



# Teesside Pension Fund

## Quarterly Investment Report - Q1 2019

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# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£1,207,738,640
Inflows	£100,000,000
Outflows	£0
Net Inflows / Outflows	£100,000,000
Realised / Unrealised gain or loss	£124,497,772
Value at end of the quarter	£1,432,236,412

Over Q1 2019, Teesside's holdings performed as follows:

The UK Listed Equity Fund outperformed its benchmark by 0.63%  
The Overseas Listed Equity Fund outperformed its benchmark by 0.43%

Teesside made subscriptions totalling £100m over Q1 2019.

£50m from the Overseas Listed Equity Fund on 9 January 2019  
£50m from the Overseas Listed Equity Fund on 13 February 2019

Note

- 1) Source: Northern Trust
- 2) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
- 3) Returns for periods greater than one year are annualised
- 4) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

# Portfolio Analysis - Teesside Pension Fund at 31 March 2019

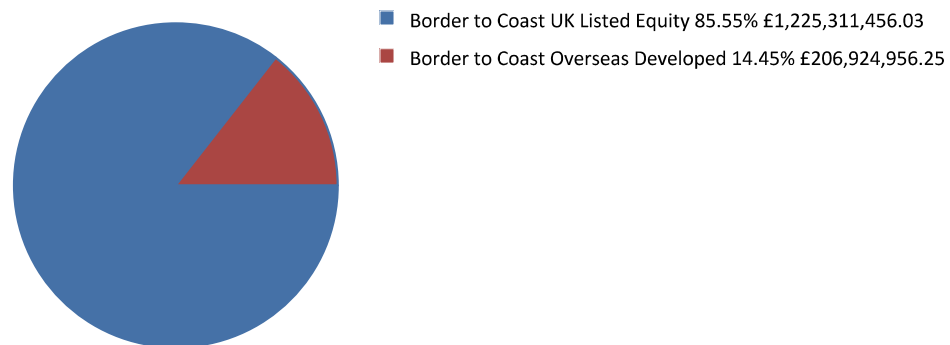
## Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,225,311,456.03	85.55
Border to Coast Overseas Developed	40% S&P 500, 30% FTSE Developed Europe Ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan	206,924,956.25	14.45

## Available Fund Range

Fund
Border to Coast UK Listed Equity
Border to Coast Overseas Developed
Border to Coast Emerging Markets Equity
Border to Coast UK Listed Equity Alpha

## Teesside Pension Fund - Fund Breakdown



Note

1) Source: Northern Trust

## Portfolio Contribution - Teesside Pension Fund at 31 March 2019

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	85.55	10.04	9.41	0.63	8.94
Border to Coast Overseas Dev Markets Equity	14.45	9.27	8.85	0.43	1.00
<b>Total</b>	<b>100.00</b>	<b>9.95</b>			

The UK Listed Equity Fund returned 10.04% over the quarter, which was 0.63% ahead of the FTSE All Share Index.  
The Overseas Listed Equity Fund returned 9.27% over the quarter, which was 0.43% ahead of the composite benchmark.

Overall, Teesside's investments with Border to Coast returned 9.95% during Q1 2019.

### Note

1) Source: Northern Trust & Border to Coast

## Valuation Summary at 31 March 2019

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 (%)
Border to Coast Overseas Developed Equity	94,189,618.04	7.80		100,000,000.00		12,735,338.21	206,924,956.25	14.45	
Border to Coast UK Listed Equity	1,113,549,022.27	92.20				111,762,433.76	1,225,311,456.03	85.55	
<b>Total</b>	<b>1,207,738,640.31</b>	<b>100.00</b>		<b>100,000,000.00</b>		<b>124,497,771.97</b>	<b>1,432,236,412.28</b>	<b>100.00</b>	

### Note

1) Source: Northern Trust

2) Values do not always sum due to rounding

## Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 31 March 2019

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity Fund	(1.78)	(2.80)	1.02	10.04	9.41	0.63	--	--	--	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	(0.89)	(0.91)	0.02	9.35	8.85	0.51	--	--	--	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund.
- 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 31 March 2019

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity Fund	(1.77)	(2.80)	1.03	10.04	9.41	0.63	--	--	--	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	(0.87)	(0.91)	0.04	9.36	8.85	0.51	--	--	--	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund.
- 4) The performance shown above does not include the costs of operating the ACS such as the investment management, depository and audit fees.
- 5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

