



Teesside Pension Fund

Quarterly Investment Report - Q4 2019

Contents

Executive Summary	1
Portfolio Analysis	2
Portfolio Contribution	3
Valuation Summary	4
Summary of Performance - Funds (Net of Fees)	5
Summary of Performance - Funds (Gross of Fees)	6
Border to Coast UK Listed Equity Fund	7
Border to Coast Developed Markets Equity Fund	12
Appendices	18
Border to Coast Developed Markets Equity Fund (Regional Breakdown)	19
Market Background	31
Border to Coast News	33
Disclosures	34

Note

1) Border to Coast

Executive Summary

Overall Value of Teesside Pension Fund

Value at start of the quarter	£1,518,856,095
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£58,351,667
Value at end of the quarter	£1,577,207,762

Over Q4 2019, Teesside's holdings performed as follows:

- The UK Listed Equity Fund out-performed its benchmark by 0.13%
- The Overseas Listed Equity Fund out-performed its benchmark by 0.43%

Teesside did not make any subscriptions or redemptions during Q4 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 included within the Net Inflows / Outflows or Unrealised Gain or Loss figures.

Portfolio Analysis - Teesside Pension Fund at 31 December 2019

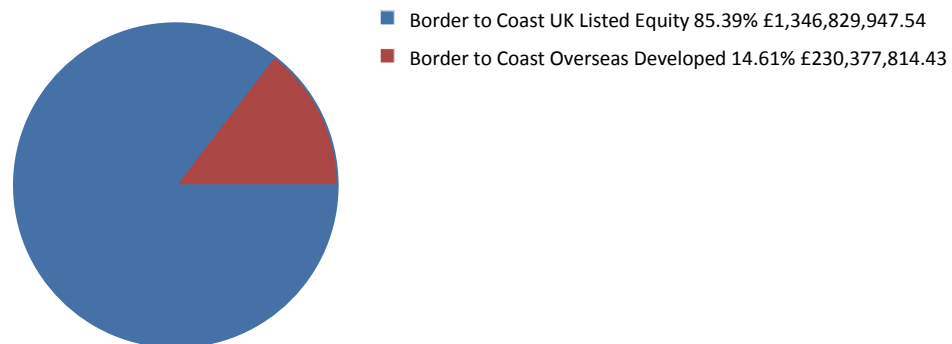
Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,346,829,947.54	85.39
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	230,377,814.43	14.61

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 December 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	85.39	4.28	4.16	0.13	3.65
Border to Coast Overseas Dev Markets Equity	14.61	1.33	0.90	0.43	0.19
Total	100.00	3.84			

The UK Listed Equity Fund returned 4.28% over the quarter, which was 0.13% ahead of the FTSE All Share Index.
The Overseas Listed Equity Fund returned 1.33% over the quarter, which was 0.43% ahead of the composite benchmark.

Overall, Teesside's investments with Border to Coast returned 3.84% during Q4 2019.

Note

1) Source: Northern Trust & Border to Coast

Valuation Summary at 31 December 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	1,291,504,455.47	85.03				55,325,492.07	1,346,829,947.54	85.39	
Border to Coast Overseas Developed Equity	227,351,639.18	14.97				3,026,175.25	230,377,814.43	14.61	
Total	1,518,856,094.65	100.00				58,351,667.32	1,577,207,761.97	100.00	

Note

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

Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 31 December 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	5.49	4.05	1.44	4.28	4.16	0.12	20.96	19.17	1.79	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	7.11	6.22	0.88	1.32	0.90	0.43	21.77	20.02	1.75	--	--	--	--	--	--

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 31 December 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	5.50	4.05	1.45	4.28	4.16	0.13	20.97	19.17	1.80	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	7.13	6.22	0.91	1.33	0.90	0.43	21.78	20.02	1.76	--	--	--	--	--	--

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 - Overview

at 31 December 2019

UK Listed Equity Fund

The Fund generated a total return of 4.28% during the quarter, compared to 4.16% for the benchmark, resulting in 0.12% of out-performance.

The key theme affecting the Fund during the quarter was the outcome of the general election which reduced uncertainty around Brexit. As well as a relief bounce in the market and sterling strength, UK-focused companies were the main beneficiaries, with overseas earners under-performing. This was a reversal of the trends seen since the referendum in 2016 and was not unexpected.

The Fund benefited from the recovery in smaller companies, which tend to have a UK bias, but this was partly offset by an over-weight position in overseas earners relative to domestic earnings. Housebuilders and Banks were two of the main beneficiaries of reduced uncertainty and the Fund has under-weight positions in both.

