

- The hard line interest rate policy of the ECB does contain risks, and has had an impact on Italian and Spanish government debt increasing yields to 5.3% and 5.7% respectively. Public debt in Italy is the world's third largest, at €1.84 trillion, and the rise in yields has begun to attract unwelcome attention from investors. There has also been much speculation that the Spanish may join the line behind Greece, Ireland and Portugal.
- The Japanese earthquake and ensuing tsunami, whilst first and foremost a human tragedy, unnerved markets in Q1 2011. Japan is responsible for the manufacture of many components, particularly in the automotive and technology industries, and the "just in time" nature of these industries meant that the destruction to component plants in Japan had a knock on effect on production around the globe.
- Economic growth in emerging markets fell to the lowest level in two years in the second quarter, as tightening monetary policies against the background of increasing inflationary pressures resulted in a slowdown in output growth. Rising finished goods inventories and falling export orders in emerging market countries such as South Korea and China, are likely to force companies to reduce further levels of production. The "knock-on" impact may lead to slower growth over 2011.

Equities

- Although equities have been extremely volatile, they have produced strong absolute returns over the year to 30 June 2011. Europe (ex UK) has led the way, in Sterling terms, despite the problems facing it, with the UK market in second place. The US, Asia Pacific and emerging markets all produced strong absolute returns whilst the Japanese market struggled on the back of the earthquake.
- Equity performance was driven by better than expected corporate profitability and increased investor risk appetite.

Fixed Interest

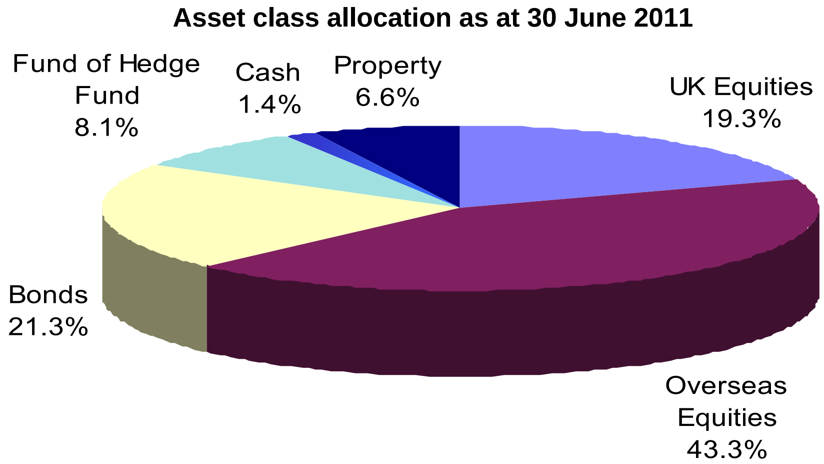
- The European debt crisis continues to dominate the headlines and the two major ratings agencies have downgraded Greece to junk bond status. The ECB's decision to raise interest rates to 1.5% is a further blow to the southern European peripheral economies, which shows the ECB is more concerned about fighting inflation than holding down borrowing costs for embattled governments. Portuguese government bonds have also been cut to "junk bond" status and the yields on Italian and Spanish government bonds have increased significantly.
- Gilts produced a positive return over the year but underperformed corporate bonds due to the increase in risk appetite. Long dated gilts produced a return of 2.8% over the year compared to 4.3% for long dated corporate bonds.
- Index-linked fixed interest assets produced a return of 9.7% over the year. Inflation remains a concern with the Bank of England unlikely to increase interest rates, despite inflation remaining more than 2% above the Bank of England's target.

Alternative Asset Classes

- Commodities produced a 17.5% return over the year. The price of gold continued its ever increasing upward trend while foodstuffs, such as coffee and sugar, also rose.
- Commercial property continued its upward trend over the last few months, with rental income the main driver of performance.
- Hedge funds produced a strong absolute return over the year but lagged equities.

Section Three – Fund Valuations

- The chart and table below show the asset allocation of the Fund as at 30 June 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	30 June 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	521,128	19.3	18.0
Overseas Equities	1,167,428	43.3	42.0
Bonds	576,055	21.3	20.0
Fund of Hedge Funds	218,915	8.1	10.0
Cash (including currency instruments)	38,737	1.4	-
Property	178,605	6.6	10.0
Reconciling differences and rounding	0	0.0	-
TOTAL FUND VALUE	**2,700,868**	**100.0**	**100.0**

Source: Data provided by WM Performance Services

- The value of the Fund's assets rose by £42m over the second quarter of 2011 to £2,701m, as a result of positive absolute investment performance from most funds. Bonds produced the highest return over the quarter at 2.9%. Equities and property were also positive contributors. Equities comprise approximately 63% of the Fund's investments.
- In terms of asset allocation, changes seen over the quarter include:
  - 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 21% to 18%, and increased for overseas equities from 39% to 42%.

  - This new strategic benchmark was implemented by the appointment of Schroders, the Fund's new global equity manager. This completes the changes to the strategic asset allocation.
  - 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 March 2011 Value £'000	31 March 2011 Proportion of Total %	Net New Money £'000	30 June 2011 Value £'000	30 June 2011 Proportion of Total %
Jupiter	UK Equities	109,260	4.1	-	113,139	4.2
TT International	UK Equities	132,073	5.0	-	134,814	5.0
Invesco	Global ex-UK Equities	169,742	6.4	-	170,252	6.3
Schroder	Global Equities	-	-	148,204	150,254	5.6
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	91,405	3.4	-	92,493	3.4
Genesis	Emerging Market Equities	147,096	5.5	-	147,493	5.5
Lyster Watson	Fund of Hedge Funds	9,582	0.4	-	9,257	0.3
MAN	Fund of Hedge Funds	100,418	3.8	-	97,554	3.6
Signet	Fund of Hedge Funds	47,225	1.8	-	47,157	1.7
Stenham	Fund of Hedge Funds	11,665	0.4	-	11,436	0.4
Gottex	Fund of Hedge Funds	53,490	2.0	-	53,578	2.0
BlackRock	Passive Multi-asset	1,390,146	52.3	-150,267	1,267,555	46.9
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	79,793	3.0	-3,450	77,531	2.9
RLAM	Bonds	131,992	5.0	-	134,650	5.0
Schroder	UK Property	120,487	4.5	910	126,415	4.6
Partners*	Property	53,129	2.0	2,450	54,692	2.0
Internal Cash*	Cash	11,115	0.4	2,153	12,597	0.5
Rounding		-1	0.0	-	-1	0.0
TOTAL		**2,658,617**	**100.0**	**-**	**2,700,868**	**100.0**

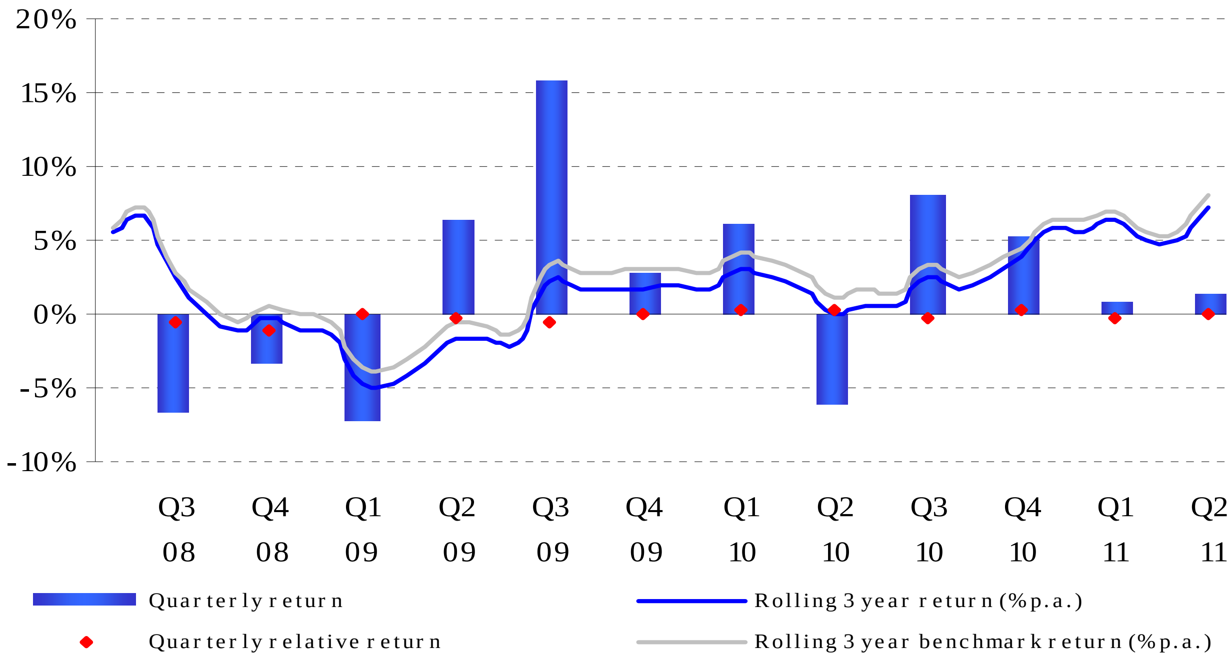
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter. * Cashflows includes one transaction which has been converted to GBP

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

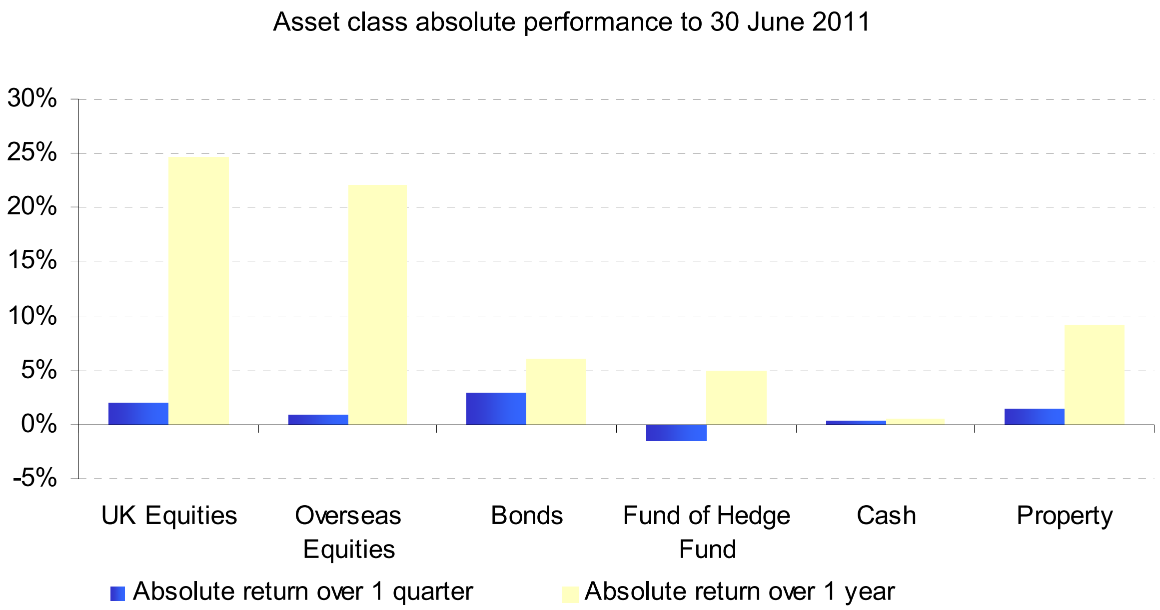


Source: Data provided by WM Performance Services

- Over the last quarter (blue bars) the total Fund's assets produced a return of 1.5%, performing in line with the customised benchmark.
- Over the last year (not shown above) the total Fund's assets produced a positive return of 16.5%, marginally underperforming the customised benchmark by 0.2%.
- Over the last 3 years (blue versus grey line), the total Fund's assets produced a positive return of 7.2% 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 a large number of the Fund's managers. Only the fund of hedge fund managers produced negative absolute returns, the exception in this asset class being Gottex whose return was positive.
- The Fund performed in line with its benchmark over the quarter. There were positive relative performances from a number of managers, most notably Jupiter, SSgA Europe, Genesis and the newly appointed Schroder unconstrained equity. However, relative underperformances came from all the fund of hedge fund managers, which reflects the difficult environment and also the fact that their benchmarks are cash plus benchmarks.

