

Border to Coast Pensions Partnership Ltd



Q4 2018 sleeve update

Overseas Developed Markets Fund: United States Sleeve

- Key Contributors to Performance

The United States sleeve returned -11.51% over the fourth quarter, which was 0.06% below its benchmark return of -11.45%.

Top 5 contributors to performance	Commentary
McDonalds (overweight)	Benefited from a rotation to defensive stocks and the expected operational benefits from the extensive store refurbishment investment programme.
Clorox (overweight)	Benefited from a rotation to defensive stocks and has been able to successfully pass on price increases without a detrimental impact on sales volumes in contrast to other consumer staples stocks.
Pfizer (overweight)	Benefited from an improved outlook for the product pipeline and reassurance that the company is not looking to engage in major M&A activity.
American Tower (overweight)	Delivered strong results in the last quarter resulting in an increase in earnings estimates and provides defensive growth with the continued industry infrastructure investment from growth in mobile data and the roll-out of 5G technology.
Procter and Gamble (overweight)	Out-performed due to its defensive characteristics and better than expected revenue growth during the last quarter as issues in razor and nappies categories appear to have been contained.
Top 5 detractors from performance	Commentary
Activision Blizzard (overweight) &	Under-performed due to the rotation away from momentum and growth companies with high valuations into defensive companies with lower valuations as well as a slowdown in in-game purchases. Activision also suffered from weaker than expected sales from a new title and a further product delay.
Electronic Arts (overweight)	
Hess (overweight)	Under-performed due to the sharp fall in oil prices during the quarter.
Nvidia (overweight)	Under-performed due to a general de-rating of highly valued technology stocks, as well as an unexpected build in inventory levels due to a fall in demand for their processors in cryptocurrency mining which is expected to take a couple of quarters to clear.
Vanguard Mid-Cap ETF (overweight)	Under-performed due to relative weakness in smaller companies. The portfolio has an overall under-weight position to smaller companies and so benefited from this relative weakness.

Overseas Developed Markets Fund: United States Sleeve

- Largest Relative Stock Weights

Top 5 relative stock weights	Rationale
Vanguard Mid-Cap ETF	Provides exposure to the smaller companies in the US index.
Alphabet A share	Zero holding in C share resulting in broadly neutral net exposure to Alphabet overall.
Pfizer	Relatively defensive company with strong balance sheet and attractive relative valuation, and a strong product pipeline with some near term catalysts.
McDonalds	Company with defensive characteristics expected to benefit from higher disposable income from the lower income demographic and operational benefits from extensive US refurbishment programme.
Walt Disney	Strong media franchise with unrivalled content which has under-performed in the short term due to concerns regarding the structural decline in US cable subscriptions. This should be mitigated through the development of its own direct to consumer product.

Bottom 5 relative stock weights	Rationale
Alphabet C share	Exposure in A share resulting in broadly neutral net exposure to Alphabet overall.
Mastercard	Preference for Visa, the other global payment network company due to relative valuation.
Comcast	Sub-scale studio business and growth in traditional broadband service constrained due to already high penetration rates and increased competition in fast fibre and 5G wireless.
PepsiCo	Structural risks of consumers moving away from carbonated sugary drinks not reflected in current valuation.
Walmart	Relatively high valuation, weak trading environment, and risks around growth in online offering.

Major transactions over the quarter	Type	Rationale
Gilead	£7.2m purchase	Increasing exposure to defensive Healthcare sector, strong balance sheet and high dividend yield, and positive pipeline activity.
Pfizer	£2.8m purchase	Increasing exposure to defensive Healthcare sector, strong product pipeline.
Worldpay	£3.2m sale	Rotation from growth companies to more defensive companies, company had reached valuation target.

Overseas Developed Markets Fund: Europe ex-UK Sleeve

- Key Contributors to Performance

The Europe ex-UK sleeve returned -12.63% over the fourth quarter, which was -1.59% below its benchmark return of -11.04%.