Portfolio positioning during the tumultuous events since inception has been difficult and has resulted in the Fund having a relatively low risk profile, whilst still generating performance above target. The reduction in market uncertainty should enable the relative risk profile of the Fund to increase over the medium term.

Note

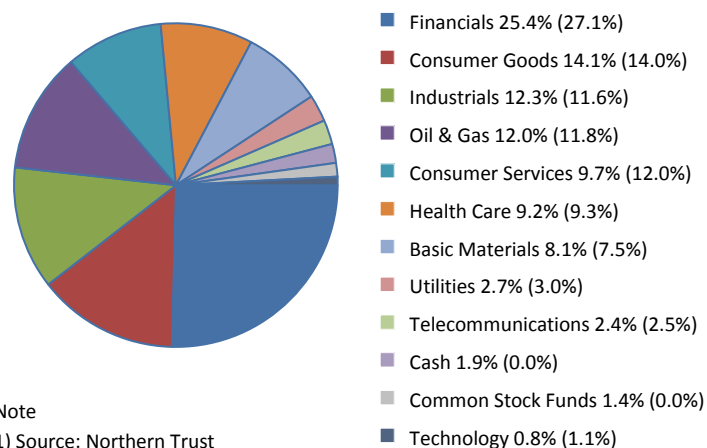
1) Source: Border to Coast

Border To Coast UK Listed Equity Fund at 31 December 2019

Largest Relative Over/Underweight Sector Positions (%)

Common Stock Funds	+1.36
Industrials	+0.69
Basic Materials	+0.53
Oil & Gas	+0.19
Consumer Goods	+0.02
Consumer Services	-2.28
Financials	-1.68
Utilities	-0.30
Technology	-0.27
Health Care	-0.09

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.

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.

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 on-line penetration, with on-line operators also not immune to a more cautious UK consumer.

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

Utilities (-) – regulatory and political headwinds (including recent nationalisation risk ahead of UK elections) alongside increased scrutiny of shareholder returns.

Border To Coast UK Listed Equity Fund Attribution at 31 December 2019

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Biotech Growth Trust	0.56	34.92	0.02	34.67	0.12
JPMorgan Smaller Companies Trust	0.40	44.04	0.01	45.62	0.11
Montanaro UK Smaller Companies	0.45	35.38	0.01	35.55	0.10
Travis Perkins	0.59	25.53	0.17	25.65	0.09
Glencore	0.00	0.00	1.07	(3.84)	0.09

Biotech Growth Trust (o/w) – increased merger and acquisition activity and positive drug pipeline developments, combined with limited political developments in the US on drug pricing.

JP Morgan Smaller Companies Trust (o/w) – UK smaller companies have rallied strongly post the UK election and the discount to net asset value (NAV) has narrowed to historic lows.

Montanaro UK Smaller Companies Trust (o/w) – UK smaller companies have rallied strongly post the UK election and the discount to NAV has narrowed significantly.

Travis Perkins PLC (o/w) – better than expected quarterly trading statement with both merchanting and retail divisions resilient despite challenging trading conditions.

Glencore PLC (u/w) – UK Serious Fraud Office opened a new bribery investigation during the quarter, adding to existing ongoing investigations, notably by the US Department of Justice, alongside continuing operational issues with several key assets.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Tullow Oil	0.10	(70.13)	0.04	(70.08)	(0.15)
International Airlines Group	0.00	0.00	0.42	34.49	(0.09)
Unilever	2.40	(10.24)	1.99	(10.34)	(0.06)
Barclays	1.02	19.45	1.30	19.44	(0.05)
Barratt Developments	0.00	0.00	0.32	22.62	(0.05)

Tullow Oil PLC (o/w) – a series of disappointing drilling outcomes and a lower than expected output guidance led to the departure of both the CEO and Exploration Director.

International Consolidated Airlines Group (u/w) – beneficiary of reduction in Brexit uncertainty; the Fund has a preference for short haul/low cost carrier Easyjet, which also benefitted.

Unilever PLC (o/w) – disappointment from guidance of reduced sales growth due to slowing emerging market growth, alongside continued sluggish growth in developed markets.

Barclays PLC (u/w) – positive trading statement ahead of expectations, beneficiary of agreed Brexit terms and favourable outcome of UK elections.

Barratt Developments PLC (u/w) – beneficiary of Brexit agreement and supportive government housing policy; Fund has a preference for Bovis, Persimmon and Berkeley - who have also benefitted.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund at 31 December 2019

Largest Relative Over/Underweight Stock Positions (%)

Antofagasta	+0.92
Intercontinental Hotels	+0.77
Impax Environmental Markets	+0.75
Schroder UK Smaller Companies Fund	+0.73
BHP Billiton	+0.69
Glencore	-1.07
British American Tobacco	-0.65
BP	-0.62
Royal Bank of Scotland	-0.46
Anglo American	-0.46

Note

1) Source: Northern Trust

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.

