

# Border to Coast Pensions Partnership Ltd

Teesside  
Pension Fund

21<sup>st</sup> October 2022



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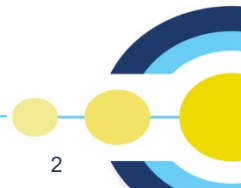
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## Fixed Income

- An introduction
- Border to Coast's Fixed Income Fund Range

## Border to Coast Update

- Investment Strategy Capabilities
- Valuation and Commitments
- Listed Equity Fund Updates
- Alternatives Updates



# Border to Coast Pensions Partnership Ltd

## Fixed Income: An Introduction

# What are fixed income assets (bonds)?

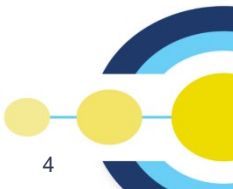
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A **loan** made for a **defined period of time** at a **pre-determined interest rate**

Issued by **governments (sovereigns)** or **companies** (corporate bonds or credit)

Example

- 2% 10 year bond with a nominal 'par' value of £100 will pay £2 per annum 'coupon' until it redeems in 2032 – at which point the £100 is returned to the lender (bond holder)
- Market value will vary from £100 through the life of the bond – it will rise if interest rates fall (because the previously fixed level of interest looks more attractive) and vice versa
- Price changes will also reflect riskiness of issuer



# Uses of fixed income assets (bonds)

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

**Negatives** – vulnerable to inflation; capped returns



Source: Bloomberg, Markit  
As at October 2022

# What are Credit Ratings?

Credit ratings are forward-looking opinions about the ability and willingness of debt issuers, like corporations or governments, to meet their financial obligations on time and in full. [The United Kingdom's sovereign credit rating is AA \(Standard & Poor's\)](#).

Moody's Rating	Standard & Poor's Rating	Grade	Risk	Border to Coast Fund (average rating)
Aaa	AAA	Investment	Lowest Risk	
Aa	AA	Investment	Lower Risk	<b>Sterling Index-Linked Bond Fund</b>
A	A	Investment	Low Risk	<b>Sterling Investment Grade Credit Fund</b>
Baa	BBB	Investment	Medium Risk	
Ba, B	BB,B	Speculative	Higher Risk	<b>Multi-Asset Credit Fund</b>
Caa/Ca/C	CCC/CC/C	Speculative	Highest Risk	
C	D	Speculative	In Default	



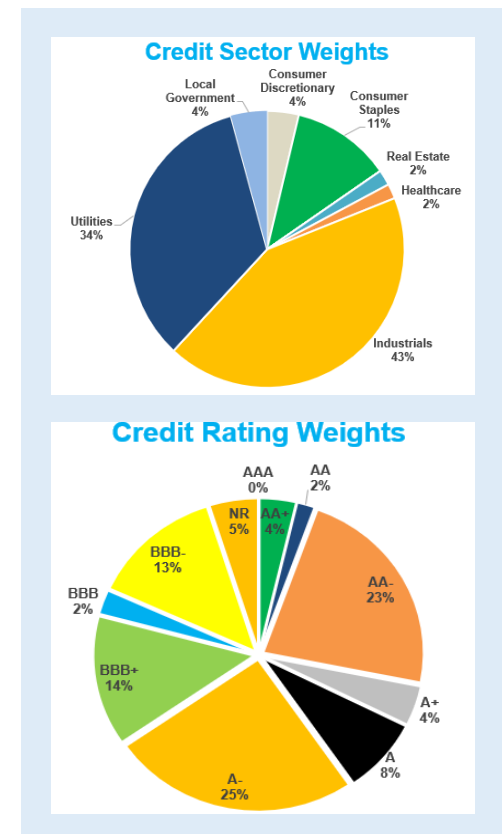
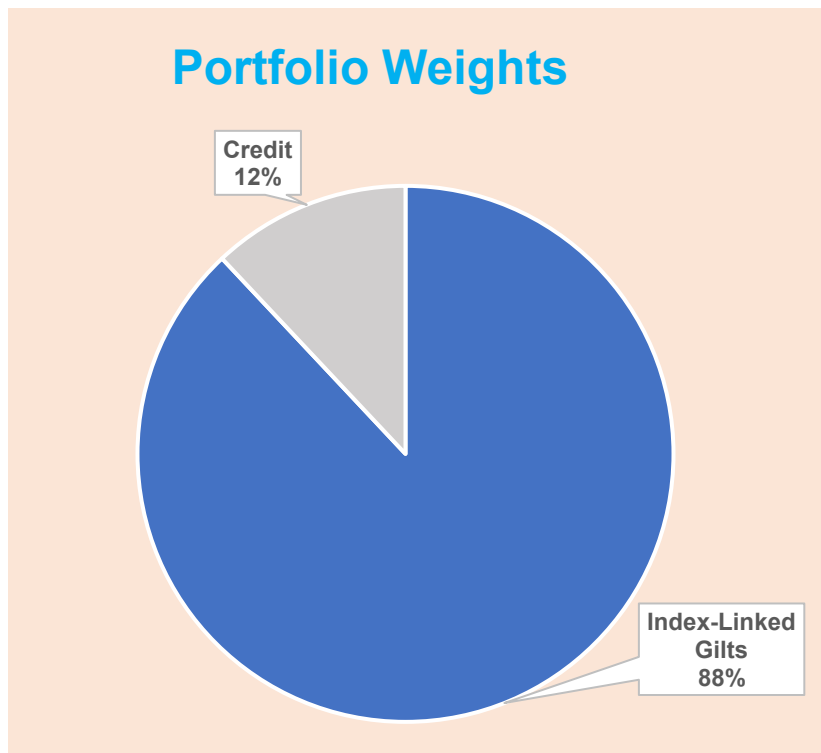
# Border to Coast Pensions Partnership Ltd

