

Border to Coast Pensions Partnership Ltd

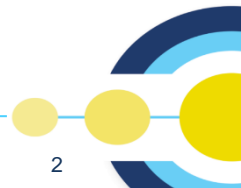
Teesside
Pension Fund

17 June 2020



Agenda

- **Alternatives**
- **Equity Funds – Update**
- **Property - Update**
- **Appendix**



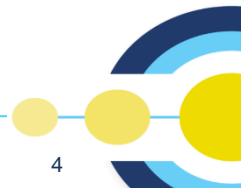
Border to Coast Pensions Partnership Ltd

Alternatives



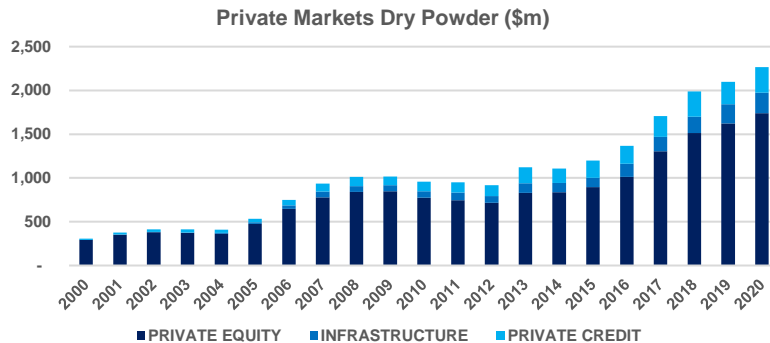
Current market conditions

- Fundraising activity is likely to slow
 - Investors become more cautious
 - Due diligence takes longer to complete
- Reduction in valuations during H1 2020
 - Reduction in earnings and cash flows
 - Minimal visibility on short term performance
 - Lower valuation multiples
 - Private Equity – c. 10 – 15% (likely to be hardest hit)
 - Infrastructure – c. 5% (longer term cash flows)
 - Private Credit – c. 5% (depends on probability of default)
- Sectors likely to be hardest hit:
 - Energy
 - Transportation
 - Real estate
 - Consumer Discretionary
- Sectors that could potentially benefit:
 - Healthcare
 - Technology
- Increase in default rates
- Equity sponsors may have to inject additional capital
- Test of managers' historic credit underwriting and current workout capability



Current market conditions

- Managers have raised significant amounts of capital and are well placed to take advantage of market stresses



Source: Preqin

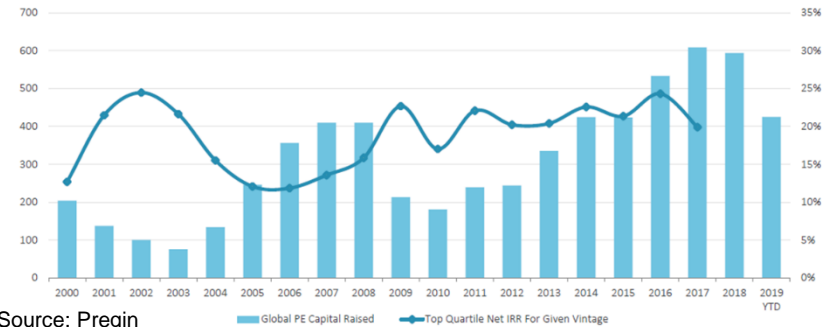
- Secondaries managers well placed to take advantage of sellers who may be leveraged or over-committed
- Stressed and distressed managers able to take advantage of market dislocations in both the equity and debt parts of the capital structure

- Potential reduction in call and distribution activity in next 12 months
 - Reduction in transaction volumes
 - Weaker equity markets removing IPOs as potential exit route
 - Infrastructure less impacted due to longer investment life and income
 - Private Credit less impacted due to shorter investment periods, higher levels of income and quicker market repricing, but potentially higher default rates

Impact on Border to Coast

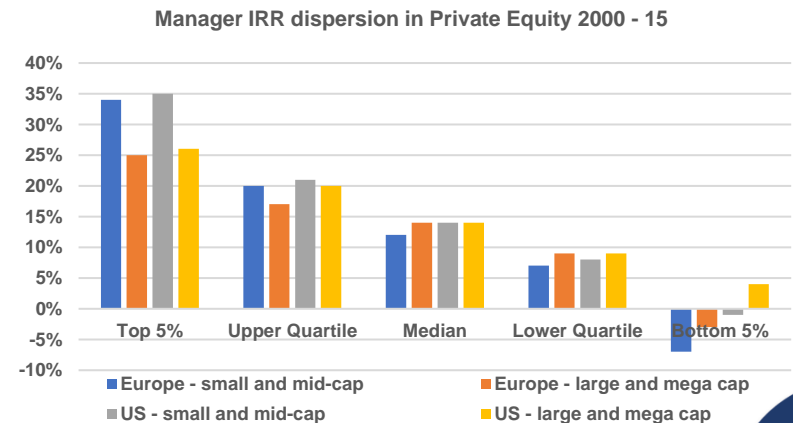
- Early in the life of the programme – less than 10% of Series 1A commitments have been called
- Higher call activity and lower distribution activity expected compared to investors with more mature programmes
- Can take advantage of repricing opportunities with less exposure to more challenging investments
- Can push for investor friendly terms
- Material allocation to stressed/distressed and secondaries investments provides opportunity to take advantage of market dislocation
- Some investments are expected to be less correlated to equity markets e.g. Blackstone Life Sciences V

- Private market returns tend to be stronger following market corrections



Source: Preqin

- Level of dispersion creates opportunity for good performance through manager selection



Source: Neuberger Berman

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Equity Funds - Update



Market Background – Q1 2020

- **Coronavirus impacted global economic activity.** Reduced activity and earnings could persist through 2020 – uncertainty over shape of the recovery.
- Russia and Saudi Arabia refused to curtail oil production in line with the Coronavirus-driven lack of consumer demand, causing a **50% collapse in oil price.**
- **Fiscal stimulus measures** exceeded \$6tn and interest rates were cut across markets. Ensuing fiscal deficits will need addressing once the crisis is contained.
- **Unemployment rose sharply** in late March, which will affect wage growth and consumer spending.
- Due to the crisis, **investors have become more risk-averse** and prone to selling value and smaller companies as they seek quality and low volatility.
- **Bond spreads increased** significantly in high yield, with investment grade and government bonds also affected. Total negative yielding debt has halved since last August.
- **Equity markets reversed $\frac{2}{3}$ of all 2019 gains in Q1**, ending the 2010s' bull market with the sharpest correction since 1987. Financials, Industrials, Resources and Consumer Goods were most affected.
- Risk aversion meant **developed markets outperformed emerging markets**, but the UK was the weakest developed market. In emerging markets, China outperformed as some activity resumed.