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

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

Bottom 5 Holdings Relative to Benchmark:

Glencore – higher risk commodity company with significant operations in geographies with weak governance; ongoing corruption investigations plus a new bribery investigation by UK Serious Fraud Office; poor ESG score relative to peer group.

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

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

Royal Bank of Scotland – fund preference for Lloyds given the government stake overhang of RBS and preference for more geographically diversified banks.

Anglo American PLC – significant exposure to coal. Fund prefers BHP (iron ore) and Antofagasta (copper) with their positions towards the lower end of the cost curve.

Major transactions during the Quarter

Purchases:

M&G PLC (£20.8m) – new position following the separation from Prudential. Positive meeting with company.

Barclays PLC (£7.2m) – reduced under-weight due to risk of no-deal Brexit reducing. Positive trading statement.

Sales:

Travis Perkins PLC (£4.9m) – reduced over-weight – shares recovered sharply following trading statement.

Schroder UK Mid-Cap (£4.2m) – completed sale of legacy asset as shares performed strongly.

Border To Coast Overseas Developed Markets Equity Fund - Overview at 31 December 2019

Overseas Developed Markets Fund

The Fund generated a total return of 1.32% during the quarter compared to 0.90% for the composite benchmark, resulting in 0.42% of out-performance. US and Pacific ex-Japan (1.7%) were the strongest markets in relative terms, followed by Japan (0.9%) and Europe ex-UK (0.7%).

The key themes affecting the sub-fund during the quarter were:

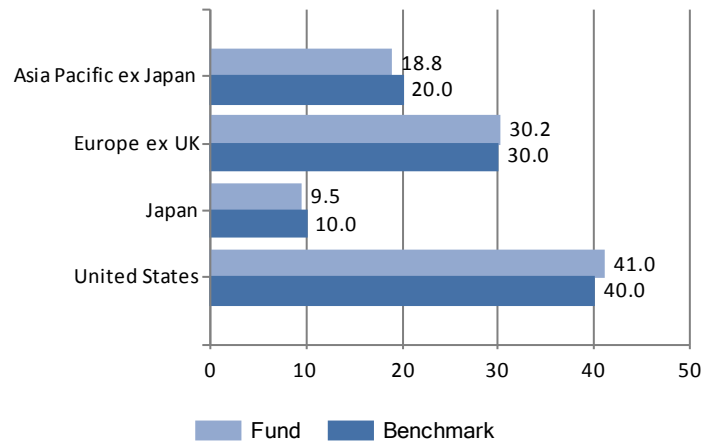
- Tentative improvement in the trade relations between the US and China which had a beneficial impact on export-oriented countries (eg. Germany, Japan etc.) and sectors (eg. Industrials, Technology etc.).
- Some signs of stabilisation and expectations of a recovery in the Technology sector, driven by an unwinding of excess inventory and positive consumer responses to new products – eg. Galaxy Note 10, iPhone 11.
- The reversal of the inversion of the US yield curve and reduced expectations of a recession, resulting in an improvement in investor sentiment.
- A developing global trend of an improvement in the relative performance of Value stocks which have under-performed Quality stocks significantly over the last decade and are now valued at a substantial discount. The sub-fund is typically over-weight Quality stocks and so a continuation of this trend could have a detrimental impact on performance, although there have been a number of false dawns in the past.

Note

1) Source: Border to Coast

Border To Coast Overseas Developed Markets Equity Fund at 31 December 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

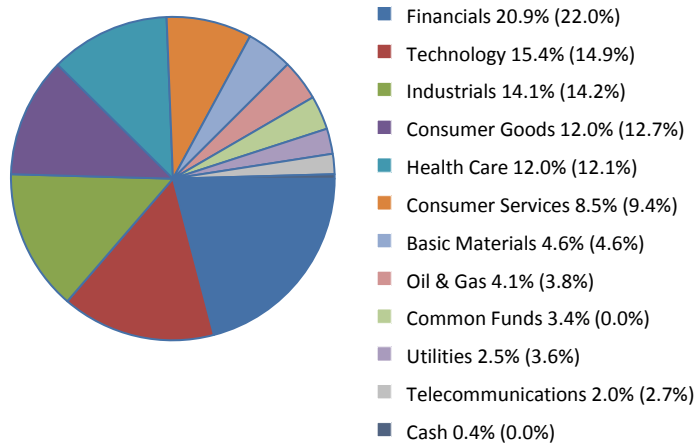
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Overseas Developed Equity Fund	7.11	6.22	0.88	1.32	0.90	0.43	21.77	20.02	1.75	--	--	--
United States	10.77	10.22	0.55	1.70	1.29	0.41	25.41	25.64	(0.24)	--	--	--
Japan	4.18	2.16	2.02	0.91	0.21	0.70	17.55	14.40	3.15	--	--	--
Europe ex UK	5.05	4.25	0.79	0.70	0.81	(0.11)	22.88	19.40	3.48	--	--	--
Asia Pacific ex Japan	4.67	2.98	1.69	1.68	0.46	1.22	15.39	12.55	2.84	--	--	--