Top 5 contributors to performance	Commentary
Orange (overweight)	Out-performed due to its strong balance sheet, attractive yield, and defensive characteristics.
Engie (overweight)	Out-performed due to its defensive characteristics and relative valuation, as well as the intention to dispose of non-core operations.
Novo (overweight)	Benefited from positive trial results which could result in the extension of a product's applicability and a cost reduction strategy.
Munich Re (overweight)	Has a strong balance sheet and a well covered dividend. Delivered strong results in the last quarter that were significantly higher than market expectations.
Ahold Delhaize (overweight)	Delivered strong results in the last quarter as a result of stronger than expected US sales and margin improvement driven by food inflation.
Top 5 detractors from performance	Commentary
Schroder European Smaller Companies (overweight)	Significantly under-performed in a weak market due to the relative weakness of smaller companies in general and technology companies in particular.
Wirecard (overweight)	Under-performed due to the global sell-off in technology stocks driven by a sharp rotation away from highly valued, high growth momentum stocks.
Enel (underweight)	Out-performed in line with the Utilities industry due to strong results during the quarter and a positive reaction to the new strategic plan.
Plastic Omnium (overweight)	Under-performed due to impact of new European emissions testing requirements and a slowdown in Chinese auto sales.
Airbus (overweight)	Under-performed due to concerns over the company's ability to meet production targets and a US Department of Justice investigation into alleged bribery to secure aircraft sales.

Overseas Developed Markets Fund: Europe ex-UK Sleeve

- Largest Relative Stock Weights

Top 5 relative stock weights		Rationale
JP Morgan European Smaller Companies		Provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced.
NN Group		Synergies being generated from recent acquisition of domestic insurance competitor Delta Lloyd.
Airbus		Deliveries are increasing despite recent concern over production delays, which should result in higher cash flow generation through operational gearing.
Schroder European Smaller Companies		Provides exposure to smaller companies with weighting likely to be reduced. Note: the weighting to collective vehicles will be reduced over time.
Total		Increase in production should be beneficial for cash flow generation and increased exposure to gas provides diversification.
Bottom 5 relative stock weights		Rationale
Daimler		Weak balance sheet, slowdown in major markets, and adversely impacted by increased emissions testing requirements in Europe.
Enel		Higher risk profile due to large exposure to Italy with the risk of impact of political uncertainty as well as exposure to Latin America, particularly Brazil.
Zurich		High valuation relative to peers and over-ambitious profitability targets
Telefonica		Competitive pressure from new entrants in its major markets, Latin America impacted by currency weakness, and weak balance sheet.
EssilorLuxxotica		Significant integration risk from recent merger, little visibility on strategy and expected synergies, and high valuation.
Major transactions over the quarter		
	Type	Rationale
Bayer	£2.9m purchase	Moving to an overweight position due to relatively low valuation and conservative earnings forecasts.
HBM Healthcare	£2.8m purchase	Increasing exposure to defensive Healthcare sector which are expected to have more robust product pipelines.
Schroder European Smaller Companies	£4.7m sale	Reducing exposure to smaller companies through collective vehicles.

Overseas Developed Markets Fund: Japan Sleeve

- Key Contributors to Performance

The Japan sleeve returned -13.03% over the fourth quarter, which was -0.61% below its benchmark return of -12.42%.

Top 5 contributors to performance	Rationale
Don Quijote (overweight)	Out-performed due to its focus on discount retailing with defensive characteristics and the acquisition by Family Mart, another Japanese retailer, of a 20% stake at a significant premium to the prevailing market price.
Bandai Namco (overweight)	Out-performed due to better than expected results driven by an increase in demand for its specialist retail products.
NEC (overweight)	Benefited from a positive market reaction to its restructuring strategy.
Suntory Beverage (overweight)	Benefited from its defensive characteristics and increase in market share in non-alcoholic drinks despite a cautious trading update.
West Japan Railway (overweight)	Benefited from its defensive characteristics in line with the rest of the railway sector.
Top 5 detractors from performance	Rationale
Central Japan Railway (underweight)	Benefited from its defensive characteristics in line with the rest of the railway sector.
Bridgestone (underweight)	Out-performed despite recent cautious guidance and poor corporate governance.
Fast Retailing (underweight)	Out-performed despite weak trading statement possibly due to support from passive funds as it is a large index constituent.
JGC (overweight)	Suffered from the fall in oil prices which had an impact on its LNG business due to the linkage of gas prices to oil prices.
Softbank (overweight)	Under-performed due to its links to the Saudi regime and the fall in value of some of its technology investments.

