



# Teesside Pension Fund

## Quarterly Investment Report - Q3 2019

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## Note

1) Border to Coast

# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£1,498,170,063
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£20,686,031
Value at end of the quarter	£1,518,856,095

Over Q3 2019, Teesside's holdings performed as follows:

- The UK Listed Equity Fund underperformed its benchmark by 0.13%
- The Overseas Listed Equity Fund underperformed its benchmark by 0.05%

Teesside did not make any subscriptions or redemptions during Q3 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.
- 5) Income is not included within the Net Inflows / Outflows or Unrealised Gain or Loss figures.

# Portfolio Analysis - Teesside Pension Fund at 30 September 2019

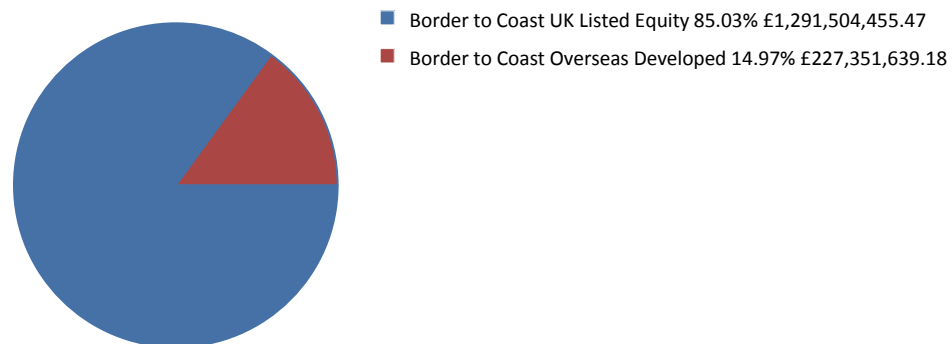
## Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,291,504,455.47	85.03
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	227,351,639.18	14.97

## 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 30 September 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	85.03	1.14	1.27	(0.13)	0.98
Border to Coast Overseas Dev Markets Equity	14.97	2.76	2.81	(0.05)	0.41
<b>Total</b>	<b>100.00</b>	<b>1.38</b>			

The UK Listed Equity Fund returned 1.14% over the quarter, which was 0.13% behind the FTSE All Share Index.

The Overseas Listed Equity Fund returned 2.76% over the quarter, which was 0.05% behind the composite benchmark.

Overall, Teesside's investments with Border to Coast returned 1.38% during Q3 2019.

### Note

1) Source: Northern Trust & Border to Coast

## Valuation Summary at 30 September 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 UK Listed Equity	1,276,932,116.04	85.55				14,572,339.43	1,291,504,455.47	85.03	
Border to Coast Overseas Developed Equity	221,237,947.29	14.45				6,113,691.89	227,351,639.18	14.97	
<b>Total</b>	<b>1,498,170,063.33</b>	<b>100.00</b>				<b>20,686,031.32</b>	<b>1,518,856,094.65</b>	<b>100.00</b>	

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Income is not included within the Net Inflows / Outflows or Unrealised Gain or Loss figures.

## Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 30 September 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	2.98	1.38	1.60	1.15	1.27	(0.12)	4.25	2.68	1.57	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	7.48	7.40	0.08	2.81	2.81	0.00	6.61	6.81	(0.20)	--	--	--	--	--	--

### 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 calculations.
- 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 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	2.99	1.38	1.61	1.15	1.27	(0.12)	4.26	2.68	1.58	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	7.51	7.40	0.10	2.82	2.81	0.01	6.63	6.81	(0.18)	--	--	--	--	--	--

### 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.

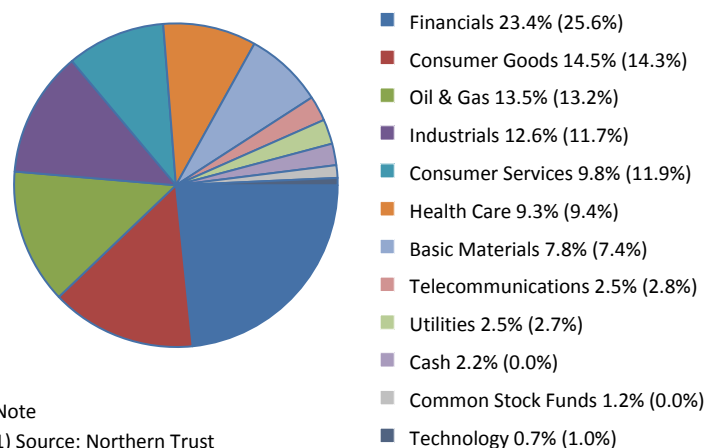


# Border To Coast UK Listed Equity Fund at 30 September 2019

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

Common Stock Funds	+1.24
Industrials	+0.86
Basic Materials	+0.42
Oil & Gas	+0.26
Consumer Goods	+0.24
Financials	-2.28
Consumer Services	-2.11
Technology	-0.26
Utilities	-0.26
Telecommunications	-0.24

## 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 1.15% during the quarter, compared to 1.27% for the benchmark, resulting in 0.12% of under-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 into the longer term at current commodity prices.