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 December 2019

Sector Portfolio Breakdown



Overseas Developed Markets Fund

Sector Weights:

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

Technology (+) – long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips,

Oil and Gas (+) – relatively defensive sector, valuations significantly below the long-term average and strong free cash flow generation, enabling increased shareholder distributions.

Consumer Services (-) – concerns over consumer spending and continuing structural shift to on-line retail.

Utilities (-) – pressure from increased capital investment, changes in government policy and increased regulatory risk are having an adverse impact on “traditional” power generation companies.

Financials (-) – under-weight in Banks due to concerns over profitability, non-performing loans, legacy litigation issues and regulation risk.

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 December 2019

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
NVIDIA Corporation	0.51	25.88	0.22	25.81	0.06
Nokia	0.00	0.00	0.09	(32.11)	0.04
UnitedHealth Group	0.57	26.24	0.42	26.17	0.03
CSL	0.92	14.34	0.66	14.41	0.03
HMB Healthcare	0.36	10.13	0.00	0.00	0.03

NVIDIA Corp (o/w) – company benefited from a general improvement in semiconductor stocks, gaining traction in its gaming and machine learning products, and improved expectations for the hyperscale data centre market.

Nokia (u/w) – cut profit guidance and halted dividend pay-outs to cover 5G mobile network costs.

UnitedHealth Group (o/w) – improvement in sentiment, due to a loss of political momentum for Democratic Presidential candidates favouring universal healthcare, coupled with solid results.

CSL (o/w) – despite its high rating, the shares continued to out-perform due to solid results, positive outlook and a broker upgrade.

HBM Healthcare (o/w) – out-performed on the back of a successful fundraising for one of its largest holdings, Nicox.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Constellation Brands	0.33	(14.46)	0.05	(14.61)	(0.04)
Vanguard US Mid Cap ETF	2.94	(0.62)	0.00	0.00	(0.04)
Home Depot	0.66	(11.86)	0.36	(12.06)	(0.04)
McDonalds Corp	0.43	(13.86)	0.22	(14.00)	(0.04)
Kering	0.00	0.00	0.21	19.88	(0.03)

Constellation Brands (o/w) – investors were disappointed by the softening of the previously announced plans to dispose of certain non-premium wine brands.

Vanguard Mid Cap ETF (o/w) – the mid-cap fund under-performed the S&P 500 benchmark by 2% over the quarter, but the US portfolio is under-weight mid-cap stocks overall.

Home Depot (o/w) – shares fell on concerns that recent weaker results may indicate deeper problems.

McDonald's Corp (o/w) – shares already under some pressure, sudden departure of well-respected CEO not well received.

Kering (u/w) – quarterly results were better than expected.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund at 31 December 2019

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+2.94
Alphabet A	+0.56
Airbus	+0.54
JP Morgan European Smaller Companies Trust	+0.39
Visa Inc	+0.38
Alphabet C	-0.60
Mastercard	-0.40
Comcast	-0.31
PepsiCo	-0.28
Enel SPA	-0.26

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 under-weight exposure to smaller companies overall.

Alphabet A – zero holding in C shares results in a modest under-weight 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 – out-performed due to an improvement in value stocks and a reduction in the discount to NAV.

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

Bottom 5 Holdings Relative to Benchmark:

Alphabet C – exposure in A shares results in a modest under-weight 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.

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

Note

1) Source: Northern Trust

APPENDICES

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

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
NVIDIA Corporation	0.51	0.22	0.06
UnitedHealth Group	0.57	0.42	0.03
International Business Machines	0.00	0.18	0.03
Bank of America	0.68	0.43	0.03
Comcast	0.00	0.31	0.03

NVIDIA Corp (o/w) – company benefited from a general improvement in semi-conductor stocks, gaining traction in its gaming and machine learning products, and improved expectations for the hyperscale data centre market.

UnitedHealth Group (o/w) – improvement in sentiment, due to a loss of political momentum for Democratic Presidential candidates favouring universal healthcare, coupled with solid results.

IBM (u/w) – poor results prompted concern that acquisition of Red Hat may not be enough to offset revenue declines.

