

Border to Coast Pensions Partnership Ltd

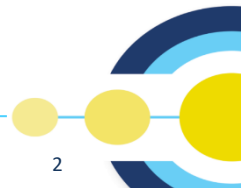
Teesside
Pension Fund

8th February 2021



Agenda

- Border to Coast – Update
- Our Team
- Investment Capabilities
- Responsible Investment



Border to Coast Pensions Partnership Ltd

Border to Coast
- Update



Border to Coast Pensions Partnership

- Established in **2018**
 - **11** Local Government Pension Funds with c. **£49bn** in assets
 - **Internal & External** Management of **Listed and Private Market** products



Border to Coast: Why Are We Here?

Making a positive difference to investment outcomes
for Local Government Pension Funds

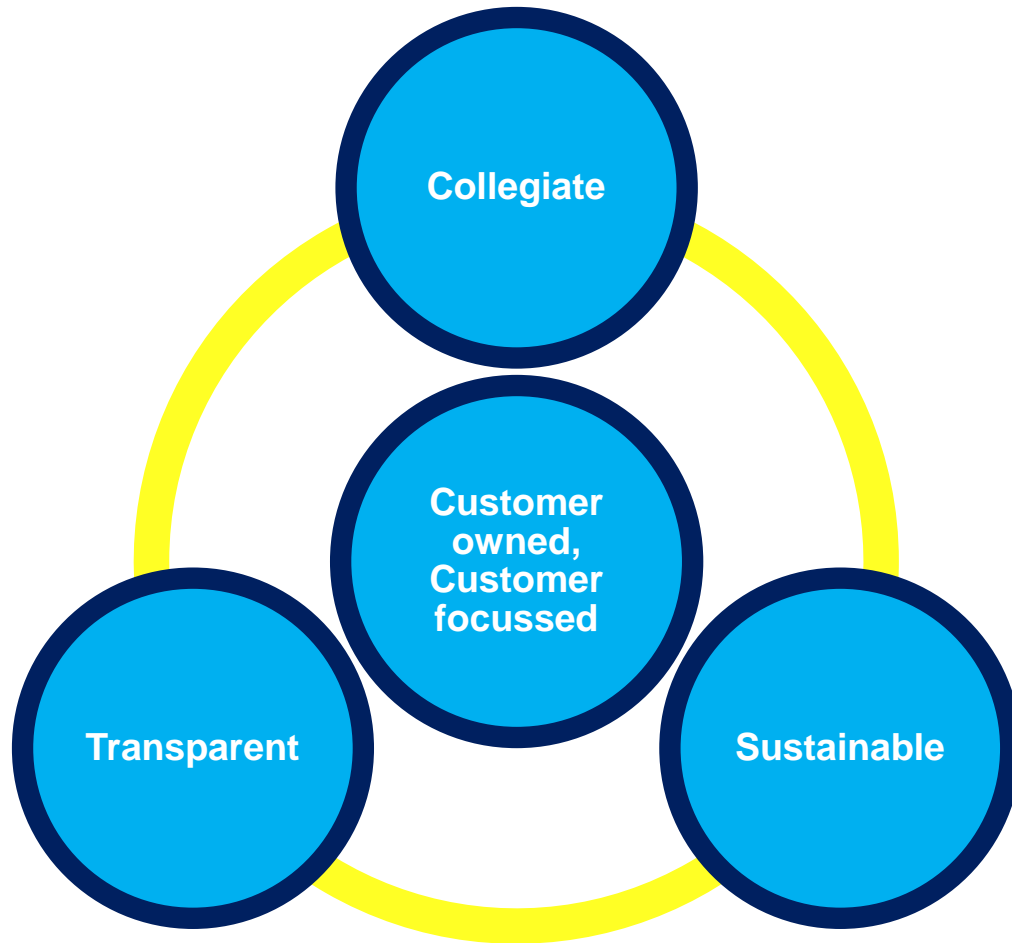
Through **pooling** to create a stronger voice,

Working in **partnership** to deliver cost effective,
innovative, and responsible investment now and into
the future;

Thereby enabling sustainable, risk-adjusted
performance over the long-term.



Border to Coast: What Do We Want To Be?