**Financials (-)** – 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. Remains structurally challenged by increased online penetration, although online operators are also not immune to a more cautious UK consumer.

**Technology (-)** – relatively small sector in the UK benchmark following M&A activity in recent years - remaining stocks are of a mixed quality.

## Border To Coast UK Listed Equity Fund Attribution at 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Micro Focus	0.00	0.00	0.17	(42.50)	0.13
Glencore	0.00	0.00	1.16	(7.33)	0.11
Cobham	0.26	47.06	0.16	47.21	0.10
Next	0.92	14.03	0.34	14.24	0.06
Ultra Electronics	0.33	23.55	0.06	23.41	0.05

**Micro Focus International PLC (u/w)** – profit warning indicates ongoing issues with integration of the former HPE (Hewlett Packard Enterprise) software business and announcement of an accelerated strategic review of the group’s operations was taken poorly by the market.

**Glencore PLC (u/w)** – operational issues at several key assets, alongside unresolved investigations by US Department of Justice (DoJ) and US Commodities Futures Trading Commission (CFTC).

**Cobham PLC (o/w)** – accepted all cash offer at 34% premium to pre-deal share price from US private equity firm Advent International.

**Next PLC (o/w)** – earnings beat expectations demonstrating the resilience of the operating model as channel shift sees online sales growth outweighing declining instore sales.

**Ultra Electronics Holdings PLC (o/w)** – earnings ahead of expectations, significant contract wins and anticipation of increased US defence expenditure.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Prudential	2.36	(13.06)	1.66	(13.03)	(0.12)
Fresnillo	0.40	(21.17)	0.05	(21.20)	(0.10)
BHP Group PLC.	2.22	(10.83)	1.56	(10.87)	(0.09)
Flutter Entertainment	0.00	0.00	0.25	29.62	(0.06)
Biotech Growth Trust	0.43	(8.72)	0.01	(8.40)	(0.05)

**Prudential PLC (o/w)** – concerns over Asia growth slowdown and ongoing impact of Hong Kong protests, plus Brexit headwinds for M&G, the soon to be demerged asset management division.

**Fresnillo PLC (o/w)** – silver and gold output guidance disappointed due to operational/geological issues, leading to elevated production costs.

**BHP Group PLC (o/w)** – falling commodity prices in response to slowing global growth and increasing global trade concerns combined with normalisation of iron ore supply, which had been restricted by production shutdowns at Vale following the recent tailings dam disaster.

**Flutter Entertainment PLC (u/w)** – US division delivered profit earlier than anticipated, raising expectations for the growth opportunity in US sports and fantasy sports betting.

**Biotech Growth Trust PLC (o/w)** – US drug pricing and healthcare reform debate weighs on the biotech sector.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund at 30 September 2019

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

Antofagasta	+0.95
Intercontinental Hotels	+0.79
Impax Environmental Markets	+0.74
Prudential	+0.70
Schroder UK Smaller Companies Fund	+0.67
Glencore	-1.16
BP	-0.72
British American Tobacco	-0.62
3I Group plc	-0.48
Royal Bank of Scotland	-0.41

#### Top 5 Holdings Relative to Benchmark:

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

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

**Impax Environmental Markets** – leading ESG-focused fund delivering strong long-term out-performance.

**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.

**Schroder UK Smaller Companies Trust** – specialist fund manager providing small-cap exposure, with a long-term track record of out-performance.

#### 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.

**British American Tobacco** – traditional tobacco sales in long-term structural decline and new generation products under increased regulatory scrutiny.

**3I Group plc** – over-reliance on a single asset in the general retail space (Action – leading European non-food discounter).

**Royal Bank of Scotland** – we have a preference for Lloyds (given government overhang and political risk) and Asian focussed banks.

#### Major transactions during the Quarter

##### **Purchases:**

**Standard Life Aberdeen PLC (£12.7m)** – new holding at a net attractive entry valuation for core business.

**Vodafone Group PLC (£11.3m)** – closed underweight position following the rebasing of the dividend and other positive updates.

**Royal Dutch Shell PLC (£10m)** – reinvestment of dividend and proceeds from outperforming oil explorers (Cairn and Tullow).

##### **Sales:**

**Cobham PLC (£7.7m)** – commenced sale of holding following acceptance of cash offer from Advent at significant premium.