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 30 June 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 second quarter of 2011, all asset classes produced positive absolute returns except fund of hedge funds.
- The key drivers of absolute performance are:
  - UK and overseas equity markets produced returns of 2.0% and 0.9% respectively.
  - Sterling depreciated against the Euro and the Yen over the quarter, meaning a higher return on the Euro and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Dollar, meaning a lower return on the Dollar denominated overseas equities in sterling terms. The majority of equity markets produced negative returns for the quarter in local currency terms; the only exception to this was the US whose return was marginally positive. The lowest return came from the emerging markets region.
  - Bonds produced positive absolute returns of 2.9% over the quarter. This is due to UK, UK Index-Linked and Overseas bonds all producing positive absolute returns.
  - The fund of hedge fund portfolio produced a negative return of 1.5% over the quarter.
  - Property portfolio generated a positive return over the quarter of 1.4%.
- The table overleaf shows the returns from major asset class indices over the quarter and year to 30 June 2011.

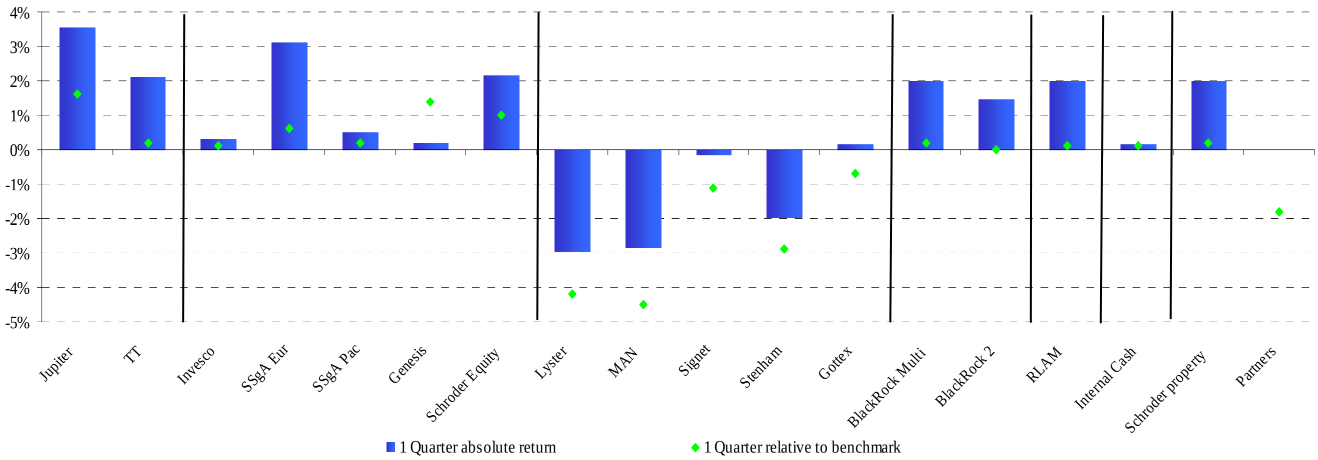
Asset Class	Weight in Strategic Benchmark	Q2 2011 (index returns)	1 year (index returns)
UK Equities	18%	1.9%	25.6%
Overseas Equities	42%	0.2%	21.5%
Index Linked Bonds *	6%	4.0%	8.9%
Gov Bonds – Fixed *	14%	2.5%	3.1%
Corporate Bonds *		1.7%	6.2%
Hedge Funds	10%	-0.4%	12.5%
Property	10%	2.1%	9.1%
Total 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 June 2011. The relative quarter and one year returns are marked with green and blue dots respectively. Please note, the quarterly return for Schroder Equity represents the period from inception, 20 April 2011, to the end of the quarter.
- Please note that due to data timing issues, from this quarter onwards Partner's returns and values will be lagged by a quarter and therefore reflect the previous quarters returns and values. As this is the first quarter we have done this – this quarter will have the same start and end values (plus any cash investments made) and the quarter's return is zero. This also impacts Partner's annual return figure in this report.

Absolute and relative performance - quarter to 30 June 2011



Absolute and relative performance - year to 30 June 2011

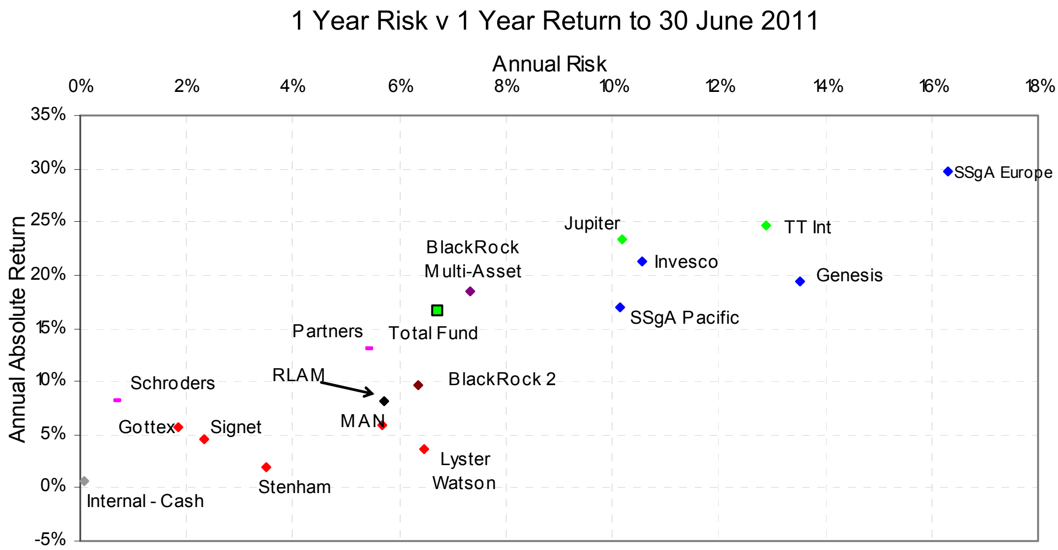
Source: Data provided by WM Performance Services

- The Fund's Investment managers produced mixed returns over the quarter. The Fund's fund of hedge fund managers mostly produced negative absolute returns, the only exception to this was Gottex whose return was positive in absolute terms. The remaining managers for the Fund produced positive absolute returns. Over the quarter, the strongest absolute performance came from Jupiter, producing a return of 3.5%.

- In relative terms, it was again Jupiter who performed the best over the quarter, outperforming their benchmark by 1.6%. The worst relative performance came from MAN who underperformed their benchmark by 4.4%.
- Over the year, all absolute returns were positive. In absolute terms the strongest performance came from SSgA Europe. In relative terms, the top performer was Partners.

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

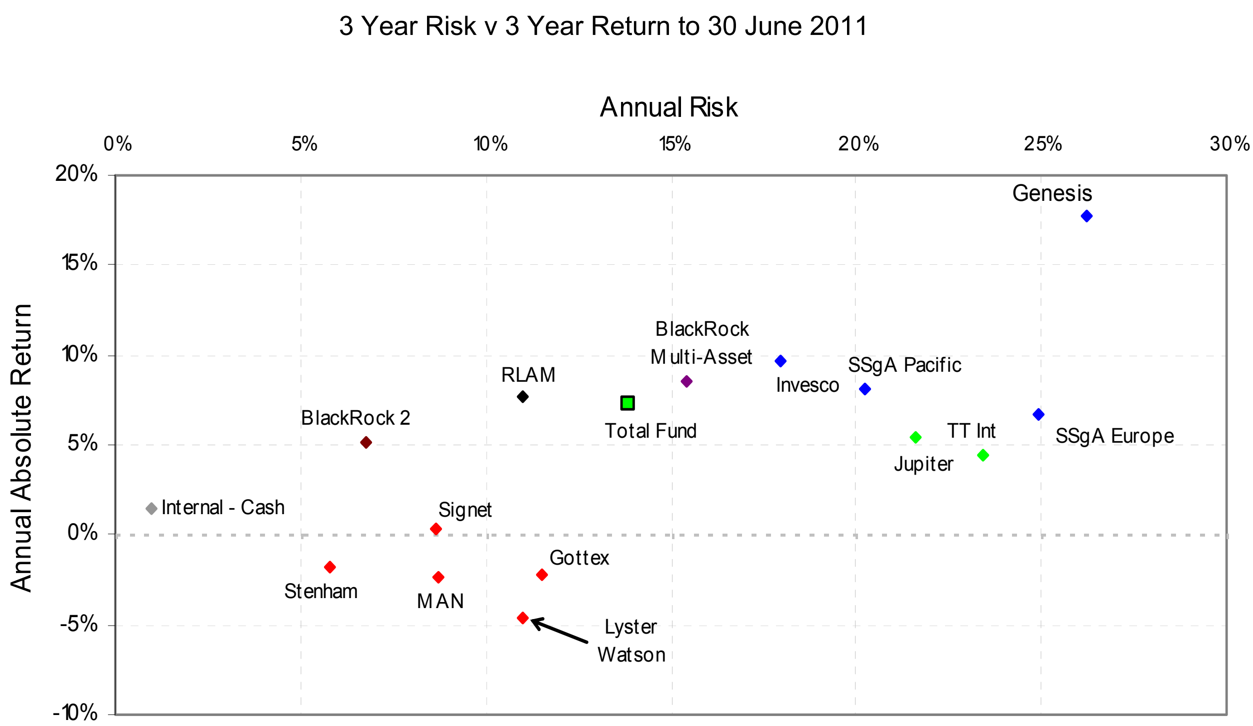


Source: Data provided by WM Performance Services

- The managers are colour coded by asset class, as follows:

  - Green: UK equities
  - Red: fund of hedge funds
  - Maroon: multi-asset
  - Grey: internally managed cash
  - Green Square: total Fund
  - Blue: overseas equities
  - Black: bonds
  - Brown: BlackRock No. 2 portfolio
  - Pink: Property

- The volatility of returns over the year has broadly decreased from the previous quarter. There were however three funds whose volatility increased, those being RLAM, Lyster Watson and Partners. However, this was not by a significant amount and is within the parameters expected for each mandate.
- The returns from the fund of hedge funds are generally unchanged (around the left of the chart), however the volatility of Lyster Watson has increased over the quarter and has moved to the right on the chart.
- Most notable risk-adjusted returns came from SSgA Europe, TT International and Jupiter over the one year. The comparatively high volatility shown by TT reflects the more concentrated nature of their portfolio. The return from SSgA Europe represents somewhat of a bounce following the difficult circumstances in Europe at the beginning of the period.
- 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.



