



# Teesside Pension Fund

## Quarterly Investment Report - Q1 2023

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# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£2,402,615,792
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£94,380,355
Value at end of the quarter	£2,496,996,147

Over Q1 2023, Teesside's holdings performed as follows:

- The UK Listed Equity Fund outperformed its benchmark by 0.05%
- The Overseas Developed Markets Equity Fund underperformed its benchmark by 0.12%
- The Emerging Markets Equity Fund outperformed its benchmark by 0.58%

Teesside made no subscriptions or redemptions during Q1 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.
- 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 March 2023

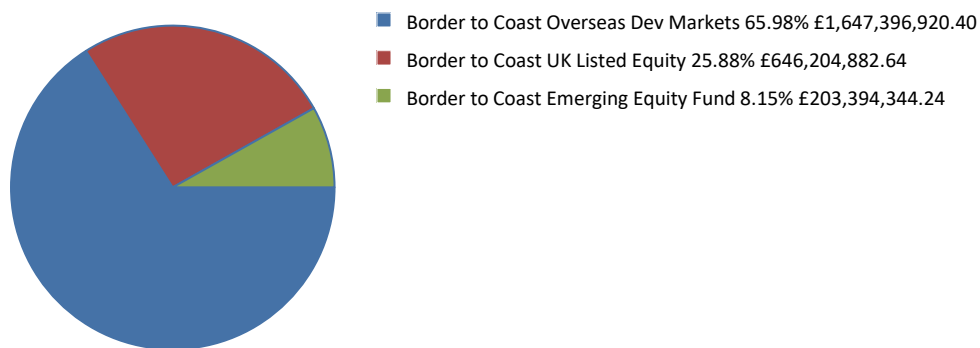
### Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	646,204,882.64	25.88
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	1,647,396,920.40	65.98
Border to Coast Emerging Equity Fund	EM Equity Fund Benchmark	203,394,344.24	8.15

### 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 March 2023

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	25.88	3.13	3.08	0.05	0.80
Border to Coast Overseas Dev Markets	65.98	4.66	4.78	(0.12)	3.05
Border to Coast Emerging Equity Fund	8.15	0.73	0.14	0.58	0.08
<b>Total</b>	<b>100.00</b>	<b>3.93</b>			

The UK Listed Equity Fund returned 3.13% over the quarter, which was 0.05% ahead of the FTSE All Share Index.

The Overseas Developed Markets Equity Fund returned 4.66% over the quarter, which was 0.12% behind the composite benchmark.

The Emerging Markets Equity Fund returned 0.73% over the quarter, which was 0.58% ahead of the FTSE Emerging Markets.

Overall, Teesside's investments with Border to Coast returned 3.93% during Q1 2023.

### 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 March 2023

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	626,597,497.75	26.08			19,607,384.89	646,204,882.64	25.88
Border to Coast Overseas Dev Markets	1,574,094,816.16	65.52			73,302,104.24	1,647,396,920.40	65.98
Border to Coast Emerging Markets Equity	201,923,478.41	8.40			1,470,865.83	203,394,344.24	8.15
<b>Total</b>	<b>2,402,615,792.32</b>	<b>100.00</b>			<b>94,380,354.96</b>	<b>2,496,996,147.28</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 March 2023

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	4.34	3.38	0.96	3.13	3.08	0.05	4.97	2.92	2.05	14.14	13.81	0.33	--	--	--
Border to Coast Overseas Dev Markets	8.83	7.56	1.27	4.66	4.78	(0.12)	2.45	0.87	1.58	16.93	15.52	1.42	--	--	--
Border to Coast Emerging Markets Equity	2.75	4.56	(1.81)	0.73	0.14	0.59	(3.52)	(4.29)	0.77	6.53	9.11	(2.58)	--	--	--

### 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 March 2023

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	4.35	3.38	0.97	3.13	3.08	0.05	4.98	2.92	2.06	14.15	13.81	0.34	--	--	--
Border to Coast Overseas Dev Markets	8.84	7.56	1.29	4.66	4.78	(0.12)	2.46	0.87	1.59	16.94	15.52	1.43	--	--	--
Border to Coast Emerging Markets Equity	2.90	4.56	(1.66)	0.79	0.14	0.65	(3.28)	(4.29)	1.01	6.74	9.11	(2.36)	--	--	--

### 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 March 2023

### UK Listed Equity Fund

The fund generated a total return of 3.13% during the quarter, compared to the benchmark return of 3.08%, resulting in 0.05% of outperformance.

The Fund benefited from the following factors:

- Stock selection in Consumer Discretionary including overweight positions in Easyjet and Flutter, while not holding Entain;
- Stock selection in Basic Materials with overweight positions in Antofagasta and BHP and an underweight position in Glencore have all contributed positively; and
- Stock selection in Energy with a preference for Shell relative to BP.

This was partly offset by the following:

- Stock selection in Technology where NCC (overweight) issued a profit warning at the end of the quarter.
- Stock selection in Financial Services where 3i Group (not held) outperformed and Biotech Growth Trust (overweight) underperformed.
- Overweight Common Stock Funds where UK smaller company funds underperformed the wider market.

Note

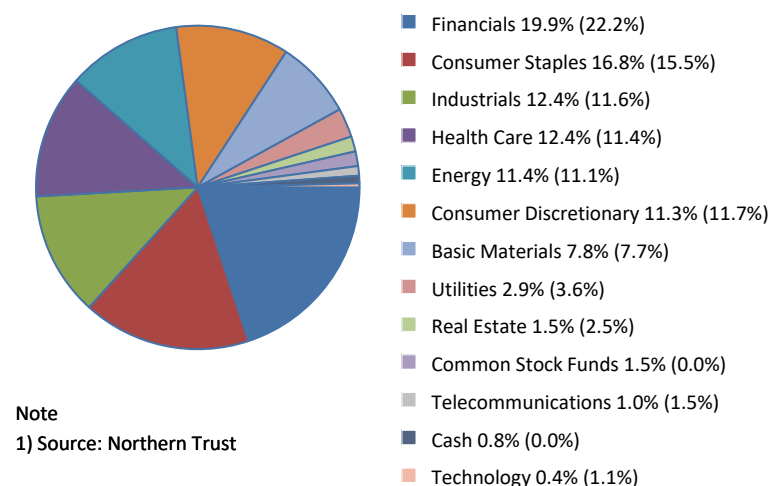
1) Source: Border to Coast

# Border To Coast UK Listed Equity Fund at 31 March 2023

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

Common Stock Funds	+1.46
Consumer Staples	+1.27
Health Care	+1.02
Industrials	+0.76
Energy	+0.28
Financials	-2.33
Real Estate	-0.98
Utilities	-0.75
Technology	-0.65
Telecommunications	-0.55

## 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. While UK small caps have underperformed the wider market over the past year, over longer periods they typically benefit from stronger growth potential with the funds delivering long term outperformance.