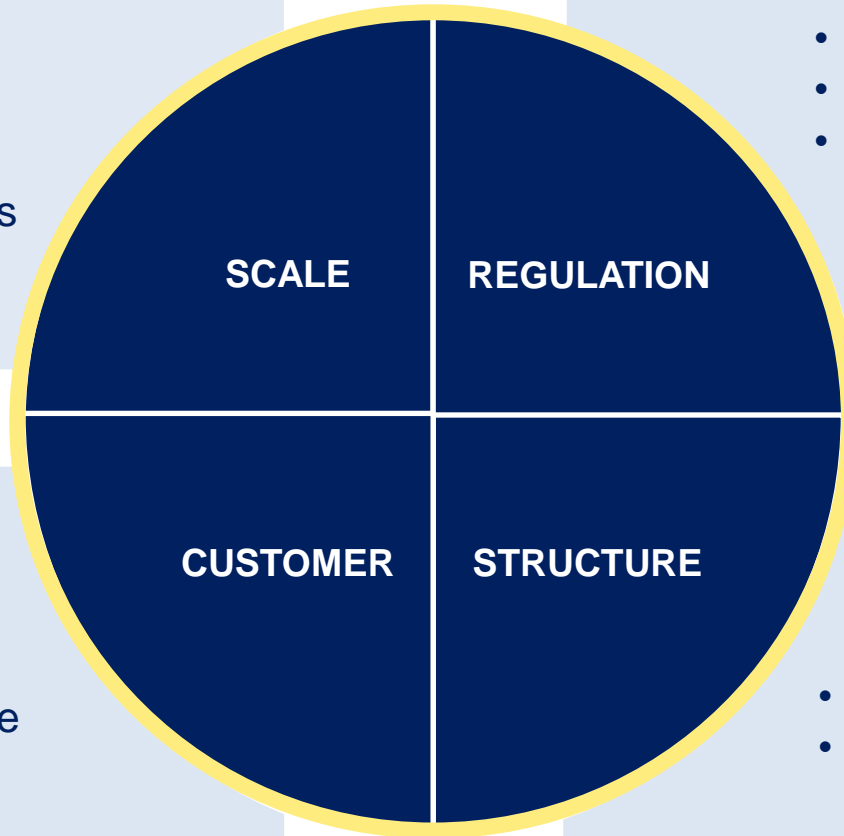


- a **collegiate** organisation: working together in an **open** and **trusting** environment with shared vision and goals to deliver **long-term, strong** and **sustainable outcomes** for customers;
- a **sustainable** organisation: investing in our colleagues by facilitating **work-life balance**; by encouraging personal and professional **development**; and supporting a **creative, flexible** and **open to change** culture that is equipped to evolve new capabilities as customer needs change;
- a **transparent** organisation: maintaining customer and public **trust** in Border to Coast's **integrity** to enable us to deliver our objectives.

Border to Coast – Making a Difference

- Lower fees
- Wide investment opportunities
- Stronger voice in RI
- Industry partnerships

- Improved risk oversight
- Stronger controls
- Standardised reporting

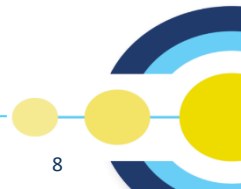


- Building required capabilities
- Understanding future needs
- Not for profit

- Internal capabilities
- Manager oversight and selection

Value Add - Focus

- **Operational efficiency – how have costs evolved through pooling?**
 - Opportunities for operational efficiency identified and implemented
 - Consistency of comparisons is important – and this is driven by Partner Funds
 - Joint working party taking this forwards
- **Investment process**
 - Increased risk management and research capabilities
 - Responsible investment embedded into process
- **Investment team**
 - Succession planning - team broader and more robust, including graduate programme
- **Collective voice**
 - Policy influence
 - Responsible investment