**Border to Coast: Our Fixed  
Income Investment Funds**



# Sterling Index-Linked Bond Fund – Overview

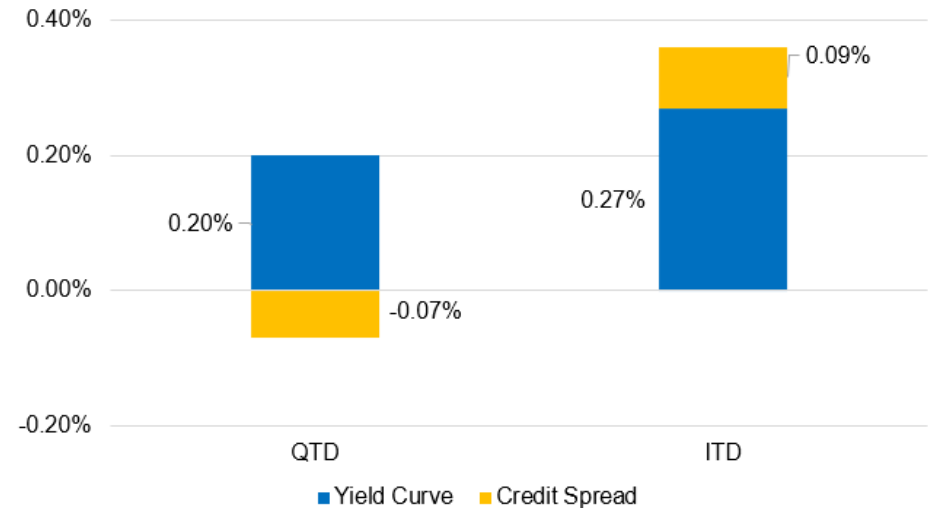
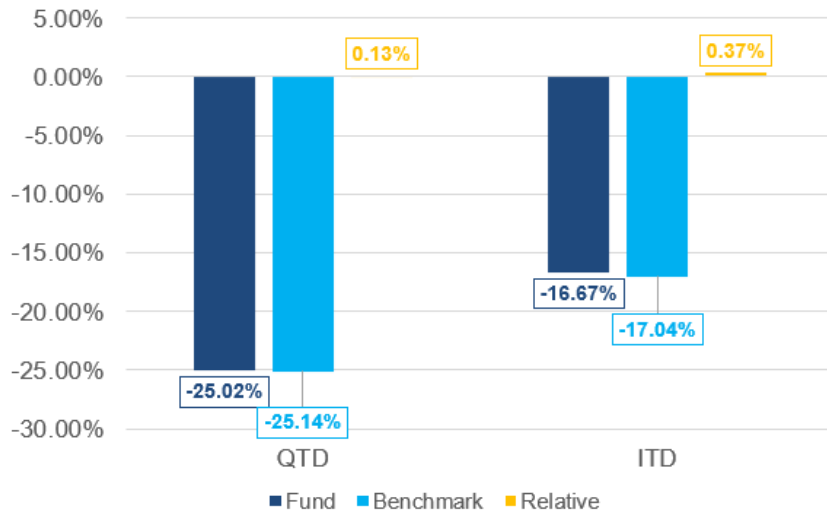
Launched in October 2020, the internally managed Sterling Index-Linked Bond Fund invests in the inflation-linked debt of the UK government, as well as sterling denominated corporate and supranational inflation-linked debt. It aims to outperform the total return of the FTSE A Index Linked Gilts > 15 years Index by at least 0.2% over rolling five year periods.



**Note:** Portfolio Positioning as at 30 June 2022



# Sterling Index-Linked Bond Fund – Performance to 30 June 2022



- Since inception, yield curve and duration positioning has contributed the majority of the fund's outperformance.

Source: Northern Trust, Border to Coast (2022)

Note: Inception date for the Sterling Index-Linked Bond Fund was 23 October 2020.

Past performance is not a reliable indicator of future results.

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# Sterling Investment Grade Credit - Overview

Launched in March 2020, the externally managed Sterling Investment Grade Credit Fund invests primarily in sterling-denominated debt of investment grade companies via three complementary managers. [It aims to outperform the iBoxx Sterling Non-Gilts Index by at least 0.6% a year over rolling five-year periods.](#)

## Three different manager approaches within one Fund

### M&G (33.5%)

*Pragmatic, value approach. Taking opportunities in significant credit events and attractive relative valuations.*

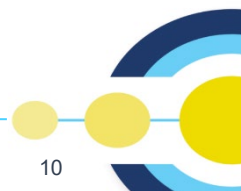
### Insight (33.0%)

*Long-term credit quality focused buy and improve manager, harnessing their active management skills.*

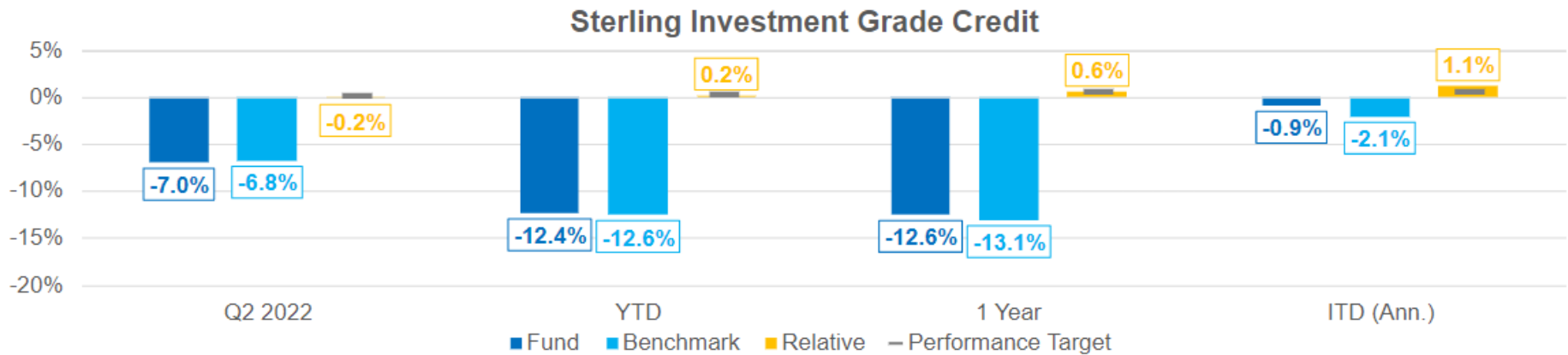
### RLAM (32.5%)

*Preference for secured bonds and mid-sized issues, highly differentiated from the corporate heavy M&G/Insight.*

**Note:** Manager Weights as at 30 June 2022. Does not sum to 100% due to cash balances.



# Sterling Investment Grade Credit – Performance to 30 June 2022



The Fund aims to provide a total return which outperforms the total return of the **iBoxx GBP Non-Gilts Index** by **at least 0.6% per annum** over rolling five years periods (net of management fees).

	Q2 2022	YTD	1 Year	ITD
<b>RLAM</b>	<b>-7.2%</b>	<b>-12.6%</b>	<b>-12.4%</b>	<b>-0.9%</b>
<i>Vs. iBoxx Sterling Non-Gilt Index</i>	<i>-0.4%</i>	<i>-0.1%</i>	<i>0.7%</i>	<i>1.2%</i>
<b>M&amp;G</b>	<b>-6.6%</b>	<b>-11.9%</b>	<b>-12.3%</b>	<b>-1.2%</b>
<i>Vs. iBoxx Sterling Non-Gilt Index</i>	<i>0.2%</i>	<i>0.7%</i>	<i>0.8%</i>	<i>0.9%</i>
<b>Insight</b>	<b>-7.1%</b>	<b>-12.6%</b>	<b>-12.9%</b>	<b>-0.7%</b>
<i>Vs. iBoxx Sterling Non-Gilt Index</i>	<i>-0.3%</i>	<i>0.0%</i>	<i>0.2%</i>	<i>1.4%</i>