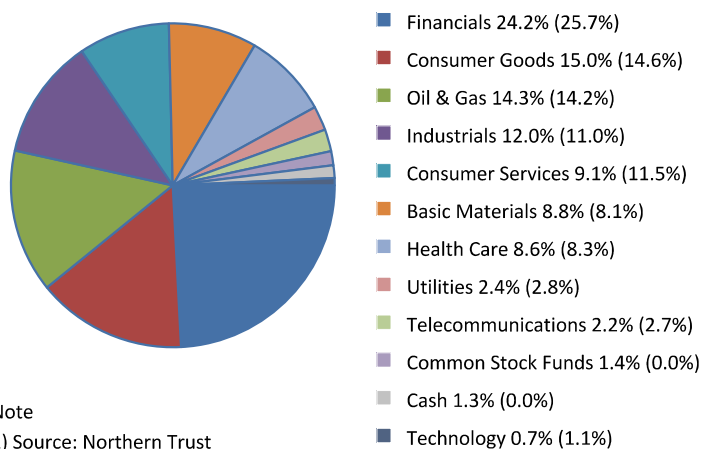


# Border To Coast UK Listed Equity Fund at 31 March 2019

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

Common Stock Funds	+1.43
Industrials	+1.06
Basic Materials	+0.75
Consumer Goods	+0.32
Health Care	+0.26
Consumer Services	-2.35
Financials	-1.55
Telecommunications	-0.50
Technology	-0.42
Utilities	-0.35

## 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 10.04% during the quarter compared to 9.41% for the benchmark resulting in 0.63% of out-performance.

### Sector Weights:

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

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

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

**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 (-)** – underweight 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 and remains structurally challenged by increased online penetration.

## Border To Coast UK Listed Equity Fund Attribution at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
International Airlines Group	0.00	0.00	0.36	(17.15)	0.11
Antofagasta	1.12	23.35	0.15	23.34	0.11
Next	0.82	39.70	0.33	39.81	0.11
Travis Perkins	0.65	27.83	0.15	28.13	0.09
Centrica	0.00	0.00	0.29	(15.34)	0.08

**International Airlines Group (IAG) (u/w)** – concerns over economic slowdown exacerbated by Brexit implications on international shareholding limits.

**Antofagasta (o/w)** – stronger than anticipated Chinese demand combined with industry supply constraints resulted in higher copper prices.

**Next (o/w)** – reported solid Christmas trading relative to market expectations, with online sales strength offsetting high street weakness, plus increased likelihood of soft Brexit.

**Travis Perkins (o/w)** – despite economic headwinds, current trading conditions were better than expected with the performance at Wickes stores stabilising.

**Centrica (u/w)** – regulatory price cap stricter than market had anticipated, putting pressure on future profit margins.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Ocado	0.00	0.00	0.27	73.48	(0.10)
British American Tobacco	2.66	29.46	3.22	29.83	(0.10)
Micro Focus	0.00	0.00	0.36	47.89	(0.10)
IP Group	0.21	(18.96)	0.04	(19.15)	(0.06)
3i Group plc	0.00	0.00	0.41	27.33	(0.06)

**Ocado (u/w)** – announced a number of contracts to build automated distribution centres, including a new supply agreement with, and investment from, Marks & Spencer.

**BAT (u/w)** – benefited from Food and Drug Administration (FDA) proposals to increasingly regulate new generation and flavoured products which is expected to benefit traditional tobacco product sales.

**Micro Focus (u/w)** – rate of decline in revenues slowed versus market expectations for this software and IT focussed company.

**IP Group (o/w)** – market concerns over capital requirements at a number of its underlying investments combined with the risk of selling pressure as its second largest holder, Woodford Investment, is liquidating holdings to meet investor redemptions in its own vehicles.

**3i Group (u/w)** – significant growth in net asset value due to positive news flow in its holding (33% of NAV) in Action, Europe’s leading non-food discounter.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund at 31 March 2019

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

Intercontinental Hotels	+0.99
Antofagasta	+0.97
Prudential	+0.82
BHP Group plc	+0.82
Impax Environmental Markets	+0.72
Glencore	-1.59
BP	-0.89
British American Tobacco	-0.57
Royal Bank of Scotland	-0.49
3i Group plc	-0.41

Note

1) Source: Northern Trust

### 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.

**Antofagasta** – attractive long term demand for copper driven by electric vehicles and Chinese infrastructure and operating at the lower end of the cost curve.

**Prudential** – exposure to long term wealth growth trends in Asia/ Emerging Markets in addition to significant US exposure and the imminent divestment of M&G, which should crystallise its inherent valuation.

**BHP Group** – diversified commodity exposure operating at the lower end of the cost curve with strong cash generation enabling increased dividends and share buybacks.

**Impax Environmental** – leading ESG-focused fund delivering strong long term outperformance.

### Bottom 5 Holdings Relative to Benchmark:

**Glencore** – higher risk commodity company with significant operations in Democratic Republic of Congo (ongoing US Department of Justice investigation in relation to acquisition of assets), 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.