Border to Coast Pensions Partnership Ltd

Border to Coast
- Our Team



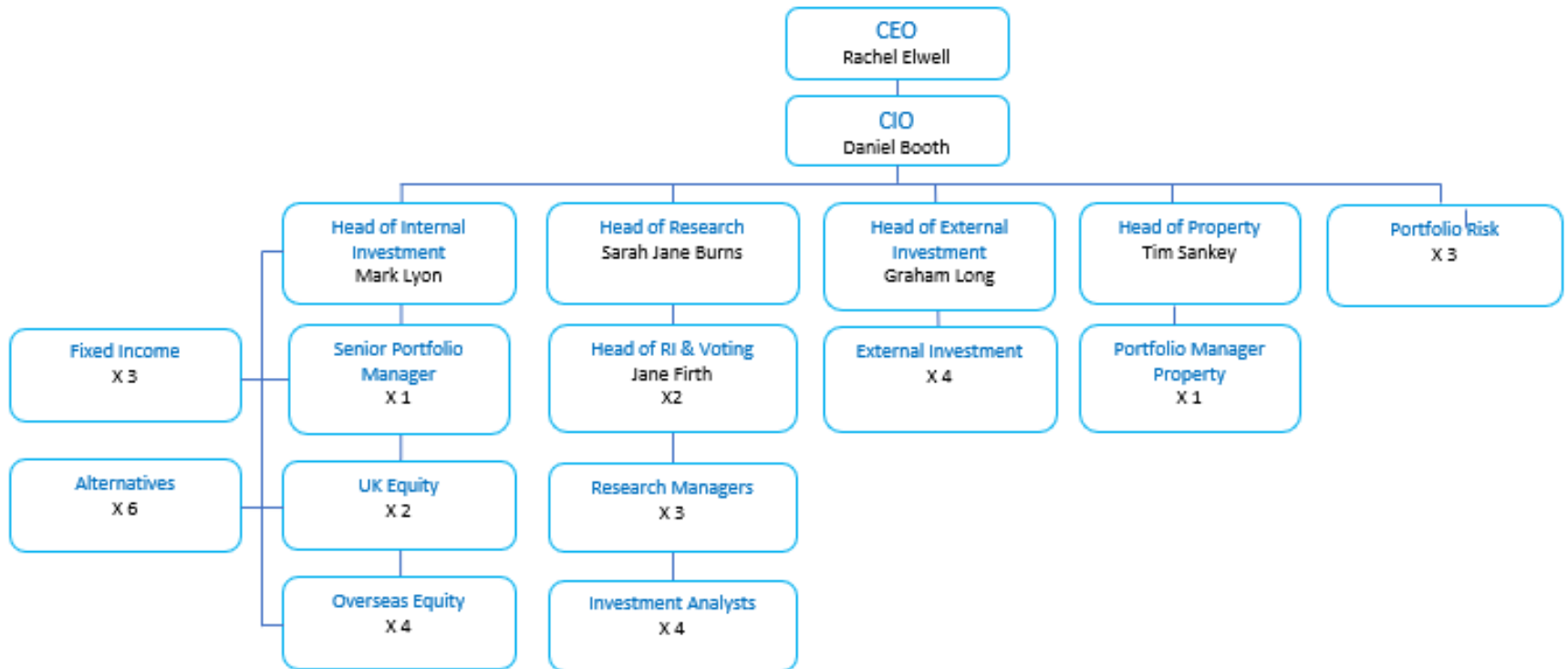
Border to Coast Team

CEO: Rachel Elwell				
CIO: Daniel Booth	COO: Fiona Miller		CRO (Interim): Steve Walton	CEO Team
Investment Team	Operations Team	Corporate Functions	Risk Team (2 nd Line)	CRM, HR, Policy/Comms
42 people	9 people	27 people	6 people	8 people

- Team of 96 in total (as at 31 December 2020)