**Intercontinental Hotels Group PLC (£7m)** – reduced holding as shares have performed strongly despite signs of late cycle stage.<sup>10</sup>

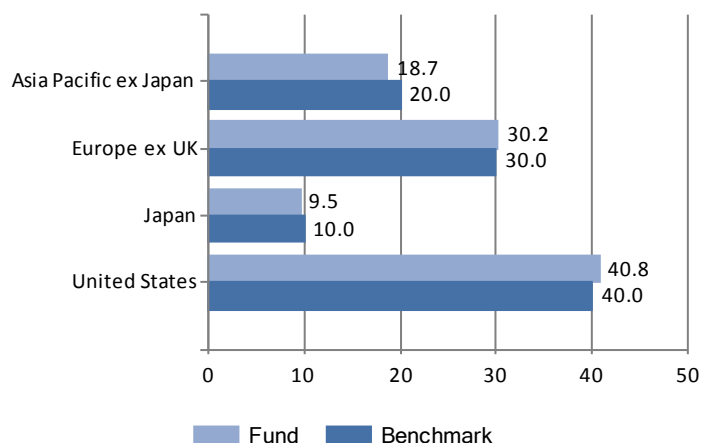
**Hansa Investment Co Ltd (£3.7m)** – reducing an illiquid legacy holding considered to be non-core.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund at 30 September 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 years period (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 2.81% during the quarter, which was in-line with the benchmark. Japan (6.6%) was the strongest market in relative terms, followed by the US (5.0%), Europe ex-UK (1.6%), and Pacific-ex Japan (-1.6%).

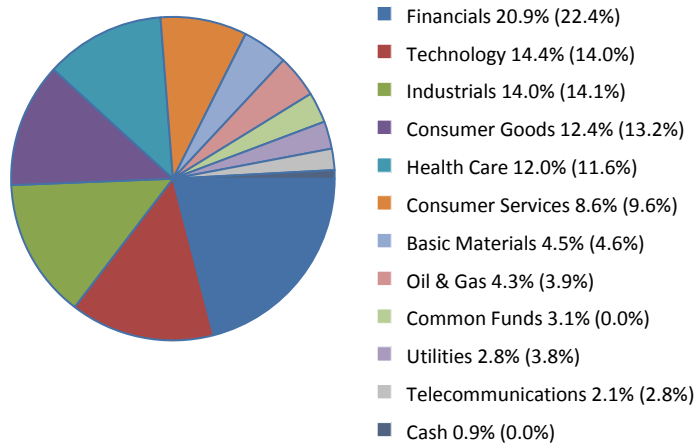
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
<b>Overseas Developed Equity Fund</b>	<b>7.48</b>	<b>7.40</b>	<b>0.08</b>	<b>2.81</b>	<b>2.81</b>	<b>--</b>	<b>6.61</b>	<b>6.81</b>	<b>(0.20)</b>	<b>--</b>	<b>--</b>	<b>--</b>
United States	11.61	11.97	(0.36)	4.70	5.01	(0.31)	9.11	10.31	(1.19)	--	--	--
Japan	4.29	2.89	1.40	7.22	6.60	0.62	1.31	0.34	0.98	--	--	--
Europe ex UK	5.53	5.27	0.26	1.87	1.55	0.32	6.62	6.23	0.38	--	--	--
Asia Pacific ex Japan	4.21	3.50	0.72	(1.55)	(1.64)	0.09	4.37	3.69	0.67	--	--	--

#### 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 30 September 2019

## Sector Portfolio Breakdown



### Sector Weights:

**Common Stock Funds (+)** – exposure to smaller companies via collectives in US, Europe and, recently, Japan.

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

**Health Care (+)** – strong long-term fundamentals driven by demographic changes, with demand growth from an ageing developed world population and increased disposable income in emerging market middle classes.

**Utilities (-)** – pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power generation are having an adverse impact on “traditional” power generation companies. Also, longstanding government influence, particularly in Europe, where the sector is considered strategically important and interests aren’t always aligned with shareholders.

**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 profitability, non-performing loans, legacy litigation and regulation risk. Partly offset by overweight positions in Insurers and Wealth Managers.

### 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 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet A	1.15	16.52	0.59	16.47	0.06
Dollar General	0.40	21.77	0.07	21.57	0.05
Zimmer Biomet	0.28	20.66	0.05	20.48	0.03
Home Depot	0.72	15.82	0.41	15.71	0.03
Proctor & Gamble	0.76	18.08	0.50	18.06	0.03

**Alphabet A (o/w)** – strong results resulted in the shares recovering from relative weakness in the previous quarter.

**Dollar General (o/w)** – strong results driven by recent initiatives to drive both sales growth and operational efficiencies resulting in higher margins and earnings and a subsequent increase in analyst expectations.