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

**RBS** – preference for Lloyds (given government overhang and political risk) and Asian focussed banks.

**3i Group** – over-reliance on a single asset in the non-food retail space.

### Major transactions during the Quarter

#### **Purchases:**

**Barclays (£10.3m)** – reducing underweight to Banks sector ahead of potential softer Brexit.

**Tui (£9.0m)** – new holding in a company with an attractive valuation with growth potential for hotels and cruise divisions - added after a period of trading weakness.

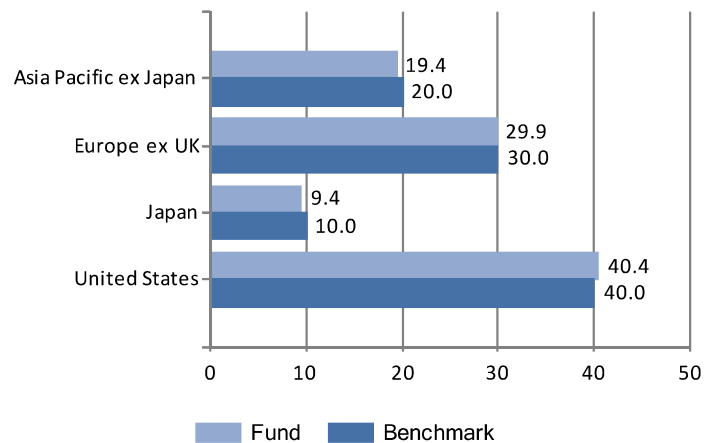
**DWF Group (£6m)** – new holding (IPO) in a consolidator of legal services companies in a strongly growing market.

**NCC Group (£5.9m)** – new holding in an independent provider of cybersecurity services offering long term growth and a software escrow business that produces significant cash flows.

**Euromoney Institutional Investor (£3.4m)** – new holding in provider of financial information to international money markets with strong data ownership that becomes increasingly more valuable in a digital world.

# Border To Coast Overseas Developed Markets Equity Fund at 31 March 2019

## Regional Breakdown



## Overseas Developed Markets Fund

The Border to Coast Overseas Developed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the Benchmark(\*) by at least 1% per annum over rolling 3 year periods (before calculation of the management fee).

The Fund will not generally make active regional allocation decisions and the majority of its performance will arise from stock selection.

(\*) The Benchmark is a composite of the following indices:

- 40% S&P 500
- 30% FTSE Developed Europe ex UK
- 20% FTSE Developed Asia Pacific ex Japan
- 10% FTSE Japan

The Fund generated a total return of 9.35% during the quarter compared to 8.85% for the composite benchmark resulting in 0.51% of out-performance. The US (11.08%) was the strongest market in absolute terms followed by the Europe ex UK (8.06%), Asia Pacific ex Japan (7.75%), and Japanese (4.46%) markets.

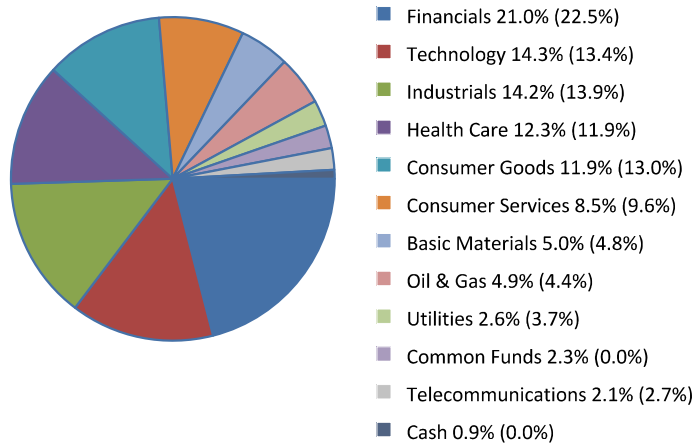
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
<b>Overseas Developed Equity Fund</b>	<b>(0.89)</b>	<b>(0.91)</b>	<b>0.02</b>	<b>9.35</b>	<b>8.85</b>	<b>0.51</b>	--	--	--	--	--	--
United States	2.06	1.93	0.12	10.51	11.08	(0.57)	--	--	--	--	--	--
Japan	(5.29)	(5.69)	0.40	4.99	4.46	0.52	--	--	--	--	--	--
Europe ex UK	(3.98)	(3.83)	(0.14)	9.94	8.06	1.88	--	--	--	--	--	--
Asia Pacific ex Japan	0.47	0.03	0.44	8.58	7.75	0.83	--	--	--	--	--	--

### Note

- 1) Please note that only the total Overseas Developed Equity Fund performance line is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance.

