

Review for period to 30 September 2011

Avon Pension Fund

JLT INVESTMENT CONSULTING

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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.

Fund

- The total Fund's assets fell in value by £213m over the third quarter of 2011, to £2,488m as at the end of September 2011, marginally outperforming the benchmark, returning -7.9% versus the customised benchmark return of -8%.
- An overweight position to equities at the beginning of the quarter detracted from performance but was partially offset by an overweight position to bond assets.
- The Fund was and remains underweight to property and fund of hedge funds. Funds allocated to global real estate are still in the process of being invested by Partners.

Strategy

- The Fund's strategic benchmark return of -8.5% was driven by negative equity markets over the quarter.
- The strategic weighting to alternatives (property and fund of hedge funds) was a positive contributor relative to equities.
- Gilts produced the strongest return (14.4%) but the Fund's other fixed income assets also produced positive returns and the allocation to overseas bonds was positive relative to UK corporate bonds, returning 6.0% over the quarter compared to corporate bonds of 1.6%.
- Currency movements favoured the fund during the quarter and therefore the active currency hedge marginally reduced overall return by 0.1%. This compares well with a passive 50% currency hedge which would have detracted 0.4%.

Managers

- Despite the positive contribution of hedge funds to absolute return at the fund level, the Fund's fund of hedge fund managers underperformed their cash plus benchmarks over the quarter.
- TT International underperformed their benchmark over the quarter and more than offset Jupiter's positive relative performance over the quarter. All three of the Fund's enhanced indexation portfolios outperformed over the quarter. The new global equity portfolio, managed by Schroder, underperformed, whilst Genesis produced a strong outperformance in their emerging market mandate.
- RLAM underperformed their UK corporate bond benchmark over the quarter whilst the BlackRock passive assets successfully tracked their respective benchmarks.

Key points for consideration

- There are no fundamental concerns with either the strategy or the Fund's managers.
- Performance of the SSgA Europe ex UK Enhanced Indexation Fund should be monitored closely following a significant drop in the size of the pooled funds.
- TT should be continued to be monitored closely in light of underperformance, although such periods are not unexpected from a high conviction active manager. It is too early to draw conclusions from the relative performance of new Schroder Global Equity portfolio.
- Given the current market volatility and the drivers of that volatility - the uncertainty over the Eurozone - it should be considered if any immediate changes are required to the Fund's asset allocation, either to take advantage of opportunities for return or to manage risk.

Section Two – Market Background

- The table below summarises the various market returns to 30 September 2011, which relate the analysis of the Fund's performance to the global economic and market background.

Market statistics

Market Returns	3 Mths	1 Year
Growth Assets	%	%
UK Equities	-13.5	-4.4
Overseas Equities	-15.1	-4.9
USA	-11.3	2.1
Europe	-24.4	-13.6
Japan	-3.1	1.9
Asia Pacific (ex Japan)	-17.9	-11.7
Emerging Markets	-19.2	-15.3
Property	1.9	8.7
Hedge Funds	-4.7	1.8
Commodities	-9.0	4.1
High Yield	-5.4	0.6
Cash	0.1	0.5

Market Returns	3 Mths	1 Year
Bond Assets	%	%
UK Gilts (>15 yrs)	14.4	11.2
Index-Linked Gilts (>5 yrs)	7.8	13.6
Corporate Bonds (>15 yrs AA)	6.0	3.3
Non-Gilts (>15 yrs)	6.4	3.8

Inflation Indices	3 Mths	1 Year
	%	%
Price Inflation - RPI	1.1	5.6
Price Inflation - CPI	1.3	5.2
Earnings Inflation *	-0.1	1.6

Change in Sterling	3 Mths	1 Year
	%	%
Against US Dollar	-3.0	-1.1
Against Euro	4.9	0.6
Against Yen	-7.4	-8.8
Yields as at 30 Sept 2011		% p.a.
UK Equities		3.66
UK Gilts (>15 yrs)		3.45
Real Yield (>5 yrs ILG)		0.16
Corporate Bonds (>15 yrs AA)		5.12
Non-Gilts (>15 yrs)		5.03

Absolute Change in Yields	3 Mths	1 Year
	%	%
UK Gilts (>15 yrs)	-0.8	-0.4
Index-Linked Gilts (>5 yrs)	-0.3	-0.3
Corporate Bonds (>15 yrs AA)	-0.4	0.2
Non-Gilts (>15 yrs)	-0.5	0.1

* is subject to 1 month lag

Economic statistics

	Quarter to 30 September 2011			Year to 30 September 2011		
	UK	Europe ⁽¹⁾	US	UK	Europe ⁽¹⁾	US
Real GDP growth	0.5%	-0.1% ⁽²⁾	0.6%	0.5%	2.8% ⁽²⁾	1.6%
Unemployment rate	8.1% ⁽³⁾	9.7%	9.1%	8.1% ⁽³⁾	9.7%	9.1%
<i>Previous</i>	7.9%	9.5%	9.2%	7.7%	9.6%	9.7%
Inflation change⁽⁴⁾	1.3%	0.3%	0.5%	5.2%	3.0%	3.8%
Manufacturing Purchasing Managers' Index	50.8	48.5	50.8	51.1	48.5	50.8
<i>Previous</i>	51.3	52.0	50.9	51.3	52.0	56.9
Quantitative Easing ⁽⁵⁾	£200bn	€0	\$2,654bn	£200bn	€0	\$2,654bn
<i>Previous</i>	£200bn	€0	\$2,654bn	£200bn	€0	\$2,054bn

Source: Thomson Reuters, market, Institute for Supply Management. All figures to 30 September 2011 unless otherwise stated.

"Previous" relates to data as at the previous quarter or year end.

(1) 15 Country Euro area; (2) Figures as at 30 June 2011; (3) Figures as at August 2011; (4) CPI inflation measure; (5) Refers to amounts announced and therefore ignores changes due to debt maturing.

Statistical highlights

- The rate of CPI inflation rose from 4.2% in June to 5.2% in September. The Bank of England's Monetary Policy Committee kept interest rates on hold at 0.5% over the quarter, and restarted its programme of quantitative easing and unveiled plans to increase the size from £200 billion to £275 billion.
- UK retail sales saw their worst performance for 16 months in September, according to the Confederation of British Industry ("CBI"), resulting from rising unemployment, low wage growth and the high rate of RPI inflation.
- The Office for National Statistics ("ONS") reported that the number of people unemployed rose by 114,000 in the 3 months to August to reach 2.57 million, the largest increase for nearly two years. Youth unemployment hit a record high of 991,000. The jobless rate now stands at 8.1%.
- The European Central Bank ("ECB") kept interest rates on hold at 1.5% and whilst the US Federal Reserve decided against increasing the existing \$2.3 trillion quantitative easing programme, it introduced a programme to swap short-term for long-term government debt in a policy called "operation twist" that is it expects to produce a similar benefit.
- The pound depreciated against the US Dollar and Yen over the quarter but appreciated against the Euro. Sentiment for the Euro still remains negative as many analysts fear a Greek default.
- Major uncertainty about the global economic outlook and the implications of the sovereign debt crisis in the Eurozone had a significant negative impact on the third quarter equity returns in all the major regions. In the developed economies, economic growth slowed partially in response to uncertainty regarding the extent of cuts in government spending and inflationary pressures in emerging markets. The financial markets experienced high levels of volatility and we have seen an increasing correlation both within and across major asset classes.

- The FTSE-All Share Index produced a return over the quarter of -13.5% and European equities performed particularly poorly, with a return of -24.4%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. Despite the US Federal Reserve implementing another version of quantitative easing, the political impasse regarding the measures needed to make a meaningful reduction in the government deficit led to the US equity market producing a return of -11.3%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -17.9% and -19.2% respectively.
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 14.4% over the quarter. Corporate bonds produced a return of 6.0%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.

Section Three – Fund Valuations

- The table below shows the asset allocation of the Fund as at 30 September 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 September 2011 Value £'000	Proportion of Total %	Strategic Benchmark Weight %
UK Equities	444,003	17.8	18.0
Overseas Equities	984,380	39.6	42.0
Bonds	614,086	24.7	20.0
Fund of Hedge Funds	194,537	7.8	10.0
Cash (including currency instruments)	50,490	2.0	-
Property	186,847	7.5	10.0
Reconciling differences and rounding	13,618	0.6	-
TOTAL FUND VALUE	2,487,961	100.0	100.0

Source: Data provided by WM Performance Services

- The value of the Fund's assets fell by £213m over the third quarter of 2011 to £2,488m, resulting from negative absolute investment performance from most funds. Equities were the largest negative performer in absolute returns, with UK and overseas equities producing returns of -13.9% and -15.8% respectively. Equities comprise approximately 57% of the Fund's investments.
- In terms of asset allocation, there have been a number of changes over the quarter:
 - There were changes made to the Fund within the allocation to fund of hedge fund managers. The allocation to Lyster Watson was removed over the quarter. The allocation to Stenham and Signet was increased and the allocation to Man reduced. The changes implemented were previously agreed as part of the review of fund of hedge fund managers.
 - The appointment of the Fund's active currency hedging manager completed early in the quarter.
 - There was some further funding of property investments over the quarter.
- The valuation of the investment with each manager is provided on the following page.

Manager	Asset Class	30 June 2011		Net new money £'000	30 September 2011	
		Value	Value		Value	Proportion of Total
		£'000	£'000		£'000	%
Jupiter	UK Equities	113,139	4.2	-	99,784	4.0
TT International	UK Equities	134,814	5.0	-	113,368	4.6
Invesco	Global ex-UK Equities	170,252	6.3	-	149,203	6.0
Schroder	Global Equities	150,254	5.6	-	122,025	4.9
SSgA	Europe ex-UK Equities and Pacific incl. Japan Equities	92,493	3.4	-	77,595	3.1
Genesis	Emerging Market Equities	147,493	5.5	-	121,308	4.9
Lyster Watson	Fund of Hedge Funds	9,257	0.3	-8,449	819	0.0
MAN	Fund of Hedge Funds	97,554	3.6	-32,454	64,657	2.6
Signet	Fund of Hedge Funds	47,157	1.7	19,000	63,366	2.5
Stenham	Fund of Hedge Funds	11,436	0.4	22,000	33,283	1.3
Gottex	Fund of Hedge Funds	53,578	2.0	7	51,603	2.1
BlackRock	Passive Multi-asset	1,267,555	46.9	-736	1,180,349	47.4
BlackRock (property fund)	Equities, Futures, Bonds, Cash (held for property inv)	77,531	2.9	-4,001	73,847	3.0
RLAM	Bonds	134,650	5.0	-	135,155	5.4
Schroder	UK Property	126,415	4.6	-	128,641	5.2
Partners	Property	54,692	2.0	4,844	63,606	2.6
Record Currency Mgmt		-	-	-	-4,754	-0.2
Internal Cash	Cash	12,597	0.5	1,489	14,105	0.6
Rounding		-1	0.0	-	1	0.0
TOTAL		2,700,868	100.0	1,677	2,487,961	100.0

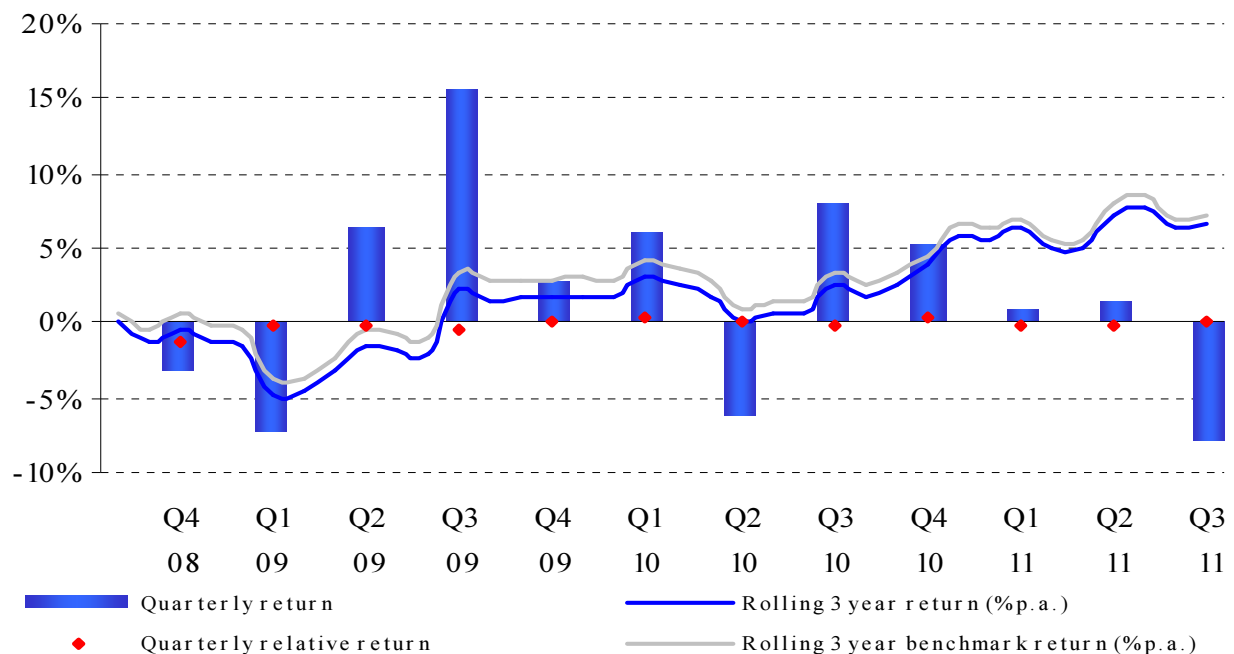
Source: Avon Pension Fund, Data provided by WM Performance Services. From Q2 2011, Partners valuation will be lagged by one quarter.

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 -7.9%, outperforming its customised benchmark by 0.1%.
- Over the last year (not shown above) the total Fund's assets produced a negative return of 0.8%, matching the customised benchmark.