Bank of America (o/w) – confidence in the US economy, plus results confirmed strong cost control strategy.

CMSCA (u/w) – details of increased investment in direct to consumer streaming service were not well received.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Constellation Brands	0.33	0.05	(0.04)
Vanguard US Mid Cap ETF	2.94	0.00	(0.04)
Home Depot	0.66	0.36	(0.04)
McDonalds Corp	0.43	0.22	(0.04)
Dollar General	0.36	0.06	(0.03)

Constellation Brands (o/w) – investors were disappointed by the softening of the previously announced plans to dispose of certain non-premium wine brands.

Vanguard Mid Cap ETF (o/w) – the mid-cap fund under-performed the S&P 500 benchmark by 2% over the quarter, but the US portfolio is under-weight mid-cap stocks overall.

Home Depot (o/w) – shares fell on concerns that recent weaker results may indicate deeper problems.

McDonald's Corp (o/w) – shares already under some pressure, sudden departure of well-respected CEO not well received.

Dollar General Corp (o/w) – shares struggled to maintain momentum having reached a high last quarter.

Note

1) Source: Northern Trust & Border to Coast

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

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+2.94
Alphabet A	+0.56
Visa Inc	+0.38
Microsoft	+0.34
Home Depot	+0.31
Alphabet C	-0.60
Mastercard	-0.40
Comcast	-0.31
PepsiCo	-0.28
Walmart Inc	-0.25

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 under-weight exposure to smaller companies overall.

Alphabet A – zero holding in the C shares resulted in a modest under-weight exposure to Alphabet overall.

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.

Home Depot Inc – reasonable valuation for best-in-class retailer, stabilising residential housing and initiative to capture market share in trade customers offers further support.

Bottom 5 Holdings Relative to Benchmark:

Alphabet C – exposure in A shares results in a modest under-weight 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.

Major transactions during the Quarter

Purchases:

Vanguard Mid-Cap ETF (£14.1m) – reducing the size of the portfolio's under-weight to these companies.

Cheesecake Factory (£3.3m) – using near term weakness to increase to a full weighting.

Sales:

Allergan (£8.3m) – realising gains following takeover approach – proposed merged entity isn't compelling.

Charles Schwab (£4.3m) – challenging outlook given continued income pressure and a trend toward commission free trading.

Note

1) Source: Northern Trust

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

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Nokia	0.00	0.09	0.04
HMB Healthcare	0.36	0.00	0.03
BNP Paribas	0.51	0.27	0.02
Telefonica	0.00	0.13	0.02
JP Morgan European Smaller Companies	0.39	0.00	0.02

Nokia (u/w) – cut profit guidance and halted dividend pay-outs to cover 5G mobile network costs.

HBM Healthcare (o/w) – outperformed on the back of a successful fundraising for one of its largest holdings, Nicox.

BNP Paribas (o/w) – the company has benefitted from the rotation into value and positive news from the merger of its Indian subsidiary with a competitor.

Telefonica (u/w) – under-performed due to Spanish competitive uncertainties, derating of German subsidiary and balance sheet concerns.

JP Morgan European Smaller Companies (o/w) – out-performed – improvement in value stocks and a reduction in the discount to NAV.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Kering	0.00	0.21	(0.03)
Wirecard	0.13	0.06	(0.03)
Orange	0.35	0.12	(0.03)
Engie	0.37	0.11	(0.02)
Unilever	0.57	0.35	(0.02)

Kering (u/w) – quarterly results were better than expected.

Wirecard (o/w) – ongoing investigation by the Financial Times regarding accounting irregularities.

Orange (o/w) – issued new forecasts for profits and dividends in the near term that were weaker than expected.

Engie (o/w) – reduced profit forecasts for its client solutions and renewables business which were expected to be positive drivers.

Unilever (o/w) – reduction in sales growth guidance due to slowing emerging market growth and sluggish developed markets.

Note

1) Source: Northern Trust & Border to Coast

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

Largest Relative Over/Underweight Stock Positions (%)

Airbus	+0.54
JP Morgan European Smaller Companies Trust	+0.39
Koninklijke Philips	+0.36
HMB Healthcare	+0.36
Total	+0.32
Enel SPA	-0.26
Zurich Insurance Group	-0.25
Kering	-0.21
EssilorLuxottica	-0.19
Daimler	-0.19

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 Trust – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

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

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

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.

Bottom 5 Holdings Relative to Benchmark:

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

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

Kering – the luxury brand group has an over-reliance on the Gucci brand.

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.

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

Major transactions during the Quarter

Purchases:

Deutsche Telekom (£2.0m) – adding to a defensive company in the Telecommunications sector with strong positions in the US and German markets.

