Agenda Item 6 - Presentation from Border to Coast Head of Client Relations

Border to Coast Pensions Partnership Ltd

Teesside Pension Fund

18 September 2019

Agenda

Equity Funds launched to date

Border to Coast – FCA Regulated ACS Structure

UK Listed Equity Fund	Overseas Developed Markets Equity Fund	Emerging Markets Equity Fund	UK Listed Equity Alpha Fund
Approx. size: £4.3bn	**Approx. size:** £2.7bn	**Approx. size:** £0.7bn	**Approx. size:** £1.3bn
Launch: Jul 2018	**Launch:** Jul 2018	**Launch:** Oct 2018	**Launch:** Dec 2018
BM: FTSE All Share	**BM:** Regional Comp	**BM:** S&P Emerging	**BM:** FTSE All Share
Target[1]: BM +1% p.a.	**Target[1]:** BM +1% p.a.	**Target[1]:** BM +1% p.a.	**Target[1]:** BM +2% p.a.

[1] Measured over three year rolling periods net of costs.

Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.

Capability Launch - Timetable

	Launched in 2018	Scheduled for 2019	2020 onwards
Equities	UK Listed Equity Overseas Developed Emerging Markets		
	UK Listed Equity Alpha	Global Equity Alpha	Factor Equities Emerging Markets Other Equities (tbc)
Alternatives		PE, Infra, Private Credit	Diversified Alts
Bonds			IG Credit MAC, Index Linked Bonds
Property			TBC (UK, Global)

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Bonds

Fixed income assets (bonds)

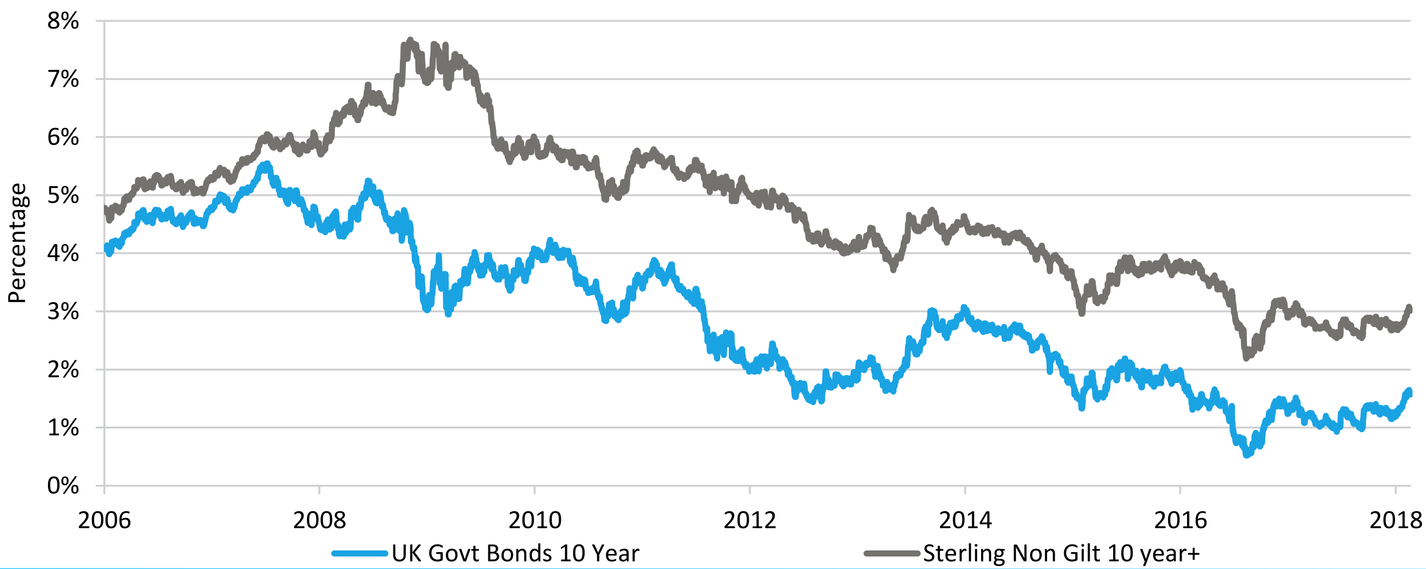
- A loan made for a defined period of time at a pre-determined interest rate
- Issued by governments (e.g. UK gilts) or companies (corporate bonds / credit)

- Example:
  - A 2% 2039 bond with a 'par' value of £100 will pay a 2% per annum 'coupon' until it redeems in the year 2039
  - The bond's market value will vary from £100 through the life of the bond – it will rise if interest rates fall and vice versa
  - Price changes will also reflect investors' views of the issuer