# Border To Coast Overseas Developed Markets Equity Fund at 31 March 2019

## Sector Portfolio Breakdown



### Sector Weights:

**Common Stock Funds (+)** – exposure to smaller companies via collective vehicles, specifically in US and Europe.

**Technology (+)** – long term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips, and change in software business models to long term subscription revenues.

**Oil and Gas (+)** – higher oil prices and lower costs of production should support strong cash generation enabling significant debt reduction, increased shareholder distributions and capital investment.

**Utilities (-)** – impact of structural shift from coal-fired to renewable generation, increased regulation and capital investment, and government influence (particularly in Europe).

**Consumer Services (-)** – concerns over consumer spending, continuing structural shift to online retail, and disintermediation in media space with digital delivery of content away from cable.

**Financials (-)** – significant underweight in Banks due to concerns over non-performing loans, legacy litigation issues, and the risk of increased regulation. This is partly offset by overweight positions in Insurers and Wealth Managers as they are expected to benefit from increase in investment wealth.

### Note

1) Source: Northern Trust

2) The pie-chart shows the sector allocation of the fund . The benchmark sector allocation is shown in brackets.

## Border To Coast Overseas Developed Markets Equity Fund Attribution at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Airbus	0.89	34.52	0.34	34.81	0.10
Vanguard US Mid Cap ETF	2.05	14.11	0.00	0.00	0.09
Swedbank	0.00	0.00	0.07	(31.06)	0.04
EssilorLuxottica	0.00	0.00	0.15	(15.36)	0.04
Worldpay Inc	0.15	45.26	0.00	0.00	0.04

**Airbus (o/w)** outperformed due to meeting production targets, discontinuing production of the A380 which should benefit operating margins, and significant new orders from Chinese airlines.

**Vanguard Mid Cap ETF (o/w)** companies at the smaller end of the index outperformed. The portfolio is underweight smaller companies overall and so was negatively impacted by this relative strength.

**Swedbank (u/w)** underperformed due to an increase in anticipated exposure to the Russian money laundering scandal and the potential negative impact of a probe by US regulators.

**EssilorLuxottica (u/w)** underperformed due to concerns about the post-merger integration of Essilor and Luxottica and whether significant expected deal synergies can be achieved.

**Worldpay Inc (o/w)** performed strongly as the market recovered post-December lows and rallied further as the company received an agreed bid by FIS in March.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Pfizer Inc	0.70	(4.09)	0.40	(4.10)	(0.04)
Philip Morris Intl	0.00	0.00	0.23	31.08	(0.04)
Mastercard Inc	0.00	0.00	0.36	22.20	(0.04)
Biogen Inc	0.18	(23.22)	0.08	(23.22)	(0.04)
CVS Health Corp	0.29	(18.80)	0.12	(18.93)	(0.04)

**Pfizer Inc (o/w)** lagged the benchmark in the absence of news flow, although there are potential catalysts in the form of drug pipeline updates anticipated in the next year.

**Philip Morris Intl (u/w)** benefited from a moderation in the rate of decline of cigarette sales following significant weakness in the last two years.

**Mastercard Inc (u/w)** rallied after a weak Q4 as growth names returned to favour. Whilst Mastercard is not held, the portfolio captured some of this relative strength via its holding in Visa.

**Biogen Inc (o/w)** announced the failure of its trial Alzheimer's drug, Aducanumab.

**CVS Health Corp (o/w)** underperformed due to concerns regarding political interventions regarding drug pricing from both Republicans and Democrats.

Note

1) Source: Northern Trust & Border to Coast



## Border To Coast Overseas Developed Markets Equity Fund at 31 March 2019

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

Vanguard US Mid Cap ETF	+2.05
Alphabet A	+0.55
Airbus	+0.55
JP Morgan European Smaller Companies	+0.39
NN Group	+0.36
Alphabet	-0.61
Mastercard	-0.36
Comcast	-0.31
Pepsico	-0.29
Daimler AG	-0.24

### Top 5 Holdings Relative to Benchmark:

**Vanguard MidCap ETF** – provides exposure to the smaller companies in the US index, although the portfolio has an underweight exposure to smaller companies overall.

**Alphabet A share** – zero holding in C shares results in a broadly neutral net exposure to Alphabet overall.

**Airbus** – very large order book with accelerating deliveries, despite concern over production delays, which should result in higher cash flow generation through operational gearing.

**JP Morgan European Smaller Companies Fund** – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

**NN Group** – synergies being generated from recent acquisition of domestic insurance competitor Delta Lloyd.

### Bottom 5 Holdings Relative to Benchmark:

**Alphabet C share** – exposure in A shares results 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 broadband expansion that is constrained due to already high penetration and growing competition.

**PepsiCo** – current valuation does not adequately reflect the trend away from carbonated drinks and increasing competition in the snack category.

**Daimler** – weak balance sheet, slowdown in major markets, and adversely impacted by increased emissions testing requirements in Europe.

