



# Teesside Pension Fund

## Quarterly Investment Report - Q4 2022

# 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
Border to Coast Emerging Markets Equity Fund	18
Appendices	24
Border to Coast Developed Markets Equity Fund (Regional Breakdown)	25
Market Background	37
Border to Coast News	39
Disclosures	40

# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£2,261,287,875
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£141,327,918
Value at end of the quarter	£2,402,615,792

Over Q4 2022, Teesside's holdings performed as follows:

- The UK Listed Equity Fund outperformed its benchmark by 0.09%
- The Overseas Developed Markets Equity Fund outperformed its benchmark by 0.66%
- The Emerging Markets Equity Fund underperformed its benchmark by 1.26%

Teesside made no subscriptions or redemptions during Q4 2022.

### Note

- 1) Source: Northern Trust & Border to Coast
- 2) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
- 3) Inflows and outflows may include income paid out and/or reinvested.
- 4) Values do not always sum due to rounding.

# Portfolio Analysis - Teesside Pension Fund at 31 December 2022

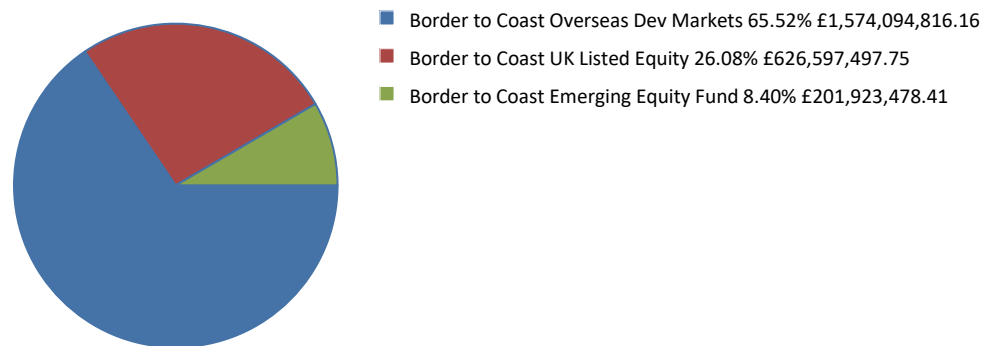
## Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	626,597,497.75	26.08
Border to Coast Overseas Dev Markets	40% S&P 500, 30% FTSE Developed Europe Ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan	1,574,094,816.16	65.52
Border to Coast Emerging Equity Fund	EM Equity Fund Benchmark <sup>2</sup>	201,923,478.41	8.40

## Available Fund Range

Fund
Border to Coast UK Listed Equity
Border to Coast Overseas Dev Markets
Border to Coast Emerging Markets Equity
Border to Coast UK Listed Equity Alpha
Border to Coast Global Equity Alpha
Border to Coast Sterling Inv Grade Credit
Border to Coast Sterling Index-Linked Bond
Border to Coast Multi Asset Credit
Border to Coast Listed Alternatives

## Teesside Pension Fund - Fund Breakdown



Note

1) Source: Northern Trust

## Portfolio Contribution - Teesside Pension Fund at 31 December 2022

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	26.08	8.99	8.90	0.09	2.28
Border to Coast Overseas Dev Markets	65.52	6.12	5.46	0.66	4.04
Border to Coast Emerging Equity Fund	8.40	(0.57)	0.69	(1.26)	(0.07)
<b>Total</b>	<b>100.00</b>	<b>6.25</b>			

The UK Listed Equity Fund returned 8.99% over the quarter, which was 0.09% ahead of the FTSE All Share Index.

The Overseas Developed Markets Equity Fund returned 6.12% over the quarter, which was 0.66% ahead of the composite benchmark.

The Emerging Markets Equity Fund returned –0.57% over the quarter, which was –1.26% behind the FTSE Emerging Markets.

Overall, Teesside's investments with Border to Coast returned 6.25% during Q4 2022.

### Note

1) Source: Northern Trust & Border to Coast

2) Performance shown is investor-specific, calculated using a time-weighted methodology which accounts for the impact of investor flows, whereby investments held for a longer period of time will have more of an impact than those held for a shorter time.

3) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

4) Performance shown is net of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.

## Valuation Summary at 31 December 2022

Fund	Market value at start of the quarter		Purchases (GBP)	Sales (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter	
	GBP (mid)	Total weight (%)				GBP (mid)	Total weight (%)
Border to Coast UK Listed Equity	574,905,301.23	25.42			51,692,196.52	626,597,497.75	26.08
Border to Coast Overseas Dev Markets	1,483,308,802.62	65.60			90,786,013.54	1,574,094,816.16	65.52
Border to Coast Emerging Markets Equity	203,073,770.92	8.98			(1,150,292.51)	201,923,478.41	8.40
<b>Total</b>	<b>2,261,287,874.77</b>	<b>100.00</b>			<b>141,327,917.55</b>	<b>2,402,615,792.32</b>	<b>100.00</b>

### Note

- 1) Source: Northern Trust
- 2) Purchases and sales may include income paid out and/or reinvested.
- 3) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
- 4) Values do not always sum due to rounding.

## Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 31 December 2022

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	3.86	2.86	1.00	9.00	8.90	0.10	2.40	0.34	2.06	3.10	2.30	0.80	--	--	--
Border to Coast Overseas Dev Markets	8.23	6.86	1.36	6.12	5.46	0.66	(4.40)	(6.42)	2.02	8.77	7.18	1.60	--	--	--
Border to Coast Emerging Markets Equity	2.74	4.80	(2.06)	(0.56)	0.69	(1.26)	(10.17)	(6.84)	(3.33)	(0.96)	1.46	(2.42)	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Performance shown is for the pooled fund, which may differ to the investor-specific performance.
- 3) Performance inception dates are shown in the appendix.
- 4) Performance for periods greater than one year are annualised.
- 5) Performance shown is net of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.
- 6) 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 2022

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	3.87	2.86	1.01	8.99	8.90	0.09	2.40	0.34	2.06	3.11	2.30	0.80	--	--	--
Border to Coast Overseas Dev Markets	8.24	6.86	1.38	6.12	5.46	0.66	(4.39)	(6.42)	2.03	8.78	7.18	1.61	--	--	--
Border to Coast Emerging Markets Equity	2.88	4.80	(1.92)	(0.51)	0.69	(1.20)	(9.94)	(6.84)	(3.10)	(0.78)	1.46	(2.23)	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Performance shown is for the pooled fund, which may differ to the investor-specific performance.
- 3) Performance inception dates are shown in the appendix.
- 4) Performance for periods greater than one year are annualised.
- 5) Performance shown is gross of charges incurred within the ACS, such as depository, audit and external manager fees. Performance is gross of any fees paid to Border to Coast which are set out separately within the papers supporting the Shareholder Approval of the Border to Coast Strategic Business Plan.
- 6) 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 2022

## UK Listed Equity Fund

The fund generated a total return of +9.0% during the quarter, compared to the benchmark return of +8.9%, resulting in 0.1% of outperformance.

The UK outperformed the broader global market indices during the quarter. This was due to a higher weighting in Energy and Materials stocks which performed strongly, and a lower weighting in Consumer Discretionary stocks which performed poorly, on a global basis. Inflation is higher and the Bank of England is under pressure to raise rates more aggressively to bring it under control. This will weigh on the growth outlook, although to this point the Bank has proceeded more slowly than some might have hoped.

The Fund benefited from the following factors:

- Underweight Real Estate combined with stock selection where the sharp rise in yields has impacted property valuations, whilst also increasing the cost of debt, with less highly rated names proving more defensive such as British Land (overweight).
- Overweight Industrials combined with stock selection where overweight positions in Melrose Industries and Coats benefitted from global economic recovery post the pandemic lockdown.
- Stock selection in Basic Materials with an overweight position in Antofagasta which benefitted from the prospect of China re-opening and rising demand for copper.

This was partly offset by the following:

- Stock selection in Consumer Discretionary where IAG & Informa (neither held) benefitted from the global economy re-opening and Games Workshop (not held) entered into a licensing deal with Amazon.

- Underweight Utilities combined with stock selection where Centrica (not held – share buy back and energy tax better than feared) outperformed and National Grid (overweight – inflation concerns in US business and rising cost of US debt/GBP weakness) underperformed.
- Overweight allocation to Consumer Staples which underperformed in a rising rate cycle.