**Source:** Northern Trust (2022)

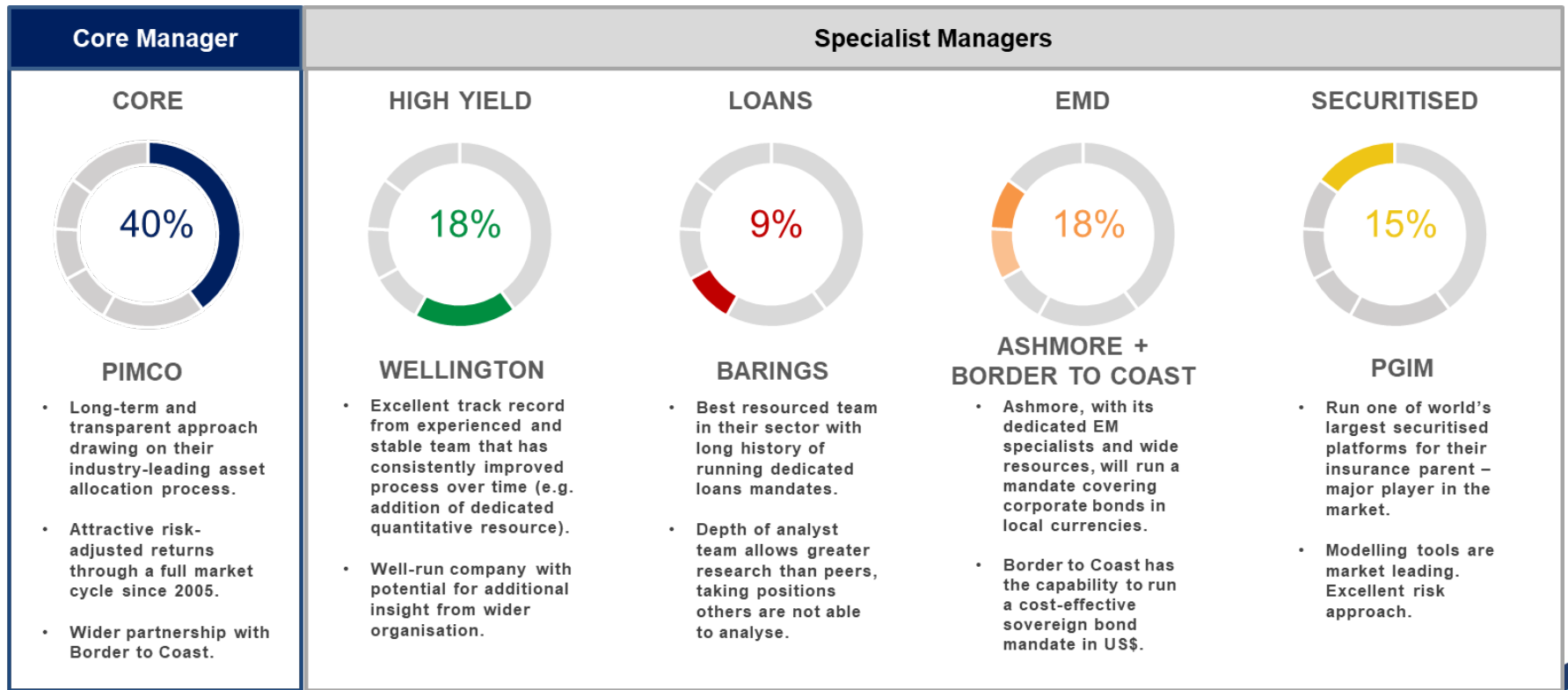
**Note:** Inception date for the SIG Fund was 18 March 2020.

**Past performance is not a reliable indicator of future results.**

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# Multi Asset Credit Fund - Overview

Launched in November 2021, the externally managed Multi-Asset Credit Fund provides exposure to specialist global fixed income assets. It aims to **outperform the Sterling Overnight Interbank Average (SONIA) by 3-4% over rolling five-year periods.**



**Note:** Strategic Asset Allocation Weights.

# Multi Asset Credit Fund - Benefits



## Higher expected return than traditional bonds, with less risk than equities

*MAC assets are around half as volatile as equities and more senior in the event of default*



## Diversifying relative to other assets in a traditional pension fund portfolio

*MAC assets have an average correlation of 0.65 with equities and 0.20 with government bonds*



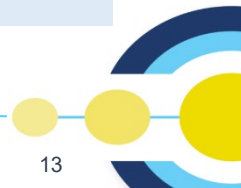
## Huge opportunity set of investible assets

*E.g. there are almost \$10trn in outstanding MBS securities – one of the World's largest and most liquid markets*



## Access to additional sources of return and diversifying characteristics

*E.g. Floating coupons (e.g. SONIA-linked loans), access to under-allocated markets (e.g. Zambia and Ghana), exposure to consumer risk (e.g. US auto loans or UK residential mortgages), ability to dictate terms directly to borrowers.*



# Multi Asset Credit Fund – Performance to 30 June 2022

	Q2 2022			Since Inception (November 2021)		
	Portfolio	Secondary Benchmark	Relative	Portfolio	Secondary Benchmark	Relative
<b>Ashmore</b> <i>EM Debt (Local &amp; Corp)</i>	(10.3%)	(8.0%)	(2.3%)	(18.9%)	(16.0%)	(2.9%)
<b>Barings</b> <i>Leveraged Loans</i>	(5.2%)	(4.8%)	(0.4%)	(5.3%)	(4.7%)	(0.6%)
<b>PGIM</b> <i>Securitised Credit</i>	(2.8%)	(4.0%)	+1.2%	(3.6%)	(4.6%)	+1.0%
<b>PIMCO</b> <i>Core Manager</i>	(8.1%)	(7.3%)	(0.9%)	(13.7%)	(12.4%)	(1.3%)
<b>Wellington</b> <i>High Yield</i>	(10.5%)	(9.9%)	(0.5%)	(13.9%)	(13.8%)	(0.1%)
<b>Border to Coast</b> <i>EM Debt (Hard)</i>	(12.0%)	(11.9%)	(0.0%)	(20.3%)	(21.8%)	+1.5%
<b>Multi-Asset Credit Fund</b>	(7.9%)	(7.5%)	(0.4%)	(12.5%)	(11.9%)	(0.6%)
<i>Primary Benchmark (Cash plus 3.5% p.a.)</i>	(7.9%)	1.1%	(9.0%)	(12.5%)	2.5%	(15.0%)

## Primary Benchmark

SONIA + 3.5% (net) over rolling five-year periods

More pertinent over longer-time periods, where incremental spread/yield is the key driver.

## Secondary Benchmark(s)

Underlying managers' asset class benchmark.

Allows assessment of a manager's performance relative to their respective asset class – relative performance important.

**Source:** Northern Trust (2022). Inception is 12 November 2021.

\* Secondary Benchmark(s) are detailed in the Appendix.

**Past performance is not a reliable indicator of future results.**

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# Private Credit Fund - Overview

The Private Credit offering seeks to invest in a variety of private credit instruments, [with the objective of delivering a long-term annual net return of 6%](#).

Private credit investments typically provide capital to privately held companies to support growth, refinancing, mergers and acquisitions, or to provide liquidity or capital structuring solutions.

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

- A typical Private Credit fund can be broken down into **three key stages** in terms of activity and cash flow:

## **Investment Stage (Years 1-3)**

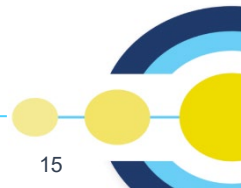
- Capital is committed and drawn down
- Repaid capital may be reinvested
- Investments are made in the underlying portfolio companies