Strategy performance

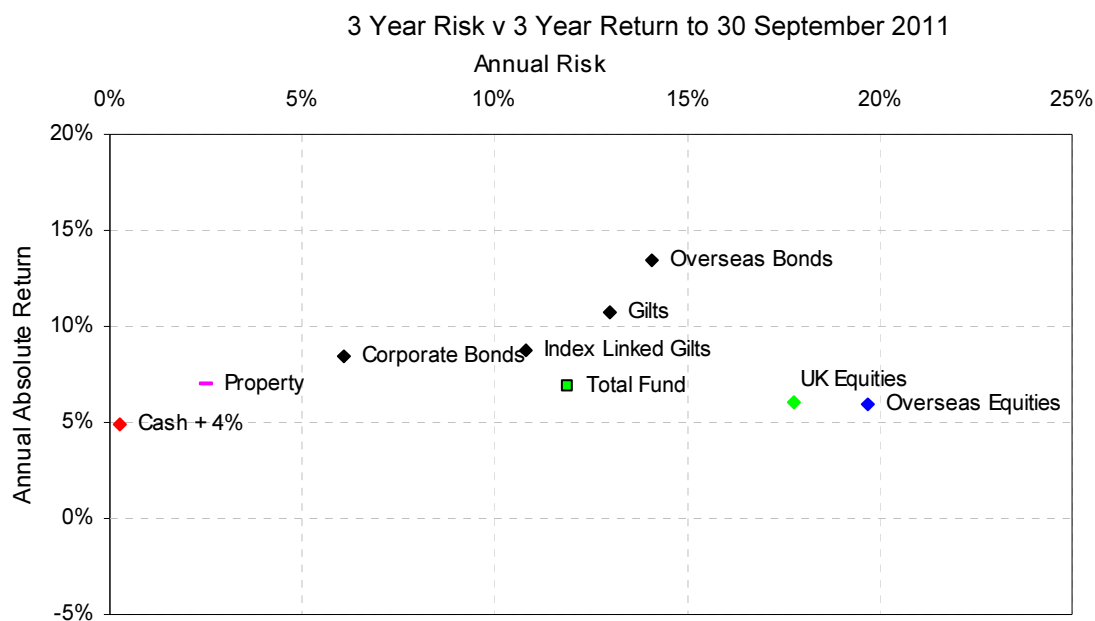
- The table on the next page shows the strategic allocation to each of the major asset classes and the benchmark returns over the quarter and year to 30 September 2011.

Asset Class	Weight in Strategic Benchmark	Q3 2011 (index returns)	1 year (index returns)
UK Equities	18%	-13.5%	-4.4%
Overseas Equities	42%	-17.4%	-7.6%
Index Linked Gilts	6%	7.8%	13.6%
Fixed Coupon Gilts	6%	14.4%	7.8%
UK Corporate Bonds*	5%	1.6%	-0.4%
Overseas Fixed Interest	3%	6.0%	6.2%
Fund of Hedge Funds**	10%	1.2%	4.8%
Property	10%	1.9%	8.7%
Total Fund	100%		

Source: Avon Pension Fund, Data provided by WM Performance Services. *Please note that this is an 'all maturities' index return and so differ from the 'long maturities' index returns shown on the Market Background page in Section Two. **The returns are based on the managers' targets rather a hedge fund or fund of fund index. The property and overseas equity indices also differ slightly from those in Section Two.

- **Market impact:** concerns in the Eurozone dominated the return of the Fund's strategy as equity markets fell and bonds rallied, particularly government bonds.
- UK and overseas equity markets produced returns of -13.5% and -15.1% respectively.
- Sterling depreciated against the US Dollar and the Yen over the quarter, meaning a higher return on the US Dollar and Yen denominated overseas equities in sterling terms. Sterling appreciated against the Euro, meaning a lower return on the Euro denominated overseas equities in sterling terms. All the major equity markets produced negative returns for the quarter in local currency terms. The lowest return came from the Europe (ex UK) region whose return in local currency was -20.7%.
- Bonds produced a positive absolute benchmark return of 8.3% over the quarter. UK, UK Index-Linked and Overseas bonds returned 9.1%, 7.8% and 6.0% respectively.
- The allocations to fund of hedge funds and property contributed to the overall benchmark return relative to an equity benchmark, although hedge funds in general were negative over the quarter (as shown in Section Two), unlike the cash based target shown in the table above.
- **Benchmark performance** of the strategy was driven by the two largest components, UK (18%) and overseas (42%) equities, contributing approximately -2.4% and -6.3% respectively to the strategic benchmark return.
- UK Gilts (6% benchmark weight) and UK Index-Linked Gilts (6%) contributed 0.9% and 0.4% respectively.
- **Asset allocation**, relative to the strategic benchmark, was marginally overweight to both UK and overseas equities, which would have had a slight negative impact relative to the strategic benchmark.
- A slight overweight position to bonds and the cash allocation were marginally positive contributors to performance relative to the strategic benchmark return.
- **Overall** these effects did not have a significant impact on performance relative to the strategic benchmark but, when taken along with the manager impact described later, have resulted in an outperformance versus the strategic benchmark over the quarter by 0.5%.

- The chart below shows the 3 year absolute return ("Annual Absolute Return") against the 3 year volatility of absolute returns ("Annual Risk"), based on monthly/quarterly (as available) data points in sterling terms, to the end of September 2011 of each of the underlying asset benchmarks, along with the total Fund strategic benchmark.
- This chart can be compared to the 3 year risk vs return managers' chart on page 15, showing that actual total Fund performance was more volatile than the benchmark total Fund Performance, due to greater volatility from some of the equity portfolios, the fund of hedge fund portfolios and RLAM compared to their respective benchmarks.



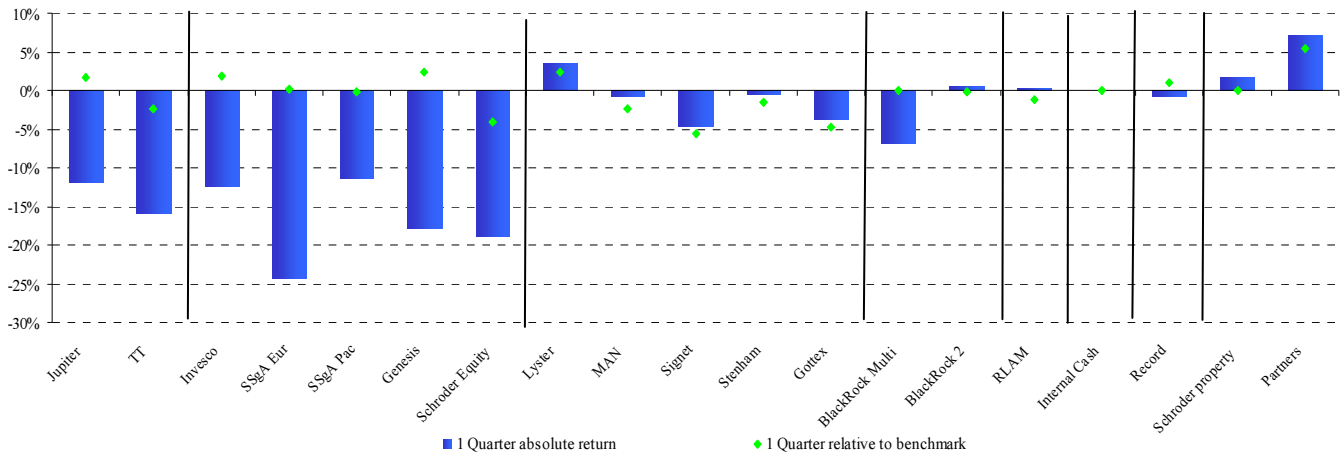
Source: Data provided by WM Performance Services

- All of the underlying benchmarks have produced a positive return over the period.
- Bond assets have outperformed the other asset classes. The greater volatility of gilts and index linked gilts compared to corporate bonds reflects the uncertainty surrounding the global economy.
- The "Cash +4%" category represents the objective of the fund of hedge fund portfolio but actual volatility of this portfolio is expected to be much more volatile than that shown above, which is the volatility of cash returns.

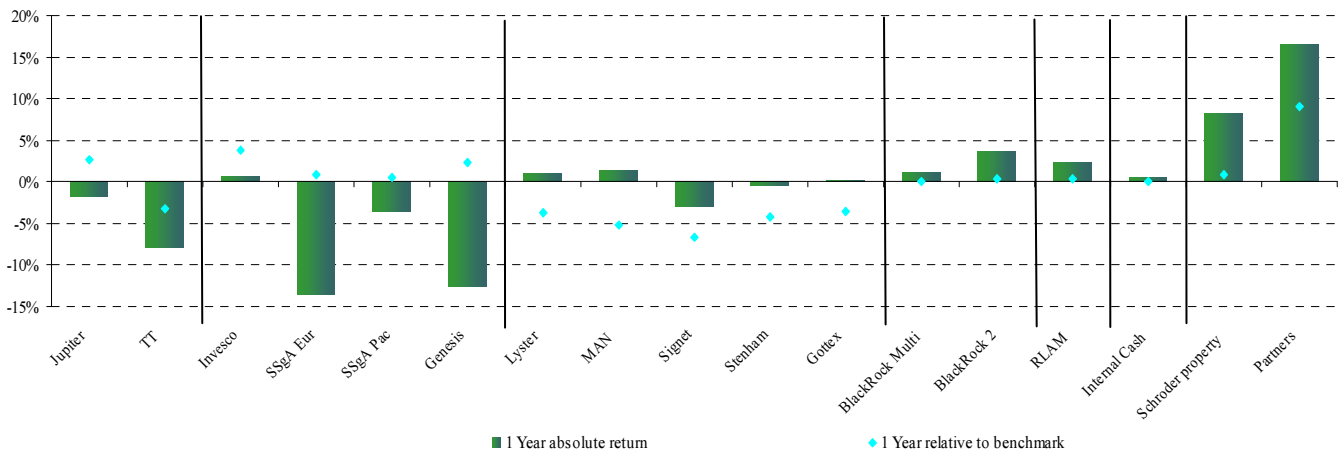
Aggregate manager performance

- The charts below show the absolute return for each manager over the quarter and the year to the end of September 2011. The relative quarter and one year returns are marked with green and blue dots respectively.
- Please note that due to data timing issues, Partner's returns and values are lagged by a quarter.

Absolute and relative performance - quarter to 30 September 2011



Absolute and relative performance - year to 30 September 2011



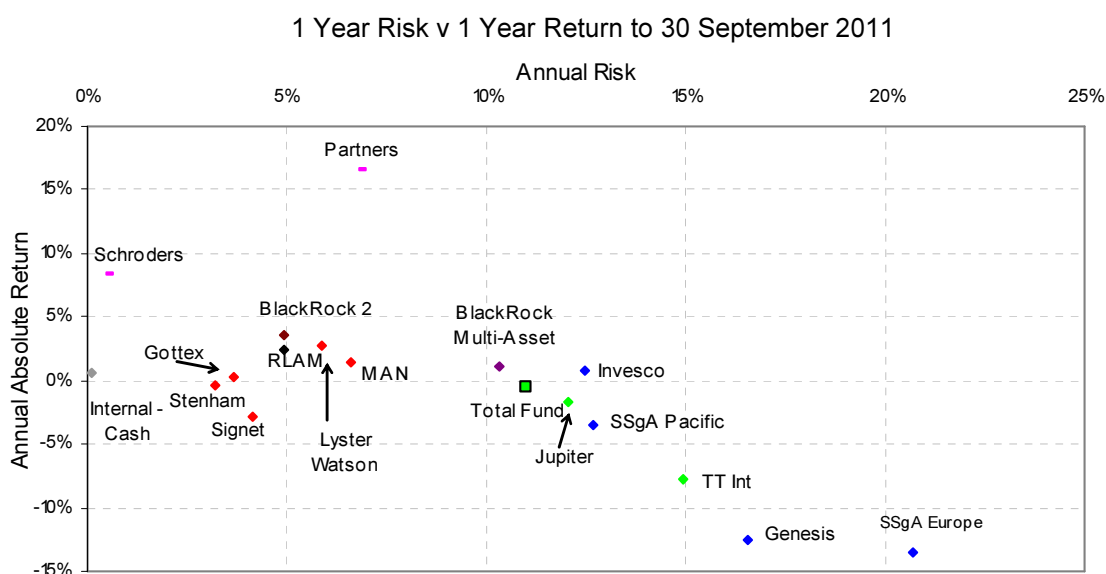
Source: Data provided by WM Performance Services

- Whilst Jupiter outperformed its benchmark over the quarter, TT underperformed resulting in the overall UK equity portfolio underperforming its benchmark and thus contributing negatively relative to the overall benchmark.
- Within overseas equities, outperformance from Invesco and Genesis over the quarter more than offset underperformance from Schroder thus meaning the overseas equity part of the portfolio contributed to performance relative to the benchmark.
- With the exception of Lyster Watson, the Fund's fund of hedge fund managers produced negative returns over the quarter and therefore underperformed their benchmarks and therefore contributed negatively to overall performance versus the benchmark.

- RLAM detracted slightly from relative performance over the quarter by underperforming their benchmark.
- The property portfolio outperformed over the quarter, due to strong outperformance from Partners, and contributed to performance relative to the benchmark return.
- Over the quarter the combined effect of the managers' performance was expected to have detracted 0.3% from the overall return once the impact of currency hedging was removed.
- The impact over the year of the managers' performance also detracted slightly. Similarly to over the quarter:
 - within UK equities Jupiter outperformed whilst TT underperformed;
 - Invesco and Genesis both outperformed within overseas equities;
 - the Fund of Hedge Fund portfolio underperformed due to underperformance from all managers; and,
 - Partners provided strong outperformance.