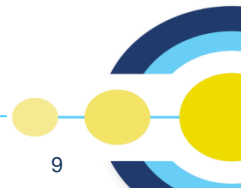


UK Equity Overview

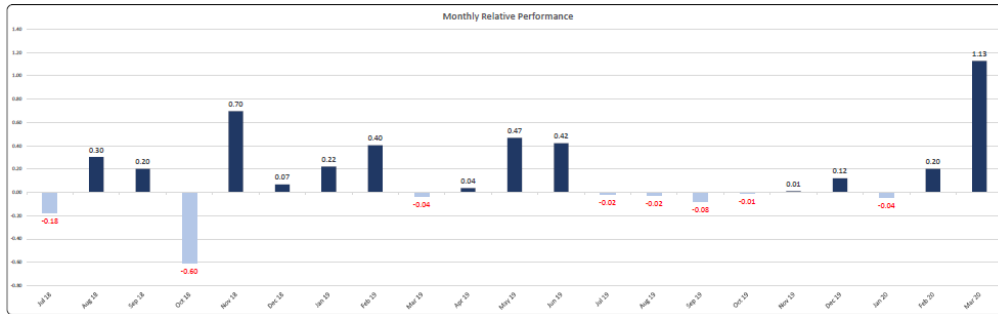
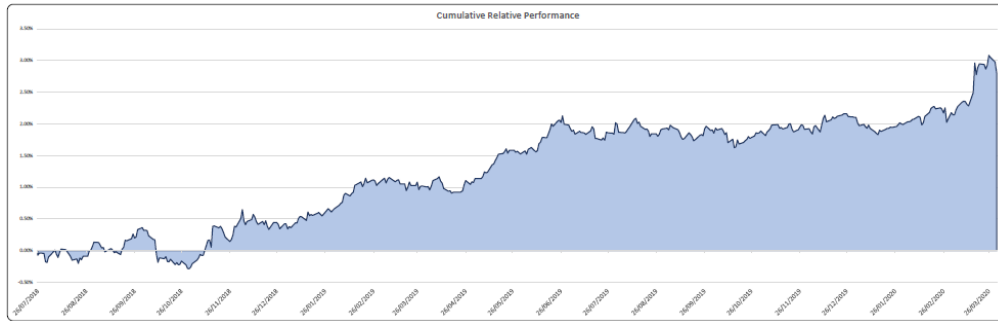
Q1 2020

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

- There has been a **sharp fall in UK markets**, caused by a nationwide lockdown resulting from the Coronavirus crisis. The market was also significantly affected by the fall in commodity prices, especially the sharp drop in oil prices as 18% of the market consists of Resources stocks.
- Although the **Fund** was impacted by the market falls, it **benefitted relatively** due to:
 - A bias toward **quality, resilient companies** with strong balance sheets.
 - **Underweight to smaller companies**, which can underperform in periods of stress.
 - **Exposure to companies with overseas earnings**, which benefitted from the fall in Sterling.
 - **Underweight in discretionary consumer spending**, which has suffered from the lockdown.
 - Modest cash holdings.
- Due to Brexit uncertainty, **the Fund has maintained a relatively low-risk profile since launch**. This has been beneficial in the current environment; therefore it is unlikely that there will be any material change to the Fund's composition. There has been **some modest rotation into more cyclical, value stocks** to take advantage of relative performance, and we have added to favoured companies at lower valuations.



UK Listed Equity Fund – Performance



	QTD	1 Yr	ITD*
Fund	-24.00	-16.45	-11.07
Benchmark	-25.13	-18.45	-12.89
Relative	1.13	2.00	1.81

As at 31 March 2020

Inception date: 26 July 2018

Benchmark: FTSE All Share

Performance is net of fees

*ITD return is per annum

Investment Objective:

To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

Past performance is not a reliable indicator of future performance and is not guaranteed.

Values may not always sum due to rounding.

Source: Northern Trust, Border to Coast

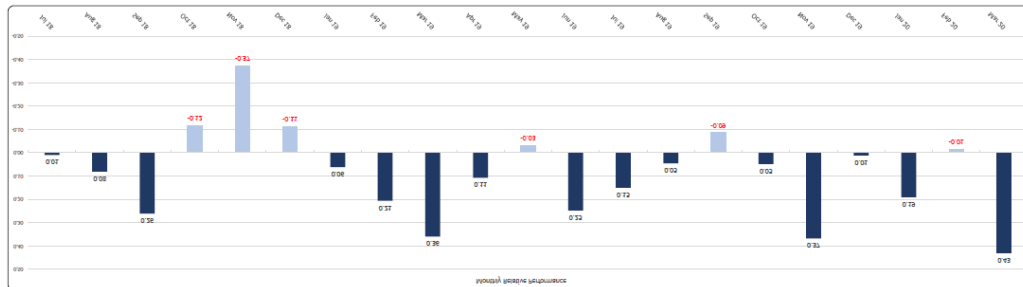
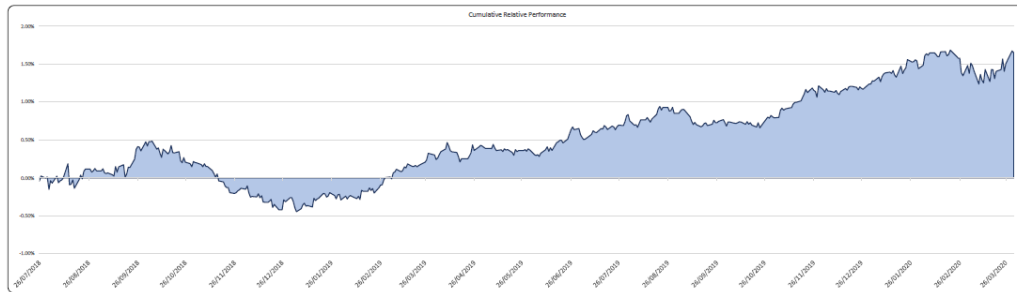
Overseas Developed Equity Overview

Q1 2020

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

- The Coronavirus crisis caused **sharp market falls**, which had a particularly negative impact on Pacific ex-Japan – specifically Hong Kong (proximity to China), Australia (significant trading with China), and Korea (restrictive lockdown).
- Although the Fund was impacted by the market falls, it benefitted relatively due to:
 - A bias toward **quality, resilient companies** with strong balance sheets.
 - **Underweight to smaller companies**, which can underperform in periods of stress.
 - **Underweight to Consumer sectors**, which were severely impacted by lockdowns and social distancing measures, as well as rising unemployment.
 - **Overweight to Technology**, which has been relatively resilient; particularly sectors which benefit from lockdowns, e.g. gaming and media streaming.
 - **Strong company selection** in most sectors.
- Due to low correlation between the four portfolios, **the Fund has a relatively low risk profile**. There is likely to be a modest risk increase due to ongoing rationalisation of the quantity of holdings in the portfolios, which is expected to continue in the short to medium term; however, it is unlikely that there will be any material change to the Fund composition in the short term.