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 portfolios.
- The improvement in the 3 year annual absolute return for Jupiter has continued along with several other equity funds, whilst the risk has remained at a similar level. A difficult quarter for the fund of hedge funds has resulted in a fall in returns whilst risk has remained at a similar level. This has partially offset the improvement in equity returns thus only a moderate improvement in the risk adjusted return of the overall Fund.
- 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, despite these making up a large proportion of the total assets. The total Fund volatility saw a small decrease over the quarter.

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

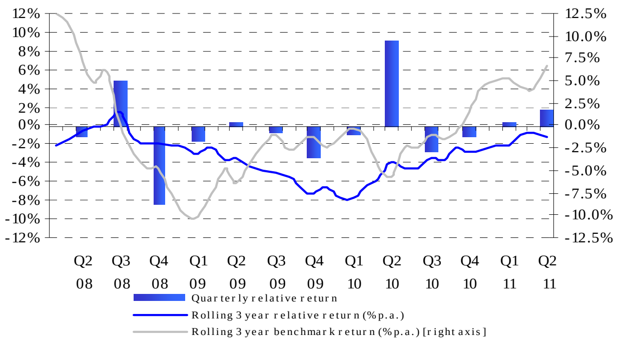
- We have not identified any significant issues with the performance of the active investment managers and have no concerns with investment into any of the active managers for rebalancing purposes. As noted last quarter, the review of the fund of hedge fund allocation is now complete and changes as a result of this change will be shown in future reports as they are implemented. The implementation of the newly appointment global unconstrained equity manager was completed in Q2 2011. The appointment of an active currency hedging manager was also concluded during Q2 2011, although the mandate had not commenced as at the end of the quarter. New investment with Jupiter should continue to be subject to discussion whilst the review of the Fund's policy to SRI and ESG issues is under review.
- UK Equity Funds:
  - Jupiter outperformed their benchmark over the quarter by 1.6%. The Fund produced strong risk-adjusted returns for the year ended 30 June 2011.
  - TT International outperformed its benchmark over the quarter; over the one year to 30 June 2011, the Fund underperformed its benchmark. The Fund continues to be overweight in Consumer services and Basic Materials, with underweight positions to Financials and Utilities.
- The newly appointed unconstrained global equity manager, Schroder, produced a positive absolute and relative return during the short period from inception to 30 June 2011.
- Non-UK Enhanced Indexation Funds: Both SSgA Enhanced Indexation funds outperformance relative to their respective benchmarks over the quarter. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds. Invesco marginally outperformed its benchmark over the quarter. Over the one year performance was in line with its benchmark. We note however that Invesco's relative performance can be affected by 'timing' differences in the pricing of their Fund compared to their benchmark.
- Emerging Markets: Genesis outperformed their benchmark over the quarter and produced a positive absolute return, despite the benchmark return being negative.
- Fund of Hedge Funds:
  - Lyster Watson produced negative absolute and relative returns of -3.0% and -4.2% respectively. Following completion of the Fund's change to the fund of hedge funds portfolio, Lyster Watson is due to be removed from the portfolio.
  - Man produced a negative relative return of 4.4%, producing an absolute return of -2.9%.
  - Signet produced a negative relative return over the quarter, underperforming their benchmark by 1.1%. In absolute terms, Signet produced a return of -0.2%.
  - Stenham Asset Management produced a negative relative return for the quarter, 2.9% behind their benchmark, with an absolute return of -2.0%.

- Gottex underperformed their benchmark over the quarter by 0.8%, producing an absolute return of 0.2%. Gottex were the only fund of hedge fund manager to produce a positive absolute return over Q2 2011.
- Hedge funds continued to underperform equities for the fourth consecutive calendar quarter, which is to be expected following the market rally after negative equity in returns during Q2 2010.
- Of the five fund of hedge fund managers Gottex and Signet were ahead of their benchmarks over the year to 30 June 2011.

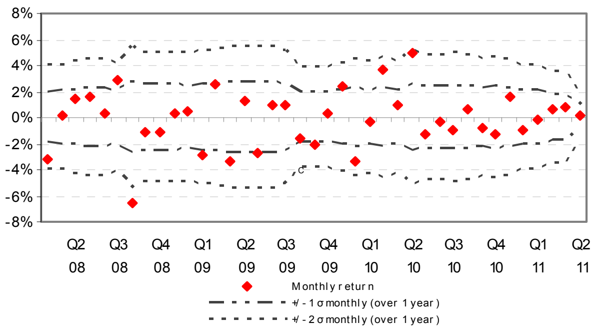
* BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios.
* Fixed Interest: RLAM outperformed the benchmark in the last quarter by 0.1%. In absolute terms, RLAM produced a return of 2.0%. There are no notable changes in the risk profile of this fund.
* Property: Performance of the Schroder property fund over the quarter was positive in both absolute and relative terms. See note on page 18 for explanation of a change in performance reporting of the Partners fund. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Schroder and Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for each of these two managers, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

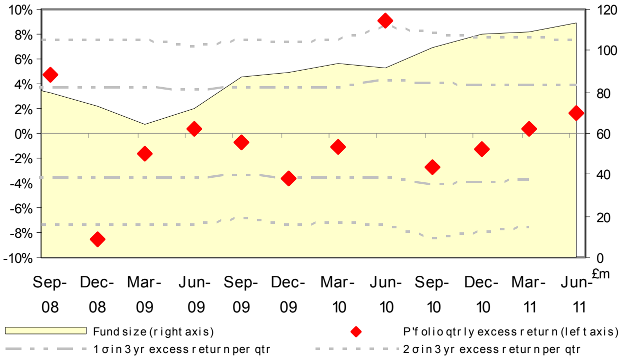
Relative returns [#1]



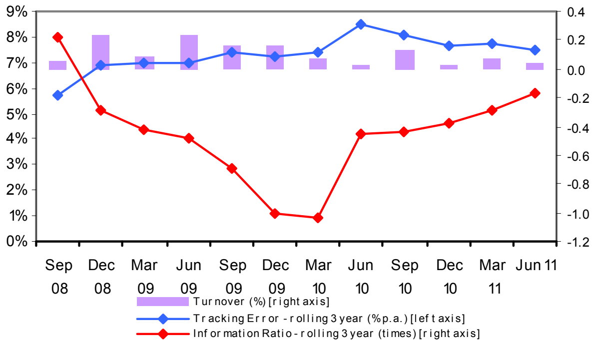
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



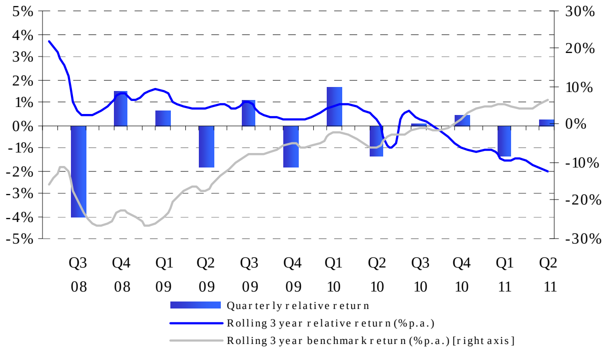
Source: Data provided by WM Performance Services, and Jupiter

Comments:

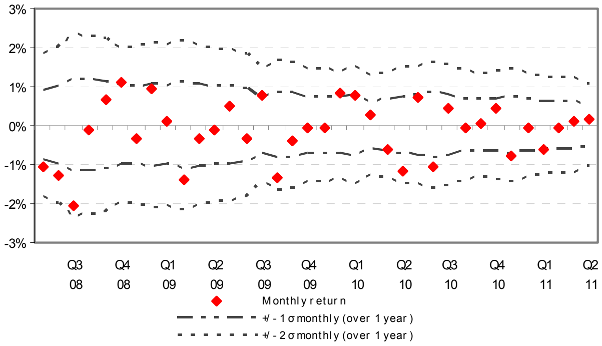
- Over the last quarter, the Fund outperformed the benchmark by 1.6%, producing an absolute return of 3.5%.
- Over the last year, the Fund underperformed the benchmark by 2.2%, producing an absolute return of 23.4%. Over the last 3 years, the Fund underperformed the benchmark by 1.2% p.a., producing an absolute return of 5.4% p.a.
- The Fund's allocation to Cash (5.2%) marginally reduced compared to the preceding quarter (5.5%).
- 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 Q2 2011, Jupiter were significantly underweight Basic Materials, Oil and Gas, Consumer Services and Financials, with significantly overweight positions in Industrials, Consumer Goods and Utilities.