**Zimmer Biomet (o/w)** – evidence that recent strategic changes implemented by the new management team are showing early benefits in terms of operational efficiency and product sales.

**Home Depot (o/w)** – shares continued to re-rate as lower mortgage rates driven by lower bond yields at the long end of the yield curve supports sentiment around the housing market and the company's DIY business in turn.

**Procter & Gamble (o/w)** – new product initiatives and an increase in marketing spend had a greater than expected positive impact on organic sales growth.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet C	0.00	0.00	0.60	16.47	(0.07)
Pfizer	0.57	(13.53)	0.32	(13.25)	(0.05)
Tapestry	0.00	0.00	0.01	(13.73)	(0.05)
Airbus	0.85	(5.47)	0.33	(5.47)	(0.05)
SAP	0.77	(11.62)	0.52	(11.67)	(0.04)

**Alphabet C (u/w)** – strong performance resulted in the shares recovering from relative weakness in the previous quarter.

**Pfizer (o/w)** – announcement that it would merge its generic drug division, Upjohn, with competitor Mylan to form an enlarged generics company was not received well by the market.

**Tapestry Inc (o/w)** – disappointed as the recent investment in the company’s struggling “Kate Spade” brand, including a product re-launch under a new head designer, has failed to drive an improvement in comparative sales.

**Airbus (o/w)** – impacted towards the end of the quarter by the adverse ruling from the World Trade Organisation (WTO) regarding illegal state subsidies and the subsequent imposition of increased tariffs levied by the US.

**SAP (o/w)** – slowdown in revenue growth and a decrease in margins.

Note

1) Source: Northern Trust & Border to Coast



## Border To Coast Overseas Developed Markets Equity Fund at 30 September 2019

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

Vanguard US Mid Cap ETF	+2.63
Alphabet A	+0.56
Airbus	+0.53
Visa Inc	+0.39
Koninklijke Philips	+0.37
Alphabet C	-0.60
Mastercard	-0.39
Comcast	-0.33
PepsiCo	-0.31
Walmart Inc	-0.27

#### Top 5 Holdings Relative to Benchmark:

**Vanguard US 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** – zero holding in C shares results in a modest underweight 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.

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

**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:

**Alphabet C** – exposure in A shares results in a modest underweight 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 Inc.** – high valuation attaches too much credit to the continued successful penetration of Walmart's online offering.

Note

1) Source: Northern Trust

## APPENDICES

## Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet A	1.15	0.59	0.06
Dollar General	0.40	0.07	0.05
Zimmer Biomet	0.28	0.05	0.03
Home Depot	0.72	0.41	0.03
Proctor & Gamble	0.76	0.50	0.03

**Alphabet A (o/w)** – strong results resulted in the shares recovering from relative weakness in the previous quarter.

**Dollar General (o/w)** – strong results driven by recent initiatives to drive both sales growth and operational efficiencies resulting in higher margins and earnings and a subsequent increase in analyst expectations.

**Zimmer Biomet (o/w)** – evidence that recent strategic changes implemented by the new management team are showing early benefits in terms of operational efficiency and product sales.

**Home Depot (o/w)** – shares continued to re-rate as lower mortgage rates driven by lower bond yields at the long end of the yield curve supports sentiment around the housing market and the company's DIY business in turn.

**Procter & Gamble (o/w)** – new product initiatives and an increase in marketing spend had a greater than expected positive impact on organic sales growth.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet C	0.00	0.60	(0.07)
Pfizer	0.57	0.32	(0.05)
Tapestry	0.00	0.01	(0.05)
Netflix	0.27	0.19	(0.03)
Comcast	0.00	0.33	(0.02)

**Alphabet C (u/w)** – strong performance resulted in the shares recovering from relative weakness in the previous quarter.

**Pfizer (o/w)** – the company’s announcement that it would merge its generic drug division, Upjohn, with competitor Mylan to form an enlarged generics company was not received well by the market.

**Tapestry Inc (o/w)** – disappointed as the recent investment in the company’s struggling “Kate Spade” brand, including a product re-launch under a new head designer, has failed to drive an improvement in comparative sales.

**Netflix (o/w)** – recent subscriber growth numbers were below market expectations and increasing concerns regarding a new competitive threat in streaming services from Disney, Apple and CBS.