## **Harvest Stage (Years 3-5)**

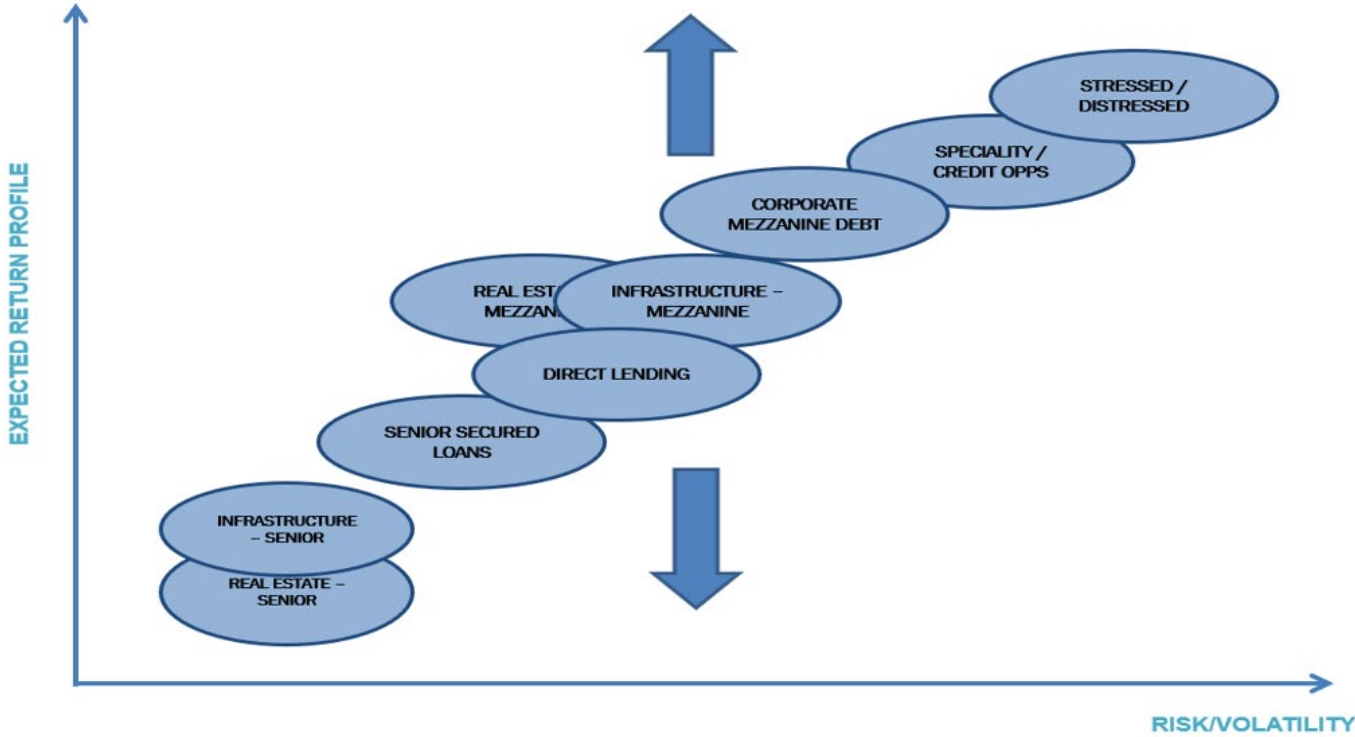
- Initial investments start to mature in line with investment plan
- Regular income distributions
- Follow-on investment are made where appropriate

## **Maturity/Liquidation (Years 5-7)**

- Majority of investments exited through contractual capital repayment



# Private Credit Fund – Types of Strategies



**DIRECT LENDING**  
*Senior position in the capital structure*

**REAL ASSETS**  
*Lending to owners of property and infrastructure assets*

**MEZZANINE / SPECIALITY**  
*Subordinated or junior debt*

**STRESSED / DISTRESSED**  
*Short term pressures but capital expected to be repaid*

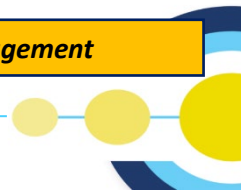


# Border to Coast Pensions Partnership Ltd

Border to Coast Update: Q2  
2022

# Investment Strategy – Asset Capability Launch Timetable

	Scheduled 2021	Scheduled 2022	Scheduled 2023	Scheduled 2024
Equities	<i>Emerging Markets Hybrid</i>	<i>UK Alpha - review</i>	<i>Regional Alpha</i>	<i>Overseas Dev Equity Review</i>
		<i>Global Alpha – change implementation</i>	<i>Emerging Markets Alpha</i>	<i>ESG / Factor / Index-Tracking</i>
Alternatives	<i>Series 1C</i>	<i>Listed Alternatives</i>	<i>UK Opportunities</i>	
		<i>Series 2 + Climate Opps</i>		
		<i>Cashflow Mgmt Asset Allocation Legacy</i>		
Fixed Income	<i>Multi-Asset Credit</i>		<i>Green Sustainable Social Bonds</i>	
Real Estate		<i>UK Real Estate</i>		
		<i>Global Real Estate</i>		
Other	<i>Climate Change Policy</i>	<i>Responsible Investment including Climate Change Strategy</i>		
			<i>Hedging / Income / Liquidity Management</i>	
	<i>Delivered Delivery within tolerance</i>	<i>Forecast Delivery Date</i>	<i>Work to do to agree with PF how to take forward</i>	



# Border to Coast Pensions Partnership Ltd

## Teesside Pension Fund – Investments Summary



# Teesside – Valuation & Commitments

Listed Investments	Teesside Value (as at 30/06/2022)	Total Fund Value (as at 30/06/2022)
	£	£
UK Listed Equity Fund	592m	3.4bn
Overseas Developed Markets Equity	1.48bn	5.3bn
Emerging Markets Equity	206m	1.0bn

Alternative Investments	Teesside Commitment (Series 1)	Teesside Commitment (Series 2A)	Total Series 1 Commitment (all Partner Funds)	Total Series 2A Commitment (all Partner Funds)
	£	£	£	£
Infrastructure	200m	150m	2,455m	1,025m
Private Equity	200m	100m	1,720m	705m
Private Credit	-	-	1,501m	985m
Climate Opportunities	-	80m	-	1,350m

Source: Border to Coast.

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

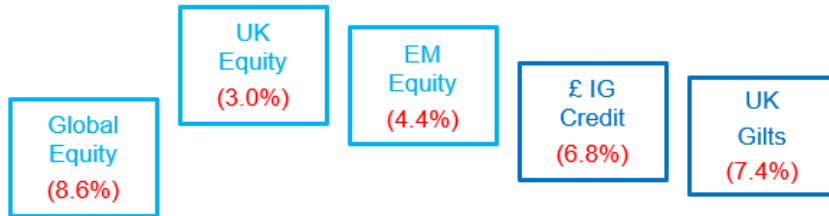
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# Border to Coast Pensions Partnership Ltd

## Equity Fund Performance – Q2 2022

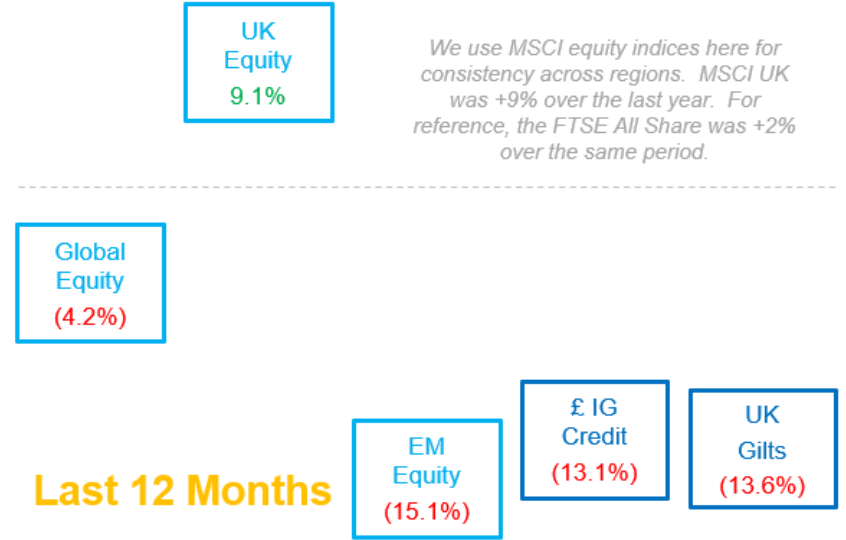
# Market Movements (to 30 June 2022)

We use MSCI equity indices here for consistency across regions. MSCI UK was down 3% during Q2 2022. For reference, the FTSE All Share was down 5% over the same period.