Overseas Developed Equity – Performance



	QTD	1yr	ITD*
Fund	-15.76	-6.20	-4.24
Benchmark	-16.32	-7.59	-5.29
Relative	0.55	1.39	1.05

As at 31 March 2020

Inception date: 9 July 2018

Benchmark: S&P 500 (40%), FTSE Developed Europe ex-UK (30%), FTSE Developed Pacific ex-Japan (20%), FTSE Japan (10%)

Performance is net of fees

*ITD return is per annum

Investment Objective:

To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

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Figures may not sum due to rounding

Source: Northern Trust, Border to Coast

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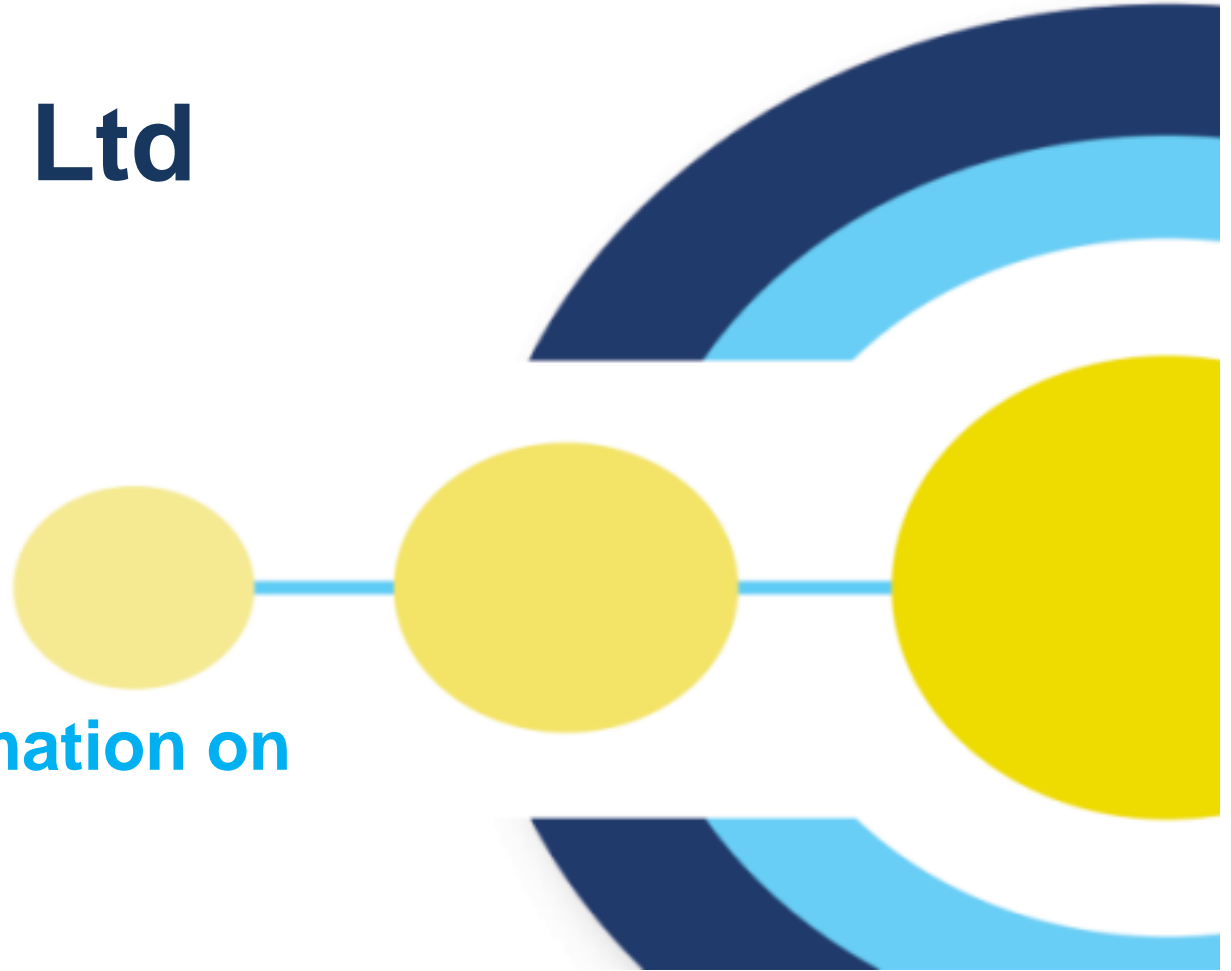
Property – Update

Property – Proposition Development

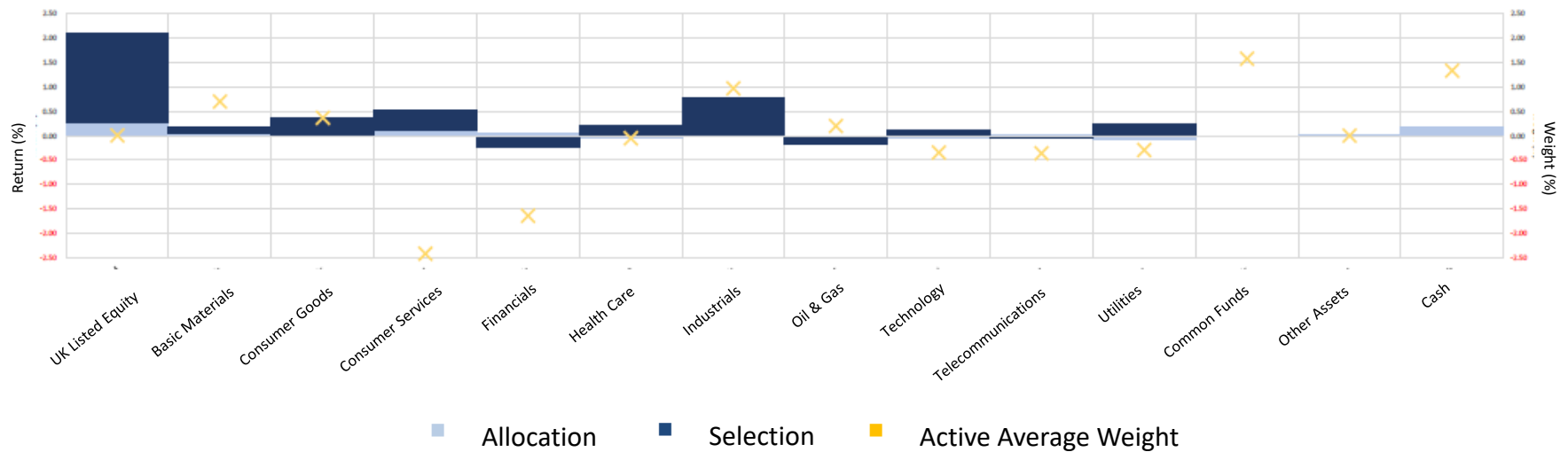
- Property pooling project has been running for over a year to-date
- Complex exercise - illiquid assets and high transaction costs
- There remain key outstanding points to agree with the Partner Funds
- Reasons to pool (directly-managed) property assets:
 - Fees should be the same or lower
 - Low transaction costs
 - Portfolio benefits (diversification, access, etc.)
- Intention is to develop separate UK (2022 launch) and Global (2021 launch) capabilities
- Seeking approval for high-level business case (allowing us to move to next stage of development) by end of 2020
 - In the process of reflecting Partner Fund feedback in our planning