**Comcast (u/w)** – positive share price performance driven by modest valuation, defensive earnings and the expected benefits from the roll out of its standalone broadband offering.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2019

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

Vanguard US Mid Cap ETF	+2.63
Alphabet A	+0.56
Visa Inc	+0.39
Microsoft	+0.33
Dollar General	+0.33
Alphabet C	-0.60
Mastercard	-0.39
Comcast	-0.33
PepsiCo	-0.31
Walmart Inc	-0.27

#### Top 5 Holdings Relative to Benchmark:

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

**Alphabet A** – zero holding in C shares results in a modest underweight exposure to Alphabet.

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

**Microsoft** – structural growth from Azure cloud hosting business and migration of Business Office to MS365 online, with opportunity for value added sales and increased customer stickiness.

**Dollar General** – exposure to resilient US consumer, focus on underserved small city locations provides a niche market away from hyper-scale competitors.

#### Bottom 5 Holdings Relative to Benchmark:

**Alphabet C** – exposure in A shares results in a modest underweight 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 success of Walmart’s online offering.

#### Major transactions during the Quarter

##### **Purchases:**

**Cheesecake Factory Inc (£3.6m)** – purchased at a low valuation in anticipation that success with a newly trialled smaller footprint format and a recently acquired additional restaurant brand can accelerate top line growth.

**Vanguard Mid-Cap ETF (£20.7m)** – reducing the size of the portfolio’s underweighting of companies at the smaller end of the benchmark.

##### **Sales:**

**Tapestry Inc (£3.8m)** – exiting as the key catalyst of increased investment in the “Kate Spade” brand, including a product overhaul under a new head designer, has failed to find traction with consumers.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Kering	0.00	0.17	0.03
Koninklijke Philips	0.57	0.19	0.02
HBM Healthcare	0.33	0.00	0.02
Daimler AG	0.00	0.20	0.02
Engie	0.41	0.12	0.02

**Kering (u/w)** – Gucci brand is experiencing a slowdown in sales growth.

**Koninklijke Philip (o/w)** – sustained organic growth and productivity improvements, resulting in higher margins and an increase in analyst profit expectations.

**HBM Healthcare (o/w)** – outperformed due to the successful IPO of one of its larger investments.

**Daimler (u/w)** – underperformed as a result of weak results driven by continued weakness in the auto industry and increased capital investment in electric vehicles.

**Engie (o/w)** – outperformed as recent results were better than expected and the broader sector benefited from being seen as a bond proxy in a low yielding environment.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Airbus	0.85	0.33	(0.05)
SAP	0.77	0.52	(0.04)
NN Group	0.37	0.05	(0.03)
BB Biotech	0.28	0.00	(0.03)
Zurich Insurance Group	0.00	0.26	(0.02)

**Airbus (o/w)** – impacted towards the end of the quarter by the adverse ruling from the World Trade Organisation (WTO) regarding illegal state subsidies and the subsequent imposition of increased tariffs levied by the US.

**SAP (o/w)** – slowdown in revenue growth and a decrease in margins.

**NN Group (o/w)** – adversely impacted by lower than expected earnings due to the impact of one-off issues that are not expected to recur.

**BB Biotech (o/w)** – underperformed due to industry concerns regarding US drug pricing and healthcare reform and negative sentiment following the failure of a drugs trial for one of its larger holdings.

**Zurich Insurance (u/w)** – outperformed as it is expected to benefit from a low interest rate environment.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2019

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

Airbus	+0.53
Koninklijke Philips	+0.37
JP Morgan European Smaller Companies Trust	+0.37
Total	+0.35
HBM Healthcare	+0.33
Enel SPA	-0.27
Zurich Insurance Group	-0.26
Daimler AG	-0.20
EssilorLuxottica	-0.19
Kering	-0.17

#### 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.

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

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

**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.

**HBM Healthcare** – the fund has an excellent long-term track record, particularly generating value from the listing of private companies.

#### Bottom 5 Holdings Relative to Benchmark:

**Enel SPA** – the Italian energy group has a higher risk profile due to large exposure to Italy with the risk of political uncertainty as well as exposure to Latin America, particularly Brazil.

**Zurich Insurance Group** – high valuation relative to peers and over ambitious profitability targets.

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

**EssilorLuxottica** – there are significant concerns that the expected benefits of the recent merger will not be captured amid tensions between senior management from the respective companies.

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

#### Major transactions during the Quarter

##### **Sales:**

**Beiersdorf (£2.8m)** – disposal of a small holding which has a heavy reliance on one brand (Nivea).

**Sika (£3.1m)** – disposal of a small holding which has experienced a reduction in profitability targets and issues regarding the integration of an acquisition.

Note

1) Source: Northern Trust



## Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Tokyo Electron	0.19	0.08	0.03
Renesas Electronics	0.09	0.01	0.02
Nippon Shinyaku	0.12	0.01	0.02
Bandi Namco	0.10	0.03	0.02
Matsumotokiyoshi	0.10	0.01	0.02

**Tokyo Electron (o/w)** – strong results announcement and a recovery from recent weakness driven by the US/China trade dispute.