TT International – UK Equities (Unconstrained)

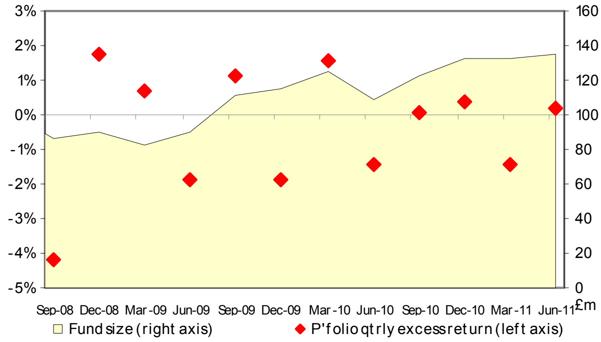
Relative returns #1



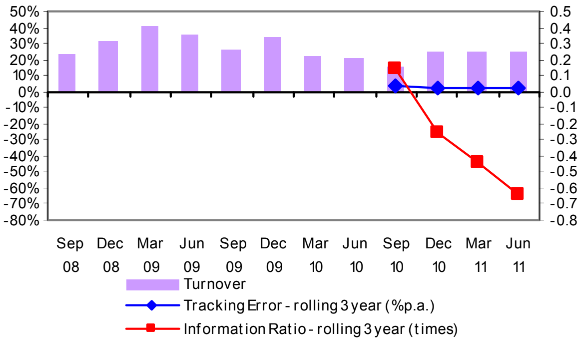
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



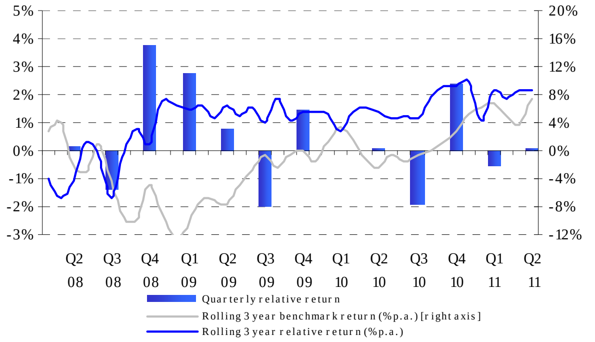
Source: Data provided by WM Performance Services, and TT International

Comments:

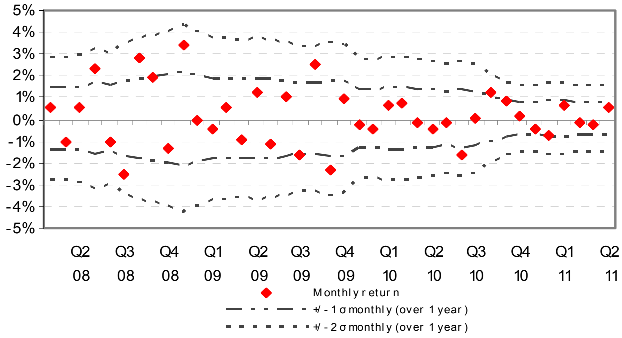
- Over the last quarter the Fund outperformed the benchmark by 0.2%, producing an absolute return of 2.1%.
- Over the last year, the Fund underperformed the benchmark by 1.0%, producing an absolute return of 24.6%. Over the last three years, the Fund underperformed the benchmark by 2.1% p.a., producing an absolute return of 4.5% p.a.
- The Fund continues to maintain its overweight position in Consumer Services and Basic Materials by 4.9% and 4.2% respectively, and is underweight to Financials and Utilities by 8.5% and 3.8% 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 24.2% has remained in line compared to the previous quarter turnover of 25.1%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the quarter. The 3 year information ratio (risk adjusted return), fell slightly from -0.4% to -0.6%.
- 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)

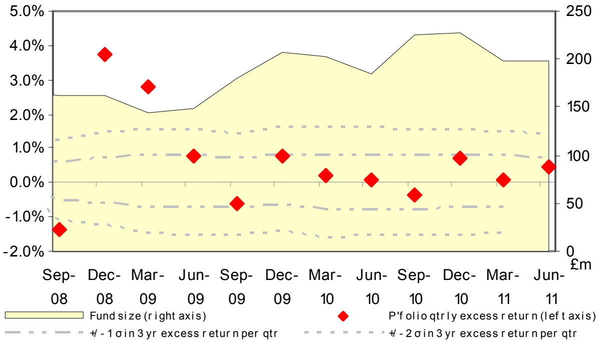
Relative returns #1



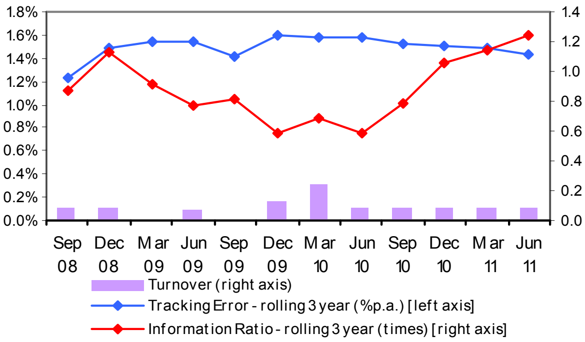
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



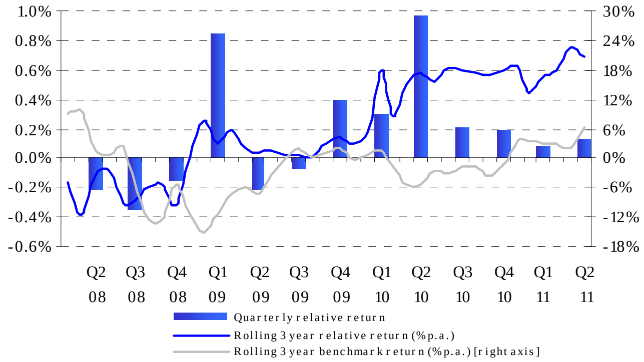
Source: Data provided by WM Performance Services, and Invesco

Comments:

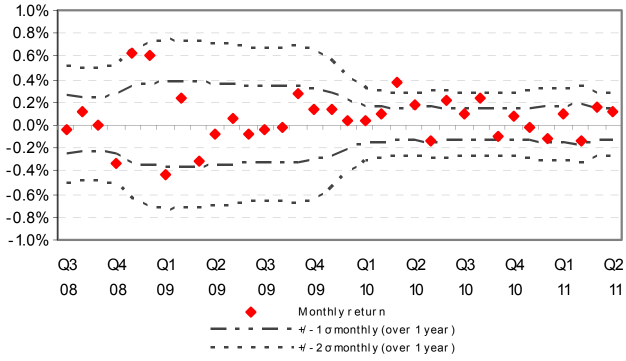
- Over the last quarter the Fund outperformed its benchmark by 0.1%, producing an absolute return of 0.3%.
- Over the last year, the Fund performed in line with its benchmark, producing an absolute return of 21.3%. Over three years, the Fund outperformed, by 2.1% p.a., producing an absolute return of 9.6% p.a.
- Over the last quarter, stock selection, industry selection and style selection were all positive contributors. Country selection and active currency 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 marginally reduced over the quarter from 417 to 412.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were within +/- 1% of benchmark weightings as expected from this mandate.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

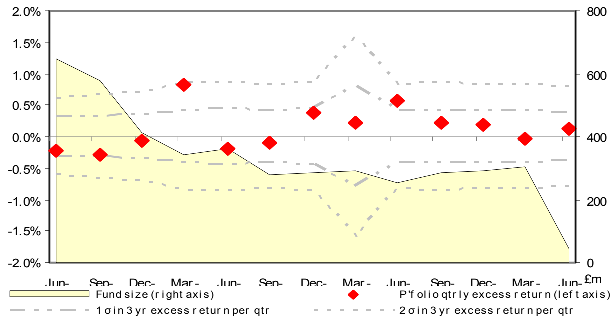
Relative returns [#1]



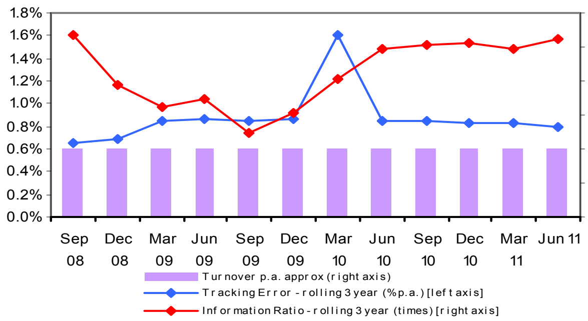
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



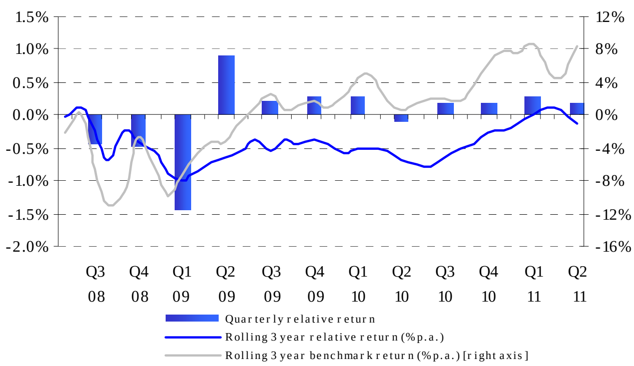
Source: Data provided by WM Performance Services, and SSgA

Comments:

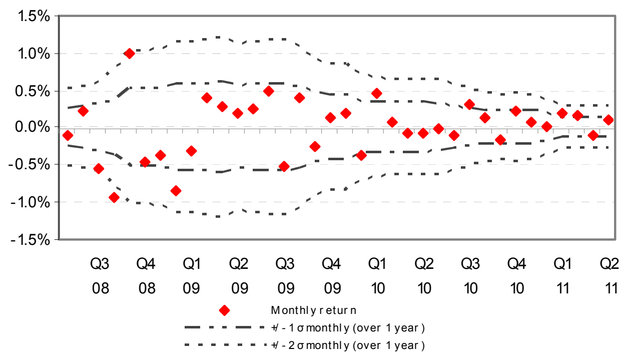
- Over the last quarter the Fund outperformed the benchmark by 0.6%, producing an absolute return of 3.1%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of 29.7%. Over the last 3 years, the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of 6.7% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. This was due to one of SSgA's largest investors in this fund withdrawing their assets as part of a strategic review.
- The volatility of monthly relative returns has remained in the narrower band experienced since Q1 2010. 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 decreased over the quarter. The tracking error has slightly increased over the last quarter.
- This has typically been seen as a suitable fund for contributions or investment if rebalancing is required into active overseas equities. However, performance should be monitored closely in light of the recent large drop in the size of the pooled fund. There is no reason to suggest this in itself will lead to a deterioration in performance, and Avon's share of the pooled fund is now similar to that for the Pacific enhanced indexation fund.