**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.

**Healthcare (o/w)** – an ageing and growing global demographic, greater incidence of chronic health conditions, and increasing ability of emerging market populations to fund modern healthcare help drive above-GDP growth in global healthcare spending. Sector benefits from pricing power and barriers to entry (e.g. patent protection/drug approval process).

**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 underweight in investment trusts and Asian-focused banks (US-China relations remain strained), as well as 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 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Glencore	1.89	(15.92)	2.51	(15.89)	0.15
easyJet	0.44	59.71	0.14	59.70	0.11
Melrose Industries	0.76	24.90	0.29	24.93	0.09
Flutter Entertainment	1.49	29.66	1.10	29.58	0.09
John Wood Group	0.27	48.70	0.06	47.98	0.08

**Glencore PLC (u/w)** – increasing global macro headwinds, and in particular weaker thermal coal prices, together with concerns over the potential impact on Glencore’s trading division from uncertainty in the global banking sector, combined to weigh on the shares.

**EasyJet PLC (o/w)** – resilient consumer and recovering demand for air travel post Covid continues to drive pricing and capacity growth, with the recently launched “EasyJet holidays” also experiencing strong growth.

**Melrose Industries PLC (o/w)** – as the demerger of the automotive and powder metallurgy divisions approaches, shares have responded well to improving momentum and profitability in the aerospace division, with an improving outlook in both commercial and defence aerospace markets.

**Flutter Entertainment PLC (o/w)** – company continues to gain significant market share in US online sports betting and gaming, remaining on track for breakeven in the US in 2023; the share price also reacted well to the announcement that management are considering an additional US listing.

**John Wood Group PLC (o/w)** – company disclosed it has rejected several all-cash offers from private equity firm Apollo, with the deadline to make a formal offer extended to mid-April allowing for further discussions.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Rolls Royce	0.00	0.00	0.53	59.89	(0.19)
NCC	0.15	(48.44)	0.01	(48.46)	(0.14)
3i Group plc	0.00	0.00	0.69	25.61	(0.12)
Biotech Growth Trust	0.43	(15.32)	0.01	(15.44)	(0.09)
BT	0.00	0.00	0.43	30.12	(0.06)

**BT Group PLC (u/w)** – exited during the quarter. Despite the deteriorating outlook for the business, including increased competition from alternative network providers, diminishing returns from elevated capex, and pricing concerns, the share price continued to rally from its lows at the start of the year.

**Biotech Growth Trust PLC (o/w)** – interest rate cycle has continued to weigh on biotechnology growth stocks, particularly smaller cap stocks (where the trust is focused) in a risk-averse environment.

**3i Group PLC (u/w)** – not held. Action, the European discount retailer which accounts for over half of the net asset value, has performed ahead of expectations since the start of the year.

**NCC Group PLC (o/w)** – profit warning as cyber assurance division sees order delays and cancellations, principally from large US tech companies as they adjust staffing levels, and from the banking sector amid uncertainty post the SVB bank collapse.

**Rolls Royce Holdings PLC (u/w)** – not held. Full year results demonstrated a faster than anticipated recovery in air traffic/engine hours towards the end of the year, partly driven by the rapid relaxation of covid restrictions in China.

Note

1) Source: Northern Trust & Border to Coast

# Border To Coast UK Listed Equity Fund at 31 March 2023

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

Impax Environmental Markets	+0.92
Schroder UK Smaller Companies Fund	+0.75
Liontrust UK Smaller Companies	+0.70
Shell	+0.51
Herald Investment Trust	+0.50
3i Group plc	-0.69
Glencore	-0.62
NatWest	-0.61
Rolls Royce	-0.53
Bunzl	-0.44

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.

**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.

**Herald Investment Trust PLC** – specialist investment trust focussed on smaller quoted companies in telecommunications, multimedia and technology, with a global investment mandate. Long track record of outperformance with impressive investment team.

## Bottom 5 Holdings Relative to Benchmark:

**Bunzl PLC** – sales which had been boosted through Covid, such as sales of disposable personal protection equipment, facing significant post-Covid headwinds.

**Rolls-Royce Holdings PLC** – recently exited holding on uncertainty over the recovery profile of long-haul air travel post-Covid lockdown relative to that of short-haul, and the associated demand for wide-bodied engines and engine flying hours.

**NatWest Group PLC** – UK-focussed retail and commercial bank, with the UK government as a significant shareholder. The increased risk of the UK entering recession may impact provisioning, surplus capital and shareholder distributions.

**Glencore PLC** – historically a higher risk commodity company with significant operations in geographies with weaker governance and thermal coal exposure higher than peers.

**3i Group PLC** – global private equity investor with a highly concentrated investment portfolio. Approximately 60% of the current net asset value is invested in a single asset, Action, a European discount retailer.

## Major transactions during the Quarter

### **Purchases:**

**Admiral Group PLC (£5.0m)** – de-rating of shares enabled initiation of a position in the UK's leading non-life insurance operator.

**Spirent Communications PLC (£4.6m)** – leading telecoms equipment testing company benefiting from the roll out of complex 5G networks and equipment. Software sales growth continues to dilute hardware sales, improving the quality of earnings.

### **Sales:**

**BT Group PLC (£13.9m)** – exited holding. Combination of rising capex requirements and increased competition from alternative network providers, while retail pricing increases appear unsustainable. Pension deficit remains significant in relation to market cap.

# Border To Coast Overseas Developed Markets Equity Fund - Overview at 31 March 2023

## Overseas Developed Markets Fund

The Fund generated a total return of 4.66% during the quarter compared to the composite benchmark return of 4.78% resulting in 0.12% of underperformance.

The Fund has navigated the volatility in markets, with differing regions showing strength and weakness at differing times. With interest-rate sensitive financials and real estate under pressure globally, certain cyclical sectors have continued to show strength, while the performance of classic defensive sectors like consumer staples and healthcare has been more mixed. Earnings expectations have remained relatively firm but are likely to move lower if the economy slows meaningfully.

The key driver of underperformance was in the US where a pronounced rally in lower quality, cyclical stocks in the first half of the quarter hurt relative performance of high-quality stocks favoured by the Fund. Weaker stock selection in Consumer Discretionary and Industrials was also a detractor.

This has been partly offset by:

- Strong stock selection in Asia Pacific ex-Japan and Europe.
- Strong stock selection in Technology, Financials, and Materials.
- Underweight in Real Estate.