Investment Team



Investment Team – Key People

- **Daniel Booth - Chief Investment Officer** - has over 20 years' investment experience including extensive breadth and depth across alternative asset investments. Daniel joined Border to Coast in September 2018 following 8 years at Saudi Aramco where he was Head of Portfolio Management.
- **Mark Lyon CFA - Head of Internal Investment** - joined Border to Coast in 2018 from his position as Head of Investments for East Riding Pension Fund, having previously worked for Derbyshire, bringing over 16 years of experience with him. In 2016 he was awarded Institutional Investors UK Public Pension Manager of the Year.
- **Graham Long - Head of External Management** - brings a wealth of experience from his senior roles at Abbey National and Aviva UK, where he operated as CIO, managing relationships with group and external managers covering total assets in the billions.
- **Tim Sankey – Head of Real Estate** - joined Border to Coast in November 2020 bringing nearly 20 years of experience with him from his role at Aberdeen Standard Investments where he was Fund Manager for their UK Property Fund.
- **Sarah-Jane Burns – Head of Research** - joined in September 2018. SJ started her career at Gartmore Asset Management and subsequently worked as an equity analyst for Henderson, before joining Findlay Park Partners LLP in 2008 as a fund manager. She made Partner at the firm in 2010.

Investment Team - Recent Hires

We have recruited a number of key individuals over 2020:

12 Investment team hires, across Internal Equities (Snr PM), Internal Fixed Income (2 PMs), Research (2 RMs), External Funds (Asst PM), Alternatives (4 PMs) & Real Estate (Head & Programme Manager).

Notable hires over the last quarter include:

- **Tim Sankey** – Head of Real Estate
 - Previous 17 years at Aberdeen Standard Investments managing UK Property
- **Steve Walton – Interim Chief Risk Officer**
 - Joins us from intermediate Capital Group, with significant experience including Global Head of Investment Oversight and Responsible Investing at the Prudential.
- **James McLellan** – Senior Portfolio Manager, Internal team
 - 30 years in the industry, including at UBS Global and Insight Investment
- **Christian Dobson** – Portfolio Manager, Alternatives
 - Joins us from Nationwide Pension Fund, a £6.5bn DB scheme.

Border to Coast Pensions Partnership Ltd

Border to Coast
- Investment Funds



Capability Launch - Timetable

	Launched 2018/19	2020 Launches	Scheduled 2021	2022 and beyond
Internal Equities	UK Listed Equity Overseas Developed Emerging Markets			
External Equities	UK Listed Equity Alpha Global Equity Alpha		Emerging Market Hybrid Regional Alpha Emerging Markets Alpha	
Alternatives	Private Equity Infrastructure Private Credit	Private Equity Series 1b Infrastructure Series 1b <i>(continued annually)</i>	Listed Alternatives Cashflow Management & Asset Allocation	Legacy Diversified Alternatives
Fixed Income		UK IG Credit Inflation Linked Bonds	Multi-Asset Credit	
Property				Global Property UK Property

Active Equity Fund Range - £15.6bn

	Internal			External	
	UK Listed Equity Fund	Overseas Developed Markets Equity Fund	Emerging Markets Equity Fund	UK Listed Equity Alpha Fund^(*)	Global Equity Alpha Fund^(**)
Approx. Size²	£4.4bn	£3.4bn	£0.8bn	£1.3bn	£5.7bn
Launch Date	July 2018	July 2018	October 2018	December 2018	September 2019
Benchmark	FTSE All Share	Regional Comp	S&P Emerging	FTSE All Share	MSCI All World
Target¹	BM +1% p.a.	BM +1% p.a.	BM +1% p.a.	BM +2% p.a.	BM +2% p.a.

Border to Coast – FCA Regulated ACS Structure

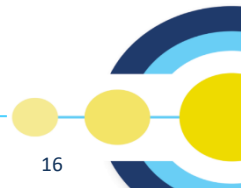
(*) Estimated fee savings of £1m p.a. vs legacy arrangements (source: Border to Coast).

(**) Estimated fees savings of £3.5m p.a. vs legacy arrangements (source: Border to Coast).

¹ Measured over rolling three year periods net of costs.

Future forecasts are for illustration purposes only and are not a reliable indicator of future performance.

* As at 31/12/2020



Fixed Income Fund Range - £4.6bn

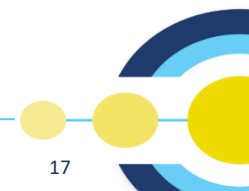
	Internal	External	
	Sterling Index Linked Bond	Investment Grade Credit	Multi-Asset Credit ²
Approx. Size*	£1.6bn	£3bn	£2-3bn
Launch Date	October 2020	March 2020	Q1 2021
Benchmark	FTSE A UK IL Gilts 15y	iBoxx GBP Non-Gilts	SONIA (Cash)
Target¹	BM +0.2% p.a.	BM +0.6% p.a.	BM +3 to 4% p.a.
Border to Coast – FCA Regulated ACS Structure			

* As at 31/12/2020

¹ Measured over rolling five year periods net of costs.