SSgA – Pacific incl. Japan Equities (Enhanced Indexation)

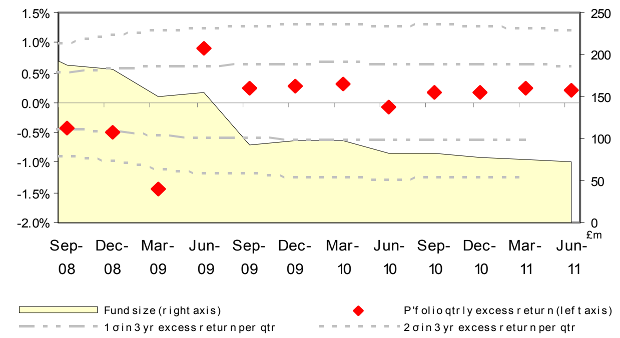
Relative returns [#1]



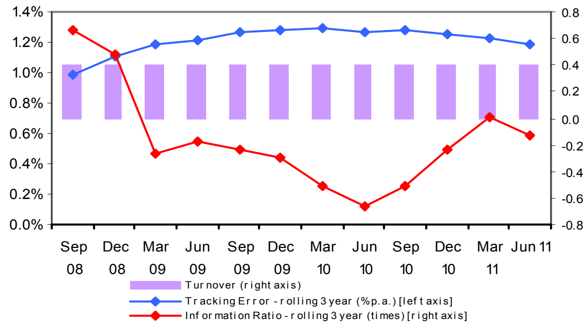
Monthly relative returns [#2]



Performance v fund size [#3]



Tracking error, Information ratio, Turnover [#4]



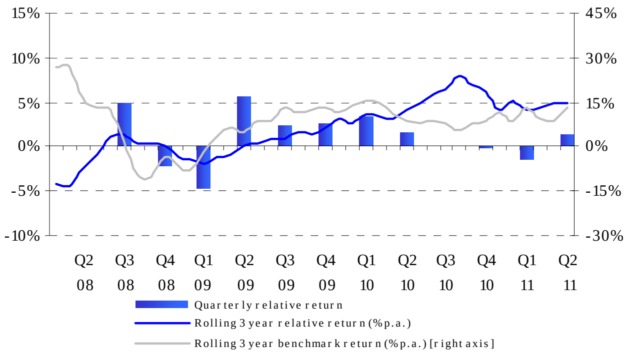
Source: Data provided by WM Performance Services, and SSgA

Comments:

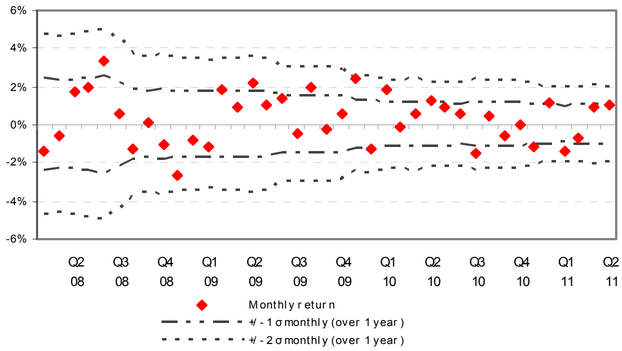
- Over the last quarter, the Fund outperformed the benchmark by 0.2%, producing an absolute return of 0.5%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of 16.9%. Over the last 3 years, the Fund underperformed the benchmark by 0.1% p.a., producing an absolute return of 8.2% p.a.
- 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

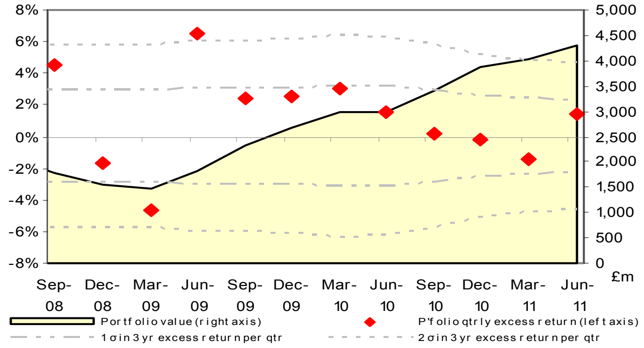
Relative returns #1



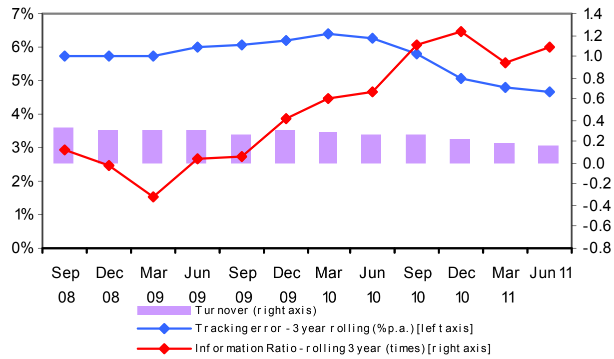
Monthly relative returns #2



Performance v fund size #3



Tracking error, Information ratio, Turnover #4



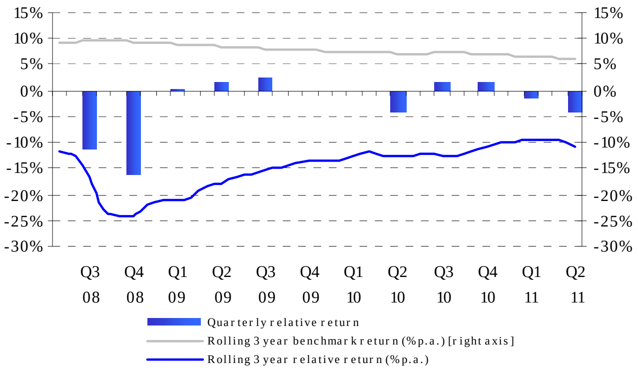
Source: Data provided by WM Performance Services, and Genesis

Comments:

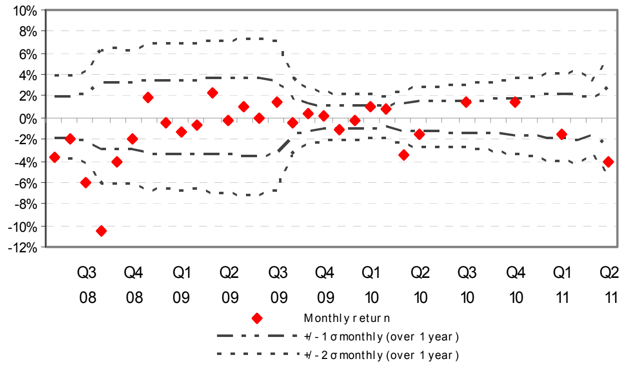
- Over the last quarter the Fund outperformed the benchmark by 1.4%, producing an absolute return of 0.2%.
- Over the last year, the Fund performed in line with the benchmark, producing an absolute return of 19.4%. Over the last 3 years, the Fund outperformed the benchmark by 4.8% p.a., producing an absolute return of 17.8% 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) remained broadly consistent over the latest quarter. The 3 year information ratio (risk adjusted return), rose slightly from 0.9% to 1.1%.
- On an industry basis, the Fund is now overweight to Health Care (+8.0%), Consumer Staples (+2.5%) and Telecom Services (+2.5%). The Fund is underweight to Energy (-5.6%), Consumer Discretionary (-4.5%) and Industrials (-2.2%).

Lyster Watson Management Inc – Fund of Hedge Funds

Relative returns [#1]

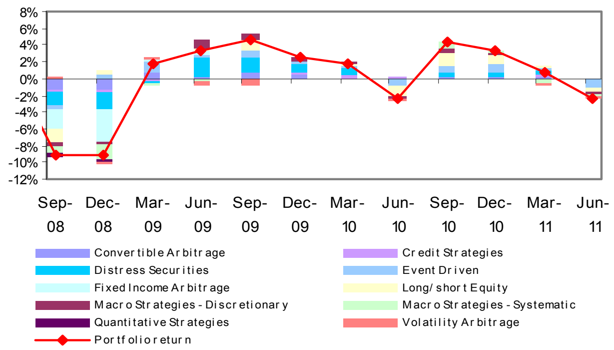


Monthly / Quarterly relative returns [#2]

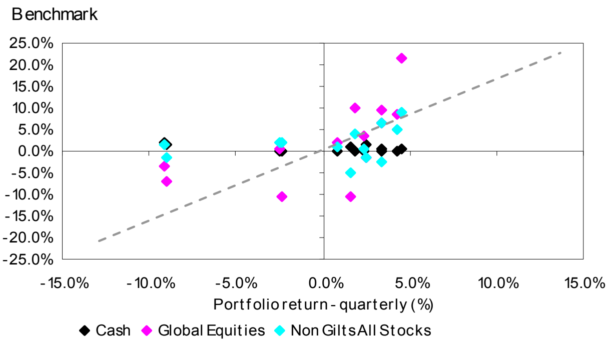


Note that returns after Q2 2010 above are quarterly returns.

Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



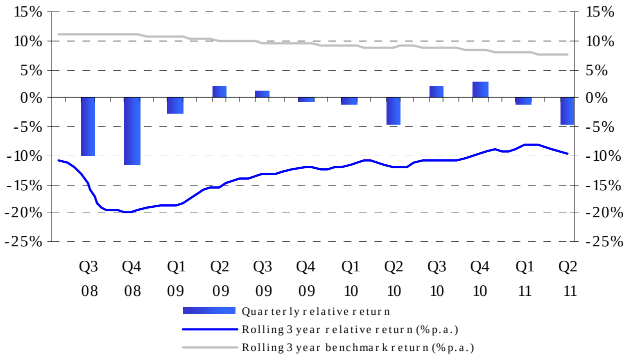
Source: Data provided by WM Performance Services, and Lyster Watson

Comments:

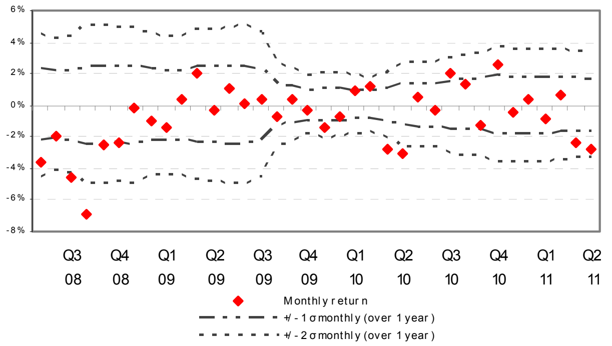
- Over the last quarter, the Fund underperformed the benchmark by 4.2%, producing an absolute return of -3.0%.
- Over the last year, the Fund underperformed the benchmark by 2.9%, producing an absolute return of 3.6%. Over the three year period, the Fund underperformed the benchmark by 10.9% p.a., producing an absolute return of -4.6% p.a.
- 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 the portfolio in due course.