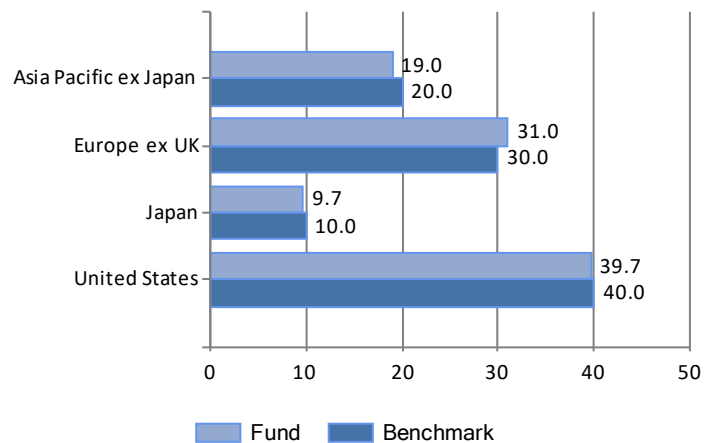
The Fund has a relatively low risk profile which is driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle to upper end of the targeted tracking error range of 1 – 4%. It is unlikely that there will be material changes to portfolio 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 March 2023

### 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

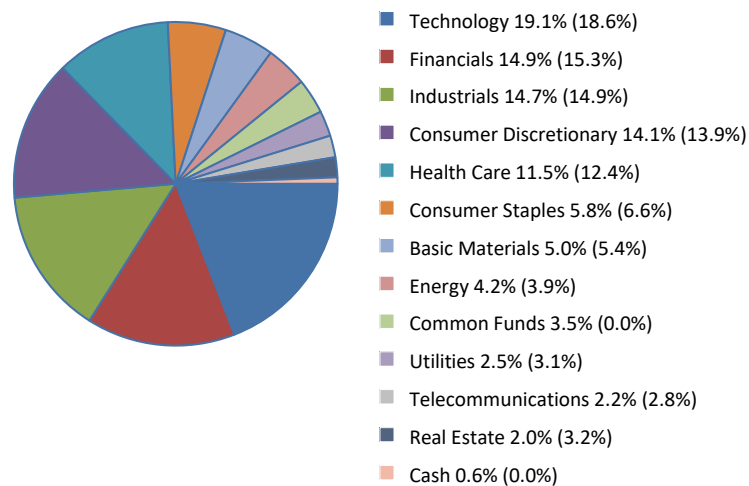
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
<b>Overseas Developed Equity Fund</b>	<b>8.83</b>	<b>7.56</b>	<b>1.27</b>	<b>4.66</b>	<b>4.78</b>	<b>(0.12)</b>	<b>2.45</b>	<b>0.87</b>	<b>1.58</b>	<b>16.93</b>	<b>15.52</b>	<b>1.42</b>
United States	11.92	10.95	0.97	2.87	4.45	(1.58)	(1.47)	(2.25)	0.78	18.81	18.16	0.65
Japan	4.55	2.83	1.72	3.58	3.12	0.46	(0.45)	1.52	(1.97)	9.72	7.54	2.18
Europe ex UK	7.80	6.39	1.40	9.53	8.68	0.86	12.21	7.64	4.57	17.39	15.13	2.26
Asia Pacific ex Japan	5.61	4.16	1.45	1.17	0.43	0.74	(3.64)	(3.86)	0.22	15.12	13.85	1.28

#### 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 March 2023

## Sector Portfolio Breakdown



## Overseas Developed Markets Fund

### Sector Weights:

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

**Technology (o/w)** – high relative exposure in Europe and Pacific ex-Japan, along with full allocations in the US and Japan, based on long term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips, the continued transition towards cloud-based services and change in software business models to long term subscription revenues.

**Energy (o/w)** – 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.

**Real Estate (u/w)** – high leverage leaves the sector exposed in a rising interest rate environment; longer-term concerns around impact of home/flexible working on the longer-term demand for office space.

**Health Care (u/w)** – despite favourable longer-term growth characteristics, reduced exposure to Covid-beneficiaries whose valuations no longer reflect fundamentals.

**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.

### 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 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
NVIDIA Corporation	1.26	84.88	0.80	84.94	0.20
Alphabet A	1.71	14.37	0.72	14.38	0.08
Renesas Electronics	0.24	55.78	0.05	55.94	0.08
LVMH	1.32	22.87	0.87	23.00	0.07
Charles Schwab	0.00	0.00	0.09	(38.66)	0.07

**NVIDIA Corp (o/w)** – significant rerating driven by emerging opportunity in generative AI and large language models, with quarterly results indicating that this is already driving incremental sales.

**Alphabet Inc Class A (o/w)** – indications that digital advertising sales are stabilising, generally supportive market for large cap technology names.

**Renesas Electronics (o/w)** – positive reaction to strong results, above consensus guidance, and share buyback announcement.

**LVMH Moet Hennessy Louis Vuitton SE (o/w)** – the luxury goods maker benefited from faster-than-expected relaxation in Chinese lockdown at the beginning of the year.

**Charles Schwab Corp (u/w)** – investor concern around mark-to-market risks for fixed income securities on the balance sheet.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Tesla	0.00	0.00	0.65	63.85	(0.23)
Vanguard US Mid Cap ETF	2.86	0.86	0.00	0.00	(0.11)
ConocoPhillips	0.50	(17.30)	0.14	(17.59)	(0.09)
CVS Health Corp	0.37	(21.83)	0.11	(22.05)	(0.08)
Dollar General	0.34	(16.83)	0.05	(16.85)	(0.08)

**Tesla Inc (u/w)** – strong bounce from depressed levels on regulatory tail winds and confidence that recent price cuts will drive a strong demand response.

**Vanguard Mid-Cap ETF (o/w)** – weakness in March due to regional bank exposure, and market concerns that second order effects of the banking situation will weigh disproportionately on smaller companies.

**ConocoPhillips (o/w)** – predominately unhedged exposure to weakening energy prices.

**CVS Health Corp (o/w)** – large acquisition (Oak Street Health) underlines significant extent to which the company needs to invest behind its evolving business model.

**Dollar General Corp (o/w)** – consecutive quarters of gross margin pressure a challenge to investor faith in management's usual operational assurance.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund at 31 March 2023

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

Vanguard US Mid Cap ETF	+2.86
Alphabet A	+0.99
Novo Nordisk	+0.72
Visa Inc	+0.57
Microsoft	+0.50
Tesla	-0.65
Alphabet C	-0.63
Exxon Mobil	-0.53
Mastercard	-0.36
AbbVie	-0.33

### Top 5 Holdings Relative to Benchmark:

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

**Alphabet Inc Class A** – parent company of Google: zero weight in the C shares nets out to a moderate overweight position overall. Recent de-rating of the shares allows for exposure to high margin digital advertising revenues at a modest valuation.

**Novo Nordisk** – strong market position in type 2 diabetes treatment and extension of product line into obesity treatment.

**Visa Inc Class A** – revenues positively correlated with inflation, exposed to post-pandemic recovery in cross border transactions.

**Microsoft** – structural growth from Azure cloud hosting business and migration of Business Office to MS 365 online, with associated opportunity for value-added sales, including company's emerging capability in generative AI.