Note

1) Source: Northern Trust

## APPENDICES

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Vanguard US Mid Cap ETF	2.05	0.00	0.09
Worldpay Inc	0.15	0.00	0.04
Hess	0.16	0.03	0.04
Cigna Corp	0.00	0.10	0.03
CME Group	0.00	0.10	0.03

**Vanguard Mid Cap ETF (o/w)** companies at the smaller end of the index outperformed. The portfolio is underweight smaller companies overall and so was negatively impacted by this relative strength.

**Worldpay Inc (o/w)** performed strongly as the market recovered post-December lows and rallied further as the company received an agreed bid by FIS in March.

**Hess (o/w)** benefited from the increase in oil prices during the quarter.

**Cigna Corp (u/w)** underperformed due to concerns over its exposure, following the recent merger with Express Scripts, to the focus on drug pricing, Democratic proposals for an extension to Medicare, and a revival of Government efforts to repeal the Affordable Care Act.

**CME Group (u/w)** underperformed due to its derivative exchanges experiencing tougher trading conditions amid a decline in market volatility.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Pfizer Inc	0.70	0.40	(0.04)
Philip Morris Intl	0.00	0.23	(0.04)
Mastercard Inc	0.00	0.36	(0.04)
Biogen Inc	0.18	0.08	(0.04)
CVS Health Corp	0.29	0.12	(0.04)

**Pfizer Inc (o/w)** lagged the benchmark in the absence of news flow, although there are potential catalysts in the form of drug pipeline updates anticipated in the next year.

**Philip Morris Intl (u/w)** benefited from a moderation in the rate of decline of cigarette sales following significant weakness in the last two years.

**Mastercard Inc (u/w)** rallied after a weak Q4 as growth names returned to favour. Whilst Mastercard is not held, the portfolio captured some of this relative strength via its holding in Visa.

**Biogen Inc (o/w)** announced the failure of its trial Alzheimer's drug, Aducanumab.

**CVS Health Corp (o/w)** underperformed due to concerns regarding political interventions regarding drug pricing from both Republicans and Democrats.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2019

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

Vanguard US Mid Cap ETF	+2.05
Alphabet	+0.55
Visa Inc	+0.35
Xylem Inc	+0.34
McDonald's Corp	+0.31
Alphabet A	-0.61
Mastercard	-0.36
Comcast	-0.31
PepsiCo	-0.29
Walmart	-0.24

### Top 5 Holdings Relative to Benchmark:

**Vanguard MidCap ETF** – provides exposure to the smaller companies in the US index, although the portfolio has an underweight exposure to smaller companies overall.

**Alphabet A share** – zero holding in C shares results in a broadly neutral net exposure to Alphabet overall.

**Visa Inc** – positively exposed to strong drivers of the move to cashless payments and growth in cross border transactions.

**Xylem Inc** – complete transport, management and monitoring solutions for water and waste water driving strong top line growth and solid forward order book.

**McDonald's Corp** – should benefit from strong disposable income growth at the lower income demographic and operational and trading improvements from an extensive store investment programme.

### Bottom 5 Holdings Relative to Benchmark:

**Alphabet C share** – exposure in A shares results 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 broadband expansion that is constrained due to already high penetration and growing competition.

**PepsiCo** – current valuation does not adequately reflect the trend away from carbonated drinks and increasing competition in the snack category.

**Walmart** – high valuation attaches too much credit to the continued successful penetration of Walmart's online offering.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Airbus	0.89	0.34	0.10
Swedbank	0.00	0.07	0.04
EssilorLuxottica	0.00	0.15	0.04
BB Biotech	0.32	0.00	0.03
Symrise	0.33	0.05	0.03

**Airbus (o/w)** outperformed due to meeting production targets, discontinuing production of the A380 which should benefit operating margins, and significant new orders from Chinese airlines.

**Swedbank (u/w)** underperformed due to an increase in anticipated exposure to the Russian money laundering scandal and the potential negative impact of a probe by US regulators.

**EssilorLuxottica (u/w)** underperformed due to concerns about the post-merger integration of Essilor and Luxottica and whether significant expected deal synergies can be achieved.

**BB Biotech (o/w)** outperformed due to the positive impact of the acquisition of Celgene, a significant holding, by Bristol-Myers.

**Symrise (o/w)** has benefited from the general recovery in the market as well as better than expected results.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Orange	0.42	0.15	(0.03)
Wirecard	0.15	0.07	(0.03)
Bayer	0.39	0.28	(0.02)
NN Group	0.43	0.07	(0.02)
Kering	0.00	0.20	(0.02)

**Orange (o/w)** underperformed on concerns regarding promotional competition in France, a slowdown in growth in Spain, and concerns regarding potentially dilutive acquisitions.