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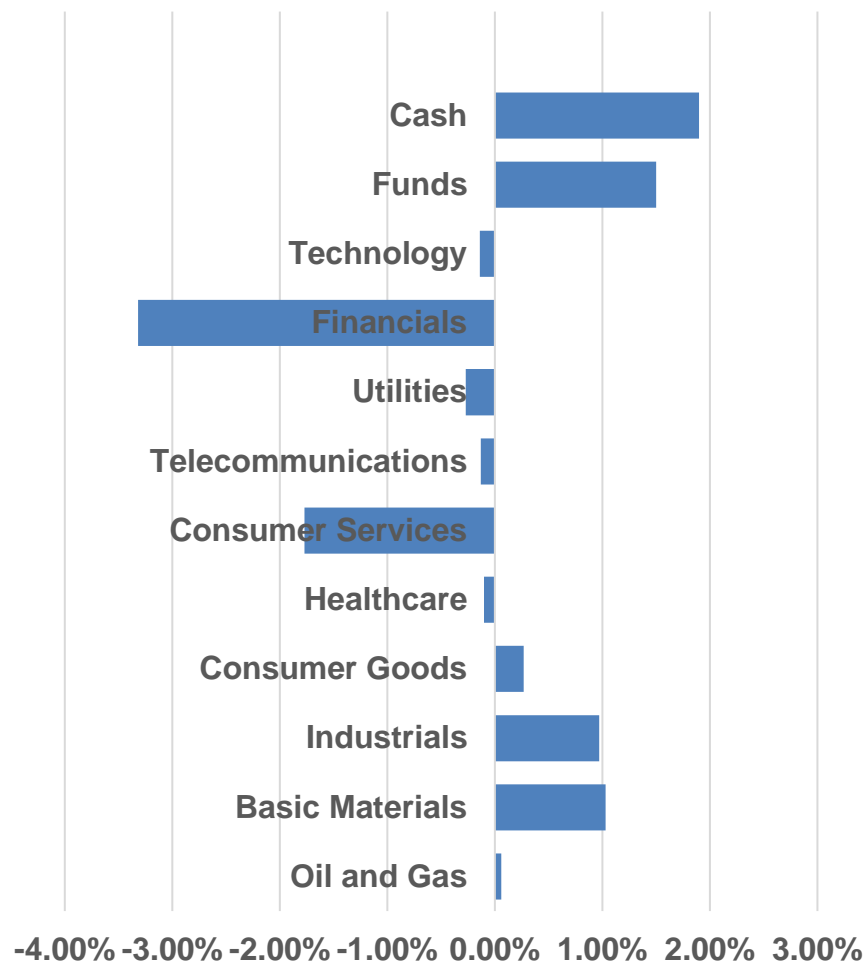
Appendix - Additional Information on Equity Funds



UK Listed Equity Fund – Performance Attribution



UK Listed Equity Fund – Portfolio Positioning



Top 5	Relative weight
Antofagasta	+1.05
Impax Environmental Markets	+0.81
BHP Billiton	+0.77
Schroder UK Smaller Companies	+0.77
Liontrust UK Smaller Companies	+0.72

Bottom 5	Relative weight
Glencore	-0.76
British American Tobacco	-0.62
BP	-0.60
Scottish Mortgage Investment Trust	-0.48
SEGRO	-0.47

Past performance is not a reliable indicator of future performance and is not guaranteed.

Source: Northern Trust, Border to Coast

UK Listed Equity Fund

– Quarterly Performance Contributors

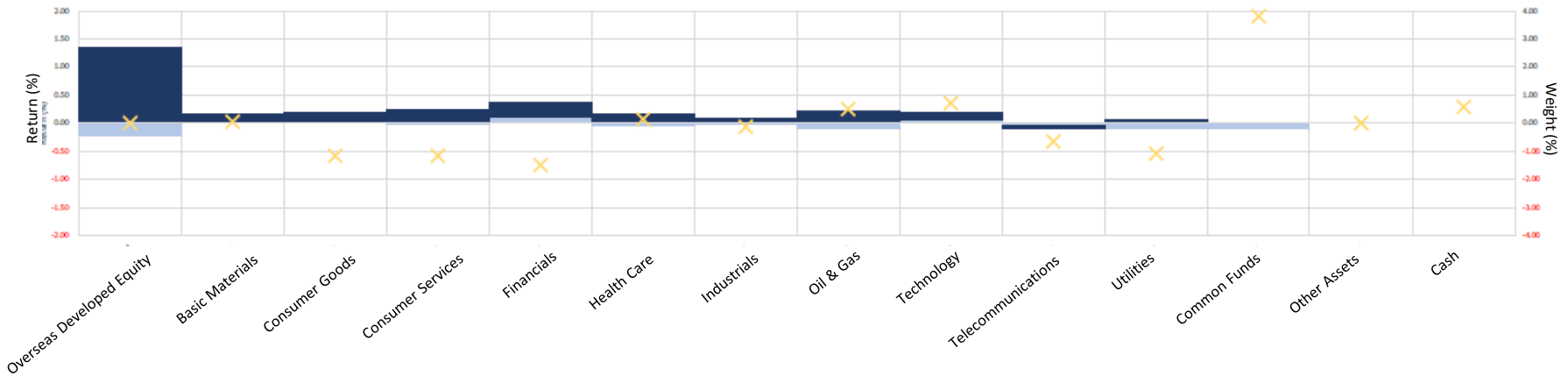
Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Glencore (u/w)	0.00	0.76	0.32	Open investigations by the US Dept. of Justice and issues at several key growth assets.
International Airlines Group (u/w)	0.00	0.19	0.23	Operations severely restricted by the grounding of airline fleets globally due to the coronavirus pandemic.
Carnival (u/w)	0.00	0.09	0.15	Cruise operations curtailed due to the coronavirus pandemic with a number of high-profile cases
Royal Bank of Scotland (u/w)	0.00	0.29	0.15	Pressure on net interest margins (lower Bank of England base rate) and expectations of rising impairments due to economic lockdown. Defensive attributes despite fall in economic activity, with attractive mix of a regulated monopoly in the UK and growth from US diversification.
National Grid (o/w)	2.42	1.87	0.15	
HSBC (u/w)	4.95	5.24	-0.14	Recovery in Asian economic activity post-Covid shutdown offset concerns over declining interest margins and delay in the new CEO
Elementis (o/w)	0.12	0.02	-0.14	Disappointed the market with a cut to earnings forecast, triggered by weakness in its cyclical chromium and energy markets
Next (o/w)	0.70	0.30	-0.12	Both stores and online operations closed due to coronavirus containment measures.
William Hill (o/w)	0.16	0.03	-0.12	Outlets closed, and online operations severely impacted by cancelled sporting events.
Lloyds Banking Group (o/w)	1.51	1.27	-0.12	Pressure on net interest margins and anticipated increase in impairments from rising unemployment and economic lockdown.

Past performance is not a reliable indicator of future performance and is not guaranteed.