### Bottom 5 Holdings Relative to Benchmark:

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

**Mastercard Inc Class A** – preference for Visa, the other global payment network company due to relative valuation.

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

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

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

Note

1) Source: Northern Trust

## Summary of Performance - Funds (Net of Fees) Border to Coast Emerging Markets Equity Fund at 31 March 2023

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	2.75	4.56	(1.81)	0.73	0.14	0.59	(3.52)	(4.29)	0.76	EM Equity Fund Benchmark <sup>3</sup>
Border to Coast	0.78	2.02	(1.25)	1.83	(0.72)	2.55	(3.91)	(6.62)	2.71	FTSE Emerging ex China (Net)
FountainCap	(17.38)	(16.72)	(0.65)	(1.54)	1.75	(3.29)	(1.80)	0.41	(2.21)	FTSE China (Net)
UBS	(18.62)	(16.72)	(1.90)	(0.45)	1.75	(2.20)	(2.94)	0.41	(3.35)	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 March 2023

### Emerging Markets Equity Fund

It is hard to remember a recent quarter without a major market event. Q1 2023 was no different. High profile banking collapses (SVB and Credit Suisse) damaged sentiment and caused volatility in certain sectors to spike. In emerging market equities specifically, top billing went to the share price collapse of the Adani group of companies following allegations of major corporate fraud. Despite such events, global equity markets gained ground over the quarter as global recession fears eased somewhat.

Performance was mixed across the major emerging markets. India underperformed as sentiment soured and economic data came in below expectations. Brazil also underperformed, with politically driven riots and softening economic data weighing on returns. Chinese markets were positive, but softer as the quarter went on. Taiwanese equities performed well as global growth fears eased.

Against this backdrop, the Fund outperformed the benchmark by 0.6%. On a since inception to date basis, however, the Fund remains well behind benchmark (underperforming by 1.8% per annum).

Looking through to the underlying mandates, the internally managed emerging markets ex. China portfolio had a strong quarter, outperforming its benchmark by 2.6%. Key contributors were stock selection in Industrials (no Adani holdings) and Consumer Staples (ITC), as well as being overweight Technology and underweight Utilities.

Despite China outperforming at the benchmark level, the Fund's China specialists underperformed, delivering negative absolute performance. The aggregate allocation finished the quarter 2.7% behind benchmark (which was up ~2%). Neither manager fared particularly well, with UBS ~2% behind and Fountain Cap ~3% behind. UBS' overweight to NetEase and underweight to JD.com were key contributors, but were offset by holdings in China Merchants Bank, CSPC Pharmaceutical and Chinasoft. With Fountain Cap, strong performance from Anta Sports and PetroChina was again more than offset by having no Alibaba exposure and an underweight to Tencent.

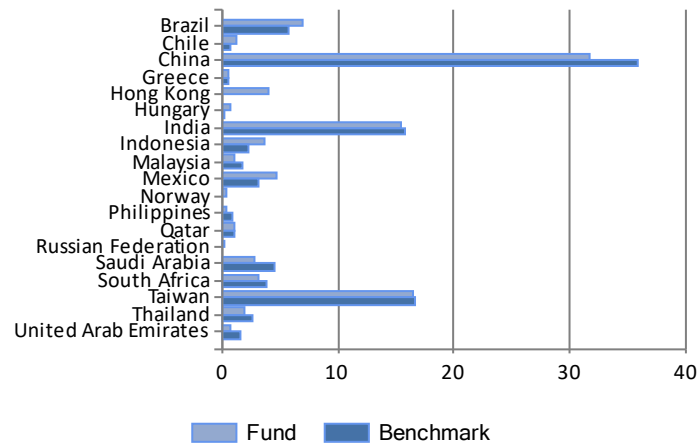
Whilst global recession fears may be subsiding, the impact of higher interest rates is yet to be fully understood. The collapse of high-profile names like SVB and Credit Suisse highlights that pockets of risk exist in markets, with weak companies likely to be found out. Stock selection is as important as it has ever been. In emerging markets, we expect large regional dispersions to continue as economies continue to solve growth and inflation puzzles. Overall, 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

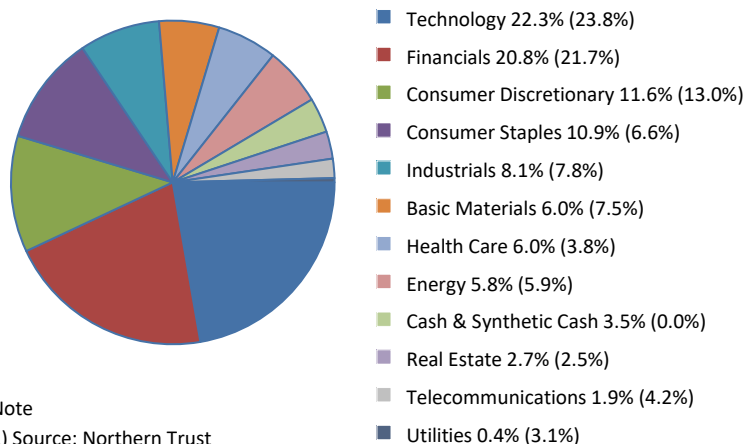
1) Source: Border to Coast

# Border to Coast Emerging Markets Equity Fund at 31 March 2023

## Regional Breakdown



## Sector Portfolio Breakdown



Note

1) Source: Northern Trust

## 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 (particularly 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.

**Real Estate (o/w)** – the Fund is marginally overweight in the Real Estate sector; a small (~2.5%) sector within the universe. Exposure is primarily in China, to high quality developers and service providers that are well placed to weather the current storm and come out stronger on the other side.

**Technology (u/w)** – the Fund is exposed to a range of businesses that fall under the Technology sector, for example, semiconductors, electronic cabling and connectors, solar energy products and IT services. The underweight position is driven primarily by an underweight exposure to the Chinese online giants Tencent, Baidu and Pinduoduo.

**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 balances sheets in markets with solid growth prospects.

**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.

## Border to Coast Emerging Markets Equity Fund Attribution at 31 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Grupo Mexico	1.60	31.04	0.24	32.41	0.27	Basic Materials	Mexico
Netease	2.03	17.42	0.52	16.91	0.26	Consumer Discretionary	China
Adani Total Gas	0.00	0.00	0.05	(76.99)	0.16	Industrials	India
ITC	1.61	14.66	0.22	14.55	0.16	Consumer Staples	India
JD.com	0.32	(24.39)	0.83	(24.44)	0.16	Consumer Discretionary	China

### Positive Issue Level Impacts

**Grupo Mexico (o/w)** – the Mexican conglomerate, which is primarily driven by its copper assets, rebounded from oversold levels, assisted by a strengthening of the copper price.

**NetEase (o/w)** – the Chinese internet technology company had a strong quarter (up ~20%) with solid underlying business performance and successful new game launches boosting optimism about NetEase's 2023 game release pipeline.

**Adani Total Gas (u/w)** – the Indian gas distribution company, part of the wider Adani Group of companies, sold-off materially (~80%) in the quarter following a report from short-seller Hindenburg which included serious allegations of corporate fraud. The Fund has no exposure to Adani companies.

**ITC (o/w)** – the Indian conglomerate, with operations focused on fast moving consumer goods rose after delivery of significantly better than expected earnings, which were the result of solid market share progression in the cigarette business and better margins in the food business.