**Wirecard (o/w)** underperformed on fraud allegation concerns and an ongoing investigation by the CAD (Commercial Affairs Department) in Singapore where the allegations first surfaced.

**Bayer (o/w)** was found guilty over a second claim in the US that Roundup weed killer causes cancer, increasing the risk and magnitude of litigation costs.

**NN Group (o/w)** – the insurance and asset management company missed operating profit targets in its recent results.

**Kering (u/w)** outperformed due to positive trading results from its Gucci brand.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2019

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

Airbus	+0.55
JP Morgan European Smaller Companies	+0.39
NN Group	+0.36
Total	+0.35
Koninklijke Philips	+0.33
Daimler AG	-0.24
Enel	-0.23
Zurich	-0.23
Kering	-0.20
BBVA	-0.18

### Top 5 Holdings Relative to Benchmark:

**Airbus** – very large order book with accelerating deliveries, despite concern over production delays, which should result in higher cash flow generation through operational gearing.

**JP Morgan European Smaller Companies Fund** – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

**NN Group** – synergies being generated from recent acquisition of domestic insurance competitor Delta Lloyd.

**Total** – higher oil prices, falling unit costs, and increase in production should be beneficial for cash flow generation and increased exposure to gas provides diversification.

**Koninklijke Philips** – increased demand for healthcare equipment driven by Emerging Markets and the increased adoption of image guided radiation therapy equipment.

### Bottom 5 Holdings Relative to Benchmark:

**Daimler** – weak balance sheet, slowdown in major markets, and adversely impacted by increased emissions testing requirements in Europe.

**Enel** – the energy group has a 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.

**Kering** – over reliance on Gucci brand.

**BBVA** – over-reliance on leverage which inhibits capital return and risks shareholder dilution, and exposure to Mexico where political risk has increased due to anti-business overtones by the new government.

Note

1) Source: Northern Trust



## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
KDDI	0.00	0.10	0.02
Eisai	0.00	0.04	0.02
Tokyo Electron	0.17	0.06	0.02
Softbank Group Corp	0.27	0.23	0.01
Fast Retailing	0.00	0.07	0.01

**KDDI (u/w)** suffered a reversal of last quarter's outperformance on renewed competition fears and downgrades by multiple analysts.

**Eisai (u/w)** underperformed due to discontinuing its Alzheimer's drug trial at phase 3.

**Tokyo Electron (o/w)** recovered following a poor performance in the previous quarter, and potential for share buybacks.

**Softbank Group Corp (o/w)** delivered excellent results combined with disposals and a share buyback announcement.

**Fast Retailing (u/w)** experienced poor sales of winter clothing due to the warm start to the winter in Japan.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Sony Corp	0.25	0.15	(0.03)
Daiichi Sankyo	0.00	0.08	(0.02)
Nissan Chemical Corp	0.06	0.02	(0.01)
Toray Industries	0.08	0.03	(0.01)
Otsuka Holdings	0.11	0.05	(0.01)

**Sony Corp (o/w)** underperformed due to concerns over future competition from Google Stadia in-game streaming, combined with a generally negative market sentiment towards gaming stocks in the quarter.

**Daiichi Sankyo (u/w)** benefited from the announcement of a collaboration with AstraZeneca.

**Nissan Chemical Corp (o/w)** suffered an analyst downgrade expressing concerns over its valuation relative to falling growth rates.

**Toray Industries (o/w)** experienced a slowdown in industrial demand in the fibres and textiles, and performance chemicals businesses.

**Otsuka Holdings (o/w)** – the pharmaceutical company suffered an analyst downgrade.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2019

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

Tokyo Electron	+0.11
Sony Corp	+0.10
Nintendo	+0.10
Nippon Shinyaku	+0.10
Takeda Pharmaceutical	+0.09
Central Japan Railway	-0.12
KDDI	-0.10
Recruit Holdings	-0.09
Fanuc	-0.09
Daikin Industries	-0.09

### Top 5 Holdings Relative to Benchmark:

**Tokyo Electron** – long term structural growth drivers for semiconductors and high technological barriers to entry.

**Sony Corp** – diversified portfolio, growth potential in gaming, financial services and car image sensors.

**Nintendo** – good potential from gaming, Switch product selling well, and valuation does not reflect potential from online subscription service.

**Nippon Shinyaku** – continued growth in core healthcare franchise, new product pipeline, and attractive valuation relative to the sector.

**Takeda Pharmaceutical** – scale benefits from Shire acquisition and strong pipeline, valuation re-rating expected once strong cash flows and disposals reduce debt taken on at time of Shire deal.

