



## Teesside Pension Fund

### Quarterly Investment Report - Q3 2018

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## Note

1) Border to Coast

# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£0
Inflows	£1,234,830,202
Outflows	£0
Net Inflows / Outflows	£1,234,830,202
Realised / Unrealised gain or loss	£4,081,198
Value at end of the quarter	£1,238,911,401

The Teesside Pension Fund made its initial investment of £1,200m with Border to Coast in the UK Listed Equity Fund on 4 July. Subsequent investments were made as follows:

- £9m on 13 July
- £5m on 31 August
- £20m on 21 September

Over the period to the end of Q3 2018 the Fund produced a return of 0.33% above the benchmark.

### Note

1) Source: Northern Trust

2) Performance start state 26/07/2018

3) Returns for periods greater than one year are annualised

# Portfolio Analysis - Teesside Pension Fund at 30 September 2018

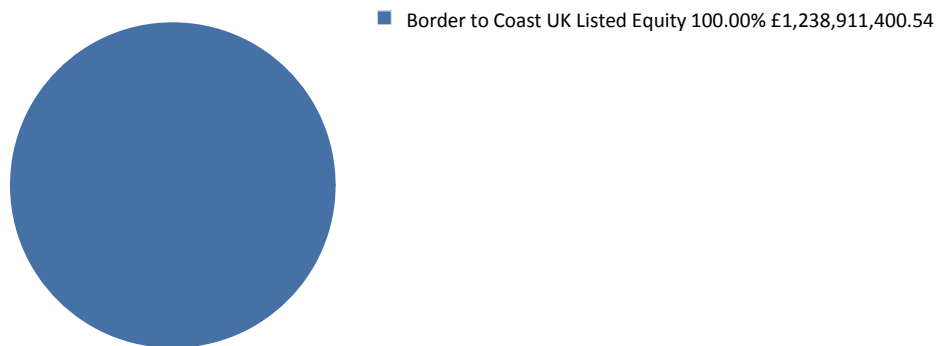
## Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,238,911,400.54	100.00

## Available Fund Range

Fund
Border to Coast UK Listed Equity

## Teesside Pension Fund - Fund Breakdown



### Note

1) Source: Northern Trust

## Portfolio Contribution - Teesside Pension Fund at 30 September 2018

Fund	Portfolio weight (%)	Fund return (net) over the quarter (%)	Benchmark return over the quarter (%)	Excess return (%)	Contribution to performance over the quarter (%)
Border to Coast UK Listed Equity Fund	100.00	(0.68)	(1.02)	0.33	(0.68)
<b>Total</b>	<b>100.00</b>	<b>(0.68)</b>			

The Border to Coast UK Listed Equity Fund was ahead of its benchmarks over the quarter. The Fund returned -0.68% from inception to the quarter end, which was 0.33% ahead of the FTSE All Share Index.

### Note

1) Source: Northern Trust & Border to Coast

2) All returns shown are from the performance inception date of 26/07/2018 up to the end of the quarter.

## Valuation Summary at 30 September 2018

Fund	Market value at start of the quarter			Inflows (GBP)	Outflows (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter		
	GBP (mid)	Total Weight (%)	Strategy Weight (%)				GBP (mid)	Total Weight (%)	Strategy Weight (%)
<b>Border to Coast UK Listed Equity</b>	<b>0.00</b>	<b>0.00</b>		<b>1,234,830,202.10</b>		<b>4,081,198.44</b>	<b>1,238,911,400.54</b>	<b>100.00</b>	
<b>Total</b>	<b>0.00</b>	<b>0.00</b>		<b>1,234,830,202.10</b>		<b>4,081,198.44</b>	<b>1,238,911,400.54</b>	<b>100.00</b>	

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Inflows shown represent value of assets transferred in at the start of the transition period

## Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 30 September 2018

Fund	Inception to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity Fund	(0.68)	(1.02)	0.33	--	--	--	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) All returns shown are from the performance inception date of 26/07/2018 up to the end of the quarter.
- 4) Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance
- 5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

## Summary of Performance - Funds (Gross of Fees) Teesside Pension Fund at 30 September 2018

Fund	Inception to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity Fund	(0.68)	(1.02)	0.34	--	--	--	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) All returns shown are from the performance inception date of 26/07/2018 up to the end of the quarter.
- 4) The performance shown above does not include the costs of operating the ACS such as the investment management, depositary and audit fees.
- 5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

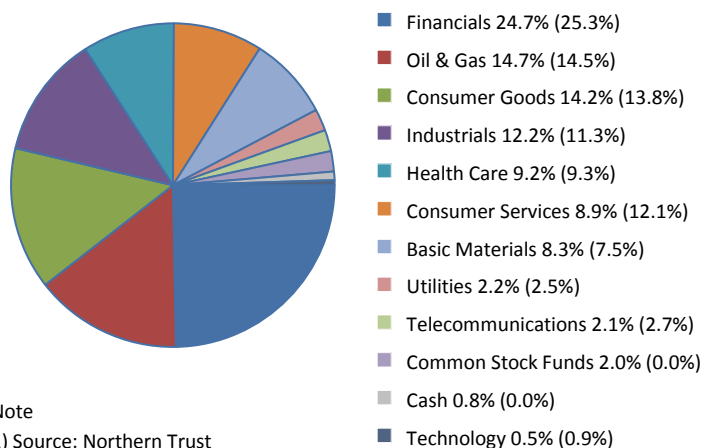


# Border To Coast UK Listed Equity Fund at 30 September 2018

## Largest Relative Over/Underweight Sector Positons (%)

Common Stock Funds	+2.05
Industrials	+0.87
Basic Materials	+0.83
Consumer Goods	+0.45
Oil & Gas	+0.22
Consumer Services	-3.19
Financials	-0.62
Telecommunications	-0.61
Technology	-0.41
Utilities	-0.34

## Sector Portfolio Breakdown



Note

1) Source: Northern Trust

## UK Listed Equity Fund

The Border to Coast UK Listed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE All Share Index by at least 1% per annum over rolling 3 year periods (before calculation of the management fee).

The majority of the Fund's performance will arise from stock selection decisions.

The Fund generated a total return of -0.68% since inception (26<sup>th</sup> July 2018) compared to -1.02% for the benchmark, resulting in 33bps of out-performance.

### Sector Weights:

**Mutual Funds (+)** – exposure to smaller companies and sector-specialist investments via collective vehicles.

**Industrials (+)** – diversified sector benefiting from increased global investment capital expenditure.

**Basic Materials (+)** – higher commodity prices resulting in strong cash generation enabling significant debt reduction, increased shareholder distributions, and capital investment.

**Telecommunications (-)** – increased regulatory pressure and significant capital expenditure requirement for full fibre rollout, 5G investment and spectrum costs expected to have a negative impact on returns.

**Financials (-)** – significant underweight in Banks, due to concerns over UK consumer debt and Brexit uncertainty, partly offset by overweight positions in Insurers and Wealth Managers as they are expected to benefit from increase in Asian and Emerging Market wealth.

**Consumer Services (-)** – high street expected to continue to suffer from pressure on UK consumer discretionary spending and high occupancy costs, remaining structurally challenged by increased online penetration.

## Border To Coast UK Listed Equity Fund Attribution at 30 September 2018

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark Weight (%)	Benchmark return (%)	Contribution to performance (%)
Reckitt Benckiser	2.46	11.86	1.80	11.91	0.08
British American Tobacco	2.57	(9.73)	3.36	(9.78)	0.08
Jardine Lloyd Thompson	0.27	36.14	0.09	36.64	0.07
Tullow Oil	0.61	17.54	0.15	17.70	0.07
Wood Group	0.56	23.08	0.21	23.00	0.07

**Reckitt Benckiser (overweight)** reported an acceleration in sales growth driven by the integration of the infant nutrition business, Mead Johnson, which was acquired in 2017.