Uses of fixed income assets

Positives – higher income than cash; matching known outflows; risk diversification; risk reduction

Negatives – vulnerable to inflation; capped returns; low yields



Source: Bloomberg

Bonds vs Equities

	Equities		Bonds	
	Income (dividends)	**Capital value (share prices)**	**Income (interest 'coupon')**	**Capital value (bond prices)**
Short term	Discretionary, variable	Significantly variable	Obligatory, fixed	Variable, but normally less so than share prices
Long term	Should increase	Should increase	Fixed in nominal terms	Reverts to fixed nominal 'par 'value

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Investment Grade Credit

Investment Grade Credit - Structure

Proposed Structure

IG Manager 1
IG Manager 2
IG Manager 3

- **Launch:** Q4 2019 (£2-3bn expected)
- **Approach:** 2/3 complementary managers
- **Benchmark:** iBoxx £ Non-Gilts Index
- **Performance target:** 0.60% p.a. (net) above benchmark over rolling 5 year periods
- Focus on **credit selection**
- **Limits** on non-IG and non-£ issues
- **Low turnover** long-term approaches
  - *Active* or *Buy & Maintain* approaches
  - Wide or absolute investment guidelines
- **Fees** materially less than 0.25% p.a. overall

Manager numbers and combinations are indicative for illustration only.

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Investment Grade Credit - Approach

- Focus on value-add from **credit selection**
- **Conservative** approach to **risk** management
- Very **low turnover** – incentivise long-term performance
- Preference for **multiple performance comparators**:
    - **Short-term** – iBoxx £ Non-Gilt index to allow for shorter term risk and performance measurements
    - **Long-term** – Cash plus - to encourage appropriate manager behaviour
- **Broad investment guidelines** to reduce index reliance
- **Benchmark agnostic** approaches are acceptable if they align with long-term performance objectives

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What Are We Looking For In A Manager?

- **High quality credit selection** is the most important attribute for an asset manager in investment grade credit.
- Ability to **limit downgrades and avoid defaults** is critical and the most persistent source of alpha given asymmetry of returns in credit.
- A long-term approach with **low portfolio turnover is preferred**. Strategies that churn the portfolio in an attempt to generate additional returns should be avoided.
- **Sector selection also important**, but funds should be driven more by fundamental credit selection.
- **Assessment of performance attribution** is extremely important. Need to look out for managers that have performed well through the likes of off-benchmark positions.

Indicative Timeline

Date	Action	Notes
Q2 2019	RFP launched	RFP launched in June 2019
Q3 2019	RFP responses	Responses to RFP within 3 weeks of launch
Q3 2019	Pass/Fail	Responses screened on pass/fail criteria
Q3 2019	Scoring	Scoring by Border to Coast
Q3 2019	Complementarity	Top 4-6 managers tested
Q3 2019	Manager Interviews	Clarification of RFP responses
Q3/4 2019	Appointments	Manager of Appointments
Q4 2019	Regulatory Approval	Approval from the regulator
Q4 2019	Transition Preparation	Pre-transition work carried out
Q1 2020	Transition	Transition of assets
Q1 2020	Fund launch	Fund launch date

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Multi-Asset Credit

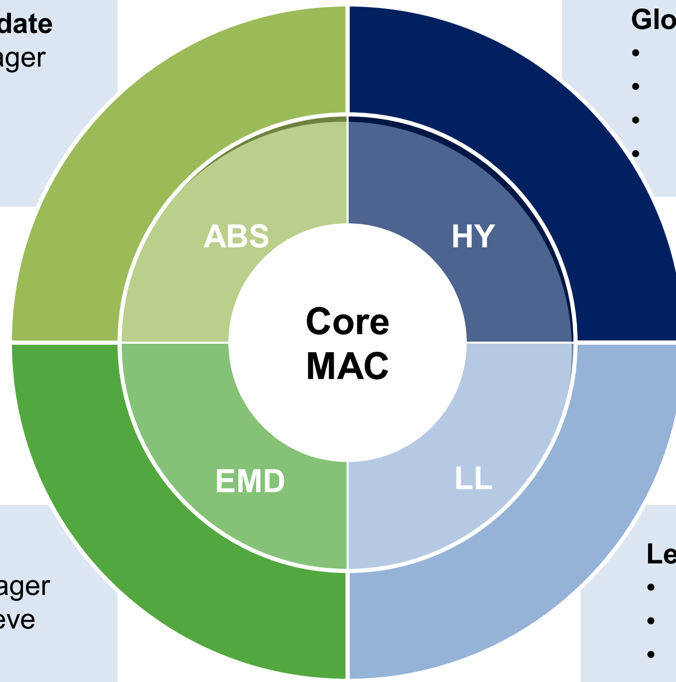
Our Approach to Multi-Asset Credit (MAC)

- **Broad exposure** to a wide array of credit assets
- **Focus on sub-investment grade** or structured credit
- Two key **return drivers**:
    1. Security selection
    2. Asset allocation
- **Transparent and cost-effective** implementation
- Allocations to high yield, emerging market debt (EMD), leveraged loans and asset-back securities (ABS).