The Portfolio Managers have continued to selectively add to mid-cap exposure, including more cyclical stocks, during the quarter. Heightened political uncertainty following a rocky start to the new Truss Government, a potential looming energy crisis, and the likelihood of higher interest rates to combat inflation, have impacted the outlook but we remain vigilant for opportunities to add to quality long term holdings at attractive valuations.

Note

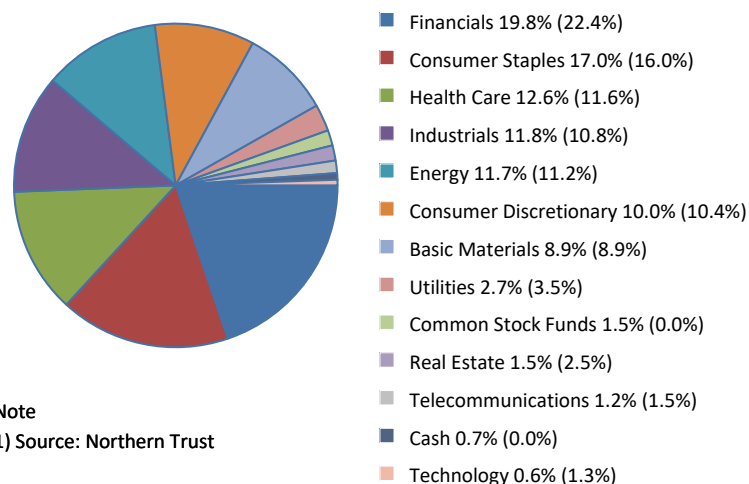
1) Source: Border to Coast

# Border To Coast UK Listed Equity Fund at 31 December 2022

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

Common Stock Funds	+1.54
Industrials	+1.07
Consumer Staples	+1.04
Health Care	+1.00
Energy	+0.49
Financials	-2.61
Real Estate	-1.03
Utilities	-0.82
Technology	-0.70
Consumer Discretionary	-0.45

## 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 (o/w)** – exposure to UK smaller companies via specialist funds/collective vehicles. Whilst UK small caps have underperformed the wider market over the past year, over longer periods they typically benefit from stronger growth potential and the funds held have delivered long-term outperformance.

**Industrials (o/w)** – broad mix of companies typically with significant global market positions, benefitting from the post-pandemic global economic re-opening, recovery in end-markets (e.g. aerospace and automobiles), supply chain normalisation and rising infrastructure expenditure, such as in the US.

**Consumer Staples (o/w)** – broad mix of food and beverage, beauty, personal care and home care product producers, and food retailers which collectively offer strong cash generation and robust balance sheets. Demonstrated resilient trading throughout the pandemic, and would be expected to perform strongly, relative to the wider equity market, during a global downturn.

**Utilities (u/w)** – government policy risk and potential for increased regulatory intervention, such as allowable investment returns and increased capital expenditure to meet rising environmental standards (e.g. limiting raw sewage overflows for water companies) and elevated costs associated with an accelerated energy transition.

**Real Estate (u/w)** – broad concerns around retail/leisure sector exposure, long-term vacancy rates, downward rent re-negotiations, costs associated with mandatory energy rating improvements, negative impact of rising yields on valuations and uncertain impact of home/flexible working on the longer-term demand for office space.

**Financials (u/w)** – predominantly due to being underweight investment trusts and Asian-focused banks (US-China relations remain strained), increased near-term recessionary risks with potential for deteriorating bank loan books and rising credit risk in insurers bond portfolios. Partly offset by overweight positions in Wealth Managers and Insurers with Asian exposure as they are expected to benefit from the long-term increase in Asian and Emerging Market wealth.

## Border To Coast UK Listed Equity Fund Attribution at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Antofagasta	0.64	38.60	0.23	38.55	0.09
Scottish Mortgage Investment Trust	0.00	0.00	0.45	(7.42)	0.08
Montanaro UK Smaller Companies	0.42	30.60	0.01	31.70	0.07
Melrose Industries	0.64	31.46	0.23	31.60	0.07
Harbour Energy	0.00	0.00	0.09	(32.04)	0.06

**Antofagasta (o/w)** – copper price stabilising and slowly moving higher through the quarter on potential China re-opening demand; Chile mining royalty taxation risk moderating.

**Scottish Mortgage Investment Trust (u/w)** – not held. High conviction growth investor in large-cap global technology, a sector that has experienced some slowdown in growth and been out of favour in a rising rate cycle.

**Montanaro UK Smaller Companies (o/w)** – UK smaller companies starting to outperform during the quarter after an extended period of underperformance, with the share discount narrowing and ending the quarter at a premium to NAV.

**Melrose Industries (o/w)** – positive trading update confirming sales and margin recovery in both aerospace and the soon to be de-merged automotive & powder metallurgy divisions.

**Harbour Energy (u/w)** – not held. The UK government’s decision to increase and extend the duration of the Energy Profit Levy in the Autumn statement has impacted the outlook for North Sea oil and gas explorers.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Biotech Growth Trust	0.52	(7.44)	0.02	(6.84)	(0.09)
3i Group plc	0.00	0.00	0.55	24.89	(0.07)
Centrica	0.00	0.00	0.25	38.18	(0.05)
NCC	0.32	(7.20)	0.03	(7.08)	(0.05)
TP ICAP PLC	0.31	(8.83)	0.06	(8.97)	(0.05)

**TP ICAP PLC (o/w)** – integration of the Liquidnet acquisition, which has seen revenues fall, has been problematic and required additional investment.

**NCC (o/w)** – guidance disappointed suggesting more reliance on the second half of the year and the Resilience division is taking longer than anticipated to recover post-reorganisation.

**Centrica (u/w)** – not held. Positive trading statement and surprise share buy-back announced. Agrees to re-open Rough, a key UK strategic gas storage facility. Energy tax in the Autumn budget not as harsh as expected, removing a significant uncertainty.

**3i Group plc (u/w)** – not held. Quarterly update confirmed NAV ahead of expectations driven by a stronger than expected trading performance at the discount retailer Action, the dominant holding within the 3i portfolio.

**Biotech Growth Trust (o/w)** – rate cycle has weighed on biotech growth stocks, in particular smaller caps which the fund is tilted towards.

Note

1) Source: Northern Trust & Border to Coast

# Border To Coast UK Listed Equity Fund at 31 December 2022

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

Impax Environmental Markets	+0.91
Schroder UK Smaller Companies Fund	+0.80
Shell	+0.75
Liontrust UK Smaller Companies	+0.74
AstraZeneca	+0.54
Glencore	-0.80
NatWest	-0.58
3i Group plc	-0.55
Scottish Mortgage Investment Trust	-0.45
HSBC	-0.41

Note

1) Source: Northern Trust

### Top 5 Holdings Relative to Benchmark:

**Impax Environmental Markets** – leading ESG-focused fund delivering strong long-term outperformance, specialising in alternative energy, energy efficiency, water treatment, sustainable food, clean transport, smart environment and pollution control.

**Schroder UK Smaller Companies Fund** – UK smaller companies fund with a strong long term track record; Schroders incorporate proprietary ESG scoring systems in their investment process and undertake direct ESG engagement with portfolio holdings.

**Shell** – shares continue to benefit from elevated oil and gas prices, in particular Shell’s global LNG scale, which has enabled significant debt reduction and supporting Shell’s commitment to increase investment in energy transition and return more than 30% of cash flow from operations via increased share buy-backs and dividend distributions.

**Liontrust UK Smaller Companies** – fund with an investment style focussed on intellectual property, strong distribution channels and durable competitive advantage, factors considered relevant to the stronger long-term growth profile of smaller companies.

**AstraZeneca** – combination of recently launched drugs with higher sales growth driving elevated revenue and margin improvement, broad late-stage pipeline and limited near-term patent expiry concerns. Recent acquisition of Alexion Pharmaceuticals has added an attractive rare disease portfolio to Astra’s already highly successful oncology division.

### Bottom 5 Holdings Relative to Benchmark:

**HSBC** – caught in the midst of the geopolitical tension between US and China, combined with China’s (until very recent) zero COVID policy and the ongoing closure of the Hong Kong/China border damaging economic activity in the region.

**Scottish Mortgage Investment Trust** – specialist investment trust with a focus on global large-cap technology stocks; the Fund has similar global technology exposure through its holding in Allianz Technology Trust.

**3i Group plc** – global private equity investor with a highly concentrated investment portfolio. Over half (~55%) of the current net asset value is invested in a single asset, Action, a European discount retailer.

**NatWest** – UK-focussed retail and commercial bank, with the UK government as a significant shareholder. The Fund has similar UK bank exposure through a holding in Lloyds Bank PLC.