Last Quarter

We use MSCI equity indices here for consistency across regions. MSCI UK was +9% over the last year. For reference, the FTSE All Share was +2% over the same period.

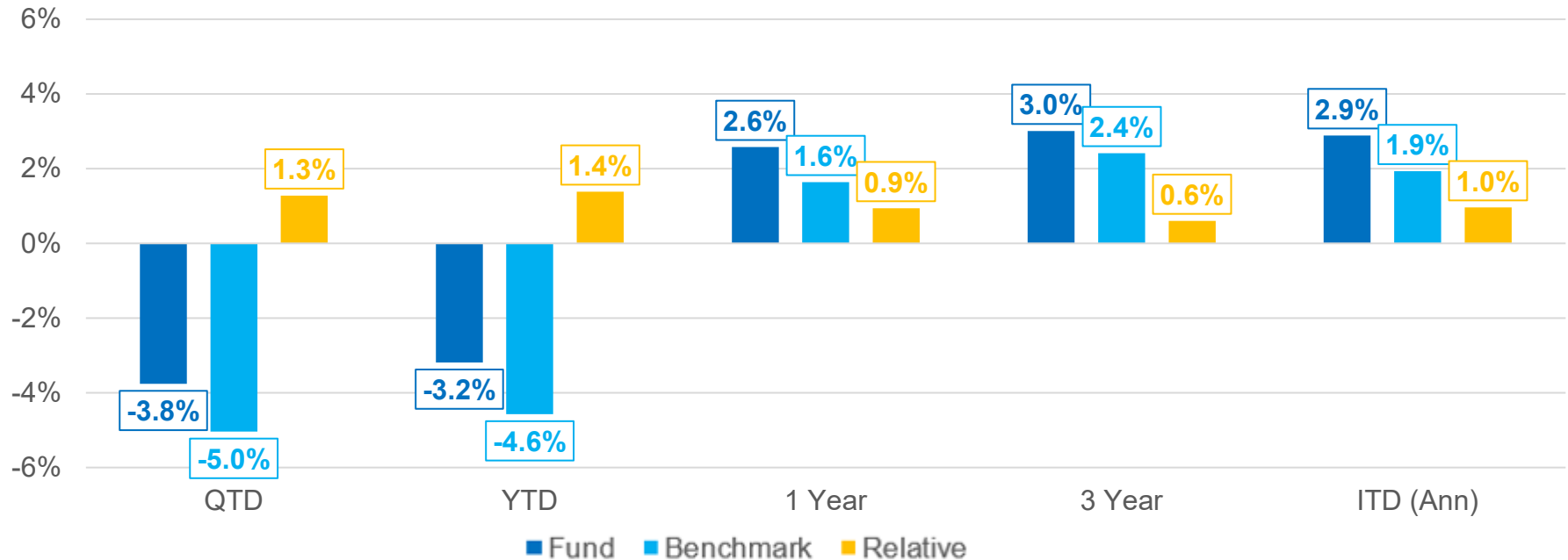


Last 12 Months

- Q2 2022 was another very difficult quarter for markets – and like with Q1 2022, there were few places to hide. Developed market equities, emerging market equities, credit and sovereign bonds all fell, with investors looking for the exits as recession risk continued to grow.
- In UK bond markets specifically, rising interest rates (especially at the shorter end of the curve) hurt investment grade and gilt valuations.

Source: Bloomberg (2022). Charts for illustration only and are not to scale.

# UK Listed Equity Fund – Performance to 30<sup>th</sup> June 2022



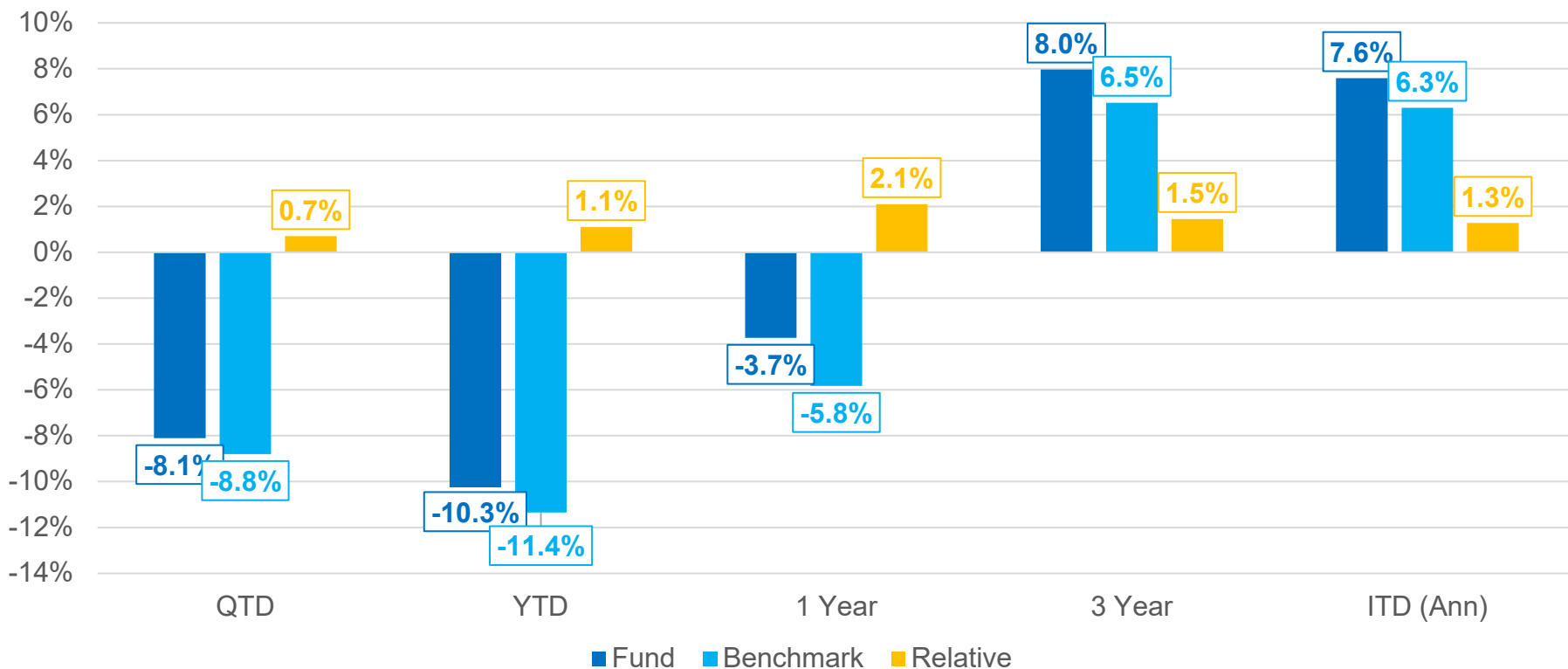
- Performance benefitted from good selection in consumer discretionary and healthcare stocks, together with relatively lower exposure to the consumer discretionary sector and higher exposure to the materials sector
- Performance showing an improving trend in recent months as portfolio changes beginning to impact