Multi-Asset Credit
- Sub-Fund Structure

Securitised Credit Mandate
- Dedicated ABS Manager
- Flexible Mandate
- Some IG permitted
- 10-25% Allocation

Global High Yield Mandate
- Dedicated HY Manager
- Focus on Credit Selection
- Global Coverage
- 10-25% Allocation



EMD Mandate(s)
- Dedicated EMD Manager
- Possible Internal Sleeve
- Flexible Mandate
- 10-25% Allocation

Leveraged Loans Mandate
- Dedicated Loans Manager
- Focus on Credit Selection
- Global Coverage
- 5-15% Allocation

Multi-Asset Credit - Return Drivers

Security Selection	
	• Most persistent source of excess return in credit markets. • Individual allocations to complementary asset class specialists maximises return. • Allows greater depth in specific market niches than appointing a single Multi-Asset Credit manager.

Asset Allocation	
	• Two areas of asset allocation – dynamic and strategic views. • Core MAC manager provides shorter-term asset allocation views within its portfolio. Specialists also provide bottom-up tilts. • Partnership with MAC manager on asset allocation between specialist buckets via joint investment committee.

Multi-Asset Credit
- Sub-Fund Specification

Starting AUM:	£2-3bn
Strategies:	5-6 (1 core plus specialists)
Primary Benchmark:	SONIA (cash)
Performance Target:	Benchmark +3% to 4% pa (net) over rolling 5 year periods
Comparator:	Blended asset class benchmark

Core MAC Manager
- What Are We Looking For?

- **Deeply-resourced credit research capabilities** across a broad spectrum of credit sub-categories. No heavy-bias to one core asset.
- Track record of **generating outperformance** through both **security selection and asset allocation**.
- **Experience partnering with large institutions** on asset allocation.
- **Willingness to assist** – e.g. conduct ad-hoc analysis (e.g. portfolio risk modelling) as well as to provide operational guidance on Sub-Fund structure.
- Transparent approach to MAC – **no excessive complexity**.
- Well developed, conservative approach to **risk management**.

Specialist Mandates
- What Are We Looking For?

- Specialists in **high yield, emerging market debt, loans and securitised credit**
    - *Note - final buckets may vary*
- Focus on **value-add from credit selection** and asset sourcing
- **Diversified portfolios** given asymmetry of potential return outcomes
- Conservative approach to **risk management**
- **Low turnover** and long-term focus
- **Not excessively benchmark aware** given sub-optimal structure of credit indices

Multi-Asset Credit Fund - Indicative Timetable

Q3 2019	**Core RFP launched**	RFP launched in Q3 2019
Q4 2019	**Core Scoring**	Scoring by selection adviser and Border to Coast
Q4 2019	**Core Manager Interviews**	Clarification of RFP responses
Q4 2019	**Appointments**	Core MAC Manager appointed
Q4 2019	**Investment Strategy**	Border to Coast and Core Manager finalise fund strategy
Q1 2020	**Specialist RFP launched**	Specialist RFP released in Q1 2020
Q1 2020	**Specialist Scoring**	Scoring by selection adviser and Border to Coast
Q1 2020	**Specialist Manager Interviews**	Clarification of RFP responses
Q1/2 2020	**Appointments**	Specialist Managers appointed
Q2 2020	**Transition**	Transition targeting Q2 2020
Q2 2020	**Fund launch**	Tentative Fund Launch Date late Q2 2020

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Private Credit - Update

Investments are held within an unregulated collective investment scheme which is not regulated by the Financial Conduct Authority

Private Credit - Introduction

- Private Credit investments provide capital to privately held companies to support the likes of growth, refinancing, mergers and acquisitions.

- Returns are typically higher than for public credit (corporate bond) investments, due to the higher risk profile and lower liquidity.

- Private Credit can cover a broad range of areas, as set out over the page...