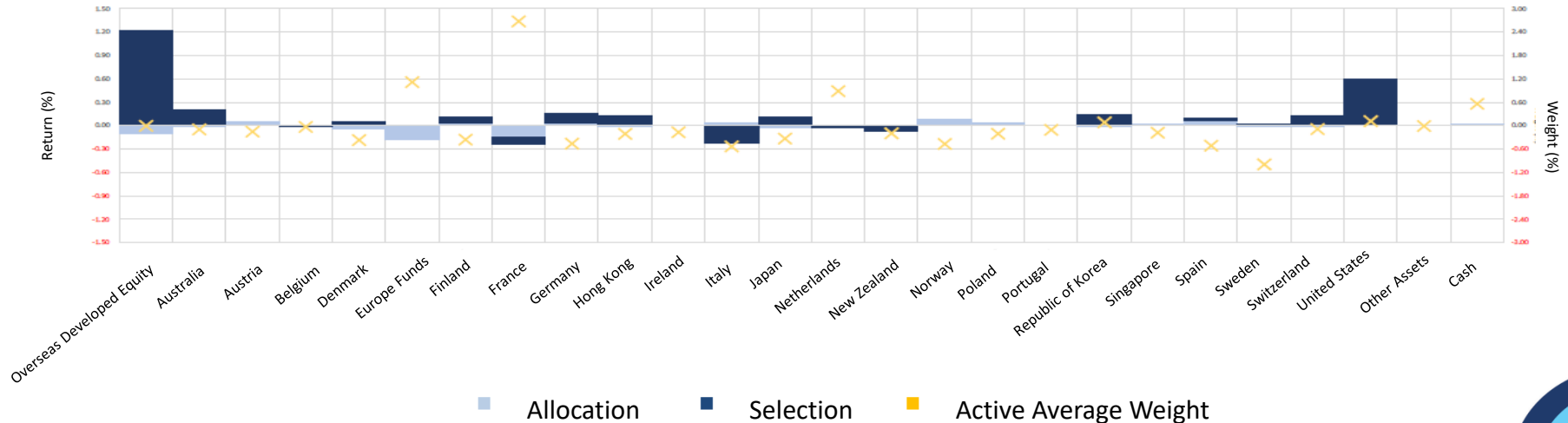
Source: Northern Trust, Border to Coast

Overseas Developed Equity – Performance Attribution

ITD Attribution by Industry



ITD Attribution by Country

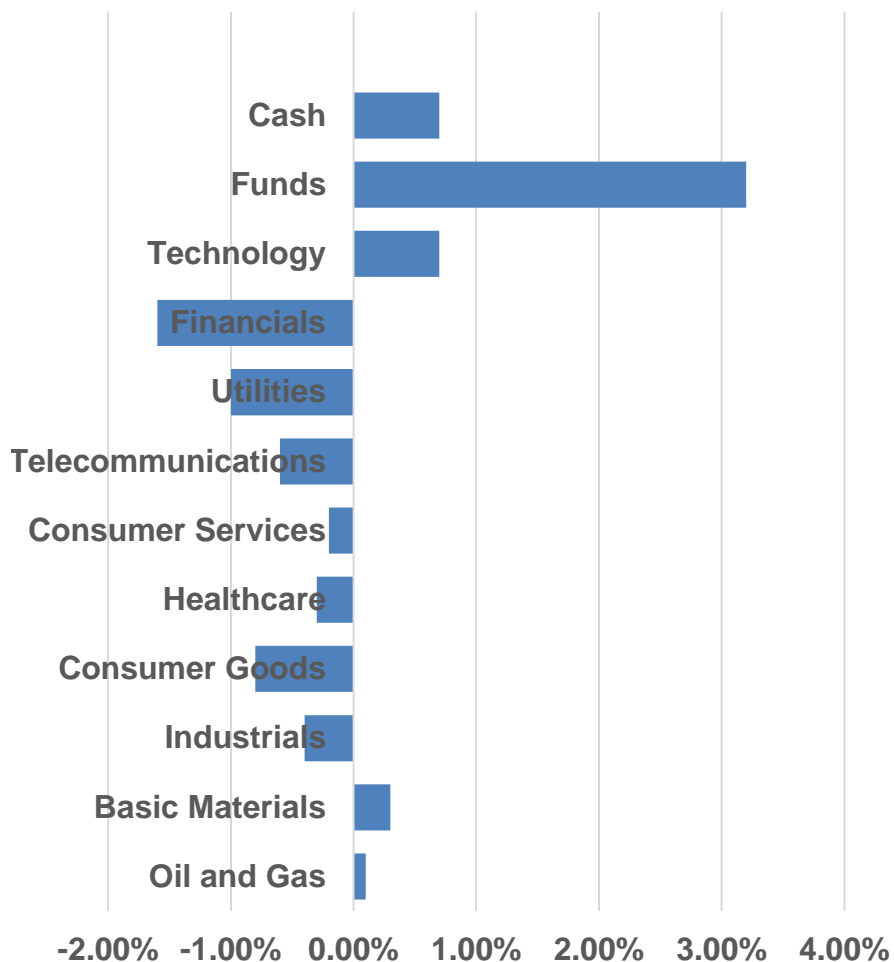


Allocation Selection Active Average Weight

Past performance is not a reliable indicator of future performance and is not guaranteed.

Source: Northern Trust, Border to Coast

Overseas Developed Equity – Portfolio Positioning



Top 5	Relative weight
Vanguard US Mid Cap ETF	+2.69%
Alphabet A	+0.70%
Visa Inc	+0.47%
Microsoft	+0.46%
NVIDIA Corporation	+0.42%

Bottom 5	Relative weight
Alphabet C	-0.65%
Mastercard	-0.40%
PepsiCo	-0.31%
Walmart Inc	-0.30%
Enel SPA	-0.30%

Past performance is not a reliable indicator of future performance and is not guaranteed.

Source: Northern Trust, Border to Coast

Overseas Developed Equity

– Quarterly Performance Contributors

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
NVIDIA Corporation (o/w)	0.72	0.30	0.13	exposure to hyperscale data centre growth and machine learning applications have afforded resilience in current market conditions.
Novo Nordisk (o/w)	0.96	0.55	0.10	healthcare company with market leading position in diabetes treatment seen as non-discretionary in current environment.
Microsoft (o/w)	2.71	2.25	0.10	resilient business mix in current market conditions with its Azure cloud platform, online MS 365 business suite and X Box.
Dollar General (o/w)	0.44	0.07	0.07	defensive exposure to grocery staples and consumers in receipt of increased Federal food stamp issuance.
Alphabet A (o/w)	1.35	0.65	0.06	parent company of Google has been relatively resilient and out-performed the broader market.
Airbus (o/w)	0.50	0.20	-0.23	significant weakness driven by the grounding of the majority of the global aircraft fleet and increased risk of airline failure.
Vanguard US Mid Cap ETF (o/w)	2.69	0.00	-0.14	significant underperformance from smaller companies in the index during the quarter.
Citigroup (o/w)	0.41	0.17	-0.09	the most international of the large US banks, Citigroup has been significantly impacted by the current crisis.
The Cheesecake Factory (o/w)	0.11	0.00	-0.08	operationally and financially levered restaurant business experiencing extensive unit closures in the current situation.
BNP Paribas (o/w/)	0.33	0.18	-0.08	concerns regarding an increase in non-performing loans and asset valuations as a result of the current crisis.