**Renesas Electronics (o/w)** – rebounded from poor performance in the previous quarter on expectations that the bottom of the Japanese technology cycle may be approaching.

**Nippon Shinyaku (o/w)** – solid results which beat analyst estimates and triggered a recovery in the share price following weakness in the previous quarter as a result of disappointing earnings guidance.

**Bandi Namco (o/w)** – good results which beat analyst expectations and benefited from inclusion in the Nikkei 225, a widely followed index.

**Matsumotokiyoshi (o/w)** – rebound from poor performance in the previous quarter as merger discussions have regained traction.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Daiichi Sankyo	0.00	0.11	(0.02)
Oriental Land	0.00	0.08	(0.02)
Oji Holdings	0.09	0.01	(0.01)
Yamato Holdings	0.04	0.01	(0.01)
Advantest	0.00	0.02	(0.01)

**Daiichi Sankyo (u/w)** – strong results and favourable drug trial outcomes.

**Oriental Land (u/w)** – strong results had a positive impact on share price despite high valuation.

**Oji Holdings (o/w)** – results were below analyst expectations.

**Yamato (o/w)** – concerns regarding loss of some delivery business from Amazon and a series of large discounted share sales weighed on the share price.

**Advantest (u/w)** – sales and earnings exceeded analyst expectations.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2019

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

Baillie Gifford Shin Nippon	+0.20
Toyota Motor	+0.17
Takeda Pharmaceutical	+0.15
Sony Corp	+0.14
Hitachi	+0.12
KDDI	-0.12
Honda Motor	-0.12
Daiichi Sankyo	-0.11
Recruit Holdings	-0.11
Fanuc	-0.10

#### Top 5 Holdings Relative to Benchmark:

**Ballie Gifford Shin Nippon** – a small cap focused fund with strong long-term relative performance.

**Toyota Motor** – has the experience in hybrid electric vehicles (EVs) and the scale and resources to successfully transition to full battery EVs.

**Takeda Pharmaceutical** – scale benefits from Shire acquisition and strong pipeline with valuation re-rating expected once strong cash flows and disposals reduce debt

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

**Hitachi** – conglomerate discount expected to narrow with highly regarded Board now in place, a focus on profitability, and disposals likely as changes continue to the business portfolio.

#### Bottom 5 Holdings Relative to Benchmark:

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

**Honda Motor** – Toyota and Subaru preferred on EV strategy and growth prospects.

**Daiichi Sankyo** – preference for other names in the healthcare sector.

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

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

#### Major transactions during the Quarter :

##### **Purchases:**

**Baillie Gifford Shin Nippon (£5.9m)** – a small cap focused fund with strong long-term performance.

**Toyota Motor (£3.1m)** – increased overweight due to experience in hybrid vehicles and growth potential.

**Subaru (£1.5m)** – increased overweight - collaboration with Toyota on electric vehicles should be positive.

##### **Sales:**

**Vanguard FTSE Japan (£6.3m)** – was used for market exposure whilst taking profits from direct holdings.

**Honda Motor (£4.5m)** – concerns regarding the company's weakness in electric vehicles and governance.

**JXTG (£2.2m)** – preference for Inpex in the oil & gas sector, which has a greater focus on gas.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2019

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Xinyi Solar	0.15	0.02	0.03
James Hardie	0.16	0.06	0.02
Hong Kong & China Gas	0.00	0.16	0.02
Sillajen	0.00	0.00	0.01
CSL	0.81	0.58	0.01

**Xinyi Solar (o/w)** – benefited from strong earnings results as China resumed building subsidised solar projects and the spin-off of the Energy business allows more cash to accelerate expansion.

**James Hardie (o/w)** – strong results and increased margins led to a sharp re-rating as the three-year strategic transformation programme appears to be paying off.

**Hong Kong & China Gas (u/w)** – weaker than expected results as a result of the escalating protests in Hong Kong and the impact of Chinese renminbi depreciation, with share price weakness exacerbated by a high valuation.

**Sillajen (u/w)** – the shares collapsed after the halting of a key drug trial.

**CSL (o/w)** – despite its high rating the shares out-performed on the back of solid results and an increase in guidance.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2019

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
LG Electronics	0.18	0.05	(0.03)
AIA Group	1.10	0.92	(0.03)
BHP Group	0.77	0.59	(0.03)
LG Chemical	0.16	0.09	(0.02)
Swire Pacific A	0.11	0.04	(0.02)

**LG Electronics (o/w)** – results were worse than expected and forward guidance was relatively muted.

**AIA (o/w)** – despite its growth potential within China, the company has been adversely impacted by the continuing unrest in Hong Kong as a large proportion of premiums are written in the territory by Chinese visitors.