Sales:

Amadeus (£2.1m) – reducing position following better than expected results.

Note

1) Source: Northern Trust

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

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Oriental Land	0.00	0.07	0.01
Takeda Pharmaceutical	0.30	0.15	0.01
JGC	0.09	0.01	0.01
Ryohin Keikaku	0.08	0.01	0.01
Sony Corp	0.36	0.21	0.01

Oriental Land (u/w) – mean reversion following strong performance last quarter, reduction in visitor numbers due to typhoon-induced closure.

Takeda Pharmaceutical (o/w) – disposals to reduce debt continue, results exceeded analyst consensus, some positive drug trial results.

JGC Holdings (o/w) – reversal of poor performance since 2018 highs on reiteration of full year profit guidance.

Ryohin Keikaku (o/w) – positive impression of future prospects, cost cutting initiative, and incentive scheme for store managers.

Sony Corp (o/w) – positive news flow, particularly related to demand for image sensors.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
ZOZO	0.07	0.00	(0.02)
Subaru	0.12	0.04	(0.02)
Recruit Holdings	0.00	0.12	(0.02)
Eisai	0.00	0.05	(0.01)
East Japan Railway	0.18	0.08	(0.01)

Zozo (o/w) – partial reversal of gains in previous quarter driven by acquisition of majority of shares by Z Holdings (formerly Yahoo Japan).

Subaru (o/w) – cut operating income forecast after supply disruptions caused by recent typhoon.

Recruit Holdings (u/w) – results slightly better than expected.

Eisai (u/w) – plans by partner Biogen to reverse decision to abandon Alzheimer’s drug following further analysis of test results.

East Japan Railway (o/w) – typhoon flood damage to bullet train rolling stock.

Note

1) Source: Northern Trust & Border to Coast

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

Largest Relative Over/Underweight Stock Positions (%)

Ballie Gifford Shin Nippon	+0.21
Toyota Motor	+0.16
Takeda Pharmaceutical	+0.15
Sony Corp	+0.14
Hitachi	+0.13
KDDI	-0.13
Honda Motor	-0.13
Recruit Holdings	-0.12
Daiichi Sankyo	-0.11
Daikin Industries	-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 and 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.

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

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

Daikin Industries – growth concerns due to declining air-conditioning demand in Chinaplast chemicals business exposure to auto and tech sectors.

Major transactions during the Quarter

Purchases:

Chubu Electric Power (£3.0m) – new holding - relatively high dividend yield, expectations of dividend growth and better balance sheet than most peers.

Mitsubishi UFJ (£2.0m) – increased over-weight as preference for a more globally diversified bank.

Sales:

Nippon Steel (£1.8m) – disposal on expected weakening of demand and risks associated with plant closures.

Resona (£1.8m) – disposal due to concerns on declining margins for domestic Japanese banks.

Note

1) Source: Northern Trust

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

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
CSL	0.92	0.66	0.03
Samsung Electronics	1.99	1.70	0.03
Westpac Bank	0.35	0.46	0.02
Xinyi Solar	0.16	0.02	0.01
Hong Kong & China Gas	0.00	0.14	0.01

CSL (o/w) – despite its high rating, the biotechnology company continued to out-perform due to solid results, positive outlook and a broker upgrade.

Samsung Electronics Ords (o/w) – re-rating of the shares due to improvement in the memory chip market and strong sales of Galaxy 10.

Westpac Bank (u/w) – announcement of additional legal proceedings for alleged breaches of anti-money laundering regulations.

Xinyi Solar (o/w) – potential for sustainable solar glass price rises driven by global installation demand and strong cost competitiveness.

Hong Kong & China Gas (u/w) – ongoing protests in Hong Kong led to volume declines especially to the commercial sector.

Note

1) Source: Northern Trust & Border to Coast

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

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung Electronics Prefs	0.00	0.24	(0.02)
AAC Technologies	0.00	0.04	(0.02)
Fisher & Paykel	0.00	0.06	(0.01)
HLB	0.00	0.03	(0.01)
Amorepacific	0.00	0.04	(0.01)

Samsung Electronics Prefs (u/w) – re-rating of the shares due to improvement in the memory chip market and strong sales of Galaxy 10.

AAC Technologies (u/w) – Apple supplier benefited from better than expected sales of the new iPhone.

Fisher & Paykel (u/w) – solid results and a positive outlook for the appliance manufacturer’s medium-term revenue growth.

HLB (u/w) – the shares soared on unsubstantiated news regarding the potential success of a cancer drug.

AmorePacific (u/w) – better than expected results for the cosmetics conglomerate and potential for restructuring.