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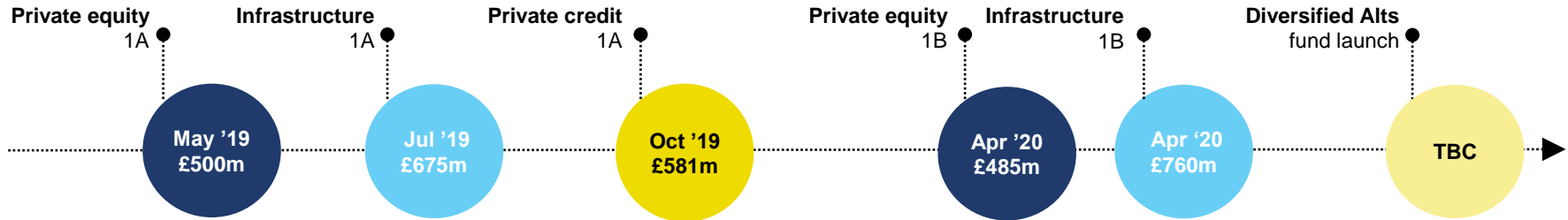
Source: Northern Trust, Border to Coast

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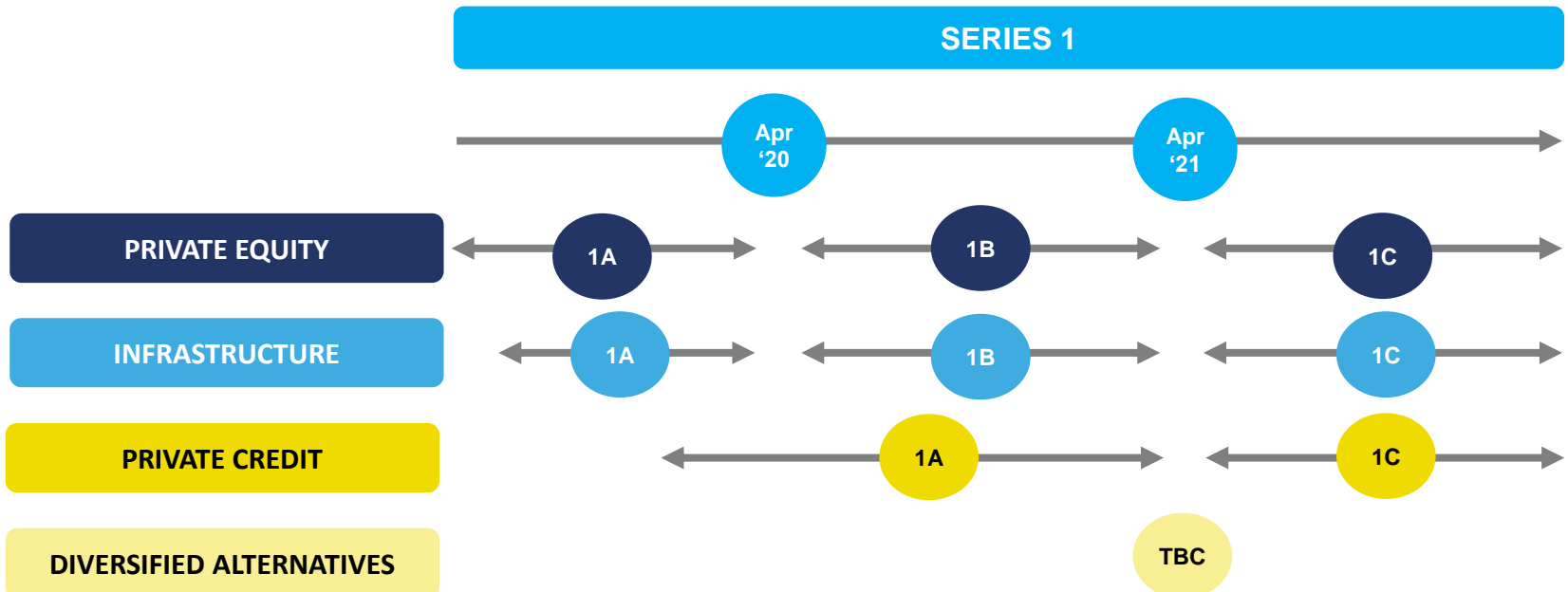
Appendix – Alternatives Commitments



Timeline



SERIES 1



Private Equity: Areas of Focus

OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements rather than being reliant on leverage.

BUY AND BUILD

Adding value through building a platform and taking advantage of higher multiples for scale businesses.

MID-MARKET FOCUS

Lower valuation multiples and leverage levels; greater opportunity for operational value add and buy and build strategies.

CO-INVESTMENTS

Access to a diversified range of investments, either through co-investment funds or direct co-investments, with a lower fee structure.

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

Private Equity: Areas of Focus

ASIA

Stronger economic growth over the long term and less developed Private Equity market.

SECTOR SPECIALISTS

Industry expertise a real differentiator in terms of value creation and deal sourcing.

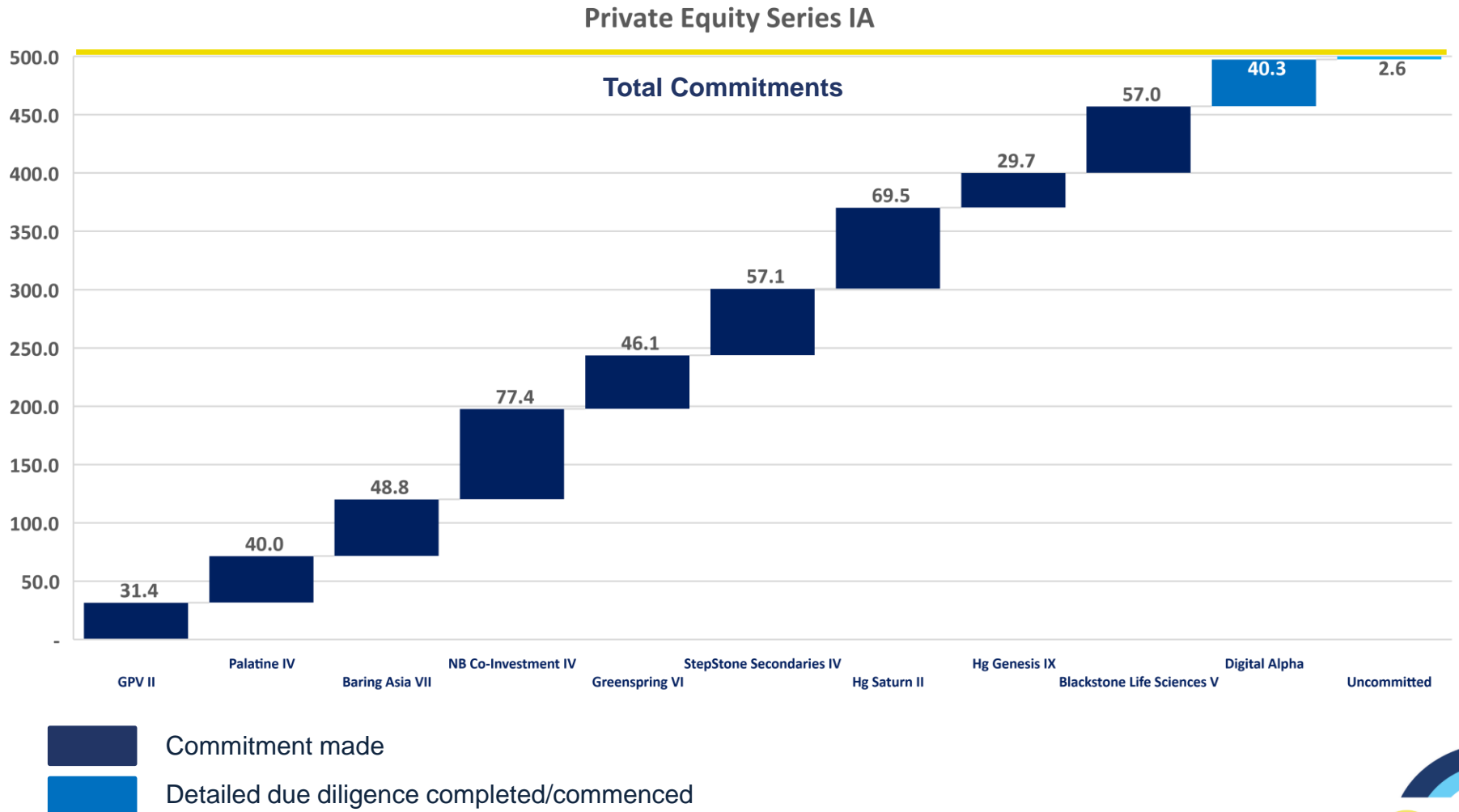
SECTOR THEMES

Long term structural drivers – Technology (AI, IoT, cloud) and Healthcare (trends in global demographics and increased per capita spending).