### Bottom 5 Holdings Relative to Benchmark:

**Central Japan Railway** – portfolio exposure to railway companies is via the two other major railway companies, and exposure to Maglev (magnetic levitation) train project is considered high risk due to the significant costs involved.

**KDDI** – lowest profitability of the three incumbent telecoms operator and recent entry of a fourth player could have an adverse impact.

**Recruit Holdings** – trades on a premium valuation relative to peers in a difficult environment for recruitment.

**Fanuc** – preference for Keyence (large overweight) which is considered to be a better-quality company in the robotics sector.

**Daikin Industries** – growth concerns due to exposure to declining air-conditioning demand in China, combined with chemicals business exposure to auto and technology sectors.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Xinyi Solar	0.08	0.01	0.02
BHP Group	0.87	0.63	0.02
AIA Group	1.14	0.95	0.01
Macquarie Group	0.41	0.22	0.01
James Hardie	0.13	0.04	0.01

**Xinyi Solar (o/w)** – benefited from improving sentiment on regulatory conditions in China.

**BHP Group (o/w)** – benefited from the strength in iron ore prices, following supply constraints as a result of the dam collapse in Brazil, and positive developments in US/China trade talks.

**AIA Group (o/w)** – the company obtained regulatory approval for licences in two new regions in China which highlights the growth potential for insurance and the support of the Chinese government.

**Macquarie Group (o/w)** – the company outperformed after reaffirming profit targets.

**James Hardie (o/w)** – the building materials company outperformed due to the CEO reaffirming revenue and profit targets.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung SDI	0.20	0.08	(0.02)
WH Group	0.00	0.07	(0.01)
Hyundia Mipo Dockyard	0.10	0.01	(0.01)
LG Chemical	0.30	0.12	(0.01)
Celltrion	0.13	0.10	(0.01)

**Samsung SDI (o/w)** and **LG Chemical (o/w)** – adversely impacted by a Korean government ban on domestic sales of energy storage systems after a series of fires.

**WH Group (u/w)** – benefited from a strong rally in pig pricing due to an increase in Chinese imports of US pork.

**Hyundai Mipo Dockyard (o/w)** – underperformed on slower order intake momentum.

**Celltrion (o/w)** – underperformed due to weaker than expected results and price reduction for one of its drugs.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2019

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

Samsung Electronics Ords	+0.34
CSL	+0.24
BHP Group	+0.24
AIA Group	+0.19
Macquarie Group	+0.19
Samsung Electronics Prefs	-0.19
Hong Kong & China Gas	-0.17
Commonwealth Bank of Australia	-0.09
Westpac Bank	-0.08
KT & G Corp	-0.08

### Top 5 Holdings Relative to Benchmark:

**Samsung Electronics Ords** – despite recent issues, the stock is exposed to structural growth in memory market, expectations for foldable phone demand, diversified earnings stream, and shareholder return potential

**CSL** – justifies its premium rating due to its competitive advantage in the plasma market and strong growth expected for Immunoglobulins (antibodies).

**BHP Group** – beneficiary of strong iron ore price, restructuring potential, strong FCF generation, strong balance sheet, and shareholder return potential

**AIA Group** – strongest pan Asian insurer, good distribution franchise, strong balance sheet, and recent licence wins in China confirm its growth potential in an underpenetrated country.

**Macquarie Group** – well diversified financial services company, strong balance sheet, reaffirmed 15% profit growth targets, and very highly regarded management.

### Bottom 5 Holdings Relative to Benchmark:

**Samsung Electronics Prefs** – the portfolio is overweight Samsung Electronics overall via the more liquid Ordinary shares.

**Hong Kong & China Gas** – although the company has a monopoly on gas supply in Hong Kong it has a very high valuation with potentially slowing earnings growth and China regulatory risk.

**Commonwealth Bank of Australia** and **Westpac Bank** – fragile Australian economic environment implies interest rates will be lower for longer, which is not positive for bank earnings, although low valuations and high dividend yields could be a potential support.

**KT & G Corp** – premium valuation to tobacco company peers and regulatory uncertainty persists.

Note

1) Source: Northern Trust

## Market Background at 31 March 2019

Global economic growth has slowed sharply during the quarter and leading indicators suggest that this weakness may continue in the short term, particularly in developed economies. One possible exception is emerging Asia where economic indicators are more supportive, driven in part by increased fiscal stimulus in China and more positive news on the US/China trade dispute.

The US has been impacted by the government shutdown in the early part of the quarter and the fading impact of tax cuts announced in 2018 which have had a detrimental impact on consumer spending. There has also been much commentary on the impact of the inversion of the yield curve (whereby longer-term interest rates are below short-term interest rates) which has typically presaged a recession. However, it should be noted that the most closely watched yield curve (10 year/2 year) has not yet inverted.