**JD.com (u/w)** – shares of the Chinese e-commerce company fell some 25% in Q1 2023, as management guided to lower than expected shorter term growth. The Fund is underweight the stock.

#### 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 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Tencent	3.40	17.17	4.74	17.64	(0.22)	Technology	China
Anglo American Platinum	0.59	(34.82)	0.05	(35.84)	(0.18)	Basic Materials	South Africa
Alibaba	1.80	10.96	3.02	12.60	(0.18)	Consumer Discretionary	China
Baidu	0.00	0.00	0.68	28.77	(0.15)	Technology	China
Petronas Chemicals	0.00	(20.01)	0.07	(18.33)	(0.11)	Basic Materials	Malaysia

### Negative Issue Level Impacts

**Petronas Chemicals (o/w)** – the Malaysian chemicals company declined on concerns that feedstock costs will rise post the upcoming negotiation with its parent company Petronas.

**Baidu (u/w)** – operates a Chinese internet search engine (think Google in China). The stock had a strong quarter, building on momentum that started following the conclusion of the National Congress of the Chinese Communist Party in late October 2022. The Fund has no exposure to Baidu.

**Alibaba (u/w)** – the Chinese multinational technology company finished the quarter strongly as investors reacted positively to news that the business would be splitting into six independent business units. The Fund is underweight Alibaba, which has been beneficial since restructure (April 2021) as the Alibaba share price has fallen by more than 50%.

**Anglo American Platinum (o/w)** – the share price declined on general concern about power shortages in South Africa, as well as company specific lower than expected mining grades, which management signalled will return to normal levels in 12 to 18 months.

**Tencent (u/w)** – a Chinese technology conglomerate with numerous business units – for example, mobile messaging (WeChat) and video games. Like with Baidu, Tencent shares continued higher in Q1 2023 as regulatory fears began to ease with attention turning towards reopening and shorter-term economic growth prospects. Underlying business performance has been strong with management positive on consumption behaviour in China.

#### 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 March 2023

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

Kweichow Moutai	+2.76
Netease	+1.51
ITC	+1.39
Grupo Mexico	+1.36
Banorte	+1.19
Tencent	-1.35
Alibaba	-1.22
China Construction Bank	-0.97
Baidu	-0.68
ICBC	-0.67

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** – 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.

**ITC** – ITC's portfolio of consumer staple brands and powerful distribution capability provides broad exposure to the consumer in India. The cigarette business is benefiting from more rational excise duties, thus taking back market share from the informal market, and the foods business has a positive outlook given operational leverage opportunities.

**Grupo Mexico** – Grupo Mexico's copper assets, via its majority ownership of Southern Copper Corp, are highly cash generative long life copper mines, providing the portfolio high quality exposure to the commodity. The Mexican holding company trades at a significant discount to US listed Southern Copper Corp.

**Banorte** – one of the leading universal banks in Mexico, with a strong digital offering and high profitability. The bank is leveraging the relative strength of the Mexican economy, in large part thanks to the growth of the "near-shoring" export sector, which provides an attractive growth outlook for the bank. The valuation is attractive given the prospects.

### Bottom 5 Holdings Relative to Benchmark:

**Industrial and Commercial Bank of China** – 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.

**Baidu** – operates a Chinese internet search engine (think Google in China). The Chinese internet sector continues to remain under pressure (from regulation) and, for Baidu in particular, a slow recovery in advertising revenue could constrain any upside from other business units (e.g. autonomous driving).

**China Construction Bank** – 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.

**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.

**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.

### Major Transactions During the Quarter

#### **Sales:**

**Bid Corp LTD (Disposal, £7m)** – Bid Corp, which is primarily a European wholesale food distribution business, was sold (after a strong rally in the share price) at a relatively full valuation in order to focus on higher quality emerging market names.

**Petronas Chemicals (Disposal, £6m)** – Petronas Chemicals was exited due to deteriorating growth prospects and low return-on-invested-capital when adjusting for preferential access to below market price feedstock from Petronas.

## APPENDICES

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
NVIDIA Corporation	1.26	0.80	0.20
Alphabet A	1.71	0.72	0.08
Charles Schwab	0.00	0.09	0.07
Microsoft	3.00	2.50	0.06
Exxon Mobil	0.00	0.53	0.04

**NVIDIA Corp (o/w)** – significant rerating driven by emerging opportunity in generative AI and large language models, with quarterly results indicating that this is already driving incremental sales.

**Alphabet Inc Class A (o/w)** – indications that digital advertising sales are stabilising, generally supportive market for large cap technology names.

**Charles Schwab Corp (u/w)** – investor concern around mark-to-market risks for fixed income securities on the balance sheet.

**Microsoft (o/w)** – announcements on cost control and initiatives in AI were well received by the market.

**Exxon Mobil (u/w)** – weakness in energy prices.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Tesla	0.00	0.65	(0.23)
Vanguard US Mid Cap ETF	2.86	0.00	(0.11)
ConocoPhillips	0.50	0.14	(0.09)
CVS Health Corp	0.37	0.11	(0.08)
Dollar General	0.34	0.05	(0.08)

**Dollar General Corp (o/w)** – consecutive quarters of gross margin pressure a challenge to investor faith in management's usual operational assurance.

**CVS Health Corp (o/w)** – large acquisition (Oak Street Health) underlines significant extent to which the company needs to invest behind its evolving business model.

**ConocoPhillips (o/w)** – predominately unhedged exposure to weakening energy prices.

**Vanguard Mid-Cap ETF (o/w)** – weakness in March due to regional bank exposure, and market concerns that second order effects of the banking situation will weigh disproportionately on smaller companies.

**Tesla Inc (u/w)** – strong bounce from depressed levels on regulatory tail winds and confidence that recent price cuts will drive a strong demand response.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 March 2023

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

Vanguard US Mid Cap ETF	+2.86
Alphabet A	+0.99
Visa Inc	+0.57
Microsoft	+0.50
NVIDIA Corporation	+0.46
Tesla	-0.65
Alphabet C	-0.63
Exxon Mobil	-0.53
Mastercard	-0.36
AbbVie	-0.33

### Top 5 Holdings Relative to Benchmark:

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

**Alphabet Inc Class A** – parent company of Google: zero weight in the C shares nets out to a moderate overweight position overall. Recent de-rating of the shares allows for exposure to high margin digital advertising revenues at a modest valuation.

**Visa Inc Class A** – revenues positively correlated with inflation, exposed to post-pandemic recovery in cross border transactions.

**Microsoft** – structural growth from Azure cloud hosting business and migration of Business Office to MS 365 online, with associated opportunity for value-added sales, including company's emerging capability in generative AI.

**NVIDIA Corp** – strong semiconductor franchise in gaming chips and a dominant position across the ecosystem supporting growth in AI, including newly emerging generative AI.