**BHP Group (o/w)** – adversely impacted by a significant fall in the iron ore price and increased capital expenditure and cost guidance.

**LG Chemical (o/w)** – relatively weak results combined with another fire at an Energy Storage System.

**Swire Pacific A (o/w)** – although recent results were in line with expectation the shares suffered from the rise in tensions in Hong Kong, especially within its Cathay Pacific arm.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2019

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

Samsung Electronics	+0.24
CSL	+0.24
Macquarie Group	+0.21
BHP Group	+0.18
AIA Group	+0.17
Samsung Electronics Prefs	-0.22
Hong Kong & China Gas	-0.16
Westpac Bank	-0.12
Commonwealth Bank of Australia	-0.12
ASX Limited	-0.09

#### Top 5 Holdings Relative to Benchmark:

**Samsung Electronics Ords** – the stock is exposed to structural growth in memory market (despite current weakness), has a 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).

**Macquarie Group** – well diversified financial services company - preferred to the large Australian bank- strong balance sheet and very highly regarded management.

**BHP Group** – restructuring potential, strong cash generation, strong balance sheet, and shareholder returns; downside risks from iron ore price and slowdown in Chinese growth.

**AIA Group** – despite current issues in Hong Kong, this is the strongest pan Asian insurer - has a good distribution franchise, strong balance sheet, and recent licence wins in China

#### Bottom 5 Holdings Relative to Benchmark:

**Samsung Electronics Prefs** – portfolio is overweight in 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 increased regulatory risk in China.

**Commonwealth Bank of Australia and Westpac Bank** – fragile Australian economy led to reduction in interest rates - not positive for bank earnings – albeit low valuations & high dividends could provide support.

**ASX Limited** – prefer to gain exposure to the stock exchange sub-sector via Hong Kong, rather than Australia, due to the positive impact from the opening up of the Chinese market.

#### Major transactions during the Quarter

##### **Purchases:**

**CK Assets (£3.7m)** – increasing exposure to a well governed property company.

**Woongjin Coway (£2.3m)** – strong business model and expectations of improved corporate governance.

**Lendlease (£2.0m)** – recent deal for major Google construction project expected to offset recent weakness.

##### **Sales:**

**Venture Group (£2.1m)** – disposed of the holding due to difficult trading environment.

Note

1) Source: Northern Trust

## Market Background at 30 September 2019

Global economic growth has continued to slow during the quarter and leading indicators, particularly for manufacturing which is being adversely affected by the ongoing and escalating trade disputes, suggest that this weakness may continue in the short term. There are, however, tentative signs that this is bottoming out. The yield curve in the US remains inverted, which has been a strong indicator of recessions, although it should be noted that this relationship is nowhere near as strong in other economies. However, it does suggest that the global economy may remain relatively weak in the short term.

The US continues to be impacted by trade tensions with China and now appears to be picking a fight with Europe, all of which is having an adverse impact on business investment and industrial activity. As expected, the Federal Reserve reduced interest rates but the bank financing market was adversely impacted by a shortfall in liquidity, which increased short term borrowing rates. This was resolved by quarter end.

Europe continues to feel the effects of the trade dispute and the negative impact on global trade growth. Leading indicators have deteriorated further, particularly in Germany which is experiencing significant weakness in industrial activity. The ECB has responded by cutting interest rates further into negative territory and restarting its quantitative easing programme.

The UK continues to be impacted by uncertainty around Brexit, with weaker economic growth in the last quarter as a result of the unwinding of inventory building in anticipation of the original exit date. This is expected to reverse in the current quarter as the next potential exit date approaches. Political uncertainty will continue as there is no clear majority for any option and this may not be resolved via a General Election. What is clear is that the political and economic uncertainty is having a detrimental impact on investment expenditure. Despite this, the labour market remains relatively robust, which could support consumer expenditure, and there is likely to be a fiscal stimulus to support the economy.

The ongoing uncertainty surrounding Brexit has resulted in the stock market under-performing and sterling remaining relatively weak. In the event of a suitable resolution, UK assets would be expected to out-perform due to a relief bounce and more attractive relative valuations, although some of this is due to sector composition.

Japan has also been adversely affected by the slowdown in global trade given its sizeable export manufacturing sector and has been exacerbated by its own trade dispute with South Korea. The domestic economy appears stronger, although the increase in VAT was introduced as expected in October and very early indications are that it is having an adverse impact on consumer spending.