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

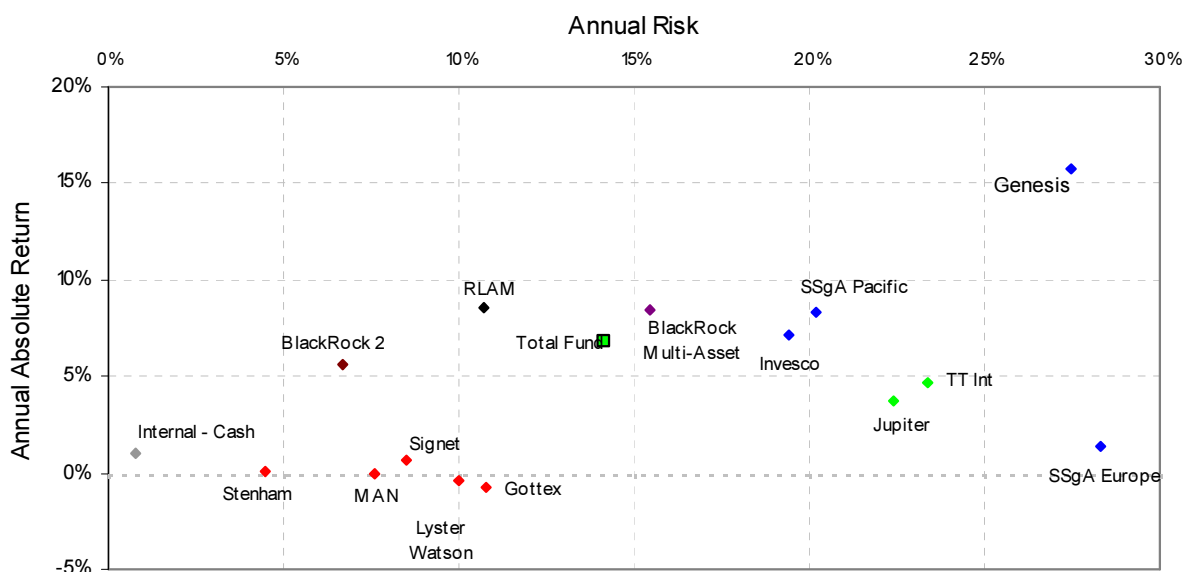


Source: Data provided by WM Performance Services

- 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 broadly increased from the previous quarter. This is not surprising given the increase in volatility over the most recent quarter. The fund whose volatility increased the most was SSgA Europe, again as expected given the volatility within this market.
- The returns have also fallen significantly from the previous quarter (Partners being the exception due to lagged data) as a positive Q3 2010 falls out of the analysis and is replaced by a negative Q3 2011. Positive returns from gilts will have reduced this impact somewhat for the BlackRock Multi-Asset portfolio.

3 Year Risk v 3 Year Return to 30 September 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
- Both the returns and the volatility are similar to last quarter as the new quarter, Q3 2011, was similar in profile to Q3 2008, the period falling out of the analysis.
- SSgA Europe is one exception to this, as this region has fared worse than other regions and therefore the return has fallen and volatility has increased.
- Fund of hedge funds are the other exception, with an improvement in return and reduction in volatility compared to last quarter as, whilst negative, fund of hedge funds have performed in line with expectations than in Q3 2008 when they were badly affected by the liquidity crisis and investors rushing for the exit.
- Compared to the one year chart, many of the returns are still positive, albeit exhibiting higher volatility.

Section Five – Individual Manager Performance

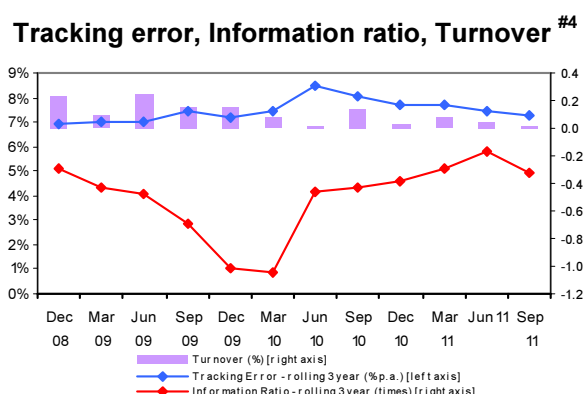
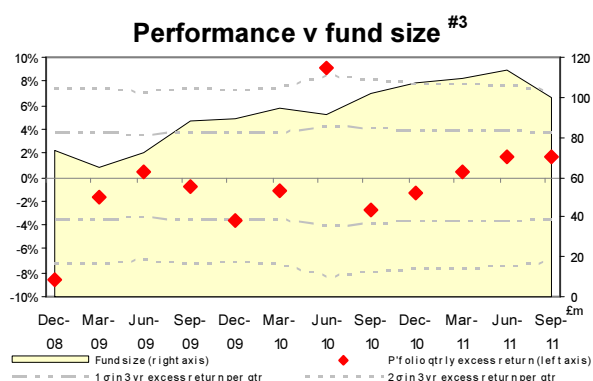
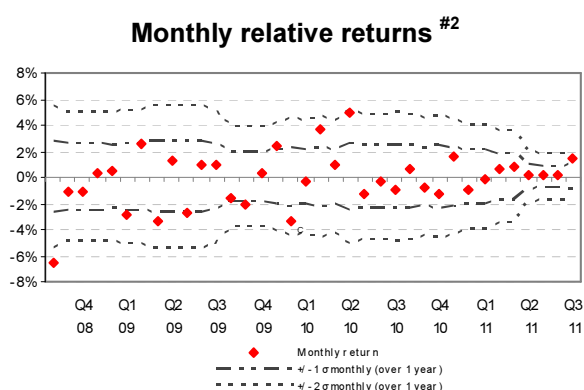
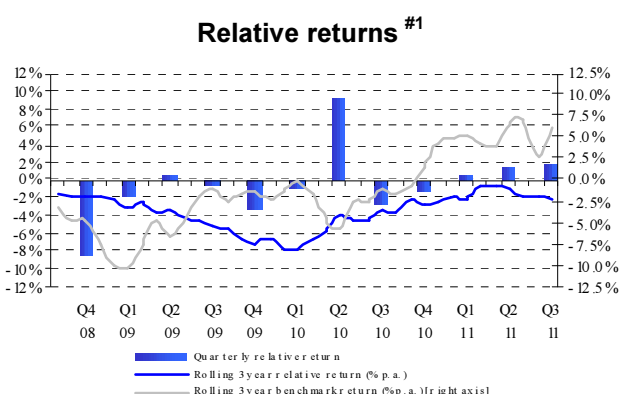
- This section provides a one page summary of the key risk and return characteristics for each investment manager. An explanatory summary of each of the charts is included in the Glossary in Appendix A, with a reference for each chart in the chart title (e.g. #1). A summary of mandates is included in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

Key points for consideration

- 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 changes to the fund of hedge fund allocation is now complete following the review which took place. Following the implementation of the global unconstrained equity manager, Schroder in Q2 2011, we have included a qualitative assessment until reasonable data has built up to produce a quantitative assessment. The implementation of the active currency hedging manager was also completed in Q3 2011. 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 and global equity funds:
 - Jupiter outperformed their benchmark over the quarter by 1.7%. The Fund produced strong risk-adjusted returns for the year ended 30 September 2011.
 - TT International underperformed its benchmark over the quarter and over the one year to 30 September 2011. 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 negative absolute and relative return during quarter.
- Non-UK Enhanced Indexation Funds: The SSgA Europe ex UK Fund marginally outperformed its benchmark and the SSgA Pacific incl. Japan equity fund performed in line with its benchmark over the quarter. Performance over the one year was also positive in relative terms for both of the SSgA Enhanced Indexation funds.
- Enhanced Indexation: Invesco outperformed its benchmark over the quarter by 1.8%. Over the one year performance was ahead of the benchmark by 3.8%. 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. Performance over the longer 1 and 3 years also remains positive in relative terms.
- Fund of Hedge Funds:
 - The allocation to Lyster Watson was removed over the quarter. From 30 June 2011 to the point of disinvestment, the Fund outperformed its benchmark by 2.3% and produced a positive absolute return.
 - Man produced a negative relative return of -0.7%, producing an absolute return of -2.3%. The allocation to Man was reduced over the quarter in line with the decision made following the review of the fund of hedge fund managers.
 - Signet produced a negative relative return over the quarter, underperforming their benchmark by 5.6%. In absolute terms, Signet produced a return of -4.6%.

- Stenham Asset Management produced a negative relative return for the quarter, 1.5% behind their benchmark, with an absolute return of -0.5%. As part of the review of fund of hedge fund managers, it was agreed that the allocation to Stenham would be increased. This was completed over the quarter.
 - Gottex underperformed their benchmark over the quarter by 4.7%, producing an absolute return of -3.7%.
 - Hedge funds outperformed equities over the third quarter of 2011, breaking the run of underperformance versus equities, which had occurred for the previous four-calendar quarters.
 - Of the five fund of hedge fund managers, none were ahead of their cash plus benchmarks over the year to 30 September 2011.
- BlackRock passive Funds: there is nothing unusual arising in risk and performance for the two BlackRock passive portfolios.
 - Fixed Interest: RLAM underperformed the benchmark in the last quarter by 1.2%. In absolute terms, RLAM produced a return of 0.4%. There are no notable changes in the risk profile of this fund.
 - Record, the Fund's newly appointed active currency hedging manager produced a return of -0.7% which was ahead of the return of a 50% passive hedge benchmark of -1.7%.
 - Property: Performance of the Schroder property fund over the quarter was positive in absolute terms and was in line with its benchmark return. This quarter, we have introduced a quantitative assessment of Schroder for the first time, as there is now sufficient data available to draw a reasonable conclusion. Last quarter saw a change in the performance reporting of Partners, which is now lagged by 1 quarter. As such, over the second quarter of 2011, Partners outperformed their benchmark by 5.4%, producing an absolute return of 7.2%. Once a 3 year track record is available for a meaningful proportion of the Fund's commitment with Partners, a fuller quantitative assessment will be available. For the time being, a qualitative assessment is included for this manager, as such details are not provided in the charts following.

Jupiter Asset Management – UK Equities (Socially Responsible Investing)

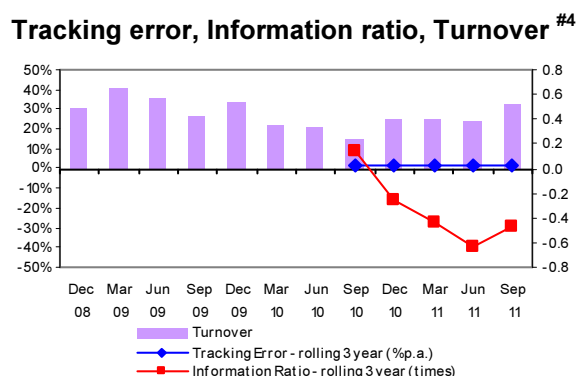
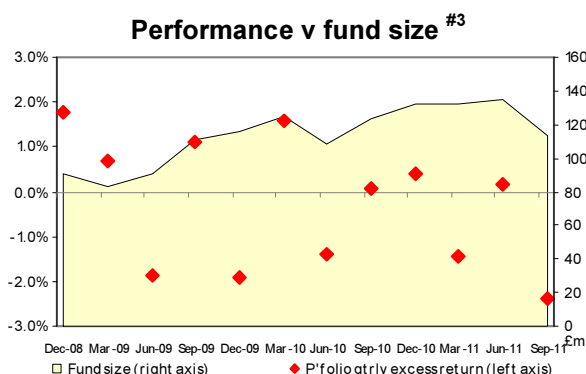
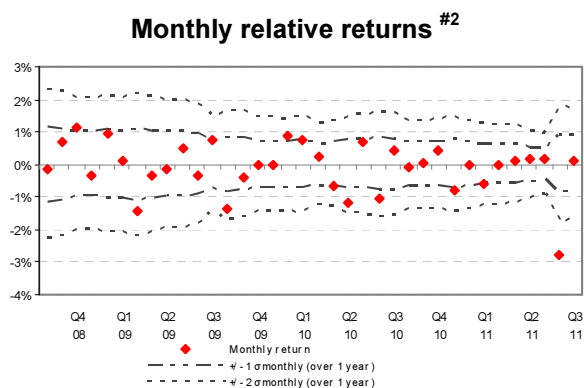
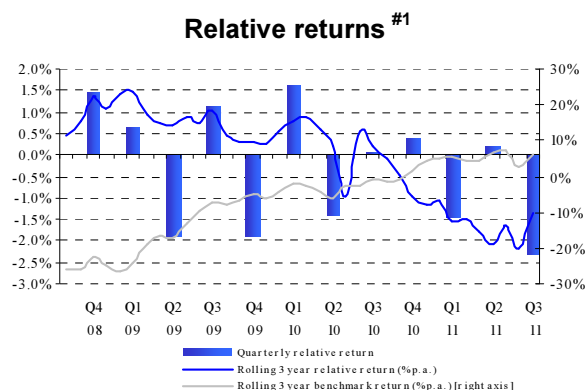


Source: Data provided by WM Performance Services, and Jupiter

Comments:

- Over the last quarter, the Fund outperformed the benchmark by 1.7%, producing an absolute return of -11.8%.
- Over the last year, the Fund outperformed the benchmark by 2.7%, producing an absolute return of -1.7%. Over the last 3 years, the Fund underperformed the benchmark by 2.3% p.a., producing an absolute return of 3.7% p.a.
- The Fund's allocation to Cash (6.5%) increased compared to the preceding quarter (5.2%).
- 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 Q3 2011, Jupiter was significantly underweight Oil and Gas, Basic Materials, Financials and Consumer Services, with significantly overweight positions in Industrials, Utilities and Consumer Goods.
- These positions have led to the recent outperformance as Financials and Mining stocks in particular underperformed the index.