Private Credit - Current expected returns

STRATEGY	DESCRIPTION	NET RETURN
DIRECT LENDING	Loans in the senior part of the capital structure	5 – 6%
PROPERTY/INFRASTRUCTURE	Loans secured on real assets – senior, subordinated and whole loan	5 – 9%
MEZZANINE/SPECIALITY	Loans in the subordinated part of the capital structure	7 – 10%
STRESSED/DISTRESSED	Invest in stressed/distressed loans which are mispriced	12 – 15%

Future forecasts are not a reliable indicator of future performance

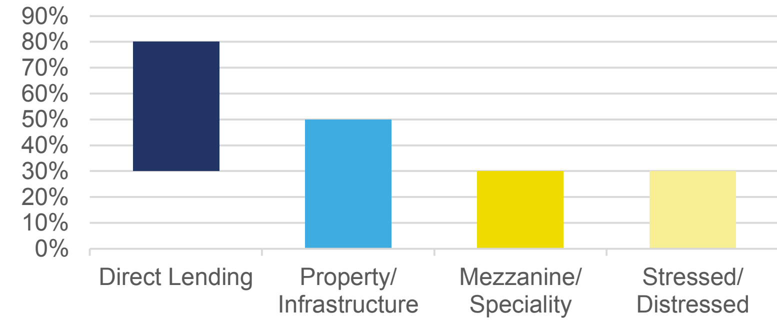
Private Credit: Asset Allocation

Strategy	Proposed range[1]
Direct Lending	30 – 80%
Property/Infrastructure	0 – 50%
Mezzanine/Speciality	0 – 30%
Stressed/Distressed	0 – 30%

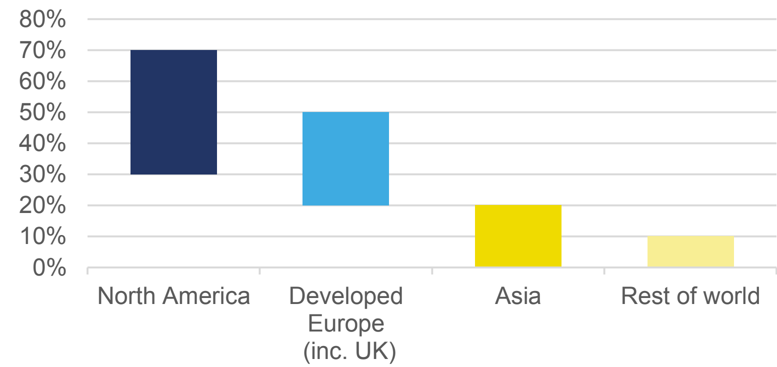
Geography	Proposed range[1]
North America	30 – 70%
Developed Europe (inc. UK)	20 – 50%
Asia	0 – 20%
Rest of world	0 – 10%

Benchmark	6% p.a. (net)

Proposed strategy ranges



Proposed geographical ranges



[1] Based on total commitments over a Series

Private Credit: Areas of Focus

FOCUS ON SENIOR DEBT	Defensive approach at this point in the credit cycle with a focus on quality credits.
MANAGER TRACK RECORD	Managers with experience of investing through the cycle, and sufficient resources with a robust process for dealing with problem credits including workout experience.
STRESSED/DISTRESSED	Potential for attractive opportunities given position in economic cycle, extended leverage levels, and current “innovative” structuring.
FOCUS ON REAL ASSETS	Focus on quality collateral from real assets with a current preference for infrastructure over real estate.

Note: These are areas of focus and will form part of a suitably diversified portfolio

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Private Equity - Update

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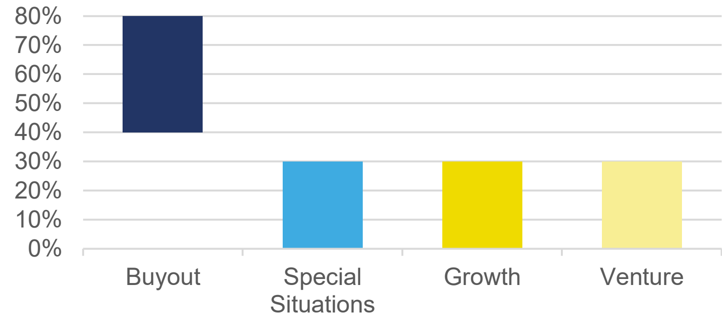
Private Equity: Asset Allocation