### Bottom 5 Holdings Relative to Benchmark:

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

**Mastercard Inc Class A** – preference for Visa, the other global payment network company due to relative valuation.

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

**Alphabet Inc Class C** – position in A shares result in a moderate overweight exposure to Alphabet overall.

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

### Major transactions during the Quarter

#### **Purchases:**

**NextEra Energy (£7.8m)** – added to preferred utility with high renewables exposure and strong long-term energy transition story, following a period of underperformance that leaves the shares at a multi-year valuation low.

#### **Sales:**

**AvalonBay Communities (£11.4m)** – exited holding. While the property REIT maintains an attractive asset base, returns are lower than those available elsewhere in the sector.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
LVMH	1.32	0.87	0.07
Novo Nordisk	1.67	0.95	0.06
ASML	1.44	1.05	0.06
Infineon Technologies	0.43	0.20	0.05
Siemens	0.89	0.46	0.05

**LVMH Moet Hennessy Louis Vuitton SE (o/w)** – the luxury goods maker benefited from faster-than-expected relaxation in Chinese lockdown at the beginning of the year.

**Novo Nordisk (o/w)** – the pharmaceutical company is still seeing high demand for obesity drug Wegovy with European launch planned, and has also received approval for an oral tablet for Type 2 diabetes.

**ASML Holding (o/w)** – the hardware tech company reported solid quarterly numbers and guided for above-consensus 2023 revenue. The larger number of EUV (extreme ultraviolet) machines sold should result in revenue growth as well as increased DUV (deep ultraviolet) installed-base management.

**Infineon Technologies (o/w)** – the chipmaker posted strong quarterly results driven by robust business performance from the auto industry, especially EVs, mitigating negative impact from weaker areas of the business.

**Siemens (o/w)** – the German engineering company posted excellent results with both Digital Infrastructure and Smart Infrastructure divisions performing solidly. Order intake was also better than expected across all regions.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
TotalEnergies	0.99	0.52	(0.05)
NN Group	0.29	0.04	(0.05)
Hermes	0.00	0.24	(0.04)
STMicroelectronics	0.00	0.13	(0.04)
Banco Santander	0.00	0.23	(0.03)

**Banco Santander (u/w)** – the Spanish bank beat expectations and increased guidance as a net beneficiary of the increasing interest rate environment.

**STMicroelectronics (u/w)** – the French chipmaker exceeded earnings expectations, with full year guidance ahead of consensus, with automotive and industrials sales driving the growth.

**Hermes (u/w)** – as with LVMH, the French luxury goods company benefitted from the faster-than-expected reopening in China.

**NN Group (o/w)** – the Dutch life insurance company's share price was negatively impacted by banking sector concerns in the last month of the quarter.

**TotalEnergies (o/w)** – the French oil major underperformed as oil prices sank in March amid growing concerns that banking sector woes will lead to a deep recession.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 March 2023

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

Novo Nordisk	+0.72
TotalEnergies	+0.48
LVMH	+0.45
Siemens	+0.43
AXA	+0.41
Zurich Insurance Group	-0.27
Mercedes-Benz	-0.25
Hermes	-0.24
Banco Santander	-0.23
Prosus	-0.22

### Top 5 Holdings Relative to Benchmark:

**Novo Nordisk** – strong market position in type 2 diabetes treatment and extension of product line into obesity treatment.

**TotalEnergies** – shifting from core oil business, now the second largest player in LNG; diversifying further into green energy.

**LVMH** – best-in-class luxury goods maker, strong management team with deep understanding of luxury market; focus on high-net-worth customers should mean lower impact from consumer spending slowdown.

**Siemens** – high-quality engineering company well positioned in markets with above-average long-term structural growth.

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

### Bottom 5 Holdings Relative to Benchmark:

**Prosus** – concerns over concentrated exposure in its largest investment, Tencent (Chinese technology company) and a management team whose actions are not always in alignment with shareholder interests, in our view.

**Banco Santander** – one of the weaker operators in the banking sector with concern over future direction.

**Hermes** – higher valuation and less diversified than some peers. The portfolio has an o/w position in LVMH, which trades at a lower valuation despite best-in-class characteristics.

**Mercedes-Benz** – concerns that margins are peaking, high relative valuation leaves little room for disappointment.

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

### Major transactions during the Quarter

#### **Purchases:**

**Novo (£6.1m)** – added following positive announcements on obesity (Wegovy) and diabetes (Rybelsus) products.

**Siemens (£5.5m)** – added to position on market share gains at attractive margins in its Digital Industries division, which specialises in industrial automation and digitalisation.

**Atlas Copco (£4.1m)** – new holding in this Swedish industrial company.

Note

1) Source: Northern Trust



## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Renesas Electronics	0.24	0.05	0.08
Shin-Etsu Chemical	0.36	0.16	0.04
Tokyo Electron	0.32	0.14	0.03
KEYENCE	0.39	0.25	0.02
DISCO Corporation	0.17	0.03	0.02

**Renesas Electronics (o/w)** – positive reaction to strong results, above consensus guidance, and share buyback announcement.

**Shin-Etsu Chemical (o/w)** – positive reaction to strong results, above consensus guidance, stock split, and share buyback announcement.

**Tokyo Electron (o/w)** – solid results, upgrades and positive sentiment on expectation that demand for semiconductor manufacturing machines will improve later in 2023.

**Keyence (o/w)** – good results, thoughts that shrinking China population may boost automation sector, and a new book on the company (top 3 seller in business publications) generating positive interest.

**Disco Corp (o/w)** – results in-line and stock split announced. Market appears to be looking past the orders slowdown in semiconductor production equipment to a resumption of stable earnings growth later in 2023 or early 2024.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Nippon Shinyaku	0.08	0.01	(0.03)
Softbank Group Corp	0.26	0.10	(0.03)
Recruit Holdings	0.22	0.10	(0.03)
Dai-ichi Life	0.14	0.05	(0.03)
Mitsubishi Estate	0.16	0.03	(0.02)

**Mitsubishi Estate (o/w)** – continued sector weakness on prospect of higher interest rates, and concern over outlook for both city centre and overseas properties. We remain underweight the sector.

**Dai-ichi Life (o/w)** – reversed last quarter’s strong performance as banks and insurers fell sharply in the wake of US banking turmoil and Credit Suisse collapse.

**Recruit Holdings (o/w)** – weak on possibility of recession (particularly in US) and lacklustre results.

**Softbank Group Corp (o/w)** – a reversal of last quarter’s strong performance, partly on contagion fears following the issue at SVB. Exposure confirmed as limited; Softbank Group internal resources adequate to provide financial support if needed to its tech investments.

**Nippon Shinyaku (o/w)** – a lack of positive catalysts and good trial results for a competing drug treatment.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 March 2023

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

Ballie Gifford Shin Nippon	+0.26
Shin-Etsu Chemical	+0.20
Renesas Electronics	+0.20
Hitachi	+0.19
Sumitomo Mitsui Financial	+0.19
Daiichi Sankyo	-0.18
Mitsui & Co	-0.12
Honda Motor	-0.12
HOYA	-0.10
Mizuho Financial	-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.