Note

1) Source: Northern Trust & Border to Coast

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

Largest Relative Over/Underweight Stock Positions (%)

Samsung Electronics	+0.29
CSL	+0.26
Macquarie Group	+0.21
BHP Group	+0.18
AIA Group	+0.17
Samsung Electronics Prefs	-0.24
Hong Kong & China Gas	-0.14
Commonwealth Bank of Australia	-0.12
Westpac Bank	-0.11
ASX Limited	-0.08

Top 5 Holdings Relative to Benchmark:

Samsung Electronics Ords – exposed to the structural growth in the memory chip market which is gaining momentum, has a diversified earnings stream, and shareholder return potential.

CSL – competitive advantage in the plasma market and strong growth expected for Immunoglobulins (antibodies); recent positive results underpin the investment rationale.

Macquarie Group – well diversified financial services company (preferred to the large Australian banks), strong balance sheet and very highly regarded management.

BHP Group – restructuring potential, strong cash generation, strong balance sheet, and shareholder returns; downside risks from lower iron ore prices 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 over-weight 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 – threat of further remediation charges, combined with a premium rating, imply the shares are fully valued.

Westpac Bank – despite the housing market appearing to be recovering, the recent legal proceedings provide further downside risk for the shares.

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:

Samsung C&T (£1.7m) – reinvestment of proceeds from rationalisation of holdings with exposure to Samsung.

SK Holdings (£1.5m) and SK Hynix (£1.5m) – reinvestment of proceeds from rationalisation of holdings with exposure to SK group of companies.

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 31 December 2019

Global stock markets were exceptionally strong during 2019, generating a total return of 22.3% in sterling terms (based on MSCI ACWI). However, this partially reflected a rebound from the sharp correction in the fourth quarter of 2018. Total return over the 15 months up to the end of 2019 has been a more modest 9.4%. Additionally, strong returns in 2019 were wholly due to an increase in valuations, as aggregate earnings growth was broadly zero.

Global economic growth has continued to soften during the quarter, although leading indicators – particularly for manufacturing which has been adversely affected by trade disputes – have shown some signs of stabilisation. The yield curve in the US is no longer inverted and it will be interesting to see whether the previous inversion does presage a recession in the short term. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions, although tensions could escalate rapidly. Consumer confidence and associated spending remains relatively strong, although recent weakness in labour markets may have an adverse impact. Whilst political uncertainty has reduced in Europe following the UK election and positive developments in Italy, the impending US election is likely to drive sentiment. In addition, the recent escalation of tensions in the Middle East has increased geopolitical uncertainty in general.

The US is likely to benefit from the tentative improvement in trade relationships, although this can deteriorate. Presidential election years tend to be positive for the US economy, due to political-related spending and economic stimulus measures. However, it is fair to say that this is unlikely to be a “normal” election year. Following the abrupt U-turn by the Federal Reserve at the start of 2019 it is likely that monetary policy will continue to be a stimulus in the short term.

Europe will be a beneficiary of the recent thawing of the trade dispute and reduced uncertainty around Brexit. This should drive a recovery in industrial and export activity which will be positive for Germany. The ECB will continue to provide significant monetary stimulus and the recent appointment of Christine Lagarde as the new President of the ECB is not expected to result in a material change to bank policy. Although there is an increasing acceptance of the need for fiscal stimulus to complement monetary stimulus it is likely to prove difficult to have a co-ordinated effort across the region, particularly with German aversion to increased spending.

In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit. It is now fairly clear that the UK will shortly leave the EU, although there remains a great deal of work in negotiating the exit agreement. The parliamentary majority now enjoyed by the Conservatives suggests there will be minimal opposition to block proposals but also means that a softer Brexit could be secured without the need to pacify the more hard-line factions within the party. There is the possibility of a further cut to interest rates and a substantial fiscal stimulus is likely, which should provide a boost to economic activity. The reduced uncertainty is also likely to be beneficial to business investment and consumer confidence. However, there is a long way to go before agreeing an appropriate trade deal, and some uncertainty will persist. There has been a modest relief bounce since the election, although this does appear to be weakening. In the event of a suitable long-term solution, UK assets would be expected to out-perform due to reduced uncertainty and more attractive relative valuations, although some of the latter is due to sector composition.

Japan should also benefit from the improving trade relationships, given its sizeable export manufacturing sector, although the relationship with South Korea has not improved significantly. The increase in VAT has had the expected negative impact on consumer spending and a sizeable stimulus package has been implemented to offset this weakness.

Market Background at 31 December 2019

There will be a short-term boost from Olympic-related infrastructure expenditure but the positive impact on growth dissipates relatively quickly.