² Includes an internally managed EMD sleeve

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Alternative Fund Range

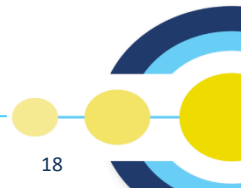
	Launched Alternative Asset Classes			Other Alternatives
	Private Equity <i>Investment in privately held companies</i>	Infrastructure <i>Real assets providing essential services</i>	Private Credit <i>Lending to privately held companies</i>	
Series 1A	£500m	£675m	£580m	<ul style="list-style-type: none"> • Diversified • Liquid • Listed
Series 1B	£485m	£760m	n/a	
Target ¹	10% p.a.	8% p.a.	6% p.a.	

Border to Coast – Unregulated Collective Investment Scheme

Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

¹ Measured over rolling three year periods net of costs.

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Equity Funds

Performance to 31/12/2020

Internally Managed

Fund Name	QTD (%)			1 Year (%)			Since Inception (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
UK Listed Equity Fund	12.51	12.62	-0.12	-8.43	-9.82	1.39	-0.46	-1.88	1.42
Overseas Developed Equity Fund	9.56	9.79	-0.23	13.77	12.33	1.45	9.78	8.68	1.11
Emerging Markets Equity Fund	10.02	11.41	-1.39	5.75	11.63	-5.88	9.45	12.75	-3.30

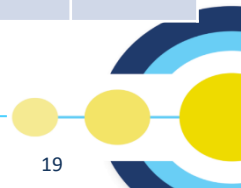
Externally Managed

Fund Name	QTD (%)			1 Year (%)			Since Inception (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
UK Listed Equity Alpha Fund	16.68	12.62	4.05	-5.67	-9.82	4.15	6.74	2.83	3.91
Global Equity Alpha Fund	13.78	8.46	5.31	9.59	12.67	-3.08	12.44	14.51	-2.07

Past performance is not a reliable indicator of future performance and is not guaranteed. Figures do not always sum due to rounding.

Source: Northern Trust, Border to Coast

Performance start dates: UK Listed Equity Fund, Overseas Developed Equity Fund – 26/07/2018; Emerging Markets Equity Fund – 22/10/2018



Fixed Income Funds - Performance to 31/12/2020

Externally Managed

Fund Name	QTD (%)			1 Year (%)			ITD (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
Sterling Investment Grade Credit	3.85	3.12	0.73	--	--	--	14.14	12.48	1.66

Past performance is not a reliable indicator of future performance and is not guaranteed. Values do not always sum due to rounding.

Source: Northern Trust, Border to Coast

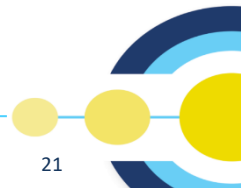
Performance start dates: Sterling Investment Grade Credit Fund – 18 March 2020.

Teesside – Valuation & Commitments

Listed Investments	Teesside Value (as at 30/09/2020)	Total Fund Value (as at 30/09/2020)
	£	£
UK Listed Equity Fund	1,096.3m	3.9bn
Overseas Developed Markets Fund	239.2m	3.1bn

Alternative Investments	Teesside Commitment (Series 1a + 1b)	Committed by Border to Coast to Managers (*)	Total 1a + 1b Commitment (all Partner Funds)
	£	£ (% of commitment)	£
Infrastructure	150m	110.2m (74%)	1,435m
Private Equity	150m	132.8m (89%)	985m
Private Credit	---	---	581m

Source: Border to Coast. Past performance is not a reliable indicator of future performance and is not guaranteed.
 (*) As at 03/11/2020.