The rest of developed Asia has been impacted by both increased trade tensions – given its proximity to China – and a slowdown in global economic activity. There are also domestic pressures, including a housing market slowdown in Australia, with the accompanying risk of increased loan defaults, and the escalation of tensions in Hong Kong.

There has been a continued slowdown in economic growth in Emerging Markets, driven partly by increased trade tensions adversely impacting industrial production and exports - but also due to a more recent slowdown in household spending. China has introduced further monetary and fiscal stimulus which may arrest the continuing decline in economic growth that has been exacerbated by the trade dispute with the US. There is also scope for other emerging economies to increase monetary and/or fiscal stimulus including The Philippines, Indonesia, and Malaysia. India has recently announced a significant cut in corporate tax rates.

## Market Background at 30 September 2019

Global inflation remains relatively benign due to a fall in food inflation, which has a greater impact on emerging markets, and continued weakness in energy prices despite the short-term loss of Saudi oil production following the drone attacks. Labour markets remain relatively strong, although there are some signs of weakness as a result of weaker economic data and there remains concern regarding the lack of productivity growth.

Monetary conditions have become more accommodative in recent months, particularly in emerging economies, as inflation and interest rate expectations have fallen in response to weaker global economic growth. 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. Additionally, further quantitative easing risks merely boosting asset prices, rather than the real economy. As a result, there appears to be a growing acceptance of using fiscal policy to stimulate economies despite high levels of government debt.

There has been a continued appreciation in global equity markets (MSCI ACWI) with a total return of 3.4% during the quarter. Developed markets (+4.0%), which had also outperformed in the previous two quarters, continued to out-perform Emerging Markets (-1.0%). Markets were relatively strong in July but there was a pullback in August due to concerns regarding a global economic slowdown, which subsequently reversed in September. This coincided with a relatively sharp shift into Value stocks from Momentum stocks.

There has been a sharp fall in bond yields during the quarter as a result of the slowdown in economic activity and further monetary stimulus. The value of negative yielding global government and investment grade corporate debt peaked at \$17 trillion, although it has subsequently reduced to “only” \$15 trillion. This means that fully a third of the global bond market will generate negative returns to investors who hold them until maturity and demonstrates the perversity in asset markets at present.

Expanding price earnings ratios, as opposed to earnings growth prospects, have driven equity market returns so far in 2019. There is a question as to whether this is sustainable, particularly as multiples are above their long-term average in most markets. Earnings expectations have continued to weaken over the last few months for most developed markets, although Europe has stabilised and Pacific ex-Japan is recovering. Earnings forecasts in Emerging Markets have rebounded recently, albeit from a low base. We believe that market conditions are likely to remain volatile, with a slowdown in global economic growth punctuated by rising and falling trade tensions and additional monetary and fiscal stimulus.

Note

1) Source: Border to Coast



## Border to Coast News

### People:

- We have welcomed Jamie Roberts as Client Relationship Manager into the CRM team and Alex Faulkner as Responsible Investment Analyst to strengthen the level of support available in these areas.
- We held our latest Graduate Assessment Day in September and look forward to welcoming the next intake of graduates in October.

### Investment Funds:

- We have now “gone live” on our Infrastructure offering, with Partner Funds committing nearly twice as much as originally expected with £675m to be invested in the first year. We will provide updates on investments in due course.
- The final sleeve of our private markets structure, Private Credit, has now closed for commitments with c. £580m to be invested over the next 18 months. This brings to £1.75bn the commitments in the first investment window – some 50% greater than initial indications when we were assessing the business case 12 months ago.
- Our Global Equity Alpha Fund has now been approved by the FCA and we are working hard with our appointed managers Investec, Lindsell Train, Loomis Sayles and Harris, together with our transition manager, BlackRock, to plan the transition of c. £5bn, which will be our largest and most complex transition to date. The role of Pensions Officers cannot be overstated in ensuring that everything comes together at the right time: sincere thanks for all the commitment to this project.
- We have now appointed the asset managers for our Investment Grade Credit fund: Insight Asset Management, Prudential M&G and Royal

London Asset Management. This fund is planned for launch in early 2020 with c. £2.5bn assets under management. We are working with Officers on the plans for the transition.

### Responsible Investment:

- We have started on the long path that is the annual review of our Responsible Investment Policy. This will be completed by the end of 2019 in order for us to be clear and transparent with the companies in which we invest as to how we will vote going into the peak proxy voting season. Please do let your Officers know of any particular areas of focus that you would like to be considered. The revised policy is due to be discussed at the Joint Committee and Pensions Committees during November / December.

### Other news:

- Border to Coast celebrated its first anniversary in July. Thank you to everyone who has contributed to our successful first year.
- We are pleased to announce that Border to Coast won “Pool of the Year” at the LAFP Investments Awards 2019.

## 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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