**Source:** Northern Trust, Border to Coast **Note:** Inception date: 26 July 2018.

**Figures refer to the past. Past performance is not a reliable indicator of future performance and is not guaranteed.**

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# Overseas Developed Equity Fund – Performance to 30<sup>th</sup> June 2022



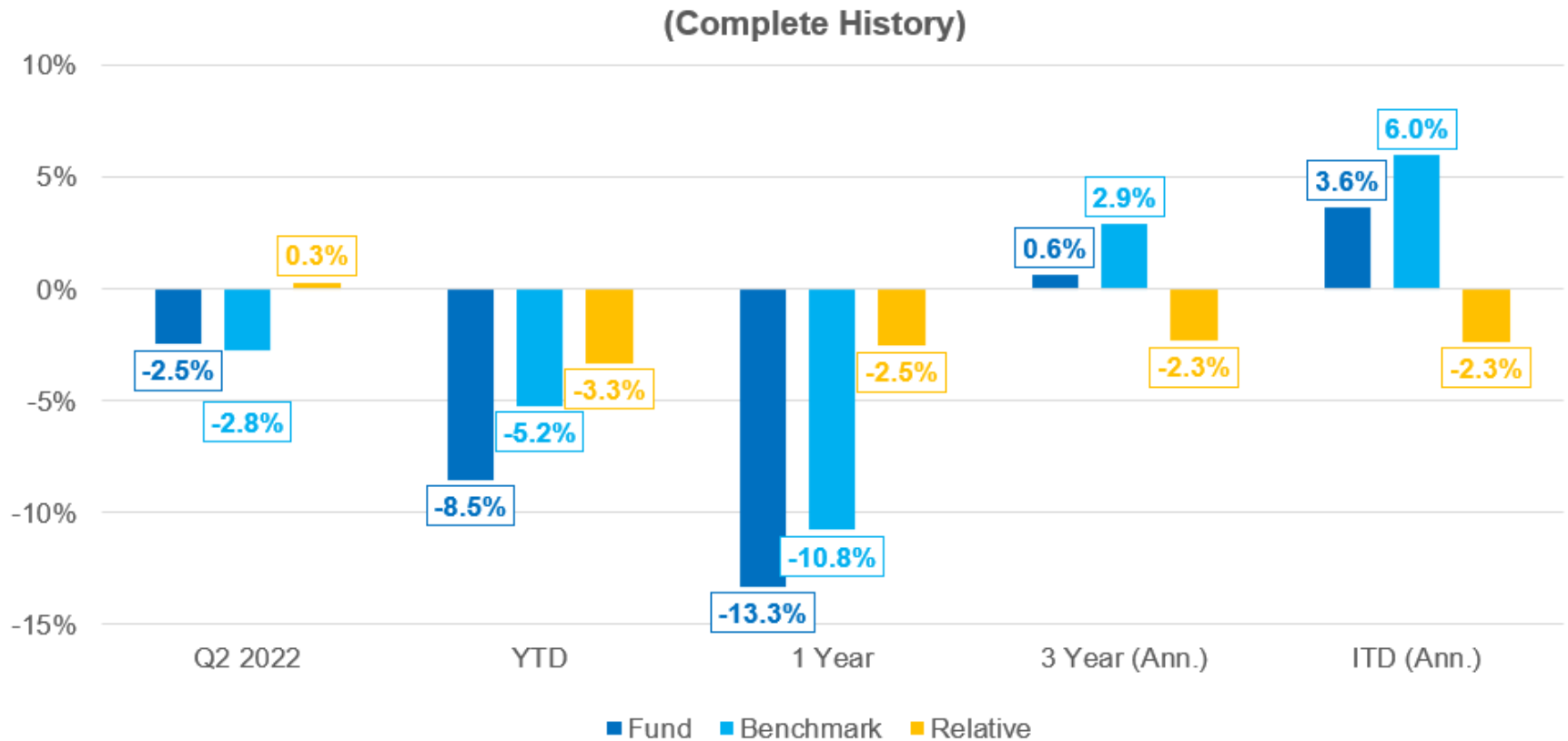
- Continued strong performance in US and Europe portfolios ensured a solid start to 2022

Source: Northern Trust, Border to Coast Note: Inception date 9 July 2018.

Figures refer to the past. Past performance is not a reliable indicator of future performance and is not guaranteed.



# Emerging Markets Equity Fund – Performance to 30 June 2022

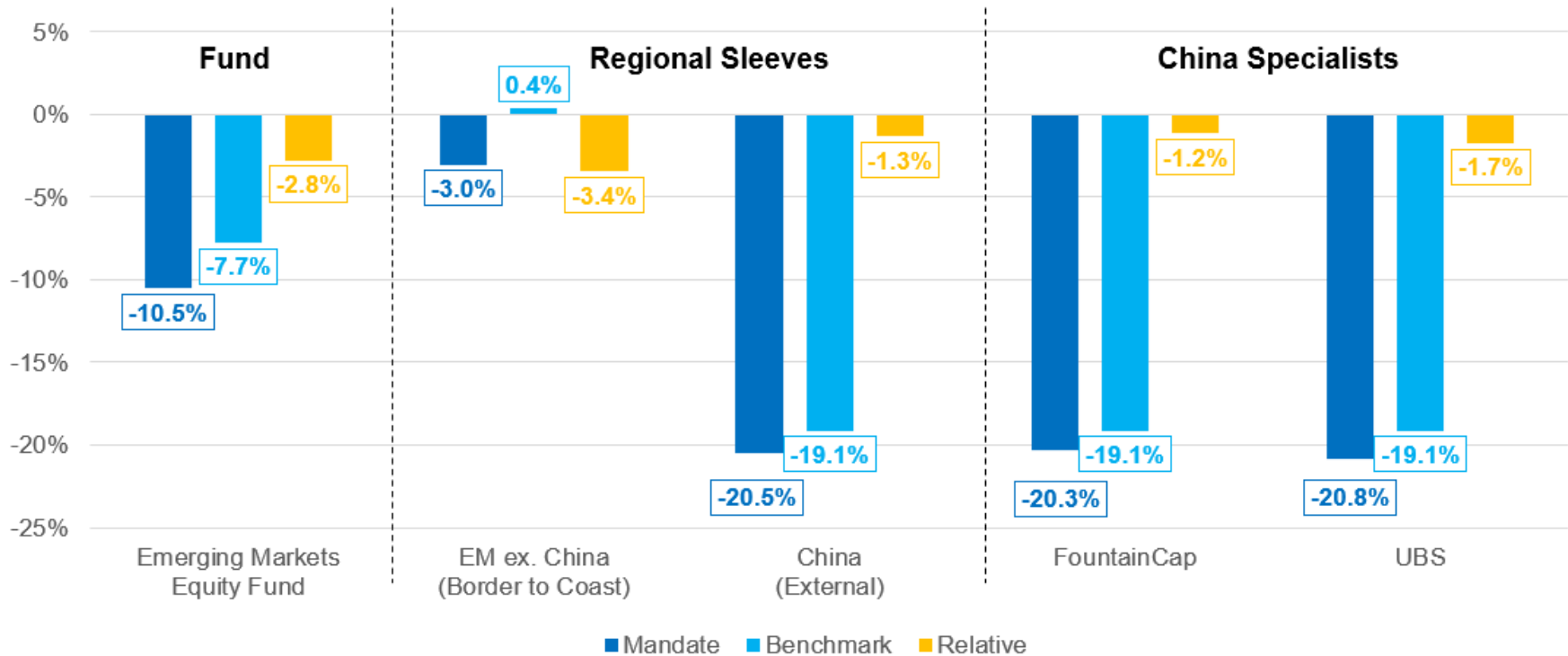


From **29 April 2021**, the Fund aims to provide a total return which outperforms the total return of the **FTSE Emerging Index by at least 1.5% per annum** over rolling three years periods (net of management fees). Between 10 April and 28 April 2021, the benchmark return was equal to the Fund return (performance holiday for restructure) and prior to 9 April 2021, the benchmark was S&P Emerging BMI with a performance target of 1% per annum.