MAN – Fund of Hedge Funds

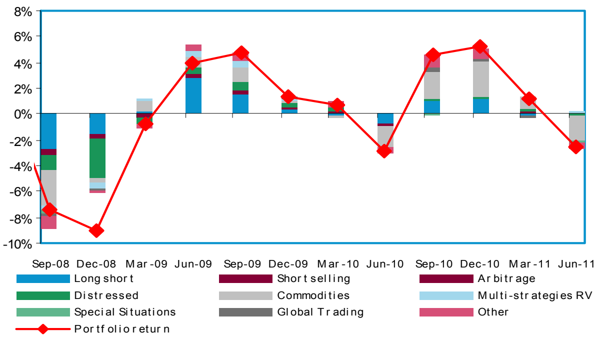
Relative returns #1



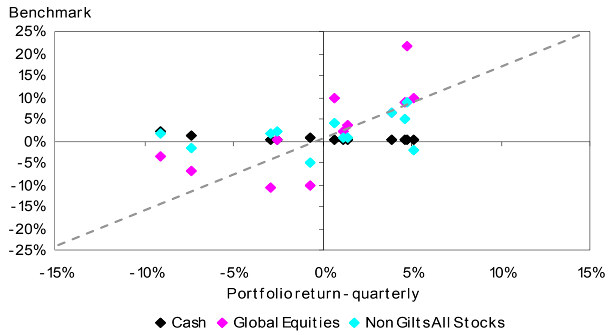
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



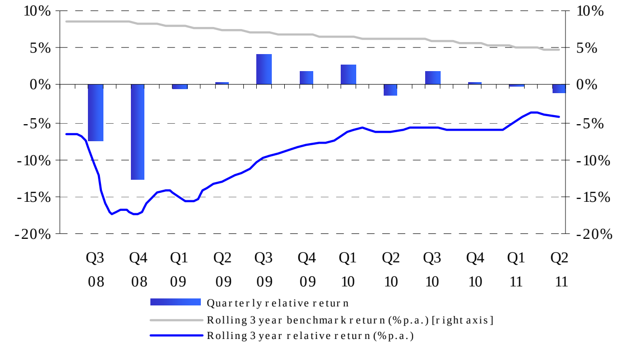
Source: Data provided by WM Performance Services, and MAN

Comments:

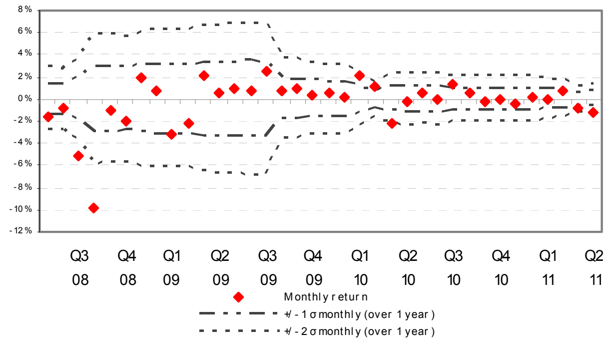
- Over the last quarter, the Fund underperformed the benchmark by 4.4%, producing an absolute return of -2.9%.
- Over the last year, the Fund underperformed the benchmark by 0.7%, producing an absolute return of 5.9%. Over the last 3 years, the Fund underperformed the benchmark by 9.8% p.a., producing an absolute return of -2.4% p.a.
- The key drivers of the negative performance were the high allocations to Commodities and Long / Short strategies, which produced negative returns, except for the Long / Short Asia Pacific and US strategies, which produced, positive returns.
- The Fund continues to hold a diverse exposure to hedge fund strategies, with the largest allocations to Long / Short and Commodities strategies, making up 66.6% of the fund.
- 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 will be reduced. Updates will be provided in future reports.

Signet – Fund of Hedge Funds

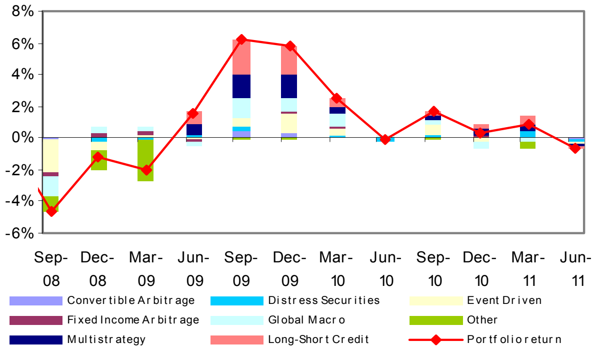
Relative returns [#1]



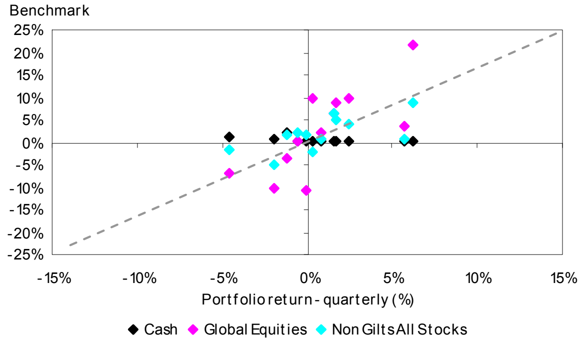
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



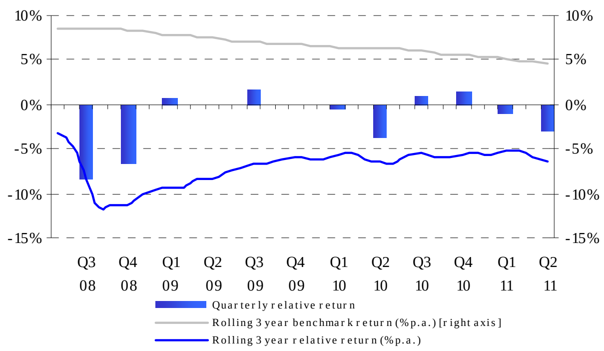
Source: Data provided by WM Performance Services, and Signet

Comments:

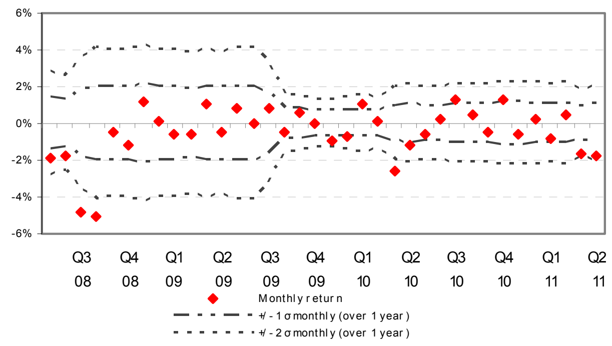
- Over the last quarter, the Fund underperformed the benchmark by 1.1%, producing an absolute return of -0.2%.
- Over the last year, the Fund outperformed the benchmark by 0.9%, producing an absolute return of 4.6%. Over the 3 year period, the Fund underperformed the benchmark by 4.3% p.a., producing an absolute return of 0.4% 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

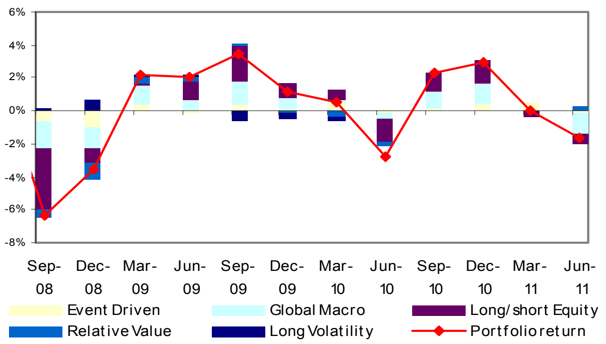
Relative returns [#1]



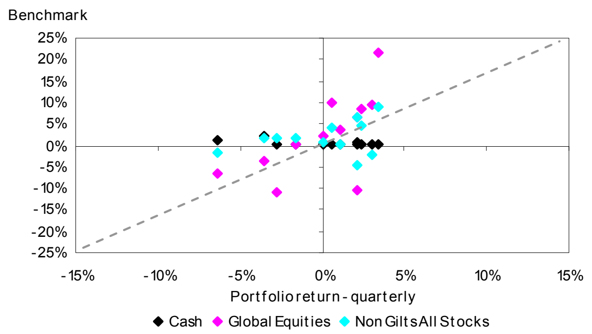
Monthly relative returns [#2]



Hedge fund strategies and source of return [#6]



Correlation with indices [#7]



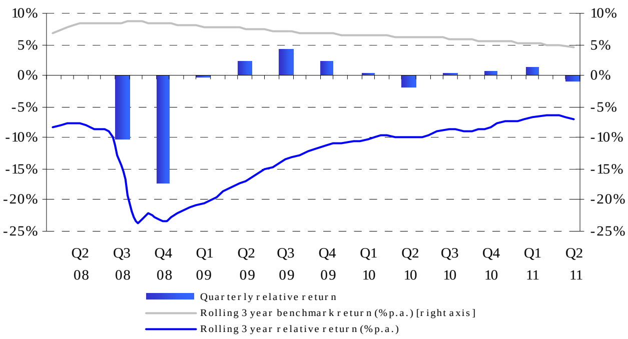
Source: Data provided by WM Performance Services, and Stenham

Comments:

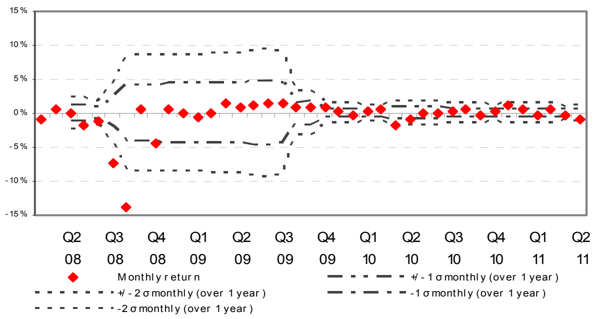
- Over the last quarter, the Fund underperformed the benchmark by 2.9%, producing an absolute return of -2.0%.
- Over the last year, the Fund underperformed the benchmark by 1.9%, producing an absolute return of 1.9%. Over the last 3 years, the Fund underperformed the benchmark by 6.4% p.a., producing an absolute return of -1.8% p.a.
- Long/Short Equity, Global Macro and Event Driven strategies were the main contributors to the negative absolute return. Relative value strategies contributed positively.
- The allocation to the Global Macro and Long / Short Equity strategies made up 69.0% of the total Fund allocation. The allocation to Event Driven strategies marginally rose from 17.0% to 18.0% 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

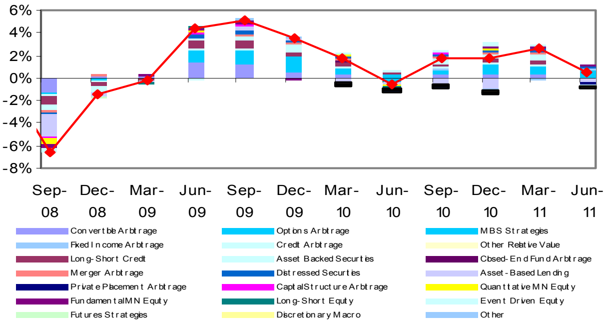
Relative returns #1



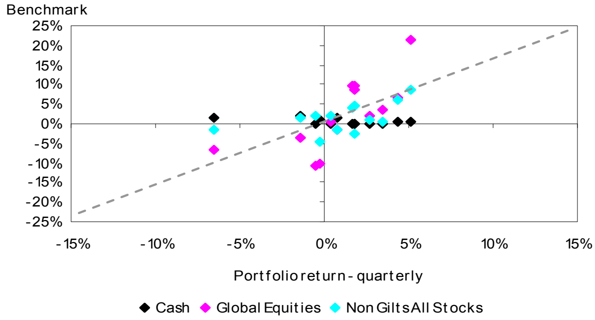
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