Overseas Developed Markets Fund: Japan Sleeve

- Largest Relative Stock Weights

Top 5 relative stock weights	Rationale
Sony	Diversified portfolio, restructuring potential, and a strong gaming business.
Tokyo Electron	Long term structural growth drivers for semiconductors and high technological barriers to entry.
Nippon Shinyaku	Continued growth in core healthcare franchise, new product pipeline, and attractive valuation relative to the sector.
Murata Manufacturing	High market share in ceramic-based products, premium product, and exposure to structural growth in electric vehicles.
Keyence	Structural growth in factory automation and high market share in sensor products.

Bottom 5 relative stock weights	Rationale
KDDI	Lowest profitability of the three incumbents and recent entry of a fourth player could have an adverse impact.
Central Japan Railway	Portfolio exposure to railway companies is obtained via the two other major railway companies.
Fanuc	Keyence (large overweight) is considered to be a better quality company in that sector.
Recruit Holdings	Trades on premium valuation relative to peers in a difficult environment for recruitment.
Japan Tobacco	Lack of growth in next generation products.

Major transactions over the quarter	Type	Rationale
No significant transactions over the quarter.		

Overseas Developed Markets Fund: Asia Pacific ex-Japan Sleeve

- Key Contributors to Performance

The Asia Pacific ex-Japan sleeve returned -8.04% over the fourth quarter, which was -0.46% below its benchmark return of -7.57%.

Top 5 contributors to performance	Commentary
Xinyi Solar (overweight)	Out-performed due to recent announcement of a restructuring programme expected to release value from the group.
BHP (overweight)	Benefited from a strong iron ore price, the announcement of a special dividend, and a strong balance sheet.
Hyundai Mipo Dockyard (overweight)	Benefited from high market share in product tankers, a sub-sector subject to beneficial regulatory changes.
Samsung Electronics Prefs (underweight)	Suffered from weakness in technology stocks in general and weak pricing and outlook for DRAM chips.
Santos (underweight)	Suffered from the sharp fall in oil prices during the quarter.
Top 5 detractors from performance	Commentary
James Hardie (overweight)	Under-performed due to its exposure to weakening housing markets in Australia and US.
Samsung Electronics (overweight)	Suffered from weakness in technology stocks in general and weak pricing and outlook for DRAM chips.
Hong Kong and China Gas (underweight)	Out-performed due to its defensive nature despite a high relative valuation.
Commonwealth Bank of Australia (underweight)	Rebounded following significant weakness in the previous quarter and despite the risks of a slowdown in the Australian economy and the resultant impact on a highly valued housing market.
Woodside Petroleum (overweight)	Suffered from the sharp fall in oil prices during the quarter.



Overseas Developed Markets Fund: Asia Pacific ex-Japan Sleeve

- Largest Relative Stock Weights

Top 5 relative stock weights	Rationale
Samsung Electronics	Diversified portfolio, strong balance sheet, potential for increased shareholder returns, and low relative valuation notwithstanding short term issues in the smartphone market and DRAM chip pricing.
BHP	Beneficiary of strong iron ore price, strong cash generation and positive impact from recent restructuring resulting in increased distributions to shareholders.
CSL	Competitive advantage in the plasma market and strong earnings growth justifies relatively high valuation.
AIA	High market share in ceramic-based products, premium product, and exposure to structural growth in electric vehicles.
CK Hutchison	Strong cash generation, large discount to net asset value and potential for new CEO to restructure company and return capital to shareholders.

Bottom 5 relative stock weights	Rationale
Samsung Electronics Prefs	Exposure to Samsung via the ordinary shares.
Hong Kong and China Gas	Strong performing company but trades on a 30% premium to peers.
Commonwealth Bank of Australia & Westpac Banking	Structural underweight to Australian banks due to benign credit growth, a softening domestic housing market, and risk of increased regulatory oversight.
KT&G Group	Tobacco company that faces structural headwinds from growth in new products, increased regulation, and a lack of growth in main market.

Major transactions over the quarter	Type	Rationale
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No significant transactions over the quarter.

Disclosures

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