Alternatives – Areas of Focus

Private Equity

Investment in privately held companies

Operational Value Add

- Via business improvements

Buy & Build

- Scaling up businesses

Mid-Market Focus

- Greater opportunities

Co-Investments

- Lower fee structure

Asia

- Stronger economic growth

Sector Specialists

- Value creation & deal sourcing

Sector Themes

- E.g. Technology & Healthcare

Distressed

- Stage of business cycle & CV19

Infrastructure

Real assets providing essential services

Operational Value Add

- Focus on income

Sector Themes

- E.g. Energy transition, digital revolution

Greenfield

- Additional returns from development / extension

Emerging Markets

- Stronger economic growth and increasing infrastructure demand

Private Credit

Lending to privately held companies

Focus on Senior Debt

- Defensive approach at this stage of business cycle

Manager Track Record

- Experience of full economic cycle

Stressed / Distressed

- Opportunities given stage of business cycle

Focus on Real Assets

- Providing quality collateral – e.g. infrastructure assets

The Original Alternatives Business Case

Pre-pooling	Exposure ¹	Typical cost	Rationale
Fund of Funds	50 – 70%	0.5%/10% ² On commitments	<ul style="list-style-type: none"> Lack of resources to invest fully in direct Lack of scale to achieve diversified portfolio via direct only Lack of necessary skills, experience and resources to invest in co-investments Governance structure not aligned to tight timescales
Direct Fund	20 – 40%	2%/20% On commitments	
Co-investment Fund	0 – 10%	1%/10% On invested	
Co-investments	0 – 10%	0.5%/0% On invested	
Post-pooling	Exposure ³	Typical cost	Rationale
Fund of Funds	0 – 20%	0.25%/10% On commitments	<ul style="list-style-type: none"> Fee savings due to increased scale Fund of fund exposure to continue for capacity constrained managers and specialist areas Governance structure aligns decision making with timescale for co-investments
Direct Fund	50 – 70%	1.75%/20% On commitments	
Co-investment Fund	20 – 30%	0.75%/10% On invested	
Co-investments	0 – 20%	0.5%/0% On invested	

¹ Current estimated exposure across Partner Funds

² Plus underlying manager fees – typically 2%/20% but Managers can negotiate

³ Anticipated exposure over the long term

Cost savings

Cost savings from...

- 1 Lower fund-of-fund fees
- 2 Lower fees for direct funds
- 3 Increased (cheaper) Co-investments

Investment Case

- 1 Increase breadth of fund coverage
- 2 Increase breadth of strategy coverage
- 3 Access to top quartile funds (“private markets performance persistence”)

Reductions in headline fees achieved to-date vs typical industry fees^(*):