**Shin-Etsu Chemical** – best in sector with strong cash generation, good growth prospects, margin sustainability and increasing shareholder returns.

**Renesas Electronics** – manufacturer of electronic components including semi-conductors and integrated devices. Core portfolio holding that is resistant to cycle downturns and delivers excellent results.

**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.

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

### Bottom 5 Holdings Relative to Benchmark:

**Mizuho Financial Group** – fund has exposure to the banking sector through other names.

**HOYA** – exited this manufacturer of electro-optical products on competition concerns and expected continuing weakness of EUV mask blanks this year.

**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 high valuation of this stock.

### Major transactions during the Quarter

#### **Purchases:**

**Keisei Electric Railway (£6.0m)** – new holding, partially as a defensive railway stock, but also on the longer term potential of realising value of stake in Oriental Land (Tokyo Disneyland).

**Terumo (£4.6m)** and **Shionogi (£4.3m)** – increasing overweight position to maintain Healthcare sector weighting following sale of HOYA.

#### **Sales:**

**HOYA (£10.1m)** – full disposal of holding on competition concerns and expected continuing weakness of EUV mask blanks (used in semiconductor production).

**Inpex (£4.0m)** – taking some profits and reducing towards a more sector neutral position on oil and gas.

**East Japan Railway (£3.0m)** – partial switch to higher potential new holding Keisei Electric Railway.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2023

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
LG Electronics	0.24	0.07	0.03
Samsung SDI	0.40	0.21	0.02
UOB	0.00	0.20	0.02
Hyundai Motors	0.33	0.14	0.02
Samsung Electronics	2.05	1.64	0.02

**LG Electronics (o/w)** – expectations of strong business to business (“B2B”) sales, mix improvement, and better cost controls despite continued weakness in consumer demand.

**Samsung SDI (o/w)** – confirmation of more aggressive expansion plans, including JV agreements with leading auto manufacturers.

**UOB (u/w)** – fears of rising funding costs and compressed net interest income, preference for competing Singapore banks with stronger capital positions, DBS and OCBC.

**Hyundai Motor (o/w)** – benefited from stronger than expected earnings guidance, ongoing favourable conditions, and strong pent-up demand in auto markets.

**Samsung Electronics (o/w)** – expectations that memory chip market will bottom in mid-2023 with resulting improvement in earnings outlook.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2023

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Bank of China (Hong Kong)	0.23	0.08	(0.03)
EcoPro BM	0.00	0.05	(0.02)
Samsung C&T	0.16	0.05	(0.02)
AIA Group	1.06	0.87	(0.02)
LG Household & Health Care	0.08	0.03	(0.02)

**LG H&H (o/w)** – underperformed amid ongoing unfavourable environment and lack of visibility on recovery in China beauty and cosmetic products.

**AIA Group (o/w)** – underperformed on bond portfolio concerns in the wake of SVB and Credit Suisse failures, despite CS bonds comprising less than 1% of its total invested assets.

**Samsung C&T (o/w)** – market concerned with deterioration in outlook for the construction and engineering company's order book despite positive quarterly earnings.

**Ecopro BM (u/w)** – outperformed on expected benefits from Samsung SDI's customer diversification to lead to increased sales of the company's battery materials.

**BOC Hong Kong (o/w)** – shares underperformed on concerns over operating environment for financials and lower than expected earnings guidance.

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## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 March 2023

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

Samsung Electronics	+0.41
SK Innovation	+0.21
SK Hynix	+0.21
Techtronic Industries	+0.21
KB Financial Group	+0.20
Samsung Electronics Prefs	-0.24
UOB	-0.20
Kia	-0.11
LG Energy Solution	-0.11
QBE Insurance	-0.10

### Top 5 Holdings Relative to Benchmark:

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

**SK Innovation** – leading refiner and chemical producer in Korea boasting mid-single digit global market share in EV batteries for auto manufacturers such as Hyundai Motor, Kia, and Ford.

**SK Hynix** – a leader in memory chips with high teens global market share; beneficiary of structural increase in demand and improving penetration of high bandwidth memory applications.

**Techtronic Industries** – focus on technology-leading cordless power tools should lead to improving margins and market share, as global penetration continues rising from steady launch of innovative products that are increasingly easy to operate as well as a focus on the US professional market.

**KB Financial Group** – largest financial group in Korea with sector-high return on equity, strong capital position, and increasing focus on improving shareholder returns.

### Bottom 5 Holdings Relative to Benchmark:

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

**LG Energy Solution** – leading Korean EV battery maker. The fund holds LG Chem which owns 82% of LG Energy Solutions at a large holding company discount.

**Kia** – preference for Hyundai Motor and Hyundai Mobis in the Korean autos sector.

**UOB** – preference for other Singaporean banks DBS and OCBC 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

#### **Purchases:**

**Samsung Electronics (£11.3m)** and **SK Hynix (£4.6m)** – on low valuations and expectations of the start of a recovery in the semiconductor memory sector in the second half of 2023 as excess inventories are gradually digested.

**Pexa Group (£5.2m)** – new holding; as the only listed digital property exchange globally Pexa enjoys a sustainable competitive advantage in Australia, with potential to scale its business model and significantly improve profitability by expanding into the UK and other markets.

Note

1) Source: Northern Trust

## Market Background at 31 March 2023

The year started off promising as the recovery in equity markets that began in the final months of 2022 continued into 2023. Early bullishness proved optimistic, however, and investors were reawakened with a jolt in the last month of the quarter.

If the first nine months of 2022 were marked by the Russian invasion of Ukraine, rising inflation, and the start of an extended rate hiking cycle, the last quarter of 2022 and the start of 2023 were characterised by the belief that pressures on the global economy and equity markets were abating. Investors were perhaps lulled into a false sense of security, however, as the quarter finished with clear signs that rate tightening was having a very negative impact on the economy, and that markets had perhaps moved too high too soon. We remain cautiously optimistic on the outlook for equities but believe the ride may prove bumpy in the short term.

Economic data at the start of 2023 provided some support for the argument that the rate tightening cycle might be coming to an end. Inflation showed signs of softening in the US, specifically across goods and energy. Inflation also looked to be levelling off in Europe and the UK, albeit still at a high level. A significant decline in commodity prices supported this more positive outlook. Oil declined from over \$120 a barrel of oil equivalent in June 2022 to nearly \$80. Natural gas, a key concern following the Ukraine invasion, also declined sharply, and EU countries coped far better than anticipated over the winter period.

The US Federal Reserve raised interest rates by 0.25% at the start of February, a marked change from the 50 and 75 basis point hikes of 2022. In his speech following the Fed board's decision, Chairman Powell implied that a moderation or even an end in the rate tightening cycle might be approaching, although his remarks were tempered with an appropriate level of caution. Global equity markets duly rose strongly with growth in China also supported by the continued rolling back of its zero Covid policy.