**Glencore** – historically a higher risk commodity company with significant operations in geographies with weaker governance and coal exposure higher than peers. Regulatory investigations into allegations of bribery and market manipulation have been significant factors, albeit the recently announced co-ordinated resolution appears to remove much of the regulatory uncertainty.

### Major transactions during the Quarter

#### **Purchases:**

**Reckitt Benckiser Group PLC (£5.1m)** – added to quality long-term core holding on weakness, as near-term concerns (normalising disinfectant sales post-COVID and US infant nutrition competitor returns post facility shutdown) appear overdone. 11

#### **Sales:**

**Aveva Group PLC (£19.0m)** – sold holding following receipt of an improved cash bid from controlling shareholder Schneider Electric.

# Border To Coast Overseas Developed Markets Equity Fund - Overview at 31 December 2022

## Overseas Developed Markets Fund

The Fund generated a total return of 6.12% during the quarter compared to the composite benchmark return of 5.46% resulting in outperformance of 0.66%. Europe ex-UK was the best performing region (+11.7%), while the US was the weakest (-0.3%). The Europe ex-UK, US and Japanese portfolios all outperformed their respective benchmarks during the quarter, while Pacific ex-Japan performed in-line with its benchmark. The US portfolio's strong performance (+1.1%) had the largest positive contribution to the Fund's relative performance, though the Japan fund's relative performance was stronger (+1.2%).

The Fund has navigated the volatility in markets, with differing regions showing strength and weakness at differing times. Interest rate sensitive stocks have come under pressure, certain cyclical sectors have recovered, and classic defensive sectors like consumer staples and healthcare have generally performed in line. Earnings expectations have remained relatively firm but are likely to move lower if the economy slows meaningfully.

The Fund has outperformed due to the following:

- Strong stock selection in the US and Japan in particular, and within the energy sector across all portfolios; and
- Relatively low exposure to Real Estate.

This has been partly offset by:

- Weaker stock selection in Financials; and
- Higher relative exposure to consumer discretionary stocks.

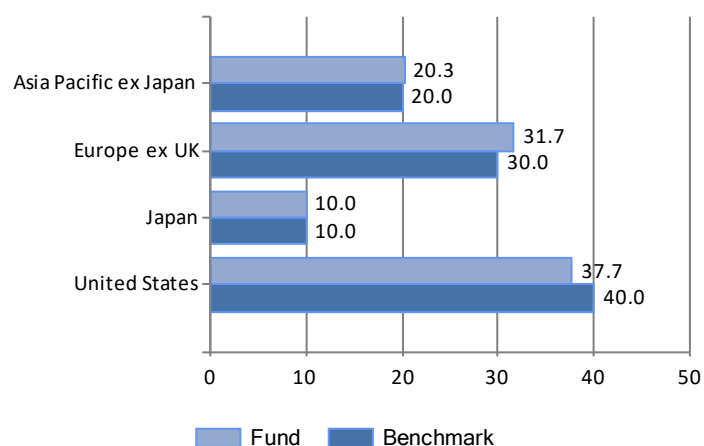
The Fund has a relatively low risk profile which is driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle to upper end of the targeted tracking error range of 1 – 4%. It is unlikely that there will be material changes to portfolio positioning in the near-term. The emphasis on focusing on long-term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility has proven a resilient approach across different market regimes in recent years.

Note

1) Source: Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund at 31 December 2022

### 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

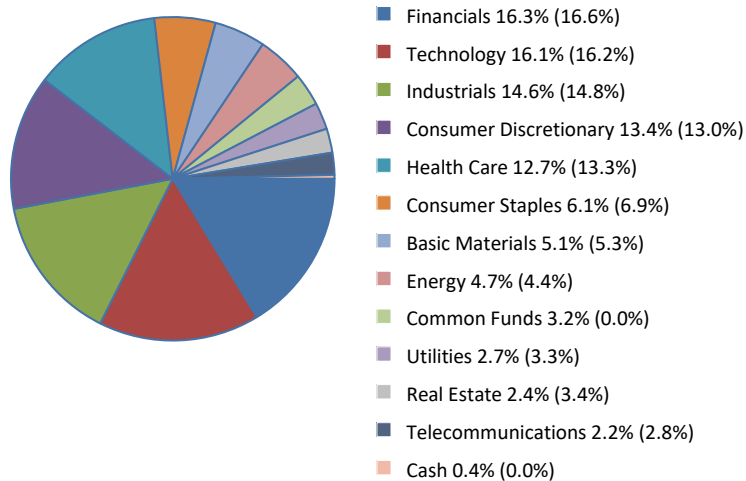
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
<b>Overseas Developed Equity Fund</b>	<b>8.23</b>	<b>6.86</b>	<b>1.36</b>	<b>6.12</b>	<b>5.46</b>	<b>0.66</b>	<b>(4.40)</b>	<b>(6.42)</b>	<b>2.02</b>	<b>8.77</b>	<b>7.18</b>	<b>1.60</b>
United States	11.90	10.50	1.40	0.83	(0.32)	1.14	(5.95)	(8.25)	2.31	12.46	10.65	1.81
Japan	3.98	2.28	1.71	6.00	4.81	1.19	(6.15)	(5.19)	(0.96)	3.89	2.33	1.56
Europe ex UK	6.05	4.78	1.27	11.79	11.65	0.15	(3.80)	(8.20)	4.40	6.54	5.04	1.51
Asia Pacific ex Japan	5.65	4.30	1.36	8.01	8.04	(0.03)	(2.85)	(1.61)	(1.24)	6.13	4.94	1.20

#### 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 2022

## Sector Portfolio Breakdown



## Overseas Developed Markets Fund

### Sector Weights:

**Common Funds (o/w)** – exposure to smaller companies via collective vehicles, specifically in US, Europe and Japan.

**Consumer Discretionary (o/w)** – high relative exposure in the US and more than offset slightly below benchmark weights in Europe and Asia ex-Japan, driven by higher exposure to media and entertainment companies benefitting from positive long-term demand trends.

**Energy (o/w)** – small overweight position driven by overweight in Europe ex-UK, Pacific ex-Japan, and Japan offsetting small underweight in the US. Supply dislocations and disruptions likely to support higher prices in the medium term, generating strong cashflows with which to address the challenges of the energy transition and offer attractive returns for shareholders.

**Utilities (u/w)** – companies generally facing higher capital expenditure requirements necessary to position for the energy transition which is expected to challenge their business models and leave them facing increasing political risk.

**Consumer Staples (u/w)** – although favoured as a safe haven during recessions, high valuations and vulnerability to margin compression due to higher input costs and weaker end demand make the sector less attractive even with the uncertainty surrounding the economy.

**Real Estate (u/w)** – high leverage leaves the sector exposed in a rising interest rate environment. Improving economies would ordinarily be favourable for asset pricing and demand trends but these compensatory factors are less certain in a post-COVID world.

### 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 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Tesla	0.00	0.00	0.41	(56.90)	0.56
Alphabet C	0.00	0.00	0.58	(14.36)	0.13
Novo Nordisk	1.65	23.98	0.89	24.53	0.11
TotalEnergies	1.21	24.84	0.62	24.95	0.09
Siemens	0.85	29.23	0.44	29.51	0.07

**Tesla (u/w)** – deteriorating demand outlook met with negative headlines surrounding the CEO, prompting earnings downgrades and weakening sentiment.

**Alphabet C (u/w)** – continuing headwinds for digital advertising highlighted by what was a third successive quarterly earnings disappointment.

**Novo Nordisk (o/w)** – better than expected earnings and increase in full year guidance, FDA approval of use of existing type 2 diabetes treatment, Victoza, in children, and resolving production issues with key growth product, Wegovy.

**TotalEnergies (o/w)** – benefitted from higher oil and gas prices and an increase in gas sales at elevated spot prices as the region replaced Russian supply and increased gas storage in advance of winter.

**Siemens (o/w)** – significant increase in income due to increased demand for both hardware and software products which facilitated an increase in the dividend.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet A	1.49	(14.41)	0.66	(14.40)	(0.20)
Amazon	1.14	(31.06)	0.93	(31.02)	(0.14)
Vanguard US Mid Cap ETF	2.61	1.16	0.00	0.00	(0.11)
Exxon Mobil	0.00	0.00	0.57	17.90	(0.06)
Teleperformance	0.23	(14.56)	0.06	(13.70)	(0.05)

**Alphabet A (o/w)** – continuing headwinds for digital advertising were highlighted by what was a third successive quarterly earnings disappointment.