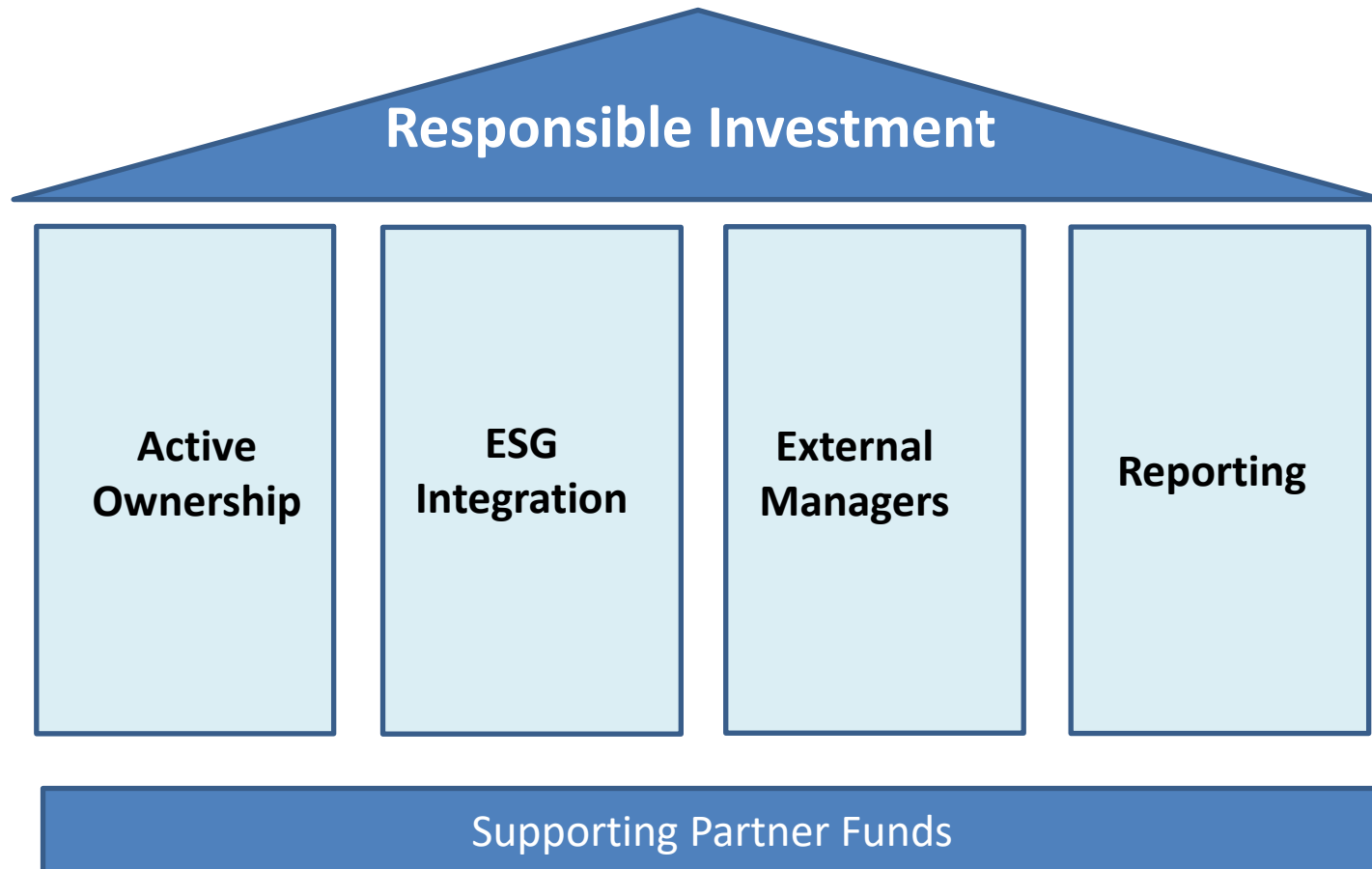
- Private Equity: 18% - Infrastructure: 23% - Private Credit: 17%