The bullish start to the quarter proved disappointingly short lived, however. Stronger than expected US employment and wage data tempered dovish expectations on monetary policy. CPI data demonstrated that inflation was a little stickier than expected. Rather than the

interest rates moving lower, in early March US 2yr treasury yields reached decade highs of more than 5%, and the US equity market started to lose momentum.

Following the failure of Silicon Valley Bank (SVB), market attention shifted from inflation and interest rates toward the health of the underlying economy and the financial system. At the time of its collapse, SVB was one of the top twenty largest US banks, with a deposit base concentrated among US startups — reflecting its home market in the San Francisco area. The bank had invested its rapidly growing deposits into low-yielding US treasuries and mortgage-backed securities. As interest rates moved higher, the value of the bond portfolio declined. At the same time, many of the bank's customers, faced with deteriorating tech-sector fundamentals, had started withdrawing deposits to fund their day-to-day operations. To meet this outflow, the bank was forced to sell a portion of its bonds at a loss, thereby undermining its capital position. Another smaller US bank, Signature Bank, was closed by US financial authorities two days later, after facing a similar rapid outflow of customer deposits.

The SVB and Signature failures were followed by rapidly escalating problems at Credit Suisse, although the Swiss-based global bank's issues were of a different nature: the complexity of its business, its troubled recent past, and its weakened reputation, as well as heightened concerns over the health of financial institutions overall in the current higher interest rate regime, especially in the wake of the SVB incident, all contributed to Credit Suisse's demise. With the Swiss National Bank providing liquidity, domestic peer UBS stepped in to acquire its failing rival.

To be sure, Credit Suisse, SVB and Signature Bank all failed for somewhat different reasons, and each was arguably the author of its own demise. On the other hand, the scale and pace of interest rate increases across developed markets have certainly been a major contributing factor, as negative impacts of rate hikes start to be felt more widely. Against this backdrop, equity markets struggled to maintain their early momentum, losing much of their gains from the start of the quarter. Europe proved somewhat of an outlier, however, supported in part by depressed valuations, relatively measured pace of rate increases in the region, and the

Note

1) Source: Border to Coast

## Market Background at 31 March 2023

scale of the favourable shift in commodity prices, which had previously acted as a significant contributor to inflation and headwind to economic activity.

Overall, global equity markets (based on MSCI indices) generated a total return, in sterling terms, of 5.3% during the quarter with developed markets (5.7%) outperforming emerging markets (1.9%). Europe ex-UK was the best performing developed region (8.7%) supported by low valuations and the adverse impact on economic growth of higher energy prices not being as bad as feared. Pacific ex-Japan (0.4%) was the worst performing developed region predominantly due to the relative high weighting to the Energy (lower energy prices) and Financial (fallout from US and European banking issues) sectors, particularly in Australia. Within emerging markets, Taiwan was the best performing major market within the MSCI index, driven by the rebound in the global technology sector, and India was the weakest.

Performance diverged materially across sectors. Following significant weakness in the previous six months, as a result of the impact of higher interest rate expectations, the Technology and Communication Services sectors bounced back strongly, partly driven by the excitement around the application of artificial intelligence. Lower energy prices and the turmoil in the banking sector resulted in relative weakness in the Energy and Financial sectors.

Although we remain optimistic for the outlook for equities over the long term, the near-term outlook could present some challenges. As rising interest rates start to impact the economy negatively, and inflation proves stickier than many had hoped, diverging interest rate policies and economic expectations across the globe will likely add to uncertainty. In such an environment we look for low valuations to provide a margin of safety for equities. Currently trading at substantial discounts to their 10-year average, European and UK equity markets provide some degree of reassurance; valuations in Japan, too, look unchallenging. Asia and US markets may not score as favourably here, however, given only minor derating and limited erosion in earnings expectations thus far.

With a volatile outlook for equities ahead, we take comfort in the consistency of our investment approach. We believe a continued focus on high-quality companies held over the long term can protect against current volatility while also providing exposure to strong investment returns over the longer term.

Note

1) Source: Border to Coast



## Border to Coast News

### People:

- We said farewell this quarter to Kevin Palmer, Portfolio Manager (Fixed Income) who has retired. At launch almost 5 years ago, Kevin represented our entire Fixed Income team and assumed a lot of responsibility establishing the internal fixed income funds and associated processes. We have a replacement Portfolio Manager joining in the next couple of months.
- We also said farewell to James McLellan, Senior Portfolio Manager (Equities). James helped to ensure that our early positive performance in the equity funds was maintained through challenging market conditions. He has decided to pursue opportunities closer to home in Switzerland. This role has been incorporated into the Head of Equities role (Will Ballard).
- We welcome Teju Akanda who has strengthened our RI Team as Climate Change Manager. She has spent the last few years working at UK Department for Internal Trade as a business mentor and adviser to UK companies in the energy and infrastructure sector with a focus on the energy transition.

### Investment Funds:

- Building strong relationships as a pool enables us to offer Partner Funds cost-effective access to a broader range of asset classes. We have recently announced the appointment of four specialist managers, Goldman Sachs, Baillie Gifford, FountainCap, and UBS, to support a new Emerging Markets Equity Alpha Fund – due to launch in Spring 2023.

### Responsible Investment:

- We recently responded to the FCA's consultation on Sustainability Disclosure Requirements (SDR) and investment labels, expressing support for efforts to tackle 'greenwashing' while highlighting potential unintended consequences from the proposed new regulations.

- Border to Coast has retained its status as a signatory to the UK Stewardship Code, making us one of 254 organisations representing £46.4trn that are setting the highest stewardship standards when investing on behalf of UK savers and pensioners. Reporting on our activity is among our strengths recognised by the FRC, and you can read our latest Quarterly Stewardship Report on our website.
- Demonstrating our commitment to responsible investment for our Partner Funds in action, Border to Coast is part of a new IIGCC net zero corporate engagement initiative. The aim is to scale and accelerate climate-related corporate engagement with 107 listed companies to ensure they are working to align with a low carbon economy and support global net zero ambitions. Letters have been sent to the 107 companies seeking confirmation that they have developed, or are committed to developing, a net zero transition plan. We will be leading engagement with one of the target companies.

### Other News:

- Following the recent budget, we see another hint about the long-awaited consultation on the future of pooling. The Government has confirmed its intention to consult on the future direction of pooling, including a proposal that all listed assets be pooled by March 2025 and a potential move to a smaller number of pools to optimise the benefits of scale. We continue to highlight the positive progress we have collectively made and will work with our Partner Funds to consider and respond to the consultation as and when it is published.
- We are entering the awards season, and it's a sign of our progress that we are increasingly recognised by the industry. We have recently been shortlisted by Pensions Age for the "Innovation Award – Investment" and by Professional Pensions for both "Equity Manager of the Year" and "Alternative and Private Markets Investment Manager of the Year".

## Disclosures

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).  
Registered in England (Registration number 10795539) at the office 5th Floor, Toronto Square, Leeds, LS1 2HJ

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### 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