**Amazon (o/w)** – growth deceleration in web services, margin pressure in retail, broad weakness in large-cap technology.

**Vanguard US Mid Cap ETF (o/w)** – whilst performing broadly in line with the US benchmark, the mid-cap ETF trailed the fund level return.

**Exxon Mobil (u/w)** – large energy sector constituent, the best performing group over the quarter.

**Teleperformance (o/w)** – outsourcer impacted by adverse media relating to the working environment at one of the company's offices in Columbia.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund at 31 December 2022

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

Vanguard US Mid Cap ETF	+2.61
Alphabet A	+0.84
Novo Nordisk	+0.76
TotalEnergies	+0.59
Visa Inc	+0.48
Alphabet C	-0.58
Exxon Mobil	-0.57
Tesla	-0.41
Mastercard	-0.37
AbbVie	-0.36

### Top 5 Holdings Relative to Benchmark:

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

**Alphabet A** – parent company of Google: zero weight in the C shares results in a moderate overweight position overall. Recent derating of the shares affords exposure to high margin digital advertising revenues at a modest valuation.

**Novo Nordisk** – strong market position in diabetes treatments with extension of products into obesity treatment.

**TotalEnergies** – shifting away from its core oil business and is now the second largest player in LNG as well as seeking to diversify further into green energy.

**Visa Inc** – revenues positively correlated with consumer price inflation, recovery in higher margin cross border revenues.

### Bottom 5 Holdings Relative to Benchmark:

**AbbVie** – patent cliff for leading anti-inflammatory drug creates potential near-term earnings gap.

**Mastercard** – preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, but which trades on a lower valuation.

**Tesla** – accelerating production capacity meets weakening demand, concern around viability of full self-drive capability.

**Exxon Mobil** – integrated energy exposure gained via companies with a better record of ESG engagement.

**Alphabet C** – exposure in A shares results in a moderate overweight exposure to Alphabet overall.

Note

1) Source: Northern Trust

## Summary of Performance - Funds (Net of Fees) Border to Coast Emerging Markets Equity Fund at 31 December 2022

Fund	Inception to Date			Quarter to Date			1 Year			Benchmark
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	
Border to Coast Emerging Markets Equity Fund	2.74	4.80	(2.06)	(0.56)	0.69	(1.26)	(10.17)	(6.84)	(3.33)	EM Equity Fund Benchmark <sup>3</sup>
Border to Coast	(0.19)	2.77	(2.96)	(2.75)	(1.59)	(1.16)	(6.64)	(3.78)	(2.86)	FTSE Emerging ex China (Net)
FountainCap	(18.92)	(19.77)	0.85	3.15	5.18	(2.03)	(19.14)	(12.37)	(6.77)	FTSE China (Net)
UBS	(20.84)	(19.77)	(1.07)	3.85	5.18	(1.33)	(13.45)	(12.37)	(1.08)	FTSE China (Net)

Manager/Strategy	Role in fund	Target	Actual
Border to Coast	Core strategy focused on Emerging Markets ex-China with a tilt towards quality companies.	65%	64%
FountainCap	China specialist with long term, high conviction strategy focused on three megatrends: Innovation Economy, Clean Energy, and Consumption Upgrade.	14%	22%
UBS	China specialist seeking to identify upcoming 'industry leaders' that will benefit from China's structural growth and transition to a services-led economy.	21%	14%

### Note

1) Source: Northern Trust & Border to Coast

2) Values do not always sum due to rounding and use of different benchmarks

3) <sup>3</sup>EM Benchmark = S&P EM BMI Net (22-Oct-18 to 9-Apr-21); Fund Return (10-Apr-21 to 28-Apr-21); FTSE EM Net (29-Apr-21 to current)

# Border to Coast Emerging Markets Equity Fund - Overview at 31 December 2022

## Emerging Markets Equity Fund

Like most market participants, emerging market equity investors will be glad to see the back of 2022. Whilst Q4 market performance was positive (+0.7%), it was not close to offsetting prior losses, with the FTSE Emerging Index down ~7% in 2022. The headline news in the quarter was China's sharp reversal on COVID policy, which boosted market sentiment in the region. A weaker US Dollar was also supportive.

Unsurprisingly, China outperformed during the period. Other major markets like Taiwan, India and Brazil underperformed. The latter suffering from policy uncertainty following President Lula's election victory in October. Middle Eastern markets also suffered from falling energy prices.

Against this backdrop, the Fund underperformed the benchmark by 1.3%, and delivered a negative absolute return (-0.6%). On a since inception to date basis, the Fund remains well behind benchmark (underperforming by 2% per annum).

Looking through to the underlying mandates, the internally managed emerging markets ex. China portfolio had a weak quarter, underperforming its benchmark by 1.2%. Key detractors were stock selection in Basic Materials (SQM), Industrials (United Tractors) and Financials (Banco Bradesco), as well as having no allocation to Turkey and an overweight to Indonesia.

Despite positive absolute returns from China, the Fund's China specialists underperformed, with the aggregate allocation 1.6% behind benchmark over the period (which was up ~5%). Neither manager fared particularly well, with UBS ~1% behind and Fountain Cap ~2% behind. For UBS, strong stock selection in Financials (Ping An and HK Exchanges) was more than offset by large overweights to Kweichow Moutai and NetEase. With Fountain Cap, strong performance from large active weights in Hengli Hydraulic and Anta Sports was more than offset by an overweight to Energy names (Sungrow Power and Yantai Jereh) and having only a very small holding in Tencent.

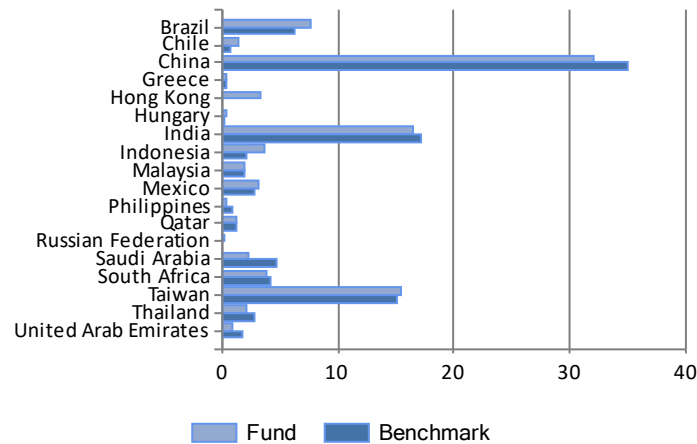
As we have discussed before, volatility in emerging markets is likely to persist given growth, inflation and policy concerns still linger. We also expect large regional dispersions to continue. Despite many headwinds, we are cautiously optimistic about the long-term prospects for emerging market equities. Our investment philosophy continues to be rooted in long-term thinking and analysis and we believe that our stock and thematic positioning should help turn short-term volatility into opportunities.

Note

1) Source: Border to Coast

# Border to Coast Emerging Markets Equity Fund at 31 December 2022

## Regional Breakdown



## Emerging Markets Equity Fund

The Border to Coast Emerging Markets Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE Emerging Markets benchmark by at least 1.5% 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:

**Consumer Staples (o/w)** – the rapidly growing Emerging Market middle class population is expected to lead to an increase in the consumption of staple goods over the long-term. The Fund is overweight a number of stocks (particular in China) that are well positioned to benefit from such a tailwind.

**Health Care (o/w)** – demographic trends (aging EM populations), increasing prosperity and perhaps even medical tourism are expected to drive medical spending higher (both personal and governmental) in Emerging Markets. The Fund is exposed to a diverse set of innovative businesses in this sector.

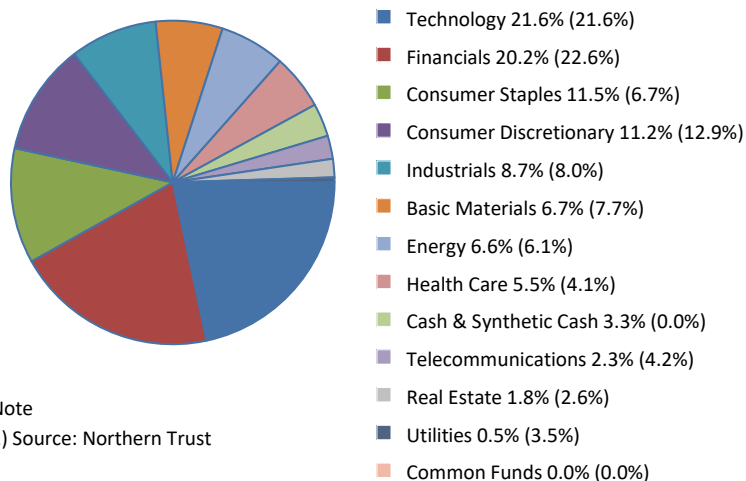
**Industrials (o/w)** – the Fund is marginally overweight the industrials sector, a diverse sector ranging from shipping and airports to glass manufacturing. The Fund's largest positions within this sector are manufacturers (or lessors) of heavy machinery and parts, businesses that should be supported by the continued urbanisation and infrastructure development of countries like China.