Border to Coast Pensions Partnership Ltd

Responsible Investment



How we manage Responsible Investing



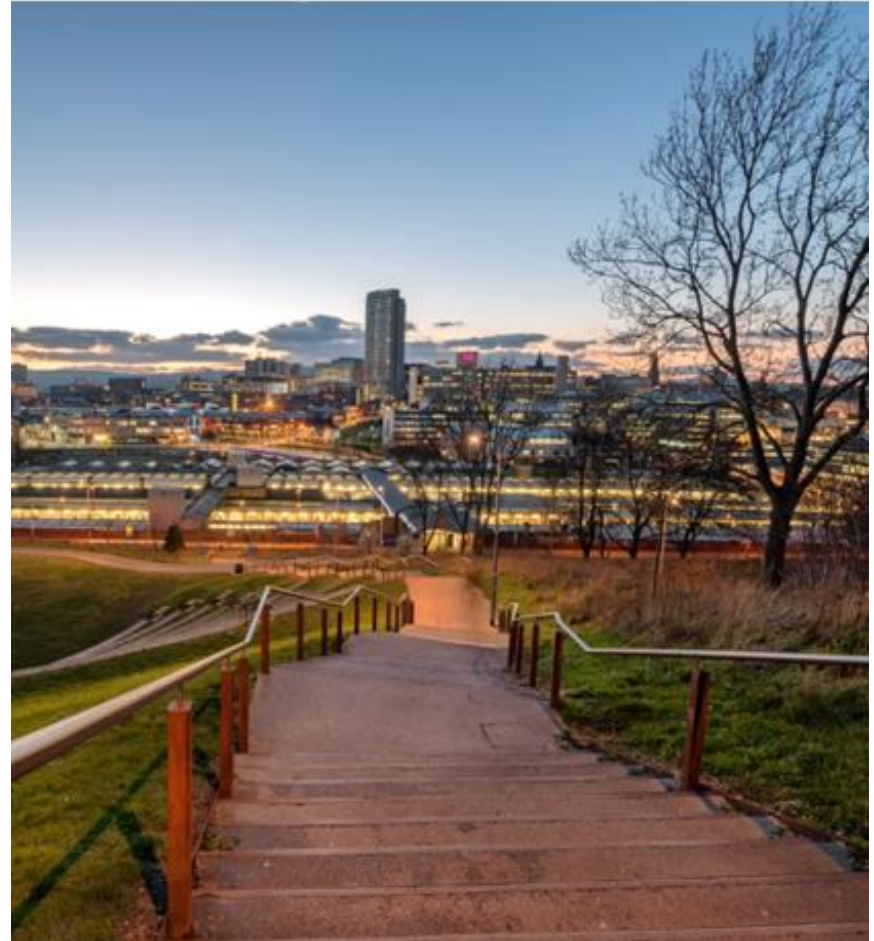
Active ownership

- Collective RI and Voting Policies to leverage scale
- Voting internally and externally managed assets
- Voting and Engagement partner
- Co-file shareholder resolutions
- Collaborative engagement
- UN Principles for Responsible Investment



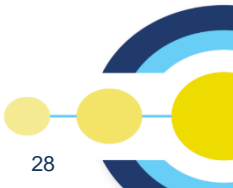
Active Ownership - Engagement

- “The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies’ governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights.”
 - Border to Coast Responsible Investment Policy, November 2020 (full document can be found on our website: [Border to Coast Pensions Partnership](#)).



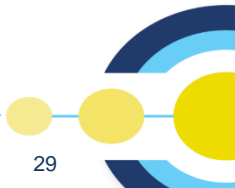
ESG integration

- Integrating ESG into investment process across all asset classes
- Quarterly screening and benchmarking
- ESG risks and opportunities considered at stock level
- Carbon footprinting equity and fixed income portfolios



Managing our external managers

- Manager days ahead of procurement launch
- RI included in selection and appointment process
- ESG and carbon screens
- Working with managers on standardising reporting
- Annual RI review meeting



Reporting

- RI activities published on our website
- Quarterly reporting – stewardship and voting
- Annual RI & Stewardship Report
- TCFD Report
- RI workshops and briefing papers for Partner Funds



UK Listed Equity Fund - Gambling Companies

- Since inception the Fund has been underweight all UK gambling companies. Over the last 12 months that has led to some underperformance.
- The four listed UK gambling stocks have a combined index weight of 1.30% and our current exposure is 0.19%.
- Until recently the Fund held William Hill but sold out of that position when the company accepted a bid from its US partner, Caesars Ent.
- Having a zero-weight felt too extreme, hence we established a position in Flutter (BetFred/Paddy Power) and intend moving towards half its benchmark weighting (c.0.40%) to capture exposure to the growing US opportunity (federal de-regulation).
- Gambling is a highly regulated industry in the geographies that Flutter operates. Whilst the industry still has room for improvement, legislation continues to tighten, particularly in the UK around maximum stake limits and potential mandatory financial support that operators provide to prevent problem gambling.
- The industry is rapidly moving on-line and this has accelerated during the Covid lockdown, which facilitates additional controls on potential problem gambling.

ESG Ratings

- Gambling Companies

- MSCI provides our ESG ratings for companies. For gambling companies, c.70% of the ESG rating is based on material, specific, sector considerations, such as:
 - **Product safety & quality** - Proportion of revenue in segments facing responsible gambling regulations, Strength of responsible gambling commitment and strategies; Customer protection tools and training; Evidence of compliance system to enforce responsible gambling policy.
 - **Privacy and data security** - Scope and transparency of privacy policy; Privacy & Data Security oversight controls; Audit oversight and certifications; Access, data protections and retention controls.
 - **Corruption and instability** (higher weighting for casinos) - Ethics policies specifically relating to anti-corruption/bribery – publicly disclosed and scope (i.e. all subsidiaries, suppliers, contractors); Enforcement mechanisms; Corruption-related controversies.
- Flutter has the highest MSCI ESG rating of the four listed UK gambling companies (AA rated).

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