TT International – UK Equities (Unconstrained)



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

Comments:

- Over the last quarter the Fund underperformed the benchmark by 2.4%, producing an absolute return of -15.9%.
- Over the last year, the Fund underperformed the benchmark by 3.4%, producing an absolute return of -7.8%. Over the last three years, the Fund underperformed the benchmark by 1.3% p.a., producing an absolute return of 4.7% p.a.
- The Fund continues to maintain its overweight position in Basic Materials and Consumer Services by 3.4% and 2.8% respectively, and is underweight to Financials and Utilities by 8.5% and 4.4% respectively.
- The volatility of monthly relative returns has not changed significantly over the most recent quarter. Turnover of 32.9% has increased significantly compared to the previous quarter turnover of 24.2%.
- The 3 year tracking error (proxy for risk) has remained broadly consistent over the quarter. The 3 year information ratio (risk adjusted return), improved very slightly from -0.6% to -0.5%.
- Performance relative to the benchmark has been less volatile than Jupiter despite TT taking a more unconstrained approach. This is due to TT's sector positions being more reflective of the benchmark whilst Jupiter is constrained from investing in certain sectors due to the socially responsible criteria.
- TT's negative relative performance has been driven both by its sector positioning relative to the index and, to a greater extent, its stock selection within those sectors.
- Recently TT have been reducing their allocation to less cyclical stocks in light of uncertain economic conditions.
- Given TT's outperformance target and high conviction investment style, periods of underperformance are expected, although they should be monitored closely during these periods to ensure underperformance is not due to any unexpected reason (a change in investment style, for example).

Schroder – Global Equity Portfolio (Unconstrained)

- The mandate awarded to Schroder by the Fund commenced in April 2011.
- The Fund appointed Schroder to manage Global Equities on a segregated basis. The Manager's portfolio objective is to outperform the benchmark, the MSCI All Countries World Index, by 4% per annum over a rolling three year period.
- In order to achieve the objective, the investment approach is designed to add value relative to the benchmark through stock selection and sector allocation decisions.
- We provide here a qualitative update and assessment of the manager.

Portfolio update and performance over Q3 2011

The portfolio fell in value over the quarter by £28m, or 18.8%, underperforming the benchmark return of -14.8% by 4.0%.

The third quarter of 2011 saw one of the worst quarters for equity returns for nearly 3 years as concern over the health of the global economy intensified. Extreme risk aversion and a crisis of confidence gathered pace through August due to a political gridlock in the US over the discussions to raise the debt ceiling and failure of the Eurozone leaders to agree a viable solution to some countries ongoing problems.

Disappointingly, the portfolio returned -18.8%, versus a benchmark return of -14.8%. The negative return was driven by the sharp increase in risk aversion in September, as equity markets moved rapidly towards a "risk off" stand and "growth investing" was heavily penalized in the short term. The worst performing sector in the benchmark was materials, which declined over 23%, and the best was consumer staples which declined by less than 5%. Investors' focus remained very much on the attention of short-term defensiveness.

It was the defensive sectors which helped performance of the portfolio most, good performances from names such as Beijing Enterprises and Rolls Royce. However, the portfolio did underperform the benchmark. Cyclical sectors such as financials (Ping An Insurance, AXA SA) and energy (QEP Resources) detracted the most from performance. Macro factors also hurt the performance of the stocks in these sectors, in particular, financials were hurt as concern over the effect of a possible Greek default continued.

From a regional perspective, the UK and Africa / Middle East helped performance the most. Performance in the UK was boosted by an overweight position relative to the benchmark in defensive sectors. United Utilities and health care holding GlaxoSmithKline helped performance. In Africa / Middle East, Check Point Software performed well. The Israeli internet security company is benefitting from higher corporate spending, due to IT threats and data breaches significantly increasing.

Elsewhere in the portfolio, North America and emerging markets detracted the most. The performance in North America was hurt by the combination of Schroder's underweight and performance in a sharply rising dollar environment. An underweight position relative to the benchmark to the US staples sector detracted from performance. Emerging markets suffered disproportionately from the reduction in expectations for global demand, as well as currency weakness.

The most underweight country weightings in the portfolio are North America (-8.3%) and Continental Europe (-3.8%). The portfolio is overweight to the Pacific ex Japan region (+6.0%) and the United Kingdom (+3.0%).

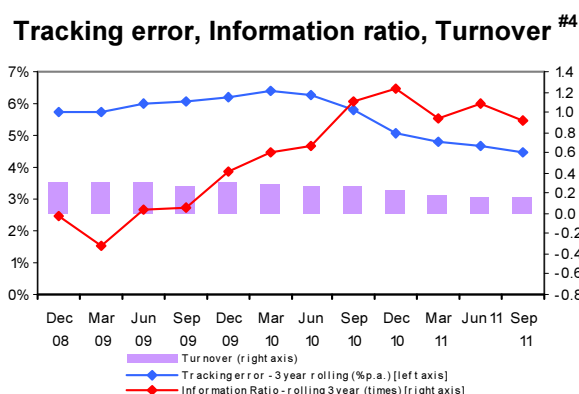
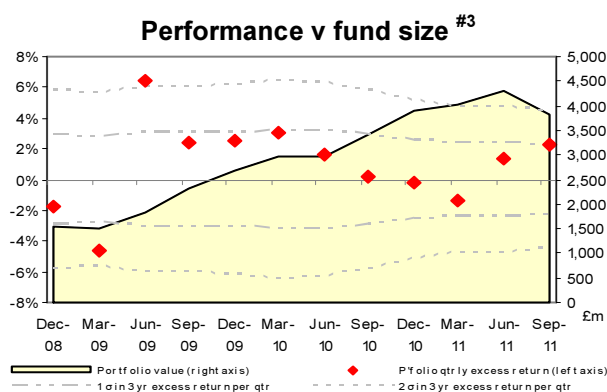
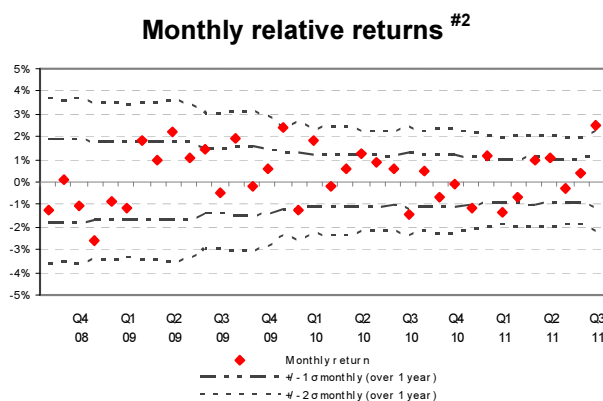
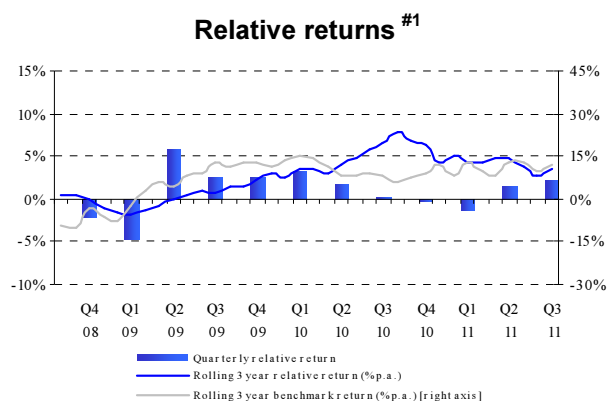
In terms of sector weightings, the most underweight positions are to Telecoms (-3.0%), Utilities (-2.1%) and financials (-1.9%). Overweight positions are in Health Care (+3.7%), Information Technology (+2.8%) and Consumer Staples (+1.8%).

Conclusion

The Schroder global equity portfolio has been implemented for a very short space of time over an extremely turbulent period. It is therefore too early to draw any firm conclusions regarding Schroder's performance. The portfolio is diversified by both country and sector and we remain confident that Schroder has a robust investment philosophy which is being adhered to.

We have no concerns with Schroder.

Genesis Asset Managers – Emerging Market Equities

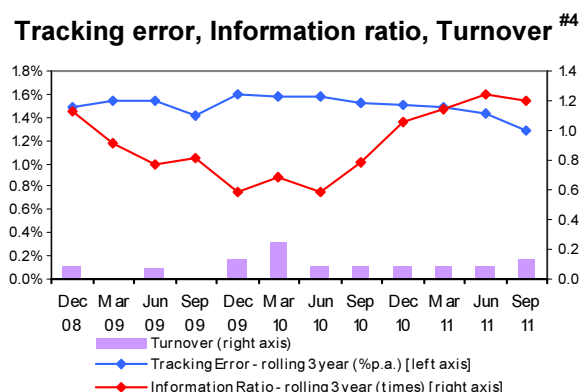
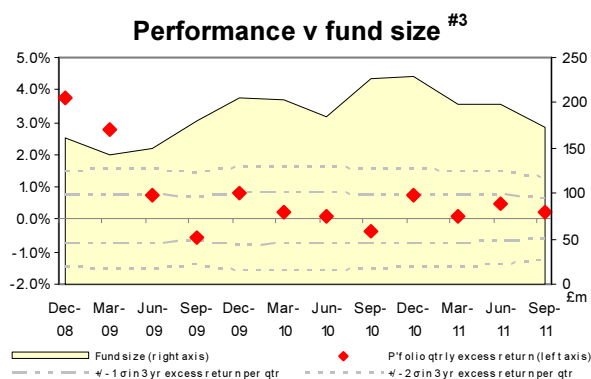
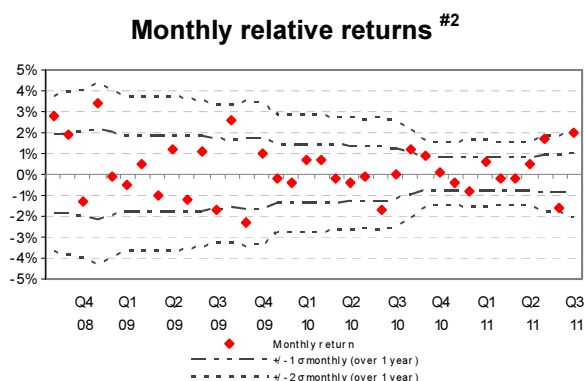
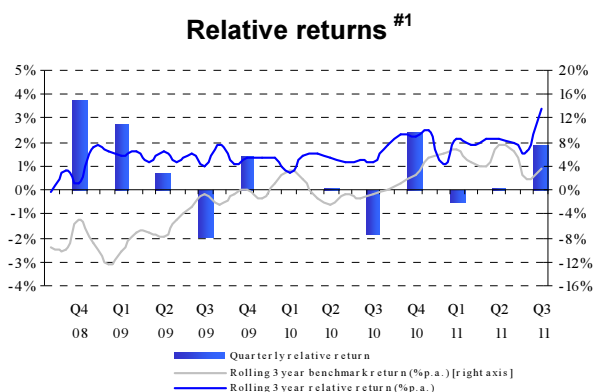


Source: Data provided by WM Performance Services, and Genesis

Comments:

- Over the last quarter the Fund outperformed the benchmark by 2.3%, producing an absolute return of -17.8%.
- Over the last year, the Fund outperformed its benchmark by 2.3%, producing an absolute return of -12.6%. Over the last 3 years, the Fund outperformed the benchmark by 4.2% p.a., producing an absolute return of 15.7% p.a.
- The Fund remains overweight to India and South Africa, and underweight Brazil, South Korea and China. 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), decreased slightly from 1.1 to 0.9.
- The allocation to Cash (0.9%) has been the lowest in the last six quarters for this manager.
- On an industry basis, the Fund is now overweight Consumer Staples (+6.9%), Healthcare (2.6%) and Information Technology (+2.4%). The Fund is underweight to Consumer Discretionary (-5.2%), Energy (-4.3%) and Telecom Services (-2.3%).
- Genesis have consistently added value relative to the benchmark, including over the most recent period which was difficult for equities and particularly so for emerging markets.
- Despite the fall in the information ratio, Genesis' performance remains pleasing.

Invesco – Global ex-UK Equities (Enhanced Indexation)

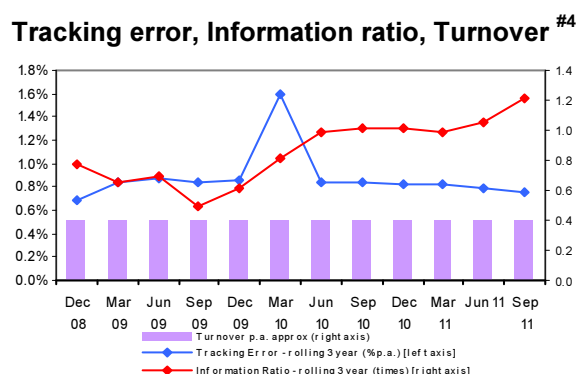
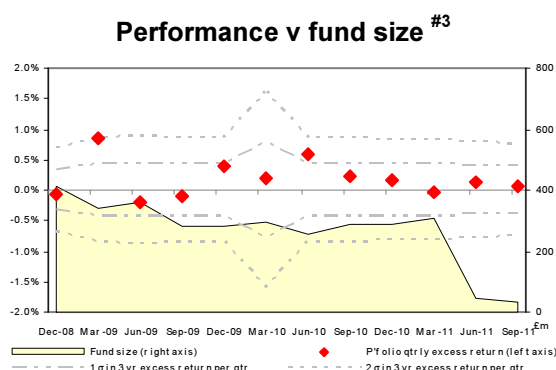
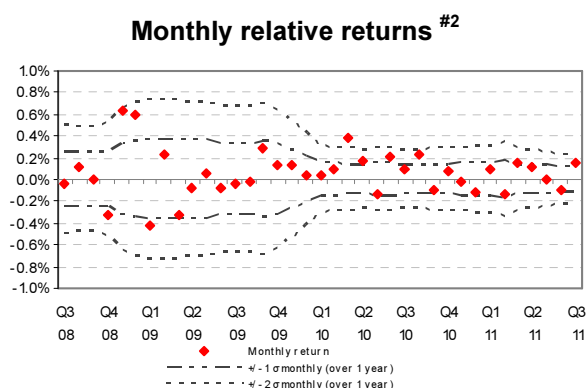
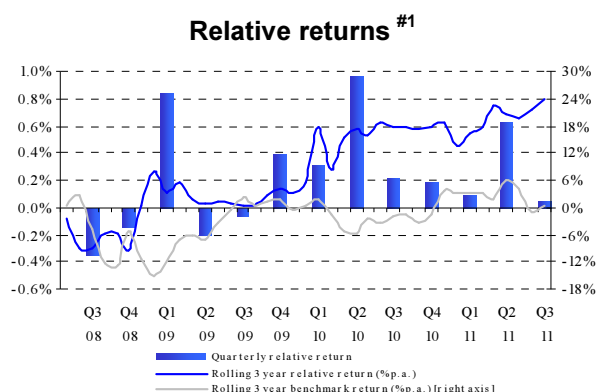


Source: Data provided by WM Performance Services, and Invesco

Comments:

- Over the last quarter the Fund outperformed its benchmark by 1.8%, producing an absolute return of -12.4%.
- Over the last year, the Fund outperformed its benchmark by 3.8%, producing an absolute return of 0.7%. Over three years, the Fund outperformed, by 2.7% p.a., producing an absolute return of 7.1% p.a.
- Over the last quarter, all strategies were positive contributors except for Sector selection. The timing of the pricing of the Fund versus the benchmark also remains a factor in respect of short term relative performance.
- The absolute volatility has increased for the first time since the third quarter of 2010 which is to be expected.
- The turnover for this quarter of 12.3% increased from 9.0% in the previous quarter. The number of stocks continued to reduce over the quarter from 412 to 399.
- The industry allocation is relatively in line with the benchmark industry allocations. All industry allocations were broadly within +/- 1.0% of benchmark weightings as expected from this mandate.
- The number of stocks held in this portfolio is significantly more than is typical for a global equity portfolio but remains appropriate for the enhanced indexation approach.
- Whilst part of the recent positive relative performance is due to the difference in timing of the pricing of the Fund versus the benchmark, Invesco's performance continues meet objective.