**Telecommunications (u/w)** – the Fund is underweight to this relatively low growth, cap-ex intensive sector which can be buffeted by political risk (control and pricing implications). Where exposures are taken, they are to dominant market players with strong balance sheets in markets with solid growth prospects.

**Financials (u/w)** – the Fund maintains a broad exposure to a number of sub-sectors that fall under the broader Financials heading (for example, insurance, exchanges, and banking). The underweight position is driven primarily by an underweight exposure to banks, particular state-owned banks in China which are large index constituents.

**Utilities (u/w)** – the Fund is underweighted to this highly regulated sector. Concerns over long-term sustainability of businesses and risk of regulatory interference warrants an underweight position.

## Sector Portfolio Breakdown



Note

1) Source: Northern Trust

## Border to Coast Emerging Markets Equity Fund Attribution at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Hengli Hydraulic	0.82	33.35	0.01	33.36	0.19	Industrials	China
NIO	0.00	0.00	0.20	(42.62)	0.16	Consumer Discretionary	China
Naspers	1.36	22.78	0.59	22.60	0.14	Technology	South Africa
ANTA Sports Products	1.31	14.85	0.25	14.76	0.13	Consumer Discretionary	China
Hong Kong Exchanges & Clearing	0.88	16.74	0.00	0.00	0.10	Financials	Hong Kong

### Positive Issue Level Impacts

**Hengli Hydraulic (o/w)** – is a leading producer of hydraulic equipment for use in heavy machinery (like excavators). After a very weak start to 2022 driven by continued COVID lockdowns and slowing economic growth, the share price rallied (+33%) as a sharp COVID policy reversal suggested the headwinds of 2022 could be tailwinds in 2023 (with policy focus shifting to restoring economic confidence).

**NIO (u/w)** – is a Chinese electric vehicle manufacturer. Global recessionary fears and price drops in the second-hand car market have put pressure on automakers – especially those like NIO who are yet to evidence long-term profitability. The Fund does not own NIO, so this was beneficial for performance.

**Naspers (o/w)** – is a South African internet, technology and multimedia company which, via Prosus, owns a large stake in Tencent (the Chinese technology giant). The positive share price move of the Tencent asset was beneficial for Naspers' performance in the period (+20%).

**ANTA Sports Products (o/w)** – a Chinese sports equipment and apparel retailer. The firm produces own brand goods, as well as operating numerous sub-brands, including Fila (in China, Hong Kong, and Macao). The firm is expected to benefit from rising consumer spending and greater focus on health and wellbeing.

**Hong Kong Exchanges and Clearing (o/w)** – operates a range of equity, commodity, fixed income, and currency markets through its range of subsidiaries. The firm is a key conduit of capital flows to/from China. Another beneficiary of increasing Chinese sentiment, the share price recovered in November and December as rebounding economic prospects should support capital flows/activity in Chinese markets in 2023.

#### Note

1) Source: Northern Trust & Border to Coast

2) Past performance is not an indication of future performance and the value of investments can fall as well as rise

## Border to Coast Emerging Markets Equity Fund Attribution at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Kweichow Moutai	2.84	(10.56)	0.37	(10.69)	(0.27)	Consumer Staples	China
United Tractors	0.75	(26.20)	0.04	(26.47)	(0.26)	Industrials	Indonesia
SQM	1.33	(16.44)	0.18	(17.79)	(0.24)	Basic Materials	Chile
Tencent	3.06	16.97	4.28	17.02	(0.23)	Technology	China
Banco Bradesco	0.83	(27.20)	0.25	(27.21)	(0.22)	Financials	Brazil

### Negative Issue Level Impacts

**Banco Bradesco (o/w)** – a leading Brazilian retail bank which performed poorly over the quarter falling over 20%. The effect of rising interest rates and inflation in Brazil means that the bank has started to see an increase in stress across its loan book and a drop in the ability of its clients to service payments. With base rates (~14%) now well above inflation (~6%), there is an expectation that this will be a shorter-term issue and stress will reduce as interest rates are reduced over the coming year.

**Tencent (u/w)** – a Chinese technology conglomerate with numerous business units – for example, mobile messaging (WeChat) and video games. The stock moved higher in November and December as sentiment (in China) recovered following shifting COVID policies that should be a tailwind for economic activity.

**SQM (o/w)** – SQM is a Chilean lithium and fertiliser manufacturer. Over the past 12 months it has more than doubled in value as demand for lithium, a key commodity used in the manufacture of batteries has continued to grow, and as the war in Ukraine has disrupted the global fertiliser supply chain. With operational results very strong, we believe the recent correction in the share price is due to short-term market volatility combined with the seasonality of demand for fertilisers.

**United Tractors (o/w)** – United Tractors is an Indonesian mining contractor. The core business continues to perform exceptionally well with Komatsu heavy equipment sales, which goes into the mining industry, continuing to grow rapidly. Recent share price weakness can be put down to news on increasing capital expenditure following an expansion into nickel mining and fears the core business is reaching peak profitability.

**Kweichow Moutai (o/w)** – a leading Chinese baijiu (liquor) producer and the Fund's largest active weight. The stock fell slightly more than 10% in the period (in GBP terms), selling off sharply in October before recovering meaningfully. The sharp leg lower began following the release of Q3 earnings numbers which highlighted slowing daily sales (via iMoutai online platform) and weaker product mix growth.

Note

1) Source: Northern Trust & Border to Coast

2) Past performance is not an indication of future performance and the value of investments can fall as well as rise



# Border to Coast Emerging Markets Equity Fund at 31 December 2022

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

Kweichow Moutai	+2.48
Netease	+1.44
SQM	+1.15
Petrobras	+1.11
ANTA Sports Products	+1.06
Alibaba	-1.71
Tencent	-1.22
China Construction Bank	-0.98
ICBC	-0.68
JD.com	-0.58

Note

1) Source: Northern Trust

### Top 5 Holdings Relative to Benchmark:

**Kweichow Moutai** – a leading Chinese baijiu (liquor) producer with strong brand presence and scale. The business is well positioned to benefit from the consumption upgrade story in mainland China.

**NetEase** – is a Chinese internet technology company that primarily develops and operates online PC and mobile games and content. Despite some headwinds in its domestic market, growing success on the international stage (in particular Japan) along with a strong pipeline of games, including a new metaverse gaming platform, should bode well for sales and profit growth.

**SQM** – is a leading low-cost producer of fertilisers and lithium from the Atacama Desert in Chile. The firm’s low-cost production base has placed it in an enviable position to cater for the growing demand for lithium from battery demand driven by the electronic vehicle boom.

**Petrobras** – the state-owned Brazilian oil and gas company. Despite increasing political pressure to help manage the rising cost of gasoline and diesel, Petrobras continues to benefit from a high oil price which should underpin its strong cashflow generation and generous dividend payments.

**Anta Sports** – is one of the best run banks in Brazil with a leading consumer franchise. Brazil’s proactive approach to tackling inflation has set the foundation for banks like Itaú to return to pre-COVID levels of profitability and loan growth.

### Bottom 5 Holdings Relative to Benchmark:

**JD.com** – operates a Chinese e-commerce platform (rival to Alibaba’s Tmall). The business operates in a highly competitive market which has faced regulatory headwinds in recent years.

**ICBC** – is the world’s largest bank providing a multitude of services to corporate customers and individuals. The Fund maintains a structural underweight to Chinese State-Owned Enterprises, many of which are within the banking and finance sector.

**China Construction Bank** – is one of the “big four” banks in China, offering services to millions of personal and corporate customers. The Fund maintains a structural underweight to Chinese State-Owned Enterprises, many of which are within the banking and finance sector.

**Tencent** – a Chinese technology conglomerate with numerous business units – for example, mobile messaging (WeChat) and video games. The stock is a material proportion of the benchmark, and whilst the Fund does hold some exposure, there are deemed to be better opportunities elsewhere.