**British American Tobacco (underweight)** under-performed due to an acceleration in the decline rate in conventional smoking, a weak strategy for new generation products, and concerns regarding an over-levered balance sheet.

**Jardine Lloyd Thompson (overweight)** appreciated following the agreed all-cash bid from US peer, Marsh & McLellan, at a 33% premium to the undisturbed share price.

**Tullow Oil (overweight)** and **Wood Group (overweight)** benefited from the continued strength in oil prices.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 30 September 2018

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark Weight (%)	Benchmark return (%)	Contribution to performance (%)
Travis Perkins	0.59	(20.32)	0.11	(20.37)	(0.12)
Sky	0.00	0.00	0.73	14.73	(0.10)
Antofagasta	0.99	(12.13)	0.12	(12.18)	(0.10)
Glencore	0.00	0.00	1.59	4.97	(0.09)
Fresnillo	0.47	(19.26)	0.06	(19.19)	(0.09)

**Travis Perkins (overweight)** under-performed due to poor trading in its consumer division (Wickes) offsetting positive performance elsewhere in the company.

**Sky (underweight)** benefited from an auction process, ultimately won by Comcast, which significantly exceeded market expectations.

**Antofagasta (overweight)** under-performed due to concerns regarding its ability to meet copper production targets.

**Glencore (underweight)** outperformed its mining peers due to the strength in the price of thermal coal.

**Fresnillo (overweight)** under-performed due to a weakness in silver prices which was exacerbated by a short seller.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund at 30 September 2018

### Largest Relative Over/Underweight Stock Positions (%)

Intercontinental Hotels	+1.15
Schroder UK Smaller	+0.94
BHP Billiton	+0.91
Impax Environmental Markets	+0.89
Antofagasta	+0.87
Glencore	-1.59
BP	-0.94
British American Tobacco	-0.79
Sky	-0.73
Barclays	-0.64

### Top 5 Holdings Relative to Benchmark:

**Intercontinental Hotels** – operates a return-enhancing capital-light franchise model with significant US exposure and a substantial pipeline of capacity additions, particularly in Asia.

**Schroder UK Smaller Companies Fund** – historically strong performing unit trust with a robust investment process providing exposure to smaller companies.

**BHP Billiton** – diversified commodity exposure operating at the lower end of the cost curve with strong cash generation enabling debt reduction.

**Impax Environmental Markets** – historically strong performing investment trust focused on energy efficiency and renewable energy investments.

**Antofagasta** – attractive long-term demand for copper and operating at the lower end of the cost curve.

### Bottom 5 Holdings Relative to Benchmark:

**Glencore** – higher risk commodity company with significant operations in Democratic Republic of Congo and a poor ESG score relative to peer group.

**BP** – preference for Royal Dutch Shell with its broader diversification across oil and gas and its exposure to liquefied natural gas.

**British American Tobacco** – traditional tobacco sales under pressure and a weak strategy for new generation products.

**Sky** – company has been subject to a takeover bid for a number of months, which has now been finalised. There was little value on a stand-alone basis.

**Barclays** – preference for Asia-focused banks and some concerns regarding unsecured debt growth and ongoing litigation.

Note

1) Source: Northern Trust

## Market Background at 30 September 2018

Global economic growth prospects have deteriorated in the last few months and leading indicators suggest that these trends may continue. The slowdown has been broad-based with the larger economies, the exception being the US, struggling to maintain the relatively strong growth experienced in 2017. Some of the reasons for the recent economic lethargy include the increased rhetoric around trade disputes, Brexit, rising interest rates and the strong \$US. Plus China's shift from investment-led to consumption-led growth while concurrently reining in credit growth.