SSgA – Europe ex-UK Equities (Enhanced Indexation)

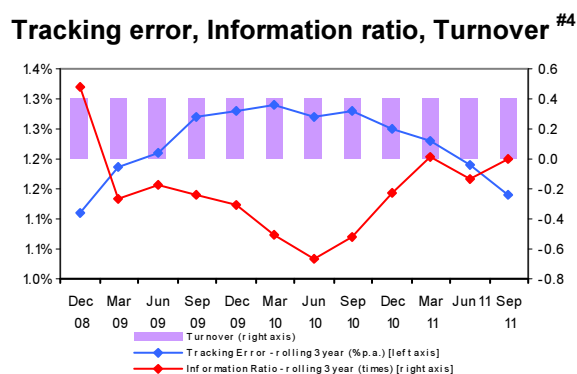
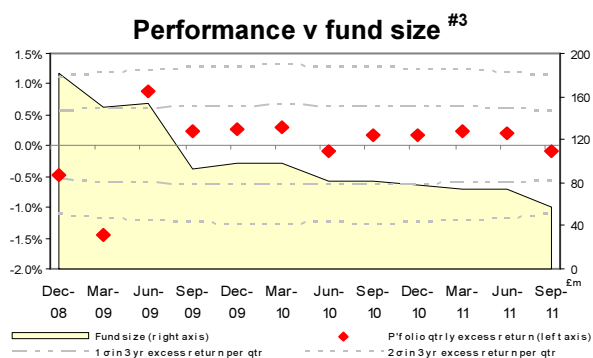
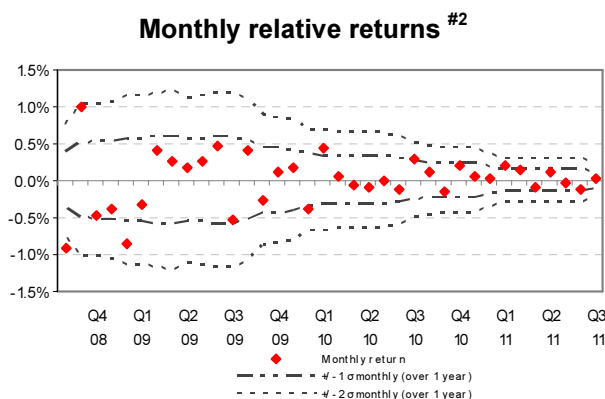
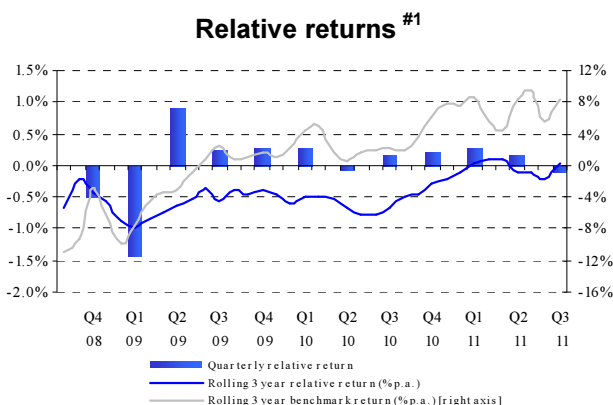


Source: Data provided by WM Performance Services, and SSgA

Comments:

- Over the last quarter the Fund outperformed the benchmark by 0.1%, producing an absolute return of -24.2%.
- Over the last year, the Fund outperformed the benchmark by 1.0%, producing an absolute return of -13.5%. Over the last 3 years, the Fund outperformed the benchmark by 1.5% p.a., producing an absolute return of 1.4% p.a.
- The pooled fund fell in size from £306.12million as at 31 March 2011, to £46.85million as at 30 June 2011. There has been a further fall this quarter of £16.51million which has brought the size of the pooled fund to £30.34million. 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 marginally increased over the quarter. The tracking error has slightly decreased 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)

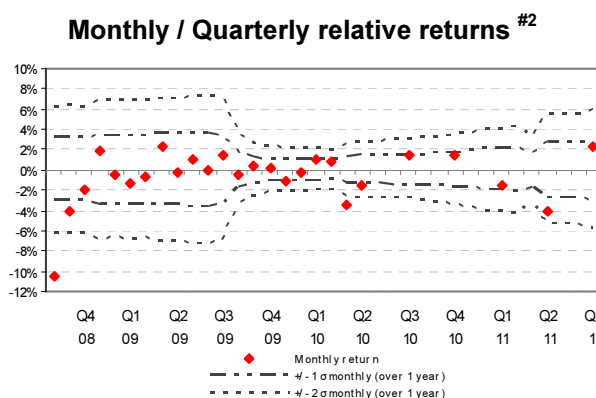
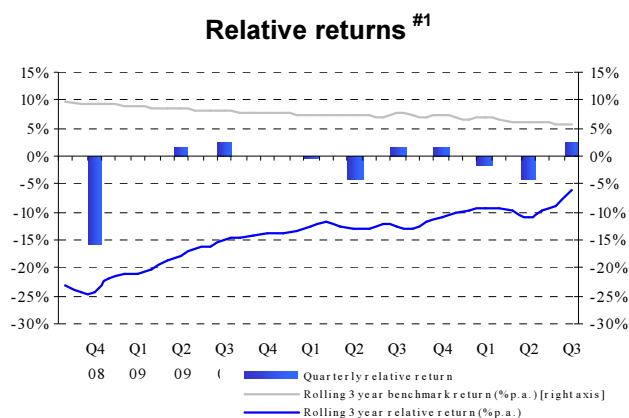


Source: Data provided by WM Performance Services, and SSgA

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -11.4%.
- Over the last year, the Fund outperformed the benchmark by 0.6%, producing an absolute return of -3.5%. Over the last 3 years, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.4% 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.

Lyster Watson Management Inc – Fund of Hedge Funds



Note that returns after Q2 2010 above are quarterly returns.

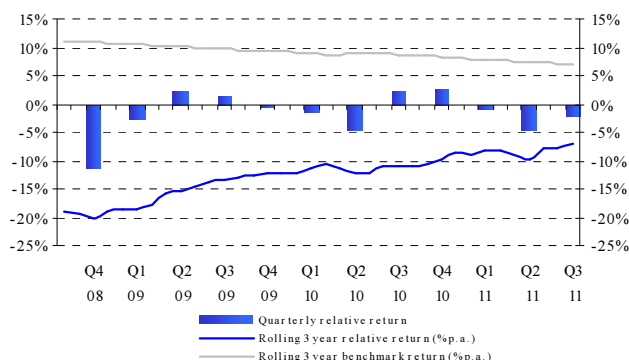
Source: Data provided by WM Performance Services, and Lyster Watson

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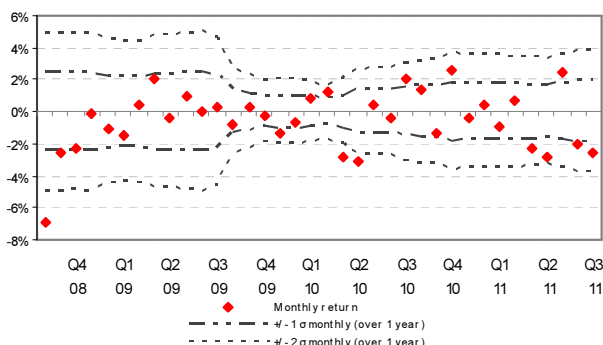
- From 30 June 2011 to the point of disinvestment from Lyster Watson, the Fund outperformed the benchmark by 2.3%, producing an absolute return of 3.5%.
- Over the last year (to the point of disinvestment), the Fund underperformed the benchmark by 3.7%, producing an absolute return of 1.1%. Over the three year period (to 31 July 2011), the Fund underperformed the benchmark by 9.8% p.a., producing an absolute return of -4.2% p.a.
- The allocation to Lyster Watson was removed over the third quarter of 2011. The returns seen in the charts above are therefore not representative of a full quarter of investment.

MAN – Fund of Hedge Funds

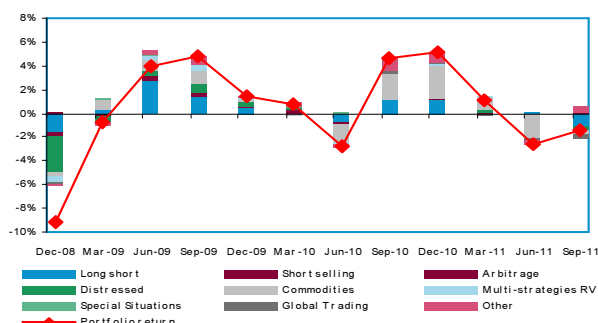
Relative returns #1



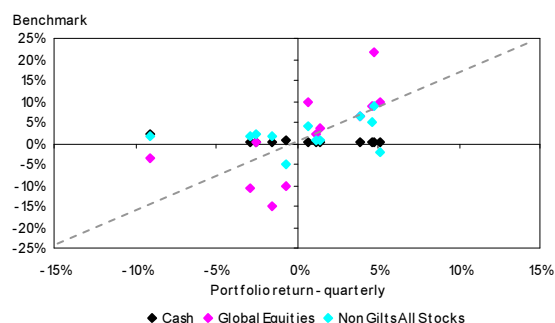
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



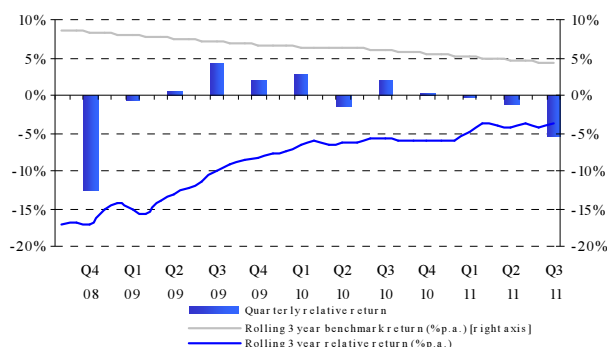
Source: Data provided by WM Performance Services, and MAN

Comments:

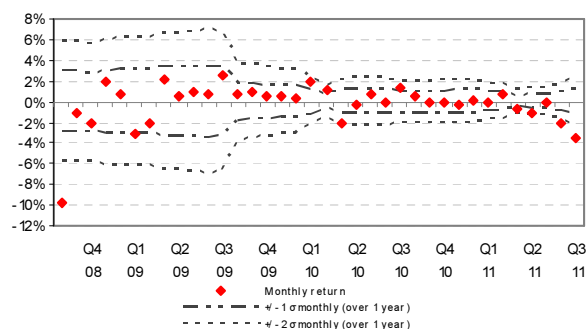
- Over the last quarter, the Fund underperformed the benchmark by -2.3%, producing an absolute return of -0.7%.
- Over the last year, the Fund underperformed the benchmark by 5.3%, producing an absolute return of 1.3%. Over the last 3 years, the Fund underperformed the benchmark by 7.1% p.a., producing an absolute return of -0.1% p.a.
- The key drivers of the negative performance were the allocations to Emerging Markets and Long / Short strategies, which produced negative returns, except for the Long / Short Japan strategy, 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 63.2% 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 would be reduced. This was completed in Q3 2011.
- As discussed during the review, Man have begun to reduce the number of underlying manager holdings in the portfolio.