**Source:** Northern Trust (2022) **Note:** Inception date for the Emerging Markets Equity Fund was 22 October 2018.  
**Figures refer to past performance. Past performance is not a reliable indicator for future results.**

# Emerging Markets Equity Fund – Post Restructure Performance to 30 June 2022

Performance Since 29 April 2021



The Fund aims to provide a total return which outperforms the total return of the **FTSE Emerging Index** by at least **1.5% per annum** over rolling three years periods (net of management fees).

**Source:** Northern Trust (2022) **Note:** Restructure of the Emerging Markets Equity Fund completed on 28 April 2021.  
**Figures refer to past performance. Past performance is not a reliable indicator for future results.**

# Border to Coast Pensions Partnership Ltd

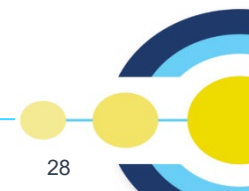
## Alternatives



# Private Equity Series 1: Capital Deployment

Series 1A	30 June 2022	31 March 2022
Capital Committed	99.7%	99.7%
Capital Drawn	51.7%	51.1%
Capital Distributed <sup>1</sup>	9.8%	9.5%
Series 1B	30 June 2022	31 March 2022
Capital Committed	99.1%	99.1%
Capital Drawn	39.2%	35.0%
Capital Distributed <sup>1</sup>	0.3%	0.7%
Series 1C	30 June 2022	31 March 2022
Capital Committed	100.0%	100.0%
Capital Drawn	16.0%	14.2%
Capital Distributed <sup>1</sup>	0.0%	0.0%

<sup>1</sup> Including recallable distributions  
Source: Albourne



# Private Equity Series 1: Since Inception Performance

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Series	IRR*	TVPI*
Series 1A	45.5%	1.60x
Series 1B	23.4%	1.11x
Series 1C	6.8%	1.03x
<b>Series 1</b>	<b>38.9%</b>	<b>1.32x</b>

Fund inception date May 2019

\* Please refer to the Appendix for definitions of IRR and TVPI

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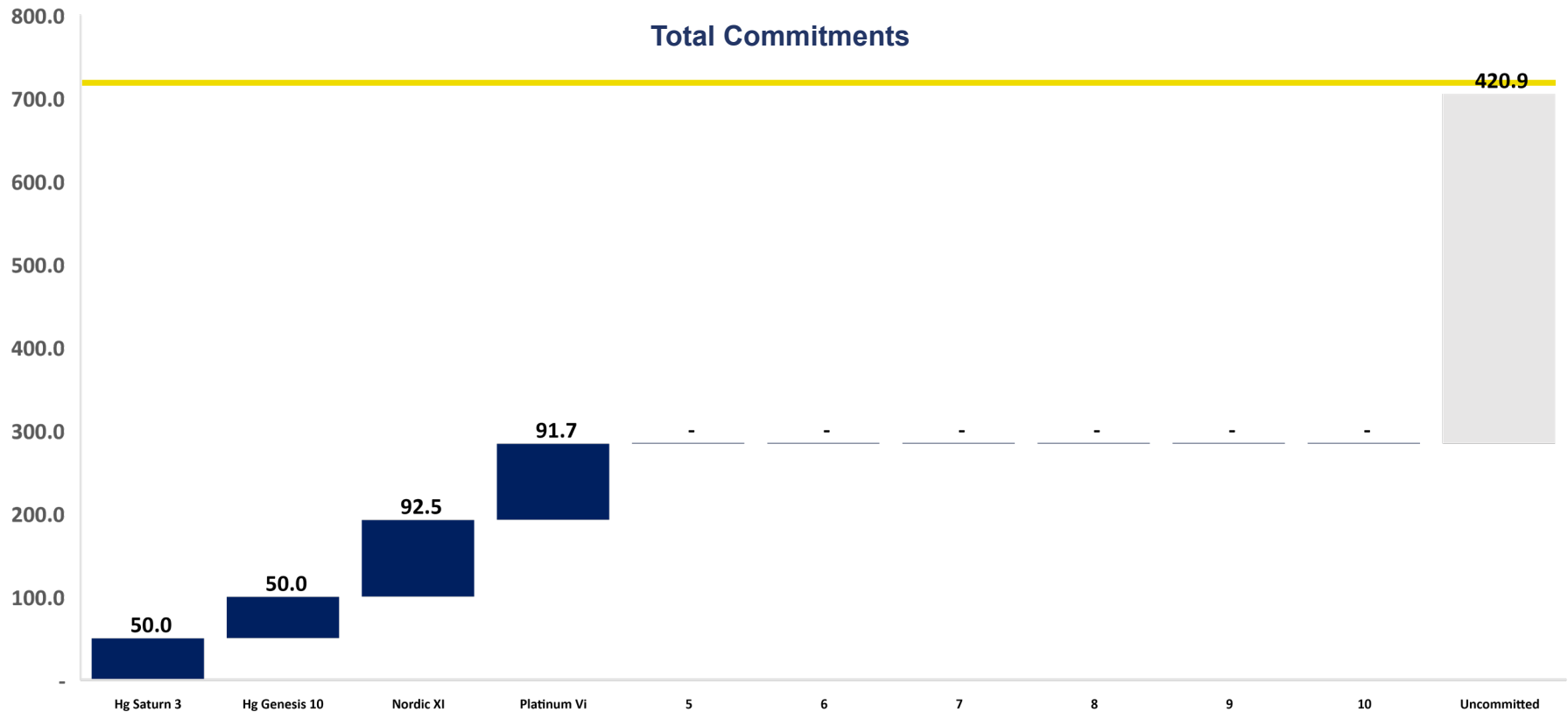
Performance is effective 31/03/22.

**Past performance is not a reliable indicator of future results.**

Source: Private Monitor

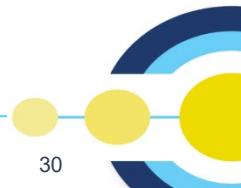
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# Private Equity 2A Commitments to Date (from 1st April 2022)



- Commitment made
- Detailed due diligence completed/commenced

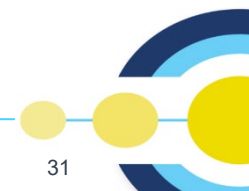
**Note:** Commitments in £m using exchange rates at time of approval. Residual uncommitted capital to be cancelled  
There has been no Series 2 Capital called effective 30/06/22. 40.3% of Series 2A has been committed.