DISTRESSED

Potential for attractive opportunities given position in business cycle and extended valuations in addition to impact from Covid-19.

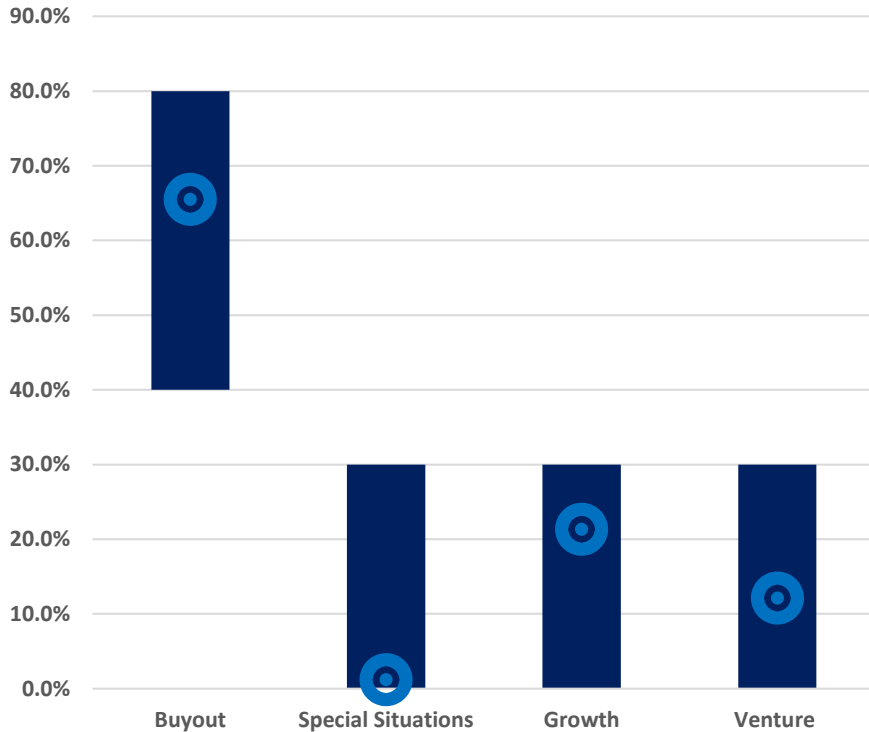
Private Equity: Commitments to Date



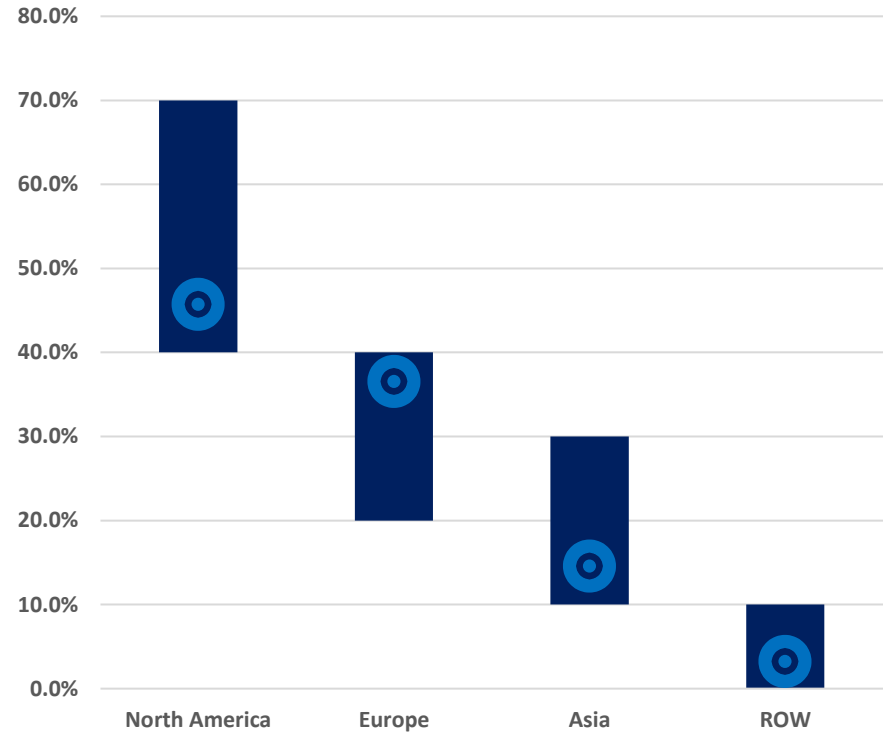
Note: Commitments in £m using exchange rates at time of approval
Residual uncommitted capital to be cancelled

Private Equity: Asset Allocation

Private Equity Series I

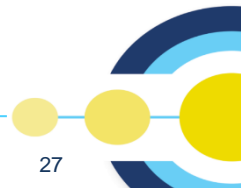


Private Equity Series I



- Permitted range
- Current allocation

Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole



Infrastructure: Areas of Focus

OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.

SECTOR THEMES

Energy transition – investments that enable or benefit from the move to a lower carbon economy; Digital revolution – growing demand for data and access to networks