**Alibaba** – another Chinese multinational technology company, best known for e-commerce and online payment platforms. The stock is a material proportion of the benchmark, and whilst the Fund does hold some exposure, there are deemed to be better opportunities elsewhere.

### Major Transactions During the Quarter

#### **Purchases:**

**Sinbon Electronics (£5m)** – Sinbon are a Taiwanese manufacturer of electric cables that go into everything from connecting a wind farm to the transmission network or connecting an MRI machine to the power outlet. They have a reputation for reliability and high product quality and as such are now suppliers to 7 of the 10 leading global wind turbine manufacturers. They are set to benefit from structural growth in the connection of renewable energy as generation becomes increasingly fragmented in nature. Their broad customer base and use across different end markets has meant that even in times of economic instability they have managed to grow and generate returns above their cost of capital.

## APPENDICES

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Tesla	0.00	0.41	0.56
Alphabet C	0.00	0.58	0.13
Oracle	0.47	0.16	0.05
Honeywell International	0.51	0.18	0.05
Chevron	0.82	0.40	0.05

**Tesla(u/w)** – deteriorating demand outlook met with negative headlines surrounding the CEO, prompting earnings downgrades and weakening sentiment.

**Alphabet C (u/w)** – continuing headwinds for digital advertising highlighted by what was a third successive quarterly earnings disappointment.

**Oracle (o/w)** – modest valuation gained favour in the current market, and signs that cloud business is gaining traction.

**Honeywell International (o/w)** – well regarded management, broad spread of businesses, some of which are seeing recovery from demand and supply chain issues, attractive in this more challenging environment.

**Chevron (o/w)** – energy sector a performance outlier, projected strong cash flows and balance sheet in face of earnings uncertainty elsewhere.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet A	1.49	0.66	(0.20)
Amazon	1.14	0.93	(0.14)
Vanguard US Mid Cap ETF	2.61	0.00	(0.11)
Exxon Mobil	0.00	0.57	(0.06)
Republic Services	0.30	0.03	(0.05)

**Republic Services (o/w)** – a sharp drop in commodity pricing for wastepaper put pressure on recycling returns.

**Exxon Mobil (u/w)** – large energy sector constituent, the best performing group over the quarter.

**Vanguard US Mid Cap ETF (o/w)** – whilst performing broadly in line with the US benchmark, the mid cap ETF trailed the fund level return.

**Amazon (o/w)** – growth deceleration in web services, margin pressure in retail, broad weakness in large cap technology.

**Alphabet A (o/w)** – continuing headwinds for digital advertising were highlighted by what was a third successive quarterly earnings disappointment.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2022

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

Vanguard US Mid Cap ETF	+2.61
Alphabet A	+0.84
Visa Inc	+0.48
Chevron	+0.42
ConocoPhillips	+0.40
Alphabet C	-0.58
Exxon Mobil	-0.57
Tesla	-0.41
Mastercard	-0.37
AbbVie	-0.36

### Top 5 Holdings Relative to Benchmark:

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

**Alphabet A** – parent company of Google: zero weight in the C shares results in a moderate overweight position overall. Recent derating of the shares affords exposure to high margin digital advertising revenues at a modest valuation.

**Visa Inc** – revenues positively correlated with consumer price inflation, recovery in higher margin cross border revenues.

**Chevron** – preferred integrated oil company, providing diversified exposure to elevated energy prices.

**ConocoPhillips** – well diversified energy exploration and production name with a disciplined approach to generating returns on invested capital.

### Bottom 5 Holdings Relative to Benchmark:

**AbbVie** – patent cliff for leading anti-inflammatory drug creates potential near-term earnings gap.

**Mastercard** – preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, but which trades on a lower valuation.

**Tesla** – accelerating production capacity meets weakening demand, concern around viability of full self-drive capability.

**Exxon Mobil** – integrated energy exposure gained via companies with a better record of ESG engagement.

**Alphabet C** – exposure in A shares results in a moderate overweight exposure to Alphabet overall.

### Major transactions during the Quarter

#### **Purchases:**

**Vanguard Small-Cap Value ETF (£9.3m)** – fund purchased to mitigate portfolio underexposure to Value factor and small cap names.

#### **Sales:**

**S&P Global Inc (£17.6m)** – concern that lean period for debt issuance may weigh on company's ratings business.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Novo Nordisk	1.65	0.89	0.11
TotalEnergies	1.21	0.62	0.09
Siemens	0.85	0.44	0.07
ING	0.58	0.19	0.07
Munich Re	0.61	0.19	0.06

**Novo Nordisk (o/w)** – better than expected earnings and increase in full year guidance, FDA approval of use of existing type 2 diabetes treatment, Victoza, in children, and resolving production issues with key growth product, Wegovy.

**TotalEnergies (o/w)** – benefitted from higher oil and gas prices and an increase in gas sales at elevated spot prices as the region replaced Russian supply and increased gas storage in advance of winter.

**Siemens (o/w)** – significant increase in income due to increased demand for both hardware and software products which facilitated an increase in the dividend.

**ING (o/w)** – expectations of positive impact on net income from rising interest rates and a new share buyback announcement offset lower than expected profits due to one-off adjustments.

**Munich Re (o/w)** – better than expected earnings from the German reinsurer despite adverse impact of Hurricane Ian.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Teleperformance	0.23	0.06	(0.05)
HBM Healthcare	0.23	0.00	(0.04)
Vestas Wind Systems	0.00	0.12	(0.04)
Prosus	0.00	0.24	(0.03)
EssilorLuxottica	0.00	0.23	(0.03)

**EssilorLuxottica (u/w)** – organic growth better than expected for the eyewear company with positive performance coming from the Asia Pacific region.

**Prosus (u/w)** – benefited from rumours of a disposal of part of the Tencent stake and a broader rally in Chinese technology stocks.

**Vestas Wind System (u/w)** – supply chain and logistical issues for the wind turbine manufacturer appear to have peaked and demand conditions are robust as countries increase exposure to renewable sources.

**HBM Healthcare (o/w)** – concerns regarding the valuations of the private portfolio due to weaker equity markets and higher interest rates resulting in a widening of the discount to net asset value.

**Teleperformance (o/w)** – outsourcer impacted by adverse media relating to the working environment at one of the company's offices in Columbia.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2022

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

Novo Nordisk	+0.76
TotalEnergies	+0.59
AXA	+0.45
LVMH	+0.45
Munich Re	+0.41
Zurich Insurance Group	-0.30
Prosus	-0.24
Mercedes-Benz	-0.23
EssilorLuxottica	-0.23
Banco Santander	-0.21

### Top 5 Holdings Relative to Benchmark:

**Novo Nordisk** – strong market position in diabetes treatments with extension of products into obesity treatment.

**TotalEnergies** – shifting away from its core oil business and is now the second largest player in LNG as well as seeking to diversify further into green energy.

**AXA** – trading at a significant discount to key peers, despite having a similar business mix; tilt towards property and casualty (“P&C”) insurance should result in higher cash generation and more stable capital requirements.

**LVMH** – considered the best-in-class company in the sector, a strong management team with a good understanding of the luxury end of the market, and potentially less impacted by a consumer slowdown.

**Munich Re** – one of the largest reinsurers in the world. Skilled underwriting team and prudent reserving policy has insulated the company against adverse market conditions.

### Bottom 5 Holdings Relative to Benchmark:

**Banco Santander** – considered to be one of the weakest banks in the sector with concern over its future direction.

**EssilorLuxottica** – integration risks are the main concern as the new company becomes a one stop shop for eyewear, although the valuation multiple has receded from high levels.

**Mercedes-Benz** – concerns that margins are peaking, and valuation is high relative to peers leaving less room for disappointment.

**Prosus** – concerns over concentrated exposure in its largest investment, Tencent (Chinese technology company) and a management team that is not always considered to be aligned with shareholders.

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

### Major transactions during the Quarter

#### **Purchases:**

**Lonza (£3.2m)** – new holding as the portfolio diversifies away from traditional pharmaceuticals; higher growth rates from Biologics division as more biotech companies look to monetise their drug pipelines; strong balance sheet.

#### **Sales:**

**Novo Nordisk (£4.5m)** – reducing overweight position into strength following recent strong results.

**Zalando (£3.2m)** – full disposal as the company is exposed to high street retailers enhancing their internet offerings.