Signet – Fund of Hedge Funds

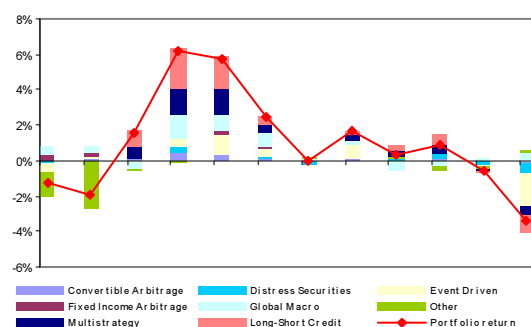
Relative returns #1



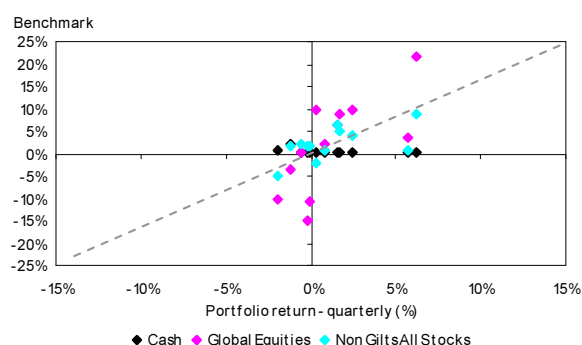
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



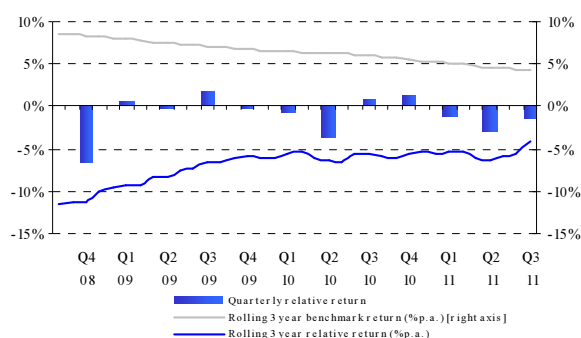
Source: Data provided by WM Performance Services, and Signet

Comments:

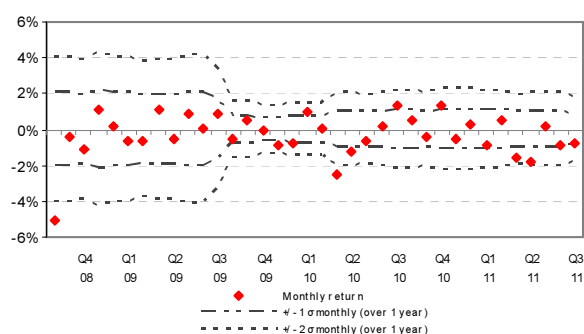
- Over the last quarter, the Fund underperformed the benchmark by 5.6%, producing an absolute return of -4.6%.
- Over the last year, the Fund underperformed the benchmark by 6.7%, producing an absolute return of -2.9%. Over the 3 year period, the Fund underperformed the benchmark by 3.6% p.a., producing an absolute return of 0.6% p.a.
- Despite positive contributions from a number of strategies, the allocation to event driven strategies and distressed securities led to the negative return 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Stenham – Fund of Hedge Funds

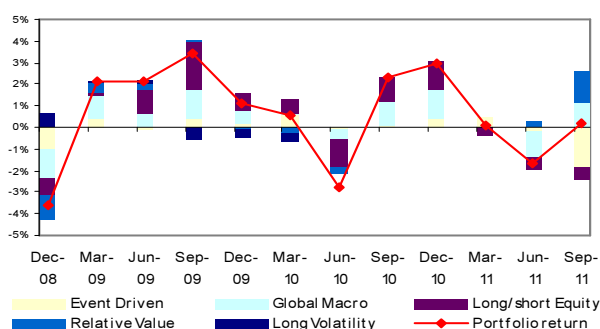
Relative returns #1



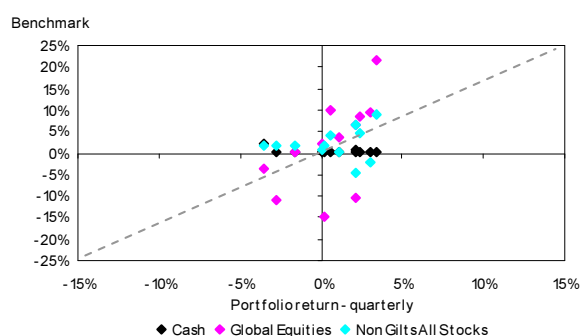
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7



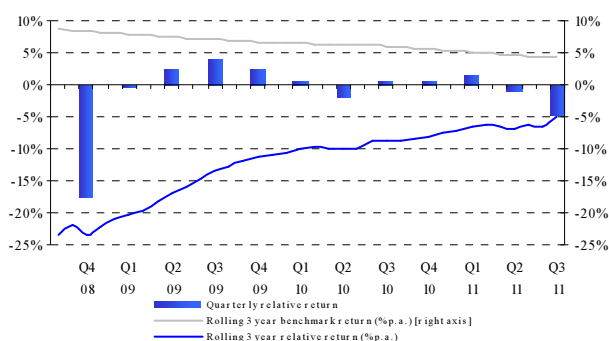
Source: Data provided by WM Performance Services, and Stenham

Comments:

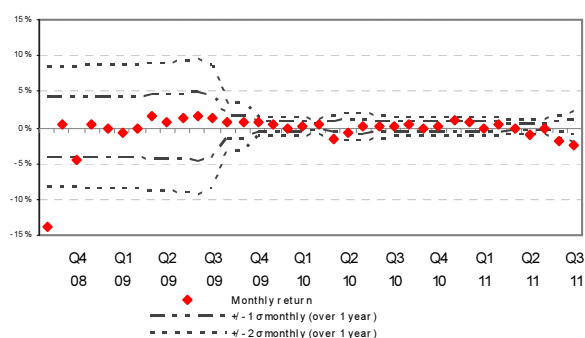
- Over the last quarter, the Fund underperformed the benchmark by 1.5%, producing an absolute return of -0.5%.
- Over the last year, the Fund underperformed the benchmark by 4.2%, producing an absolute return of -0.4%. Over the last 3 years, the Fund underperformed the benchmark by 4.1% p.a., producing an absolute return of 0.1% p.a.
- Relative value strategies provided strong absolute returns over the quarter of 17.3% while negative absolute returns of 9.6% from Event Driven strategies affected the total portfolio return.
- The allocation to the Global Macro and Long / Short Equity strategies made up 66.0% of the total Fund allocation. The allocation to Cash rose from 2.0% to 8.0% 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.
- The allocation to Signet within the fund of hedge fund portfolio was increased over the quarter as part of the implementation of the changes from the fund of hedge fund portfolio review undertaken earlier in the year.

Gottex – Fund of Hedge Funds

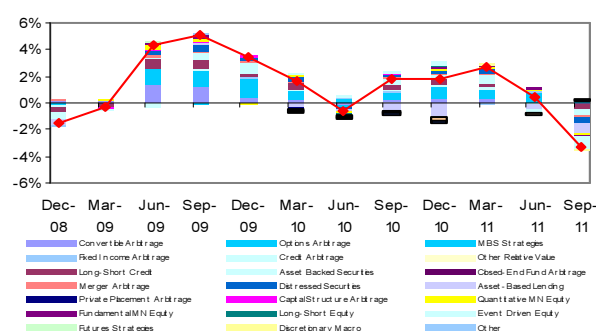
Relative returns #1



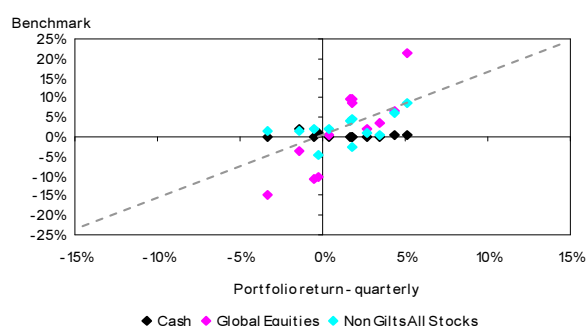
Monthly relative returns #2



Hedge fund strategies and source of return #6



Correlation with indices #7

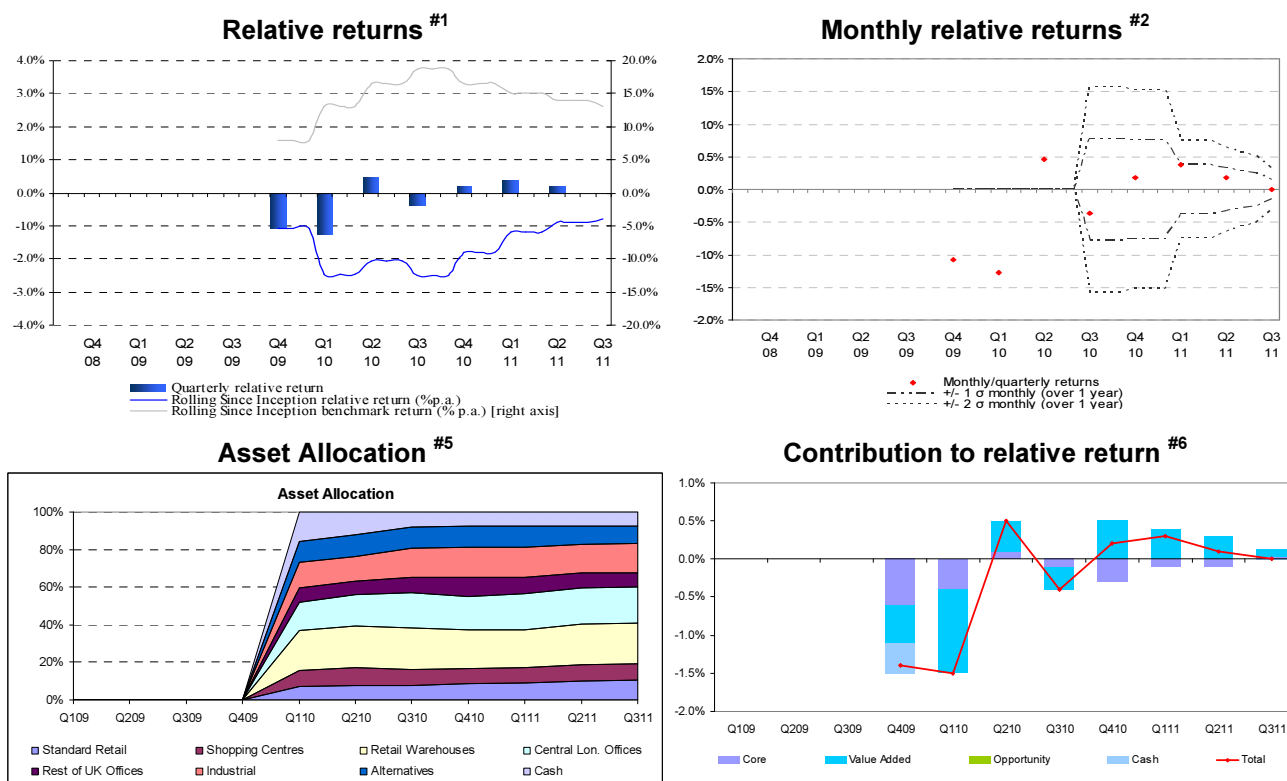


Source: Data provided by WM Performance Services, and Gottex

Comments:

- Over the last quarter, the Fund underperformed the benchmark by 4.7%, producing an absolute return of -3.7%.
- Over the last year, the Fund underperformed the benchmark by 3.5%, producing an absolute return of 0.3%. Over the last 3 years, the Fund underperformed the benchmark by 4.8% p.a., producing an absolute return of -0.6% p.a.
- The Fund generated a negative return during the quarter. This was primarily led by Event Driven Equity, Asset-Backed lending and Asset Backed Securities. Negative performance was marginally offset by positive contribution from Options Arbitrage, Short credit and Cash.
- The Fund has a diverse range of strategy exposures, with the major exposures to MBS, ABS, Fundamental MN Equity and Fixed Income Arbitrage Strategies. There were no significant changes to the strategy asset allocations in 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.

Schroder – UK Property



Source: Data provided by WM Performance Services, and Schroders

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of 1.8%.
- Over the last year, the Fund produced a return of 8.4%, outperforming the benchmark by 0.8%.
- Over the third quarter of 2011, the strongest contributor to performance came from the value add funds, which comprise 39% of the portfolio. The value add funds have also been the strongest contributor over the last 12 months.
- The Fund retains an overweight position, relative to the benchmark in central London offices. The West End of London PUT, which specialises in central London offices, was the strongest performer at the stock level.
- Schroder were appointed 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.

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 £60 million, or approximately 44.5% of the Fund's intended commitment of approximately £134 million. A total of £5.58 million was drawn down over the quarter. The draw downs commenced in September 2009.

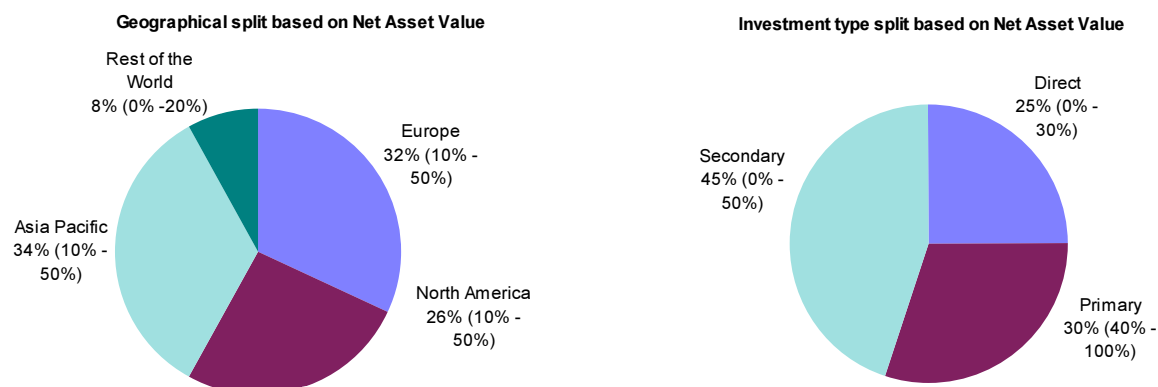
Partners have communicated that the extent of the draw downs to date are broadly as they expected, and they note that their strategy is to build a diversified portfolio in a disciplined manner, spread across different "vintage" years.

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

Partners Fund	Net Drawn Down (£ Million)	Net Asset Value as at 30 September 2011 (£ Million)
Asia Pacific and Emerging Market Real Estate 2009	9.69	11.13
Direct Real Estate 2011	2.69	2.63
Distressed US Real Estate 2009	10.87	11.01
Global Real Estate 2008	23.62	25.61
Global Real Estate 2011	5.57	5.22
Real Estate Secondary 2009	7.11	8.52
Total (£)	59.76	64.12

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

The investments in the funds noted above have resulted in a portfolio that was, as at 30 September 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

Changes to the geographical allocation to the portfolio over the quarter include an increase to Europe from 31% to 32%, to North America from 25% to 26% and the rest of the world from 4% to 8%. The exposure to the Asia Pacific region has reduced from 40% to 34% as a result of growth in assets in other geographies.