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, although recent improvements in technology-related demand and expectations that this will continue should be beneficial. Tensions in Hong Kong will continue to have an impact on economic activity and sentiment. Although the housing market in Australia is showing signs of recovery, reducing the risk of loan defaults, the impact of the current adverse climate conditions on economic activity will not be known for some time.

Economic activity in Emerging Markets remains relatively weak, particularly in Asia, although leading indicators suggests that there could be a tentative recovery in the short term, partly driven by an improvement in global trade relations. China has introduced further monetary and fiscal stimulus to arrest the continuing decline in economic growth which 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.

Global inflation remains benign and although recent increases in commodity prices will cause upward pressure, excess production capacity and weakening labour markets suggests that inflation will remain contained. Monetary conditions remain accommodative, 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. 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,

particularly in Europe and Japan, to stimulate economies despite high levels of government debt.

There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%) following a sustained period of out-performance. Markets dipped in October due to ongoing political uncertainty regarding Brexit and the expectation of impeachment proceedings in the US. They recovered in November and there was a notable Santa Rally in December, although this tailed off before New Year celebrations were in full flow. Value stocks failed to maintain their previous quarter's out-performance of Quality - but Momentum stocks continued to under-perform.

Following the rebound in stock markets in 2019, valuations are significantly above their long-term averages in most markets. After an anaemic year for earnings growth, growth is expected to return in 2020. However, analyst expectations are notoriously optimistic and there is a risk of downward revisions, particularly as profit margins are starting to come under pressure. There has been a softening of the political and economic uncertainty that punctuated markets in 2019. However, there could be further escalations in trade disputes, increased political uncertainty in the US and Europe (including UK) and increased geopolitical uncertainty in the Middle East. There is also the risk/opportunity of a significant shift in sentiment towards Value stocks at the expense of Quality stocks following a decade of significant under-performance.

Note

1) Source: Border to Coast

Border to Coast News

People:

- Ewan McCulloch, our Head of Policy and Communications, joined the company in November. He previously worked at Lloyds Banking Group, where he held positions including Head of Communications for Lloyds Bank and Head of Public Affairs for Scottish Widows.
- We welcomed our second intake of graduates in October. Our three new recruits come from various backgrounds - engineering, accounting, and archaeology. They have now successfully integrated into our CRM, Investment Risk, and External Management teams for their first role rotation. The graduates will all gain experience in each of these departments over the next 3 years while working on investment qualifications. Bank and Head of Public Affairs for Scottish Widows.
- The Alternatives investment team expanded during the quarter with two new members, Nick Livingstone (Portfolio Manager) and Vicky Hall (Assistant Portfolio Manager).

Investment Funds:

- We have appointment Pimco as the core manager for our upcoming Multi Asset Credit Fund. Pimco has a long and established track record of multi-asset credit investing and will play a key role as a strategic partner to Border to Coast in the set-up and on-going management of our Multi-Asset Credit Fund. The tender process for our specialist managers will begin in early 2020.
- This quarter, we celebrated the one-year anniversaries of our UK Listed Equity Alpha and Emerging Markets Equities offerings. The UK Alpha Equity fund was ahead of its performance target with the Emerging Market Equity Fund being above benchmark.

- Our largest Fund to date, the Global Equity Alpha Fund, launched in November with c£5bn of assets. Eight of our Partner Funds invested, with assets transferred from 14 mandates and pooled vehicles. This was supported by BlackRock, our transition manager, and Analytics, our transition advisor, as well as by our partners.

Responsible Investment:

- The annual review of the Responsible Investment policy and Corporate Governance Guidelines, which included input from Partner Funds, was completed with approval received from the Border to Coast Board in November.
- We are proud to have signed up to the Principles of Responsible Investment (PRI) this quarter. The PRI seek to increase the relevance of environmental, social and governance issues to investment practices and to develop a more sustainable global financial system.
- Rachel Elwell and Jane Firth attended an annual event held by Robeco, our Voting and Engagement Partner, to feed into the decision-making process for their new engagement themes.

Other news:

- In October we held our annual conference, with over 100 attendees and an exciting selection of internal and external speakers – including Adam Matthews from the Church of England and the Portfolio Managers from our Global Equity Alpha managers. The Event was well-received with over 90% of attendees providing feedback rating the event good or better.
- Over the quarter we have hosted 17 separate workshop sessions for Partner Funds and their consultants to keep them updated on the progress being made within Border to Coast and allowing an opportunity to feed into future developments.

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

The information contained herein is strictly confidential and is intended for review by the intended parties, their advisors and legal counsel only. It is not marketing material. The value of your investments may fluctuate. Past performance is not a reliable indication for the future. All reasonable care has been taken to ensure that the information contained herein is clear, fair and not misleading.