Note

1) Source: Northern Trust



## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Mitsubishi UFJ Financial	0.43	0.22	0.05
Sumitomo Mitsui Financial	0.35	0.14	0.04
Dai-ichi Life	0.19	0.06	0.03
ITOCHU	0.29	0.12	0.02
Softbank Group Corp	0.32	0.11	0.02

**Mitsubishi UFJ Financial(o/w)** – banks and insurers had a strong performance on the prospects for higher interest rates.

**Sumitomo Mitsui Financial (o/w)** – banks and insurers had a strong performance on the prospects for higher interest rates.

**Dai-ichi Life (o/w)** – banks and insurers had a strong performance on the prospects for higher interest rates.

**ITOCHU (o/w)** – a strong performance from this trading house on the back of good results, upward revision of earnings forecasts, and announcement of share buybacks.

**Softbank Group Corp (o/w)** – despite poor results, share price supported by buybacks, cost cutting, a more cautious investment approach and measures to continue to control debt.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Mitsubishi Estate	0.19	0.04	(0.02)
Daikin Industries	0.27	0.11	(0.02)
Mitsui & Co	0.00	0.12	(0.02)
Ballie Gifford Shin Nippon	0.30	0.00	(0.02)
Asahi	0.18	0.04	(0.02)

**Asahi (o/w)** – a lacklustre quarter driven by cautious outlooks at other brewers and post COVIDreopening delays.

**Baillie Gifford Shin Nippon (o/w)** – some reversal of previous quarter’s strong performance from underlying holdings as markets again adopt a cautious stance; current discount to net asset value provides scope for performance improvement.

**Mitsui & Co (u/w)** – banks and insurers had a strong performance on the prospects for higher interest rates.

**Daikin Industries (o/w)** – results in-line with expectations, but fears of a global recession have hit this maker of air-conditioners and heat pumps.

**Mitsubishi Estate (o/w)** – weak on the prospect of higher interest rates.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2022

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

Ballie Gifford Shin Nippon	+0.30
Mitsubishi UFJ Financial	+0.21
Sumitomo Mitsui Financial	+0.21
Softbank Group Corp	+0.21
Hitachi	+0.20
Daiichi Sankyo	-0.17
Mitsui & Co	-0.12
Honda Motor	-0.11
Mizuho Financial	-0.10
NTT	-0.09

### Top 5 Holdings Relative to Benchmark:

**Ballie Gifford Shin Nippon** – a smaller companies fund, focussed on growth stocks, with strong long-term relative performance.

**Mitsubishi UFJ Financial** and **Sumitomo Mitsui Financial** – exposure to the banking sector is obtained via the larger banks as these are likely to be better managed with improved governance compared to the regional banks.

**Softbank Group Corp** – technology investment company trading at a discount to the sum of the parts; tends to be volatile due to the underlying technology investments and market sentiment.

**Hitachi** – the benefits from restructuring are becoming apparent as the company enters a new growth phase, with a strong balance sheet supporting increased returns for shareholders.

### Bottom 5 Holdings Relative to Benchmark:

**NTT** – preference for KDDI as a purer play in the mobile and broadband sector.

**Mizuho Financial** – exposure to the banking sector through Sumitomo Mitsui Financial and Mitsubishi UFJ Financial.

**Honda Motor** – preference for Toyota – electric vehicle (“EV”) strategy and growth prospects, and Subaru – prospects from collaboration with Toyota, US sales resilience, and possibility of Toyota increasing stake.

**Mitsui & Co** – slight preference for other general trading companies, Itochu and Mitsubishi Corp.

**Daiichi Sankyo** – preference for other names in the health care sector due to the significant volatility of this pharmaceutical stock.

### Major transactions during the Quarter

#### **Purchases:**

**Kansai Electric Power (£1.1m)** – new holding last quarter, increasing exposure to target weight due to potential for a rerating on the restart of more nuclear power production.

#### **Sales:**

**Murata Manufacturing (£8.2m)** – full disposal of holding to reduce portfolio exposure to China; negative view taken on risk of extended COVID related disruption and reduced demand for electronic components.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2022

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
AIA Group	1.17	0.96	0.04
LG Chemical	0.32	0.16	0.02
Samsung Electronics	1.95	1.49	0.02
NCSOFT	0.13	0.04	0.02
Hong Kong Exchanges & Clearing	0.59	0.40	0.02

**AIA Group (o/w)** – recovered following lifting of COVID related restrictions in Hong Kong and expectations for a recovery in China on similar easing of measures.

**LG Chemical (o/w)** – benefitted from strength in its advanced materials division boosted by rising battery materials shipments and higher selling prices.

**Samsung Electronics (o/w)** – expectations that current weakness in the cyclical memory chip market would be bottoming out around mid-2023 and the company's earnings would improve from there.

**NCSOFT (o/w)** – rebounded following weakness earlier in the year due to better than expected earnings driven by higher revenues and lower labour and marketing expenses.

**Hong Kong Exchanges & Clearing (o/w)** – more positive outlook for average trade volumes following the normalisation of economic activity in Hong Kong and expectations of a gradual re-opening in China.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2022

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
James Hardie	0.17	0.06	(0.03)
Downer	0.10	0.01	(0.03)
Hyundai Motors	0.30	0.12	(0.02)
UOB	0.00	0.21	(0.02)
Aristocrat Leisure	0.22	0.10	(0.02)

**James Hardie (o/w)** – earnings downgrade due to deterioration in the repair and remodel business due to falling home prices and falling consumer confidence.

**Downer (o/w)** – earnings downgrade due to wet weather and higher costs affecting its contracting activities and identification of accounting irregularities in its Australian utilities business which had overstated historical earnings.

**Hyundai Motors (o/w)** – undermined by macro concerns affecting expectations of auto volumes going forward in spite of recent positive earnings trends.

**UOB (u/w)** – in a similar fashion to its competitors DBS and OCBC (both in the portfolio), UOB continued to benefit from rising interest rates and ongoing loan growth in a context of stable asset quality.

**Aristocrat Leisure (o/w)** – underperformed due to expectations of rising costs in its land-based gaming operations, lower digital growth guidance and delays in planned i-gaming launches in the US.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2022

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

Samsung Electronics	+0.45
Techtronic Industries	+0.23
CSL	+0.21
AIA Group	+0.21
Goodman	+0.20
Samsung Electronics Prefs	-0.24
UOB	-0.21
Celltrion	-0.10
Shinhan Financial	-0.10
QBE Insurance	-0.10

### Top 5 Holdings Relative to Benchmark:

**Samsung Electronics** – exposed to structural growth in the memory chip market; the group also has a diversified earnings stream and large shareholder return potential; the overweight in the ordinary shares is partly offset by not owning the preference shares.

**Techtronic Industries** – technology leading focus on cordless power tools market should lead to improving margins and market share as global penetration increases due to innovative products with increasing ease of use and a focus on the professional market in the US.

**CSL** – Australian pharmaceutical company which is the global leader in plasma collection and production of Immunoglobulin G (IG), the most common type of human antibody, supported by a technological edge and the highest margins in an oligopolistic industry.

**AIA Group** – best-in-class provider of insurance and financial services with a strong distribution franchise in Asia Pacific and sizeable potential for growth in the underpenetrated Life Insurance market in China.

**Goodman** – largest Australian developer with a focus and strong expertise on commercial and industrial property group that could continue enjoying earnings growth supported by strong structural demand for modern logistics and warehouse space.

### Bottom 5 Holdings Relative to Benchmark:

**QBE Insurance** – preference for Insurance Australia Group given its higher returns profile.

**Shinhan Financial** – although very similar, the Fund prefers KB Financial Group given its slightly more diversified and resilient business model and higher dividend pay-out ratio.

**Celltrion** – position was exited in early 2022 as reports of accounting regularities emerged as well as concerns over the deteriorating competitive dynamics in the biosimilars space in pharmaceuticals.

**UOB** – preference for other Singaporean banks with stronger capital positions.

**Samsung Electronics Prefs** – the portfolio is overweight Samsung Electronics overall via the more liquid Ordinary shares.

### Major transactions during the Quarter

There were no transactions during the quarter.

Note

1) Source: Northern Trust

## Market Background at 31 December 2022

The angst that gripped markets through the latter part of the third quarter continued into October as bond yields continued to rise and equity markets fell to new lows. Labour markets remained resilient and central bank rhetoric largely hawkish. As the fourth quarter progressed though, data helped firm the conviction that the global economy was slowing which was also impacting the US.