In terms of the portfolio allocation by investment type, the exposure to direct investments has increased from the position last quarter from 24% to 25%. The exposure to primary investments has decreased from 33% to 30%, and the exposure to secondary investments has increased from 43% to 45%.

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. In total, 53% of the commitments are allocated to primary investments.

Performance over Q32011

Please note that due to data timing issues, 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.

Distributions since inception total £4.61m, with £0.61m distributions over the most recent quarter.

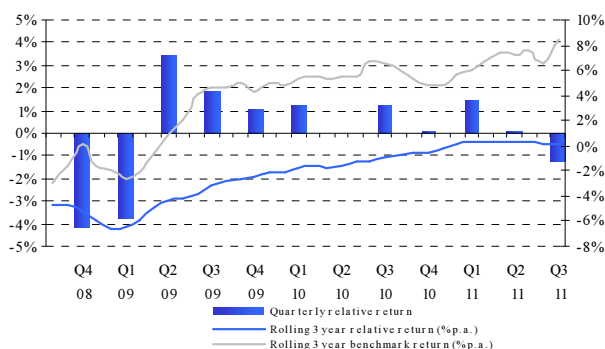
Conclusion

Over the quarter, Partners increased the amount drawn down by £5.58 million. There have been some changes to the asset allocations and the geographical split; however, these are at present due to the draw-downs from the amounts committed. There have been no further changes to the guidelines, and those implemented in October 2010 remain in place.

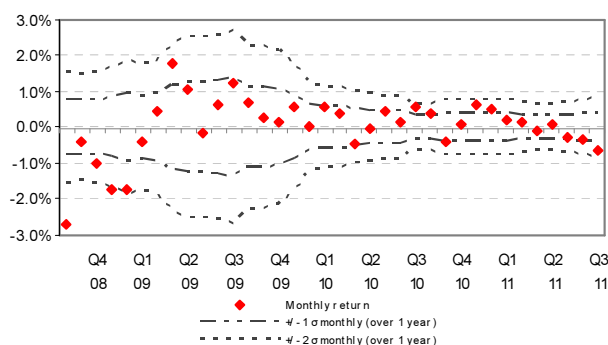
We have no concerns with Partners.

Royal London Asset Management – Fixed Interest

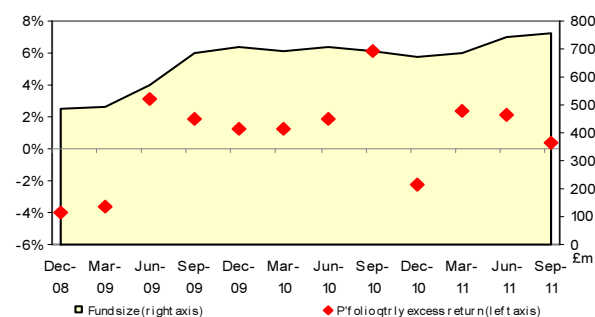
Relative returns #1



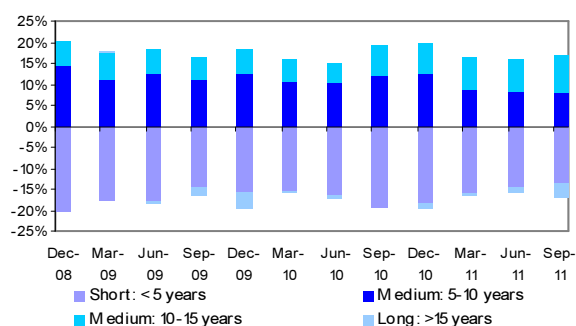
Monthly relative returns #2



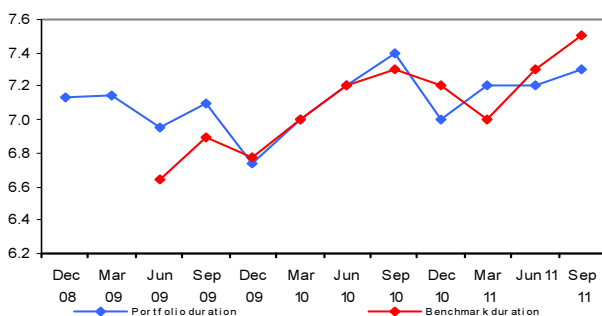
Performance v fund size #3



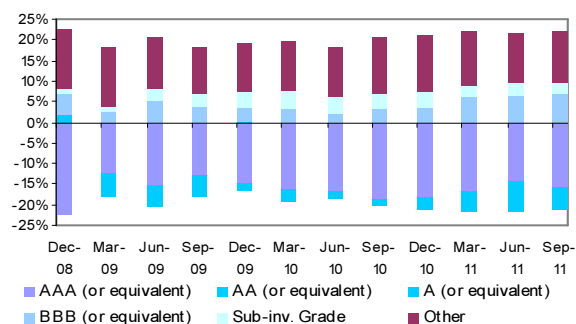
Relative Maturity exposure #8



Duration #10



Relative Ratings exposure #9

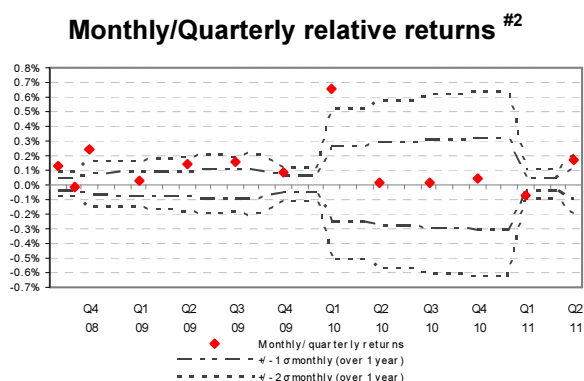
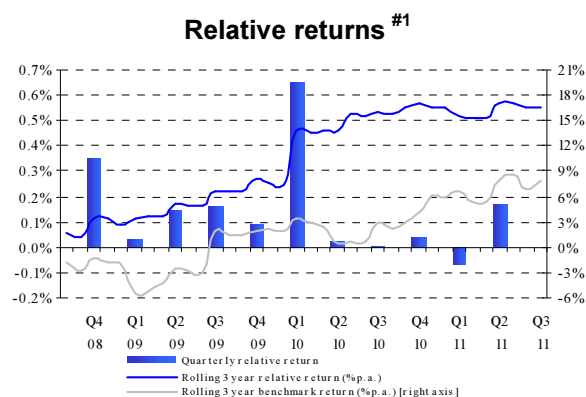


Source: Data provided by WM Performance Services, and RLAM

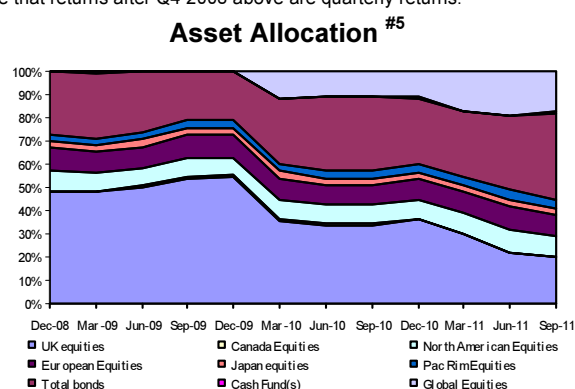
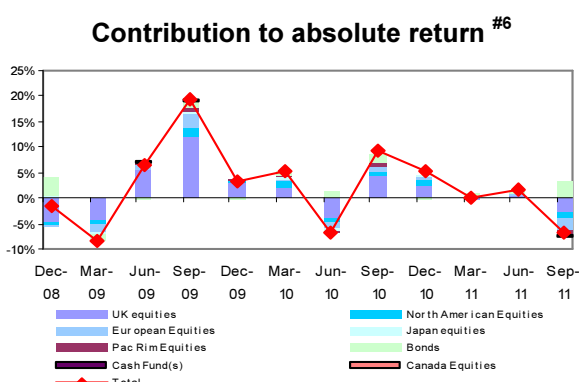
Comments:

- Over the last quarter, the Fund underperformed the benchmark by 1.2%, producing an absolute return of 0.4%.
- Over the last year, the Fund outperformed the benchmark by 0.4%, producing an absolute return of 2.4%. Over a rolling 3 year period, the Fund outperformed the benchmark by 0.2% p.a., producing an absolute return of 8.6% 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.
- Performance relative to the benchmark may be volatile in the short term due to RLAM's allocation to unrated bonds. These investments are not necessarily riskier or "junk status" and RLAM place their own rating on the bonds using their own research.

BlackRock – Passive Multi-Asset



Note that returns after Q4 2008 above are quarterly returns.

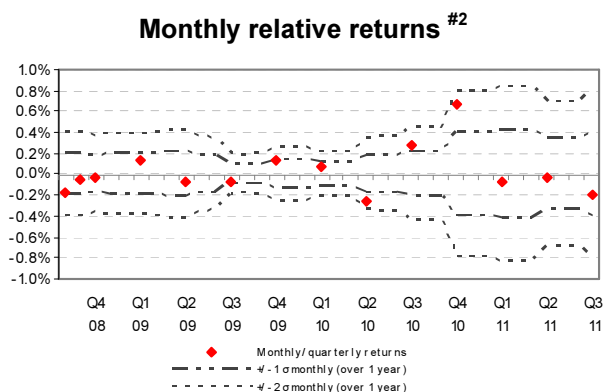
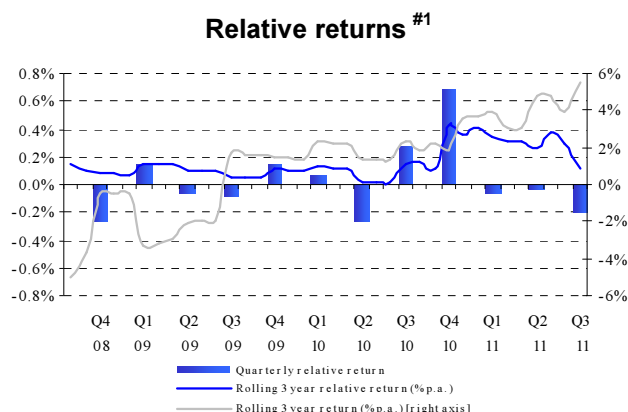


Source: Data provided by WM Performance Services, and BlackRock

Comments:

- Over the last quarter, the Fund tracked the benchmark, producing an absolute return of -6.8%.
- Over the last year, the Fund outperformed its benchmark by 0.1%, producing an absolute return of 1.1%. Over the last 3 years, the Fund outperformed the benchmark by 0.3% p.a., producing an absolute return of 8.4% 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.
- This is the fourth consecutive quarter where the allocation from UK equities has declined and allocation to UK Gilts and UK Corporate bonds has increased. Bond allocation now stands at 38.0%. These changes are in line with the changes made to the total Fund strategic asset allocation and market movements.

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 underperformed the benchmark by 0.2%, producing an absolute return of 0.5%.
- Over the last year, the Fund produced a return of 3.6%, outperforming the benchmark by 0.2%. Over a rolling 3 year period, the Fund produced an absolute return of 5.6% p.a., and tracked the benchmark return.
- Over the quarter the Fund's holding in cash increased by approximately 9% as assets were liquidated to allocate to property investments.
- Over the quarter, the positive absolute return contribution to the total portfolio returns from UK Gilts (7.4%) was offset by negative absolute return contribution from the European, UK and US equities.

Appendix A – Market Events

UK market events – Q3 2011

- **Quantitative Easing:** The Bank of England announced plans of restarting its quantitative easing programme, injecting more money than market expectation. Bank of England policymakers have discussed pumping more electronic money into the economy than the £75 billion they agreed in October 2011.
- **Government Debt:** At the end of September 2011 UK national debt stood at £966.8 billion, or 62.6% of Gross Domestic Product.
- **Unemployment:** The number of people unemployed in the UK increased by 114,000 over the three months to August to reach 2.57 million - a 17 year high according to official figures. The unemployment rate for the three months to August 2011 was 8.1%. The number of people claiming Jobseeker's Allowance (the claimant count) increased by 17,500 in September 2011 to 1.60 million according to the ONS.
- **Manufacturing Sector:** The Purchasing Managers' Index ("PMI") manufacturing survey increased to a seasonally adjusted figure of 51.1 in September after declining to 49.4 in August. The 50-level being the point at which 'contraction' is deemed to become 'growth'. The average PMI reading in Q3 2011 (50.0) was well below on those of Q1 2011 (59.4) and Q2 2011 (52.7).
- **Inflation:** CPI annual inflation of 5.2% in September 2011 was highest since September 2008, up from 4.5% in August 2011. RPI annual inflation of 5.6% was the highest reading since June 1991, up from 5.2% in August 2011. The largest upward pressures to the change in CPI inflation came from an increase in gas and electricity charges. Bills for gas and electricity have risen 9.9% in the past month and are up 18.3% on the year. There were large upward pressures also from air transport and communication services.
- **Gross Domestic Product ("GDP"):** In the third quarter of 2011, GDP increased by 0.5%. Britain's economy grew faster than expected in the third quarter but the decline in the manufacturing sector has accelerated and economists are warning the UK is on the verge of recession. Much of the growth in the third quarter was down to a jump in output from the service sector, which makes up just over three quarters of the economy.
- **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.

Europe market events – Q3 2011

- **European sovereign debt crisis:** European leaders said they secured a deal to reduce Greece's debt after they managed to arrive at an agreement on what they had billed as a blockbuster package to stem the Continent's debt crisis. The leaders had reached an agreement with private banks on a voluntary 50% reduction of Greece's debt in the hands of private investors. The leaders had also agreed to expand the firepower of the euro zone's bailout vehicle, known as the European Financial Stability Facility, by four - or five-fold — suggesting it could provide guarantees for around €1 trillion, or about \$1.4 trillion, of bonds issued by countries such as Spain and Italy.