Europe continues to feel the effects of the trade dispute, as well as relatively weak domestic demand and a slowdown in investment expenditure. The UK continues to be impacted by the uncertainty around Brexit, which is having a significant, if not unsurprising, impact on investment expenditure. Political deadlock remains and the most likely solution appears to be an extension and a closer relationship with Europe than was perhaps envisaged. Developed Asia will always be impacted by its proximity to China but there are also domestic pressures including a housing market slowdown in Australia, unsustainable property prices in Hong Kong, and weak investment expenditure and the potential impact of a forthcoming sales tax rise in Japan.

There has been a concerted slowdown in economic growth in Emerging Markets, driven partly by the US/China trade dispute and weakness in Europe but also due to the impact of previous monetary tightening across the region in 2017–18. This is likely to result in looser fiscal and monetary policy over the next 12–18 months which should provide some support to domestic demand.

Global inflation remains relatively benign and, despite relatively strong labour markets, wage growth appears contained. Concerns remain, however, regarding the lack of productivity growth. Although monetary conditions are tightening it is at a much slower pace than was expected and these are likely to remain relatively loose in developed economies, particularly

Europe and Japan. The key concern remains that there is insufficient room for central banks to use monetary policy to stimulate economies in the event of a recession, as interest rates are not high enough to enable cuts to have an impact and further quantitative easing risks merely boosting asset prices. Due to high rates of government debt it is unlikely that fiscal policy can be used to stimulate economic growth.

There has been a strong recovery this quarter with global equity markets (MSCI ACWI) increasing by 10.2%, effectively reversing the sharp fall in the previous quarter. Developed markets (+10.5%), which had fallen further in the previous quarter, out-performed Emerging Markets (+7.8%). The major factor supporting improved equity market sentiment was the abrupt change in stance by the US Federal Reserve which had been forecasting 3 or 4 interest rate rises in 2019 with expectations having moved towards a rate cut.

Market conditions are likely to remain volatile with the recent sharp recovery in equity markets looking overdone. Valuation measures are above their long term average and earnings growth is moderating. Corporate activity has also increased markedly in recent months as companies attempt to maintain growth through acquisition - another indicator that we are in the latter stages of the market cycle.

Note

1) Source: Border to Coast

## Border to Coast News

### People:

- We were delighted to welcome several new joiners to Border to Coast in the first quarter of 2019. Amongst these, Neil Hawkins joined us as our new Head of Finance in February. Neil brings a wealth of experience from his time at Aviva and has joined at an opportune time given that we are about to go into our first full year-end.
- Recruiting and developing talented colleagues at all levels has been a major priority for Border to Coast since day one; developing our people is an important step towards becoming a sustainable, cost-effective organisation in the longer run. To this end, we welcomed our first intake of graduates in March, following two competitive assessment days earlier in the year. Our graduate programme is a structured three to four year programme and includes rotations across Border to Coast, alongside support for an investment candidates.

### Investment Funds:

- Our work towards the launch of the Global Equity Alpha Fund continued apace over the quarter. Following our successful Manager Day in December, we received over one hundred proposals from asset managers. The proposals were scored by the Border to Coast team over the quarter and we continue working towards our fund launch goal in Q3 2019. Successful managers will be invited to the interview stage, which will take place over the coming weeks.
- We continue to make significant progress on the Alternatives structure. The shareholder resolution has been 100% approved by the Partner Funds and we remain on track to launch our Alternatives offerings, starting with Private Equity in Q2 2019.
- Finally, over the coming months we will continue to work in collaboration with Officers and Advisors to look at the design for the next phase of sub-fund launches. This is a key part of the pooling process: it is vital that we collectively agree the building blocks required to implement asset allocations as well as to achieve the targeted economies of scale from pooling. Additional workshops will cover the likes of investment strategy and reporting & accounting.

### Responsible Investment:

- Climate change has the potential to be game changing in terms of the way we live and work and, therefore, the impact on the way we invest. Climate change is also an important strategic risk for our industry to consider. In recognition of this, we established a working party of volunteers from across the pool (Partner Fund and Border to Coast) supported by our external providers to investigate this topic in more detail with a view to developing a clear strategic response. The objectives of the working party, which held its first two meetings in Q1, are to consider the potential impact of climate change risk and to recommend next steps for consideration by Border to Coast Board and Partner Funds as part of the 2019 Responsible Investment Policy review.
- During the quarter, we also received confirmation that the Financial Reporting Council assessed our Stewardship Code Statement as Tier 1 (the highest level) which we believe is a meaningful recognition.

### Information Security

- We have achieved the accreditation (ISO27001:2013) demonstrating that Border to Coast has information security at the centre of its business. This is a significant achievement, particularly for a company in its first year of operation. This was identified as a priority given how critical information security is to our operation.



## 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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