Despite the official Fed position remaining strongly aligned with an extended rate hiking cycle, bond markets began to factor in a peak in inflation and interest rates and US 10-year yields moved back below 4% having peaked at 4.2% in late October. The recovery in bond markets helped equity markets to recover but investor nervousness remains due to a potential recession-induced hit to earnings.

We appear to have moved from a phase in recent years where all news was good news, to one where any news is potentially bad news for equities – whether it is strength in the economy necessitating further rate increases, or weaker growth threatening earnings. Thus, markets are being kept in a nervous holding pattern – the prospect of lower inflation due to normalised supply chains, lower commodity price pressures and improving labour markets offset by the inflationary impact of a resumption of growth in China and central banks overdoing interest rate increases and precipitating a deeper recession.

Equity markets eked out a small positive return in sterling terms over the quarter, with most trading in a relatively narrow range as volatility declined somewhat. The MSCI ACWI index returned 0.6% during the quarter in sterling terms, but a much healthier 9.4% in dollar terms as the dollar retreated from the multi-year highs reached at the end of September. European (+11.7%) and UK (+8.9%) markets were the strongest major developed markets during the quarter whereas the US (-0.3%) was the weakest. Emerging and Developed market returns were broadly similar, although China did post stronger returns than broader indices once the prospect of an end to zero-Covid began to be priced in.

At the sector level consumer discretionary stocks were weakest following outperformance in the previous quarter. The squeeze from higher inflation and higher mortgage interest

payments across most major economies is expected to depress consumer spending and put pressure on earnings for the sector. Communications stocks were also weak, as several of the larger constituents of the sector such as Google and Facebook continued to experience weaker than expected advertising revenues. Energy and Materials stocks were strong, despite some softening in commodity prices, due to substantial free cash flow generation, attractive valuations and tailwinds from the energy transition. Industrial stocks were also strong offering more cyclical appeal than consumer stocks, with some also considered beneficiaries of the energy transition.

Europe has been the most severely impacted by the energy crisis both in terms of inflation but also the impact on corporate profitability and government finances. A mild start to the winter has softened the expected impact but energy costs remain significantly higher than pre-crisis and there are concerns over storage levels next winter in the absence of Russian supply. This has profound implications for the European economy and Germany's industrial sector and will necessitate a substantial adjustment to the structure of the economy. Equity valuations seem attractive in Europe but significant uncertainty remains.

In the UK, there has been a restoration of calm within financial markets following the elevation of Rishi Sunak to Prime Minister and the reversion to less controversial fiscal policy. The Bank of England has been criticised for not being sufficiently hawkish but given the combination of higher mortgage rates, higher taxes, higher energy costs and disruption caused by industrial action are already substantially impacting the economy the Bank's stance might be understandable. Wage inflation is a threat, but if it represents more of a one-off adjustment to redress some of the squeeze in living standards rather than a lasting impact of a tight labour market, then the Bank's more measured approach may well be appropriate. The UK does seem to have a structural issue with its labour force where the size of the labour force has not recovered to pre-Covid levels in the same way it has in other Western economies, and this is going to act as a brake on growth until addressed. Valuations are very attractive but the labour force issue is but one of many needing a solution.

Note

1) Source: Border to Coast

## Market Background at 31 December 2022

In the US, the approval of the Inflation Reduction Act, and recent passage of the CHIPS bill, seem to offer some grounds for optimism for capital spending and the industrial base in the US over the medium term. This is partly offset by a lax fiscal position which a country without the benefit of having the world's reserve currency would struggle to sustain, but which will have to be addressed at some point. Of more immediate concern though is whether the Fed go too far in interest rate hikes deepening the impending recession. The labour market does not appear as strong as initial data had suggested and greater capital discipline from technology companies is resulting in large workforce reductions. Increases in mortgage rates have already had a severe impact on activity in the housing market which will continue to feed through to the broader economy. However, there is enough ambiguity in economic data to satisfy the Fed policymakers that they need to keep raising interest rates, and they appear to favour raising by too much rather than too little.

The end of zero-Covid policy in China has prompted a rally in its equity market and provided support more broadly to global markets. The increase in infections, and unfortunate increase in mortality, will stymie economic growth in the near term and potentially create some political turbulence, though Xi's position following his re-election for a third term seems unassailable. Relations with the US have settled a little in recent weeks, but tensions over China's support of Russia and own intentions towards Taiwan remain a source of potential volatility, and the process of de-globalisation which Covid and geopolitical considerations have instigated do not make Xi's intentions to re-shape the Chinese economy any easier to fulfil.

After a period of prolonged and unprecedented monetary stimulus which has concluded with a global pandemic and major conflict, it is little wonder most major economies are confronted with multiple challenges which will need to be addressed in the coming years. The overhang of these issues raise doubt over the future trajectory of markets which will be compounded by the onset of monetary tightening by central banks. Market cycles are normally relatively short, with bear markets measured in months rather than years. It is also rare for two consecutive, markedly negative years of performance to occur, and for both

equity and bond markets to produce the scale of negative returns they did in 2022, which provides some optimism for 2023.

Note

1) Source: Border to Coast



## Border to Coast News

### People:

- Our new Chief Investment Officer (CIO), Joe McDonnell formally joined us this month. He has previous leadership roles at Neuberger Berman and Morgan Stanley, and has extensive experience working alongside LGPS and pension funds. We would like to thank John Harrison for all his support as Interim CIO and look forward to his continued support as an Investment Advisor.
- Cllr David Coupe, Chair of Teesside Pension Fund, joined our Board as a Partner Fund nominated Non-Executive Director following the end of Cllr Anne Walsh's two-year tenure. Anne has been a committed and trusted Board member and we thank her for her dedication to the role.
- We have strengthened our Responsible Investment team with the appointment of Colin Baines as Stewardship Manager. He joins us from Friends Provident Foundation where he was the Investment Engagement Manager for six years. With 20 years' experience of working in responsible investment and ESG, Colin will be a huge asset to all of us.

### Investment Funds:

- In November we began our search for a high-quality third-party manager to support our UK Real Estate proposition. This is an important milestone in the development of this capability, which is expected to launch in 2024 and will be the final significant building block to help Partner Funds in implementing strategic asset allocations.
- A crucial component of our net zero roadmap is investment into solutions that support the energy transition. We recently announced a €100m commitment to the Clean Hydrogen Infra Fund, the world's first and largest fund focused on investments in clean hydrogen assets.

### Responsible Investment:

- In September we published our Net Zero Implementation Plan. This important document is the result of months of work, with support from our Board, Partner Fund officers and the Joint Committee. The result is a target-driven plan detailing how we will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce our carbon footprint.

- Our Net Zero Implementation Plan, has been approved by the Net Zero Asset Managers initiative. The plan is aligned with the global goals of the Paris Agreement and follows the Net Zero Investment Framework (NZIF) set by the Institutional Investors Group for Climate Change (IIGCC).
- We were pleased to have the opportunity to feedback on DLUHC's proposals on reporting of climate change risk in the LGPS. Having produced TCFD reports since 2019, we made a submission on how this important agenda can be taken forward.
- Following their annual review, our Responsible Investment Policy, Voting Guidelines and Climate Change Policy have been published. Updates include increased scrutiny of companies' management of climate, diversity and human rights.
- We recently received the delayed Principles for Responsible Investment assessment for the year to 31 March 2021. The scores were significantly above the median, with either four or five-star ratings for all modules. It is difficult to compare to previous years due to a change in methodology, however we believe they are broadly consistent with 2020.

### Other News:

- We won the Industry Contribution to Diversity and Inclusion Award at Investment Week's annual Women in Investment Awards 2022, against a very impressive shortlist (which included HSBC and Fidelity).
- We were also named Pool of the Year at the LAPF Investment Awards 2022, the third time in four years that we have won the accolade. We were also awarded Best Approach to Responsible Investment (RI). This recognises the work, led by Jane Firth and her team, to strengthen our policies and processes, and their continued work to ensure we use the strength of our collective voice to influence change.

## 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.

### Fund List and Inception Dates

Fund	Inception Date
Border to Coast UK Listed Equity	26/07/2018
Border to Coast Overseas Dev Markets	26/07/2018
Border to Coast Emerging Markets Equity	22/10/2018
Border to Coast UK Listed Equity Alpha	14/12/2018
Border to Coast Global Equity Alpha	24/10/2019
Border to Coast Sterling Investment Grade Credit	18/03/2020
Border to Coast Sterling Index-Linked Bond	23/10/2020
Border to Coast Multi Asset Credit	11/11/2021
Border to Coast Listed Alternatives	18/02/2022