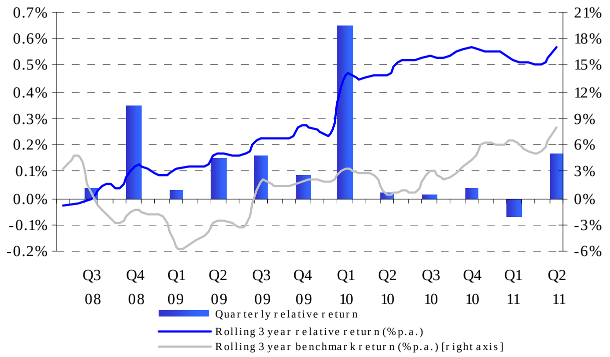
Source: Data provided by WM Performance Services, and Gottex

Comments:

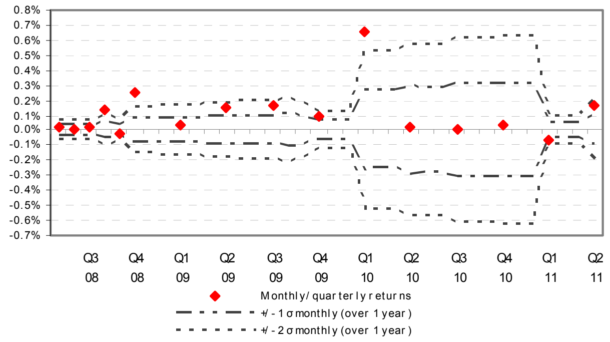
- Over the last quarter, the Fund underperformed the benchmark by 0.8%, producing an absolute return of 0.2%.
- Over the last year, the Fund outperformed the benchmark by 1.8%, producing an absolute return of 5.6%. Over the last 3 years, the Fund underperformed the benchmark by 6.8% p.a., producing an absolute return of -2.2% p.a.
- The key drivers of performance were MBS strategies, Fundamental Market Neutral Equity and Fixed Income Arbitrage. Performance for the quarter was negatively impacted by Asset-Backed lending and Event Driven Equity.
- 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. There were no significant changes to the strategy asset allocations in the fund, however, the allocations to Asset-Backed Securities decreased marginally, after a prolonged period of gradual increase.
- 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

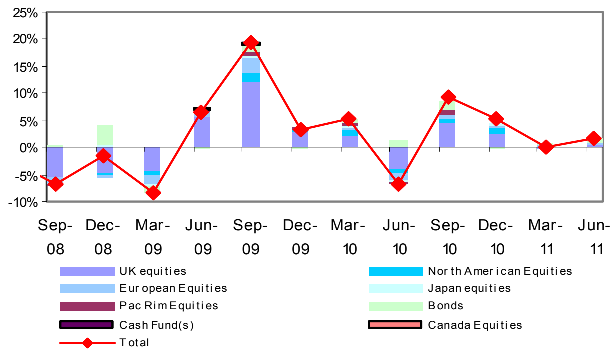


Monthly/Quarterly relative returns #2

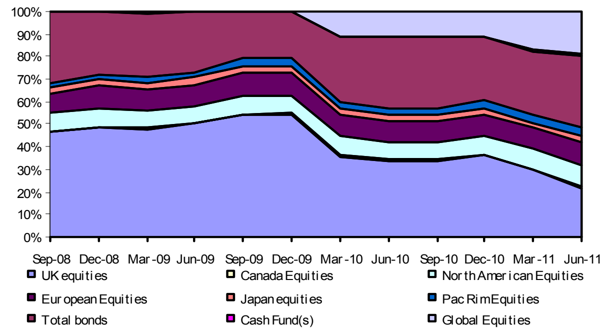


Note that returns after Q4 2008 above are quarterly returns.

Contribution to absolute return #6



Asset Allocation #5

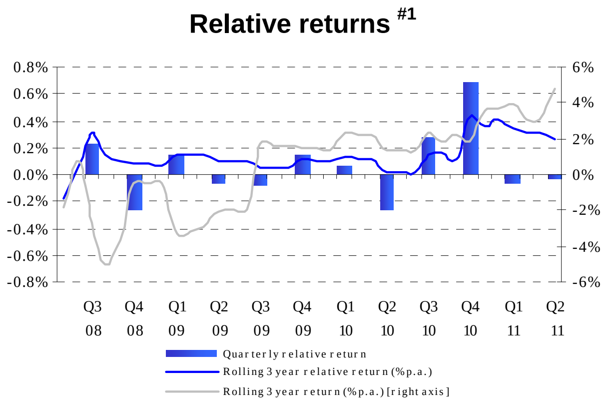


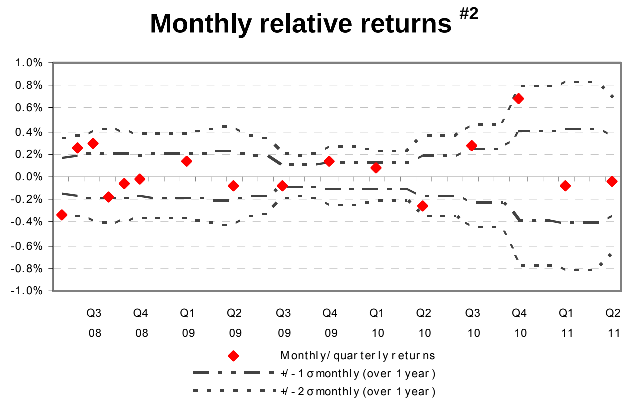
Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund has outperformed its benchmark by 0.2%, producing an absolute return of 2.0%.
- Over the last year, the Fund outperformed its benchmark by 0.2%, producing an absolute return of 18.4%. Over the last 3 years, the Fund outperformed the benchmark by 0.6% p.a., producing an absolute return of 8.5% p.a.
- Being a passive mandate, with a customised benchmark based on the monthly mean fund weights, there is nothing unusual arising in risk and performance.
- The magnitude of the relative volatility in the portfolio remains small.
- Allocations to UK equities reduced by 8.3%, the allocation to Global Equities has increased by 4.5% and to Bonds by 3.6 compared to Q1 2011. These changes are in line with the changes made to the total Fund strategic asset allocation.

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





Note that returns after Q4 2008 above are quarterly returns.

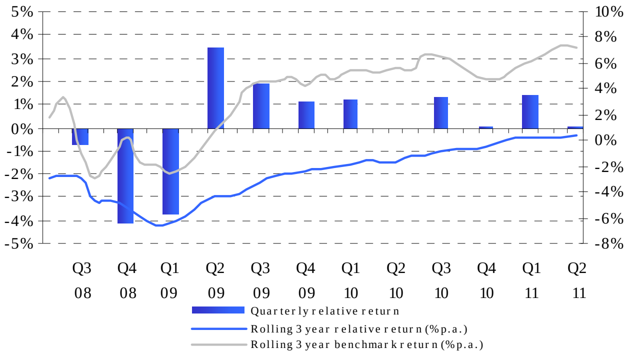
Source: Data provided by WM Performance Services, and BlackRock

Comments:

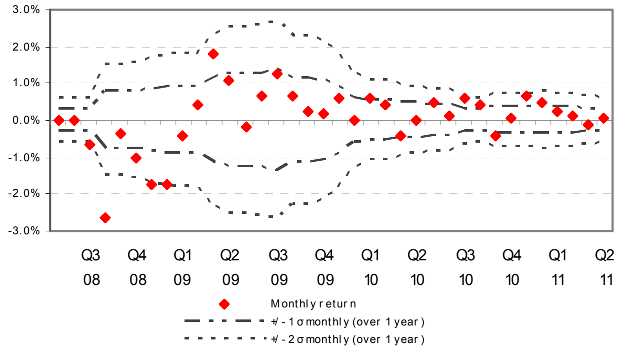
- Over the last quarter, the Fund marginally underperformed the benchmark by <0.1%, producing an absolute return of 1.5%.
- Over the last year, the Fund produced a return of 9.7%, outperforming the benchmark by 1.1%. Over a rolling 3 year period, the Fund produced an absolute return of 5.1% p.a., outperforming the benchmark return by 0.3% p.a.
- Over the quarter the Fund's holding in cash decreased by approximately 4%.
- Over the quarter, all asset classes except for US equities contributed positively to the performance. However, the negative contribution from US equities was not significant.

Royal London Asset Management – Fixed Interest

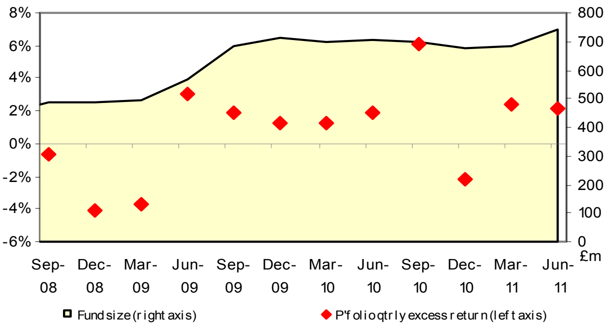
Relative returns #1



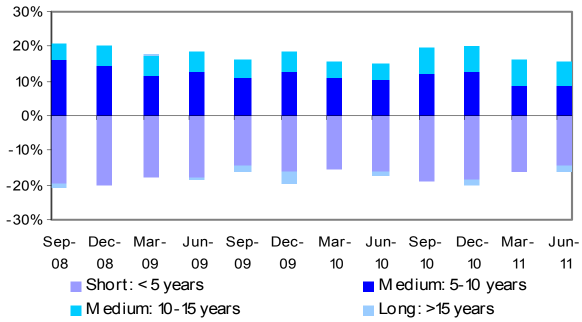
Monthly relative returns #2



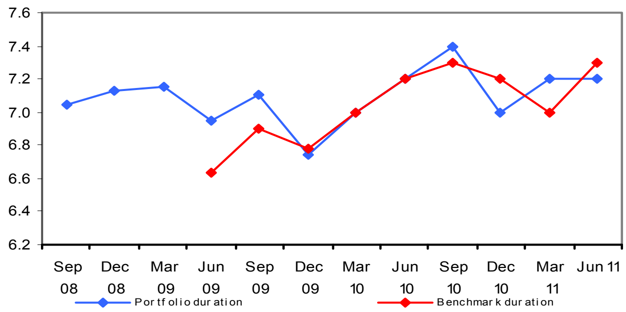
Performance v fund size #3



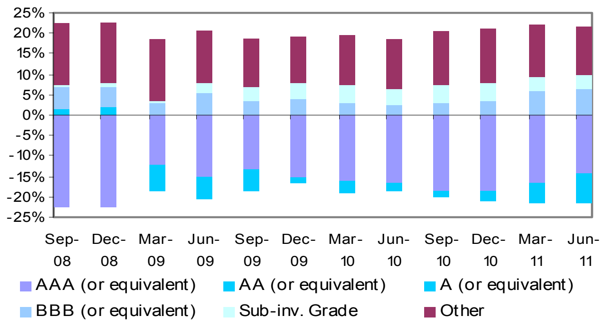
Relative Maturity exposure #8



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 0.1%, producing an absolute return of 2.0%.
- Over the last year, the Fund outperformed the benchmark by 3.0%, producing an absolute return of 8.2%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.4% p.a., producing an absolute return of 7.7% p.a.
- The Fund remains significantly underweight to AAA and to a lesser extent AA and A rated bonds, and overweight BBB and unrated bonds.
- The Fund continues to be considerably overweight in medium term maturity bonds, and underweight short maturity and long dated 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.