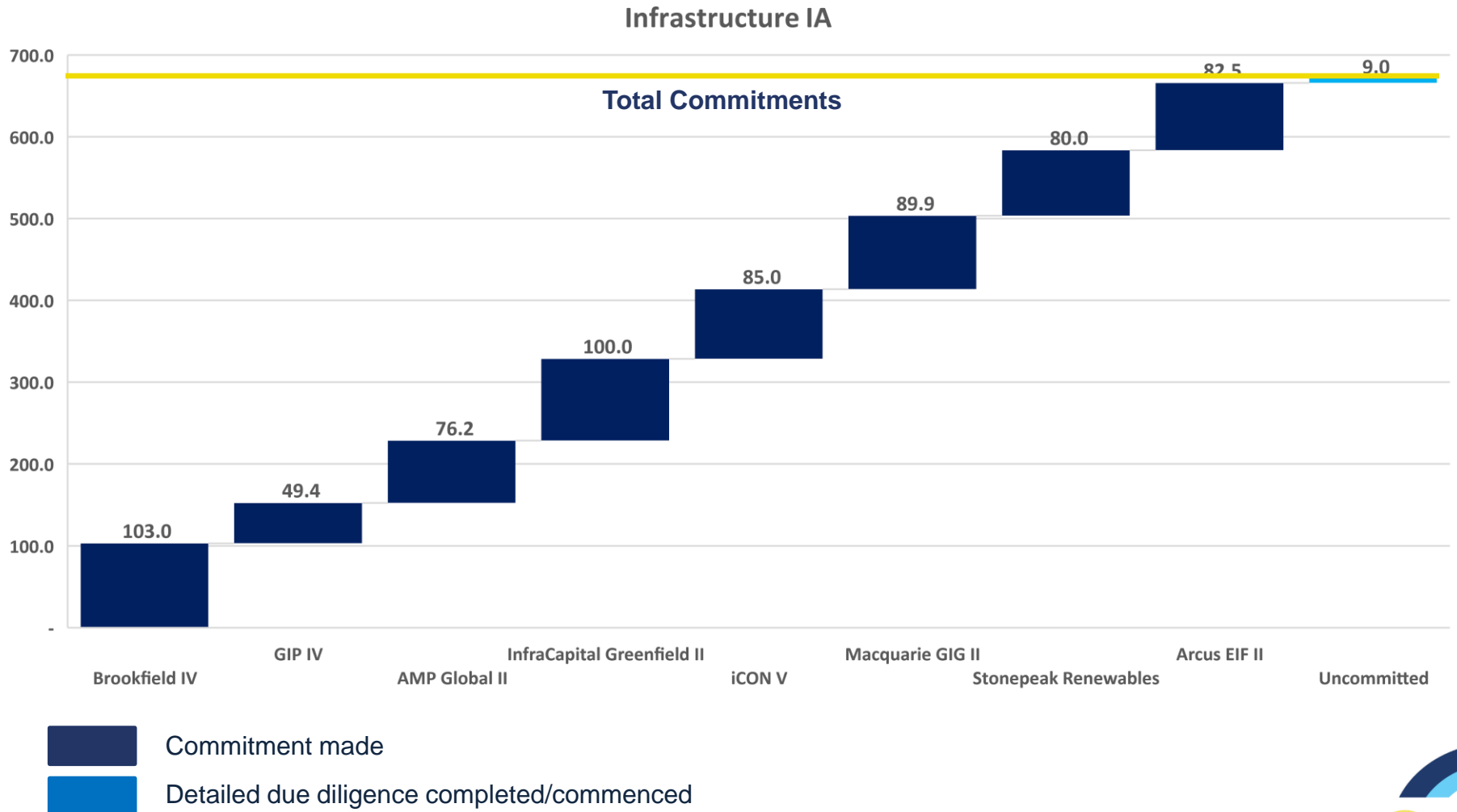
GREENFIELD

Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.

EMERGING MARKETS

Stronger economic growth and longer term demographics driving demand for infrastructure in a less developed market with lower valuation and leverage levels albeit with a different risk profile.

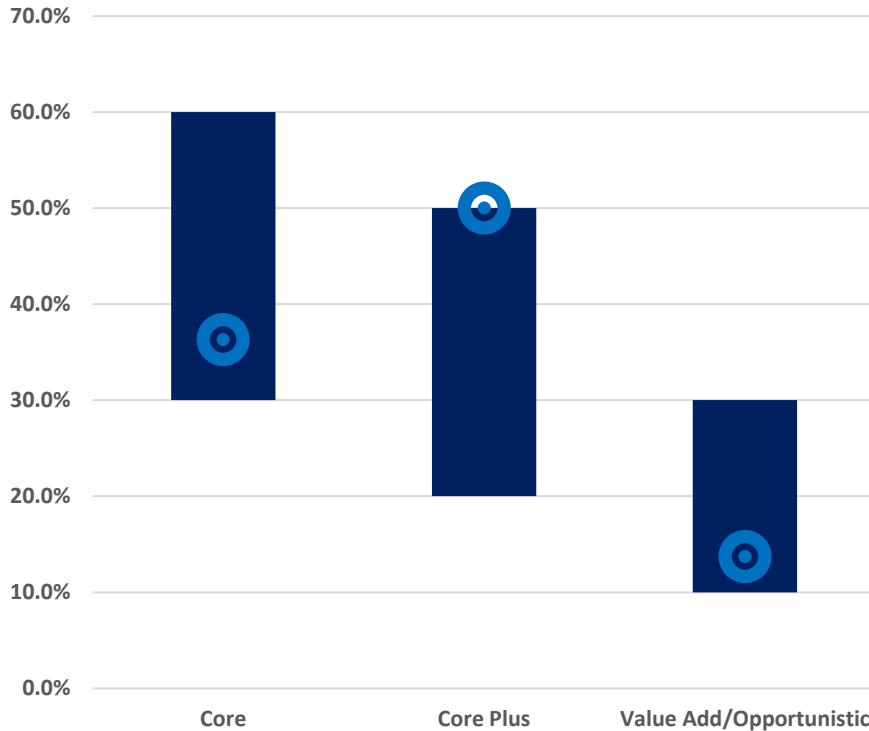
Infrastructure: Commitments to Date



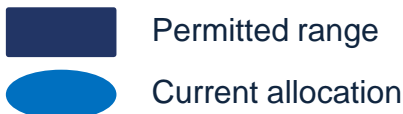
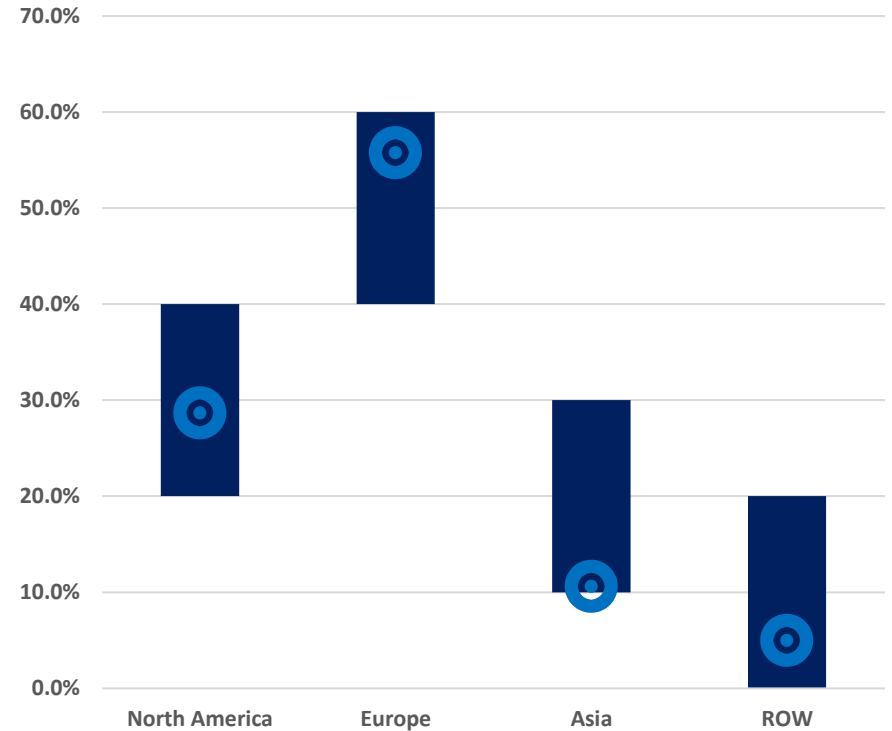
Note: Commitments in £m using exchange rates at time of approval
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Infrastructure: Asset Allocation

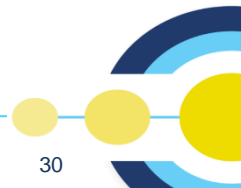
Infrastructure Series I



Infrastructure Series I



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