- **Italy:** Italian bonds came under renewed pressure on 31st October 2011 as investors continued to question Europe's debt crisis plan and the willingness of the European Central Bank to keep up its bond purchasing programme. The yield on Italy's benchmark 10-year bond rose more than 15 basis points to 6.18%, with the spread over German bonds widening above 400 basis points. Italy's debt costs have steadily climbed back close to the levels of early August, when the ECB started intervening on the open market following a commitment by Silvio Berlusconi's centre-right government to implement structural reforms and cut public sector debt.
- **Greece:** The Greek prime minister's high-risk decision on 31st October 2011 to call a national referendum on the country's second international bail-out rattled global investors and left politicians reeling, amid doubts over the deal agreed at the previous week's Brussels summit. George Papandreou shocked both his own Pan-Hellenic Socialist Movement (Pasok) and the opposition conservatives by opting for a plebiscite in a move aimed at defusing mounting pressure from his party to hold an early election. The Premier's move reinforced concerns that Greece's fraught domestic politics are spiralling out of control amid growing popular anger over public sector job cuts and tax increases. Strikes and violent demonstrations have become frequent in Athens and other cities. Shares slumped on fears that a "no" vote by the Greek people could lead to a messy default by Athens triggering sovereign debt contagion through the financial system.
- **Spain:** Spain saw its credit rating cut by two notches on 19th October 2011 with a negative outlook on the new rating, as Moody's warned that the country risked being sucked deep into the European debt crisis. The agency raised the pressure on EU leaders prior to this weekend's crucial summit by cutting Spain's credit rating to A1, its fifth highest rating, from Aa2. Moody's pointed to Spain's low growth prospects and high levels of debt. Spain's government is aiming to cut its deficit to 6% in 2011, from 9.0% in 2010. The Spanish unemployment rate has soared to 21.0%, with 4.2 million people now officially out of work. This has led to an increase in bad debts across Spain's banking sector, as people find they are unable to meet repayment costs. The previous week, both S&P and Fitch cut their rating on Spain, leaving the country at AA-, their fourth-highest rating.
- **France:** In mid September 2011, Credit rating agency Moody's has downgraded two French banks after reviewing their exposure to Greek debt. Credit Agricole was cut from Aa1 to Aa2 and Societe Generale from Aa2 to Aa3. A third bank, BNP Paribas, was kept on review for a possible downgrade. European stocks tumbled and the euro dropped against the dollar on 14th October 2011, after France was given a warning over its AAA rating by Moody's. The rating agency said the country's financial strength had weakened and the deterioration in government debt meant it was now among the weakest countries with the top rating. Finance Minister Francois Baroin said the government would do everything to make sure France was not downgraded.
- **Unemployment:** The EU27 unemployment rate was at 9.5% in August 2011, unchanged compared with July 2011. Among the Member States, the lowest unemployment rates were recorded in Austria (3.7%), the Netherlands (4.4%) and Luxembourg (4.9%), and the highest in Spain (21.2%), Greece (16.7% as at June 2011) and Latvia (16.2% as at June 2011).
- **Services and Manufacturing Sectors:** The Eurozone composite PMI fell to 47.2 in October 2011 from 49.1 in September 2011. Manufacturing PMI fell to 47.3 from 48.5 in September 2011 while services PMI declined to 47.2 from 48.8 in September 2011.
- **Inflation:** The inflation rate in the Euro area was reported at 3.0% in September 2011.
- **GDP:** GDP growth for the third quarter was not available at the time of writing, although for the second quarter of 2011, this was 0.2%.

- **Interest Rate:** The European Central Bank's base rates remained unchanged at 1.5% in October 2011.

US market events – Q3 2011

- **Unemployment:** The rate of unemployment in the US decreased from 9.2% in June 2011 to 9.1% in September 2011. Nonfarm payroll edged up by 103,000 in September 2011.
- **Manufacturing and Industrial Production:** Industrial production increased 0.2% in September 2011, being unchanged since August 2011. For the second quarter as a whole, total industrial production increased at an annual rate of 5.1%. In the manufacturing sector, output moved up 0.4% in September 2011 after having gained 0.3% in August 2011.
- **Inflation:** The US CPI rate increased from 3.6% in June 2011 to 3.9% in September 2011.
- **GDP:** US real GDP increased by 2.5% over the third quarter of 2011, against a 1.3% increase in the second quarter.
- **Interest Rate:** The Federal Reserve continues to hold interest rates at 0.25%.

Emerging Markets market events – Q3 2011

- The performance of emerging market equities was driven by global growth and fears over the world economy. This caused the stocks of those economies most exposed to the West, such as China, Korea and Taiwan, to suffer the biggest losses during the quarter. Sentiment in the Chinese stock market was also hurt by signs of weakness in the country's economy, as well as further interest rate increases as the government battled to get inflation under control. Similarly in India, the central bank has raised interest rates 13 times since March 2010 amid inflation fears.
- India's inflation rate accelerated to a 13-month high of 9.8% in August 2011, highlighting the dilemma facing policy-makers as they wrestle with the twin woes of rising inflation and slowing economic growth. The higher-than-expected inflation figures up from 9.2% came just two days after data showed that India's industrial production growth slowed sharply in July to a mere 3.3%, down from 8.8% in June 2011. The industrial production growth for the month of August 2011 stands at 4.1%.
- Thailand's prime minister has warned that it will take the country three months to recover from the worst floods in decades, even though the capital's central districts have thus far escaped being inundated. Nearly 400 people have been killed by the flooding in the country since July, when heavy monsoon rains began pounding the region. More than 1,000 factories have been closed, leading to global shortages of hard-disk drives and car parts, and a quarter of the rice crop has been destroyed in the world's biggest rice-exporting nation. The Thai central bank slashed its gross domestic product growth forecast for this year to 2.6% from 4.1% and warned that output could be downgraded again.
- The International Monetary Fund cut its China growth estimates for this year and next and indicated that a stronger yuan would help to contain inflation and rebalance the economy. Gross domestic product will grow 9.5% this year, less than a June estimate of 9.6%; the 2012 forecast was lowered to 9.0% from 9.5%. China is also battling inflation which stood at 6.1% in September 2011, well above the government's 4.0% target for the year.

Global summary – 1 year

Economy

- The rate of inflation, as measured by the Consumer Prices Index ("CPI") rose from 3.1% in September 2010 to 5.2% in September 2011. Although the Bank of England's Monetary Policy Committee ("MPC") kept interest rates on hold at 0.5% over the year it restarted its programme of quantitative easing in Q3 2011 and unveiled plans to increase the size from £200 billion to £275 billion. The extension is the first change to the programme since November 2009 and provided the clearest signal yet that the Bank of England is concerned the UK is on the brink of a double-dip recession.
- Gross Domestic Product (GDP) grew at an annualised rate of 0.5% over the year to 30 September 2011. GDP turned negative in the fourth quarter of 2010 but fears of a double recession has begun to return despite the first three quarters of 2011 seeing positive economic growth. Analysts expect conditions in the UK economy to remain challenging over Q4 2011 and into 2012 as the crisis in the Eurozone poses a danger to economic growth.
- The Office for National Statistics ("ONS") reported that the unemployment rate had risen to 8.1% with the number of people unemployed reaching 2.57 million, a 17 year high. Youth unemployment is a particular problem with the total of 16 to 24 year olds unemployed reaching a record high of 991,000 in the quarter, which equals 21.3% of that age group. The number of people out of work and claiming benefits rose to 1.6 million in September.
- 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 3.0% during 2011, and inflation will not fall back. However at its November meeting the ECB has announced a 0.25% reduction in interest rates back down to 1.25% citing the ongoing financial crisis in the Eurozone.
- The US Federal Reserve announced a new stimulus programme, dubbed "operation twist", which involves the Federal Reserve selling \$400 billion of Treasury bonds with maturities of 3 years or shorter and purchasing an equivalent amount of Treasury bonds with maturities of between 6 and 30 years. In addition the central bank decided to reinvest principal payments from its holdings of agency debt and MBS into agency mortgage backed securities, rather than into Treasuries in an effort to support the housing market.
- Concerns that Greece will default intensified in the third quarter as fears that many major banks would suffer serious losses because of their holdings of Greek government debt. These fears were exacerbated by the problems at the Franco-Belgian bank, Dexia, which has a €3.4bn exposure to Greek debt, a problem which has led to the French and Belgian governments stating that they would prevent a collapse of the bank. The downgrade of Italian government debt by Moody's also reignited fears that a Greek default might have a domino effect on other sovereign bond markets.
- The Portuguese government followed their Greek and Irish counterparts 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. Commentators fear that the current measures have just moved the default of Greece "down the road" were realised in the third quarter of 2011. After the 30 September 2011, a further bailout package has been announced for Greece, which includes a 50% hair cut on government debt.

- The pound depreciated against the US Dollar and Yen over the year but strengthened against the Euro. The sovereign debt crisis facing the Eurozone was the main driver in the depreciation of the Euro against Sterling.
- Economic Growth has slowed in Emerging Markets following tightening monetary policies against the background of increasing inflationary pressures. 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. However Emerging Market governments such as the Chinese Government have invested billions into infrastructure programmes to stimulate its economy. Meanwhile, the government has made a major effort to transform the economy away from its reliance on exports and towards stronger domestic consumption. Emerging Market countries have a more than manageable debt to GDP ratio, unlike certain Western economies such as Greece and Italy.

Equities

- The performance of equities over the year has been dominated by events in Q3 2011, with political differences in the US and the sovereign debt crisis in the Eurozone. The global equity markets fell sharply in late July and early August and were extremely volatile over the third quarter.
- The performance of global equities over the year to 30 September 2011 has been extremely volatile, with the UK equities producing a return of -4.4% and Europe ex UK equities performing poorly with a return of -13.6%, on fears about the stability of the banking system. This was driven by the political uncertainty in the US and the sovereign debt crisis facing the Eurozone. In Sterling terms US equities have produced a return of 2.1% and Japan achieved a return of 1.9%. The equity markets in the Asia Pacific ex Japan and Emerging Markets regions produced returns of -11.7% and -15.3% respectively.

Fixed Interest

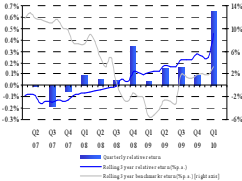
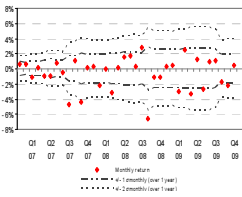
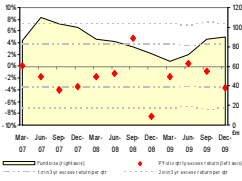
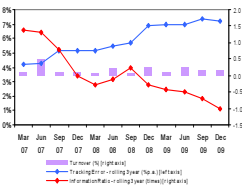
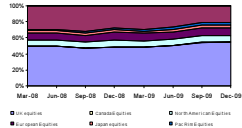
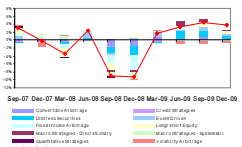
- Against the turmoil in the equity markets and the government bond markets in the Eurozone, the UK gilt market was perceived to be a safe haven and produced a return of 11.2% over the year. Corporate bonds produced a return of 3.3%, driven by corporate restructuring that has resulted in strong balance sheets, strong cash flow and healthy margins.
- Gilt yields fell amid the "flight-to-quality", caused by the continued uncertainty in the European bond markets. Italian bond yields have reached a record level in Q3 2011 and the sovereign debt crisis in Greece has continued to dominate headlines in over Q2 and Q3.
- Index-linked fixed interest assets produced a return of 13.6% over the year. Annual inflation rose above 5% as at 30 September 2011, a result of rising utility bills and the rising cost of household goods. However the Bank continues to believe annual inflation will fall sharply next year and could dip below the 2% target.
- 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 keep interest rates at 1.5% is a 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 government bonds has reached a record level.

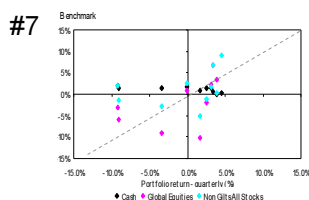
Alternative Asset Classes

- Commodities produced a 4.1% return over the year. The price of gold has increased dramatically over the year, however has been volatile over Q3, peaking toward the end of August and significantly falling over the month of September on hopes that the European Finance Ministers were making progress towards solving the Eurozone sovereign debt crisis.
- Commercial property continued its upward trend over the year producing a return of 8.7%, with rental income the main driver of performance.
- Hedge funds produced a positive absolute return over the year but lagged certain equity regions.

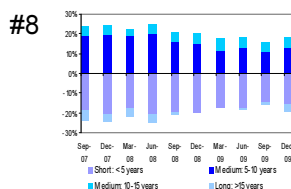
Appendix B – Glossary of Charts

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

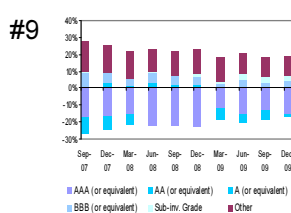
Reference	Description
<p>#1</p> 	<p>This chart shows the quarterly relative return (blue bars) and rolling 3 year relative return (blue line) for the manager over 3 years/since inception. This shows the ability of the manager to achieve and outperform the benchmark over the medium term. The rolling 3 year benchmark absolute return (grey line) is overlayed to provide a context for relative performance, e.g. consistent underperformance in a falling market.</p>
<p>#2</p> 	<p>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).</p>
<p>#3</p> 	<p>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.</p>
<p>#4</p> 	<p>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.</p>
<p>#5</p> 	<p>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.</p>
<p>#6</p> 	<p>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.</p>



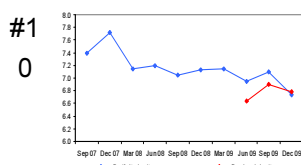
This chart plots the quarterly returns of the fund against quarterly returns of various indices. Any plots on the diagonal line represent the fund and the index achieving the same quarterly return - any below the line represents underperformance relative to the index, above the line represents outperformance.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



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.



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.



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

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Appendix C – 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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