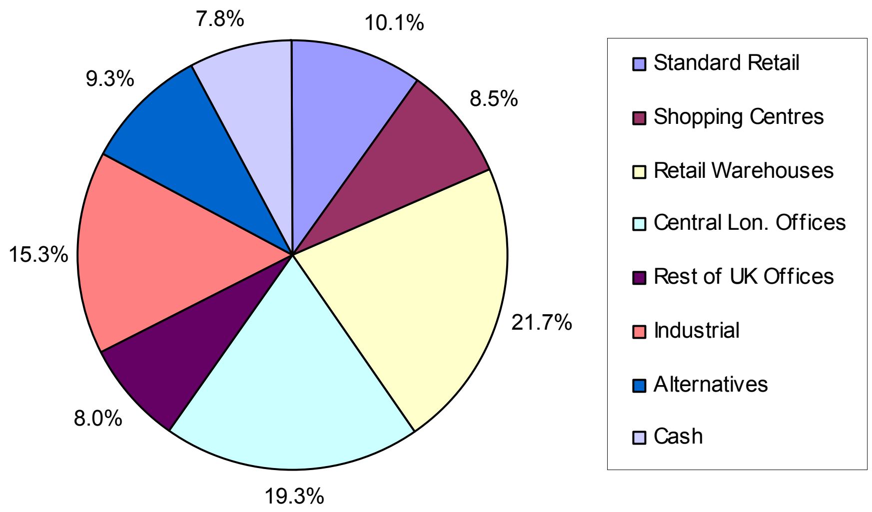
Portfolio update

A further £910,000 was drawn by Schroder over the quarter to 30 June 2011. This takes the aggregate figure drawn to date up to £108.9million, or 99% of the Fund's total commitment.

To date, the drawn down monies have been invested across 16 different underlying funds. Of these funds, 6 are "core" investments (comprising 61% of the total portfolio) and 10 are "value add" investments (the remaining 39% of the portfolio).

The investments in the funds noted above have resulted in a UK property portfolio that, as at 30 June 2011, was split between sectors as shown in the following chart.

Portfolio split by sector



In terms of relative positioning, the allocations above are, compared with the benchmark (the UK IPD Pooled Property Index), underweight standard retail (by 4.8%) and non-London offices (by 5.6%) and overweight in the other sectors. The most significant overweights are to central London offices (by 5.4%) and shopping centres (by 2.4%).

Schroder have an overweight position to Central London offices, and office rentals in this area rose by 5% in the first half of 2011 due to strong demand from international IT, legal and media companies.

Shopping centre rental values fell by 1-3% in the first half of 2011, which has been driven by a new wave of retailer insolvencies and store closures. Schroder state that this turmoil reflects the current squeeze on household incomes from tax increases and rising energy prices. There are other structural changes which Schroder believe to be at work, such as the growth of on-line sales which has added pressure to existing retailers. Additionally, poor sales mean that some retailers may be struggling to service their debts. Schroder maintain an underweight position to this part of the market.

The remaining equity is committed to existing investments (i.e. Columbus UK Real Estate Fund, Threadneedle Strategic Property Fund IV and the Real Income Fund). Once the investment is complete, Schroder may undertake some re-balancing to achieve their favoured sector weightings.

Performance over Q2 2011

- Schroder produced a return of 1.9% net of fees over the three months to 30 June 2011, versus the benchmark return of 1.8%. The key drivers of the relative return over the period were:
- The main contributors to the performance this quarter came form the "value add" funds which generated above benchmark returns over the quarter. These included the West End of London Property Unit Trust.
- The core funds remain widely dispersed and this quarter funds with low cash levels outperformed, (Hermes Property Unit Trust) and those with high levels of cash diluted returns (Aviva Investors Pensions Property Fund and L&G Managed Property Fund). Overall, the core funds underperformed the benchmark this quarter.
- Over the 12 months, performance is ahead of the benchmark, 7.9% (net of fees) versus 7.7%. Value added funds have outperformed the portfolio’s benchmark over twelve months and have contributed 1.1% to relative returns. Core funds including the Hermes Property Unit Truste and Aviva Investors Pensions Property Fund have detracted from returns. Schroder have incurred transaction costs entering both these funds in the last year.
- Schroder estimates that transaction costs impacted performance by 0.6% over the year ended 30 June 2011. Now that the investment programme is virtually 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 £54 million of the Fund's intended commitment of approximately £135 million. A total of £2.45 million was drawn down over the quarter. The draw downs commenced in September 2009.

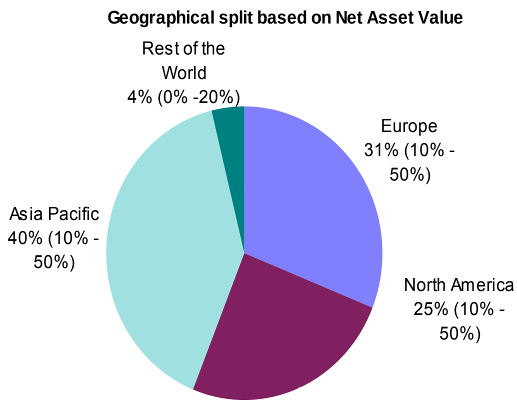
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

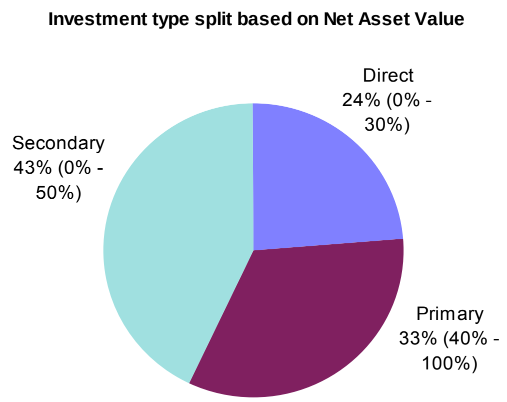
The funds invested to date have been split by Partners between funds as follows:

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 June 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.00	9.99
Direct Real Estate 2011	2.36	2.38
Distressed US Real Estate 2009	9.53	9.93
Global Real Estate 2008	23.56	25.83
Global Real Estate 2011	3.63	3.54
Real Estate Secondary 2009	5.78	7.01
Total (£)	**53.86**	**58.68**

Source: Partners. Please note, whilst the valuation on page 14 is as at 31 March 2011 (adjusted for cash flows), the above is Partners' valuation as at 30 June 2011.

The investments in the funds noted above have resulted in a portfolio that was, as at 30 June 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. Changes to the geographical allocation to the portfolio over the quarter include a reduction to Europe from 35% to 31%, North America from 26% to 25%. The exposure to the Asia Pacific region has increased from 35% to 40%. There have been no changes to the exposure to the rest of the world.

In terms of the portfolio allocation by investment type, the exposure to direct investments has reduced from the position last quarter from 26% to 24%. The exposure to primary investments has remained the same, and the exposure to secondary investments has increased from 41% to 43%. These percentage changes reflect the ongoing investment programme and vary as Partners continue to invest in the underlying funds.

The exposure to Primary is currently below the guidelines, but 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 Q2 2011

Please note that due to data timing issues, from this quarter onwards Partners' returns and values will be lagged by a quarter, except those shown on this and the previous page, and therefore reflect the previous quarter's returns and values. As this is the first quarter we have done this – this quarter will have the same start and end values (plus any cash investments made) and the quarter's return is zero. This will also impact the annual return figures in this report. Next quarter’s performance report will report Partners' performance for the second quarter 2011.

Distributions since inception total £4.0m, with no new distributions over the most recent quarter.

Conclusion

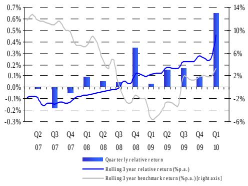
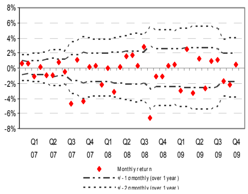
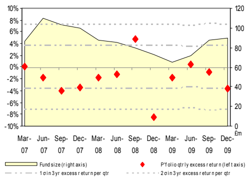
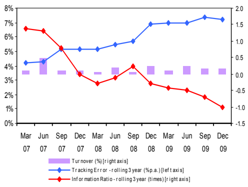
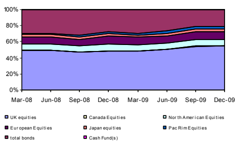
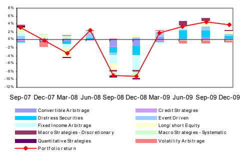
Over the quarter Partners increased the amount drawn down by £2.45 million. A new fund was added to the portfolio over the quarter, Global Real Estate 2011. There have been some changes to the asset allocations, namely an increase in secondary investments in favour of direct and primary assets. Changes to the geographical split include a reduction to Europe and North America in favour of an increase towards Asia Pacific.

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

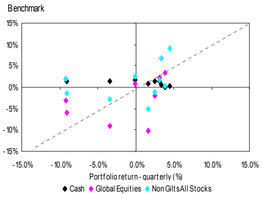
We have no concerns with Partners.

Appendix A – Glossary of Charts

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

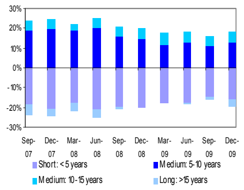
Reference	***Description***
#1 	This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year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



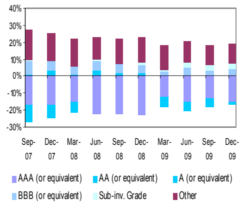
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



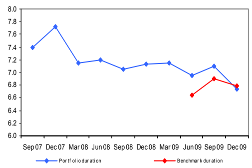
This chart shows the holding in short, medium and long maturity bonds relative to the benchmark. Over/underweight positions expose the fund to changes in the yield curve at different terms.

#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%
Schroder	Global Equities (Unconstrained)	MSCI AC World Index Free	+3.5-4.5%
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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