There have been some blow-ups in emerging markets, most notably in Argentina and Turkey which have been pursuing unorthodox monetary policy measures. Other emerging markets have also been dragged down with Brazil, India, Indonesia, and South Africa, among others, experiencing sharp currency falls. Although there are imminent elections in some of these countries - and others have sizeable current account deficits to finance - the market reaction does appear to be a little indiscriminate.

Despite these issues there is a risk of overplaying the negative. The US continues to benefit from loose fiscal policy, global GDP continues to grow, albeit below the long-term trend, unemployment rates have fallen to post-financial crisis lows, and wage growth is starting to accelerate. Despite this, inflation remains under control.

Interest rates are starting to rise, led by the US, but are unlikely to increase rapidly in Europe or Japan. In the UK, the Bank of England will be wary of acting aggressively pre-Brexit. Interest rates are rising in some emerging markets to counteract weaker exchange rates and, in some cases such as India and Turkey, to rein in inflation.

Equity markets continued to rise during the quarter with the MSCI ACWI generating a total return of 5.6%, although there was a marked difference between developed (+6.3%) and emerging (+0.2%) markets. However, there are some concerns over valuations - which are significantly above the long-term average - and earnings expectations as margins will come under pressure from rising wage costs. There is also likely to be a rotation away from bond proxies - i.e. those companies with high dividend yields and strong balance sheets - in favour of more value-oriented investments.

Bond yields have risen in the majority of markets as a result of monetary tightening - in response to stronger economic activity in developed economies and to support weaker currencies and combat higher inflation in emerging economies.

Note

1) Source: Border to Coast

## Border to Coast News

### People:

- Our first permanent Chief Investment Officer, Daniel Booth, started at Border to Coast on 3rd September. Daniel has significant experience across all asset classes and markets as well as in building investment functions for asset owners, joining us after leading the investment team responsible for Saudi Aramco's pensions, insurance and endowments portfolios. John Harrison formally handed over the CIO reins to Daniel at the end of September and will continue with us in an advisory capacity to the end of the year.
- We also welcomed three new portfolio managers: Julian Green (Emerging Markets), Anthony Petalas and Ryan Boothroyd (Externally Managed); along with Sarah-Jane Burns (Head of Research); and Kelly Rose (Research Manager) during September. These are significant additions to our investment team, bringing new capabilities to support our Partner Funds' objectives.
- We received confirmation from the FCA and shareholders that Councillors John Weighell and Sue Ellis were approved as Directors.

### Investment Funds:

- Quarter two saw the successful launch of our first two investment funds – the UK Listed Equity Fund and the Overseas Developed Markets Equity Fund – both of which are managed directly by our internal investment team. These were closely followed by our internally-managed Emerging Markets Equity Fund on 2 October.
- Following a process of in-depth consultation with our Partner Funds and a thorough procurement exercise, we expect our first fund to incorporate external fund managers – the UK Listed Equity Alpha Fund – to launch in November.
- Ongoing workshops with our Partner Funds and their advisors have been extremely helpfully in developing our offering for further funds, such as the externally managed Global Equity Alpha Fund and our Alternatives platform

- The Alternatives Platform will be a significant piece of work, requiring a new legal structure and operating system to be implemented.

### Responsible Investment:

- We have developed a revised Responsible Investment Policy, taking into account feedback from Partner Fund Officers, our engagement and voting partner Robeco, LGIM and ShareAction. The revised policy will give us a strong base for evidencing compliance with the UN Principles of Responsible Investment, to which we hope to become a signatory in 2019.

### Annual Conference:

- Our first annual conference will take place in Leeds on 8-9 November. We have put together a really topical agenda with a good mix of Border to Coast and external speakers, including our external asset managers – and we hope to see as many of you there as possible.

## Disclosures

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).  
Registered in England (Registration number 10795539) at the office 5th Floor, Toronto Square, Leeds, LS1 2HJ

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