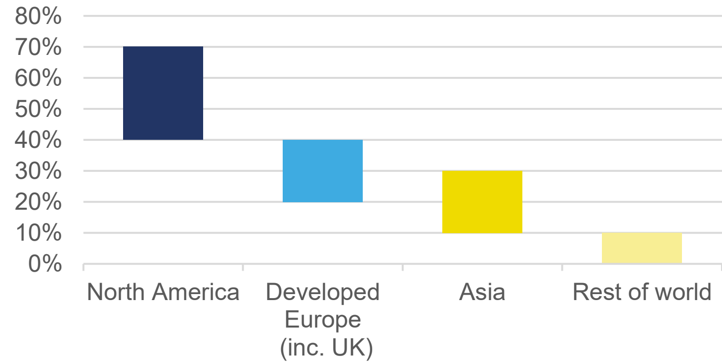
Strategy	Proposed range[1]
Buyout	40 – 80%
Special Situations	0 – 30%
Growth	0 – 30%
Venture	0 – 30%

Geography	Proposed range[1]
North America	40 – 70%
Developed Europe (inc. UK)	20 – 40%
Asia	10 – 30%
Rest of world	0 – 10%

Proposed strategy ranges



Proposed geographical ranges



Benchmark	10% p.a. (net)[2]

Commitments	£500m

[1] Based on total commitments over a Series
[2] Secondary benchmark – MSCI ACWI + 3% (PME+ basis)

Private Equity: Areas of Focus

OPERATIONAL VALUE ADD	Deliver enhanced returns through operational improvements rather than being reliant on leverage.
BUY AND BUILD	Adding value through building a platform and taking advantage of higher multiples for scale businesses.
MID-MARKET FOCUS	Lower valuation multiples and leverage levels.
CO-INVESTMENTS	Access to a diversified range of investments, either through co-investment funds or direct co-investments, with a lower fee structure.

Note: These are areas of focus and will form part of a suitably diversified portfolio

Private Equity: Areas of Focus

ASIA	Stronger economic growth over the long term, less developed Private Equity market, and lower valuation multiples.
TECHNOLOGY	Potential for technological disruption to generate significant value.
HEALTHCARE	Trends in global demographics and increased per capita spending.
DISTRESSED	Potential for attractive opportunities given position in business cycle and extended valuations.

Note: These are areas of focus and will form part of a suitably diversified portfolio

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Infrastructure - Update

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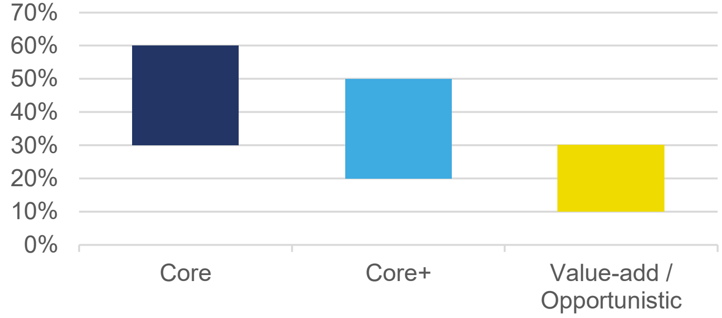
Infrastructure: Asset Allocation

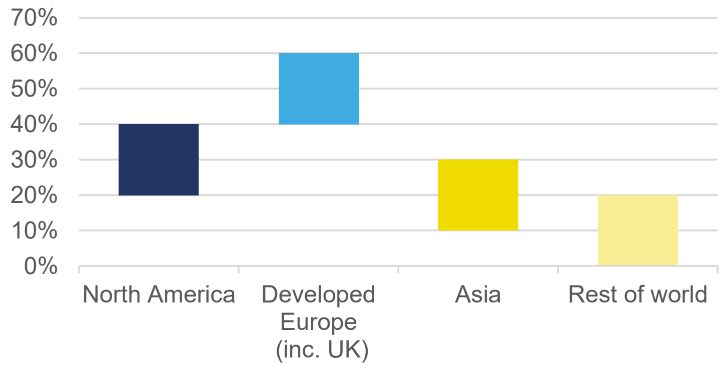
Strategy	Proposed range[1]
Core	30 – 60%
Core+	20 – 50%
Value-add / Opportunistic	10 – 30%

Proposed strategy ranges



Geography	Proposed range[1]
North America	20 – 40%
Developed Europe (inc. UK)	40 – 60%
Asia	10 – 30%
Rest of world	0 – 20%

Proposed geographical ranges



Benchmark	**8% p.a. (net)**

Commitments	**£675m**

[1] Based on total commitments over a Series

Infrastructure: Areas of Focus

OPERATIONAL VALUE ADD	Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.
MID-MARKET	Seek to limit competition with lower cost of capital investors for "flagship" assets.
GREENFIELD	Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.
EMERGING MARKETS	Stronger economic growth and longer term demographics driving demand for infrastructure in a less developed market with lower valuation and leverage levels albeit with a different risk profile.

Note: These are areas of focus and will form part of a suitably diversified portfolio

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