# Infrastructure Series 1: Capital Deployment

<b>Series 1A</b>	<b>30 June 2022</b>	<b>31 March 2022</b>
Capital Committed	98.7%	98.7%
Capital Drawn	50.9%	46.6%
Capital Distributed <sup>1</sup>	7.5%	3.9%
<b>Series 1B</b>	<b>30 June 2022</b>	<b>31 March 2022</b>
Capital Committed	98.7%	98.7%
Capital Drawn	29.9%	27.0%
Capital Distributed <sup>1</sup>	1.1%	0.5%
<b>Series 1C</b>	<b>30 June 2022</b>	<b>31 March 2022</b>
Capital Committed	100.0%	84.2%
Capital Drawn	60.9%	61.1%
Capital Distributed <sup>1</sup>	6.2%	4.7%

<sup>1</sup> Including recallable distributions  
Source: Albourne



# Infrastructure Series 1: Since Inception Performance

Series	IRR*	TVPI*
Series 1A	11.3%	1.16x
Series 1B	5.6%	1.04x
Series 1C	9.4%	1.04x
<b>Series 1</b>	<b>10.7%</b>	<b>1.08x</b>

Fund inception date July 2019

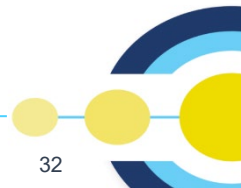
\* Please refer to the Appendix for definitions of IRR and TVPI

Performance is effective 31/03/22.

**Past performance is not a reliable indicator of future results.**

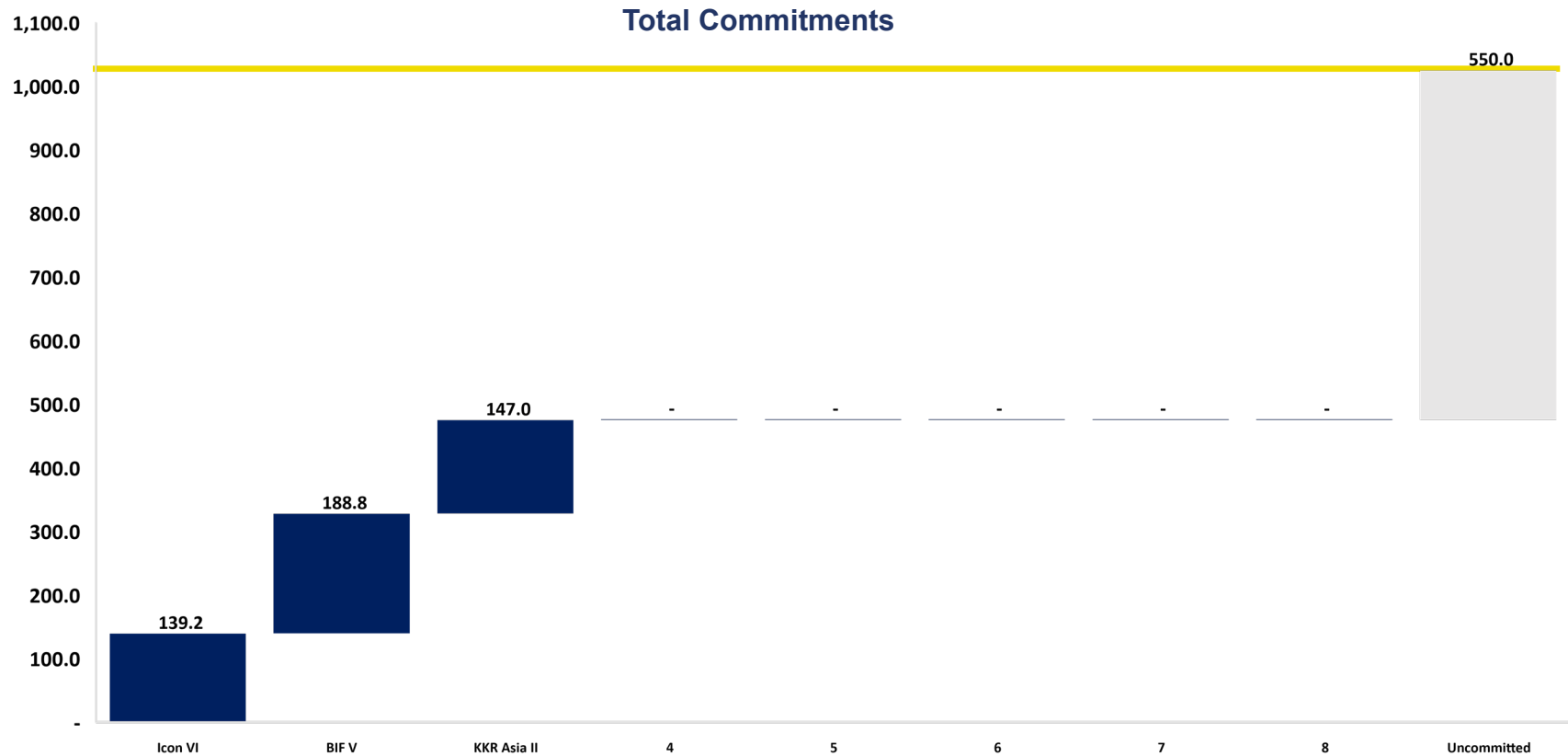
Source: Private Monitor

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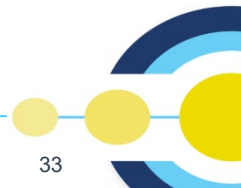


# Infrastructure 2A: Commitments to Date (from 1st April 2022)



- Commitment made
- Detailed due diligence completed/commenced

**Note:** Commitments in £m using exchange rates at time of approval. Residual uncommitted capital to be cancelled  
There has been no Series 2 Capital called effective 30/06/22. 46.3% of Series 2A has been committed.



# Border to Coast Pensions Partnership Ltd

## Appendix



# MAC\* – Secondary Benchmarks

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## Secondary Benchmarks (Page 14)

- **Ashmore** – Custom Benchmark (*made up of Local Currency and Corporate EM Debt*)
- **Barings** – Credit Suisse GLLI (Hdgd)
- **PGIM** – JPM A CLO Index (Hdgd)
- **PIMCO** – Custom Benchmark (*composite of underlying asset class benchmarks*)
- **Wellington** – ICE Dev Market High Yield Constrained (Hdgd)
- **Border to Coast** – JPM EMBI Global Diversified (Hdgd)

# Private Equity / Infrastructure – IRR and TVPI Definitions

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## IRR and TVPI (Pages 29 and 32)

- **Internal Rate of Return (IRR):** Most common measure of Private Equity performance. IRR is technically a discount rate: the rate at which the present value of a series of investments is equal to the present value of the returns on those investments.
- **Total Value to Paid-in Capital (TVPI):** TVPI is the sum of the DPI and RVPI. TVPI is net of fees. TVPI is expressed as a ratio.
- **Distributions to Paid-in-Capital (DPI):** The amount a partnership has distributed to its investors relative to the total capital contribution to the fund. DPI is expressed as a ratio. Also known as realization ratio.
- **Residual Value to Paid-in Capital (RVPI):** The measure of value of the limited partner's interest held within the fund, relative to the cumulative paid-in capital. RVPI is net of fees and carried interest. This is a measure of the fund's "unrealized" return on investment. RVPI is expressed as a ratio.

# Disclaimer

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The material in this presentation has been prepared by Border to Coast Pensions Partnership Limited (“Border to Coast”) and is current as at the date of this presentation. This information is given in summary form and does not purport to be complete.

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