

# Border to Coast Pensions Partnership Ltd

Teesside  
Pension Fund

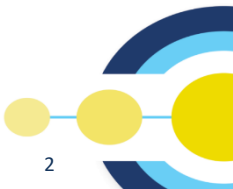
10th March 2021



# Agenda

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- Border to Coast Update
- Equity Investments Update
  - UK Listed Equity Fund
  - Overseas Developed Markets Equity Fund
- Alternatives Investments Update
  - Private Equity
  - Infrastructure



# Border to Coast Pensions Partnership Ltd

Border to Coast  
- Update



# Border to Coast: progress in 2020

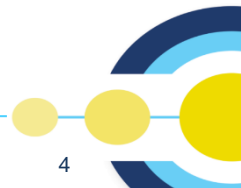
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## Milestones achieved

- Saw our first co-investment, in our infrastructure fund.
- Launched two fixed income funds – the £2.5bn sterling Investment Grade Credit Fund and the £1.5bn Sterling Index-Linked Bond Fund.
- For the second year running we were named ‘Pool of the Year’ by the 2020 LAPF Investment Awards.
- At the 2020 LAPF we also won the ‘Collaboration’ award.

## Key statistics

- Welcomes over 130 delegates at our first virtual conference.
- 58 partner Fund workshops during 2020 keeping our progress on track.
- Continued to recruit, over 20% of our colleagues have joined us during lockdown.
- The completed our first “crossing deal” which led to a saving of £3.4m for the Partner Funds involved.



# Investment Proposition Launch Timetable

	Scheduled 2020	Scheduled 2021	2022	2023 and beyond
Equities		Emerging Market Hybrid	Regional Alpha Emerging Markets Alpha	Passive/ Factor / ESG
Alternatives	Private Equity (series 1b) Infrastructure (series 1b) (etc annually)	Listed Alternatives Cashflow management	Legacy Diversified alternatives Asset Allocation	Impact Investing
Bonds	UK Investment Grade Index-Linked Gilts	Multi-Asset Credit		
Real Estate			Global Real Estate	UK Real Estate →
Other		Climate change strategy O/seas Dev equity review		Hedging →

# 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
<b>Approx. Size*</b>	£4.4bn	£3.4bn	£0.8bn	£1.3bn	£5.7bn
<b>Launch Date</b>	July 2018	July 2018	October 2018	December 2018	September 2019
<b>Benchmark</b>	FTSE All Share	Regional Comp	S&P Emerging	FTSE All Share	MSCI All World
<b>Target<sup>1</sup></b>	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**

<sup>1</sup> 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 <sup>2</sup>
<b>Approx. Size*</b>	£1.6bn	£3bn	£2-3bn
<b>Launch Date</b>	October 2020	March 2020	Q1 2021
<b>Benchmark</b>	FTSE A UK IL Gilts 15y	iBoxx GBP Non-Gilts	SONIA (Cash)
<b>Target<sup>1</sup></b>	BM +0.2% p.a.	BM +0.6% p.a.	BM +3 to 4% p.a.
<b>Border to Coast – FCA Regulated ACS Structure</b>			

\* As at 31/12/2020

<sup>1</sup> Measured over rolling five year periods net of costs.

<sup>2</sup> Includes an internally managed EMD sleeve

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# Alternative Fund Range

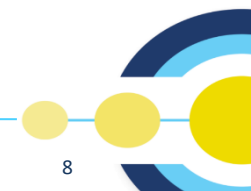
	Launched Alternative Asset Classes			Other Alternatives
	<b>Private Equity</b> <i>Investment in privately held companies</i>	<b>Infrastructure</b> <i>Real assets providing essential services</i>	<b>Private Credit</b> <i>Lending to privately held companies</i>	
<b>Series 1A</b>	£500m	£675m	£580m	<ul style="list-style-type: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

<sup>1</sup> Measured over rolling three year periods net of costs.

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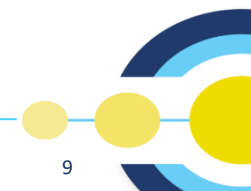
# Teesside – Valuation & Commitments

Listed Investments	Teesside Value (as at 31/12/2020)	Total Fund Value (as at 31/12/2020)
	£	£
UK Listed Equity Fund	1,233.3m	4.4bn
Overseas Developed Markets Fund	262.1m	3.4bn

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	133.0m (89%)	1,435m
Private Equity	150m	132.7m (89%)	985m
Private Credit	---	---	581m

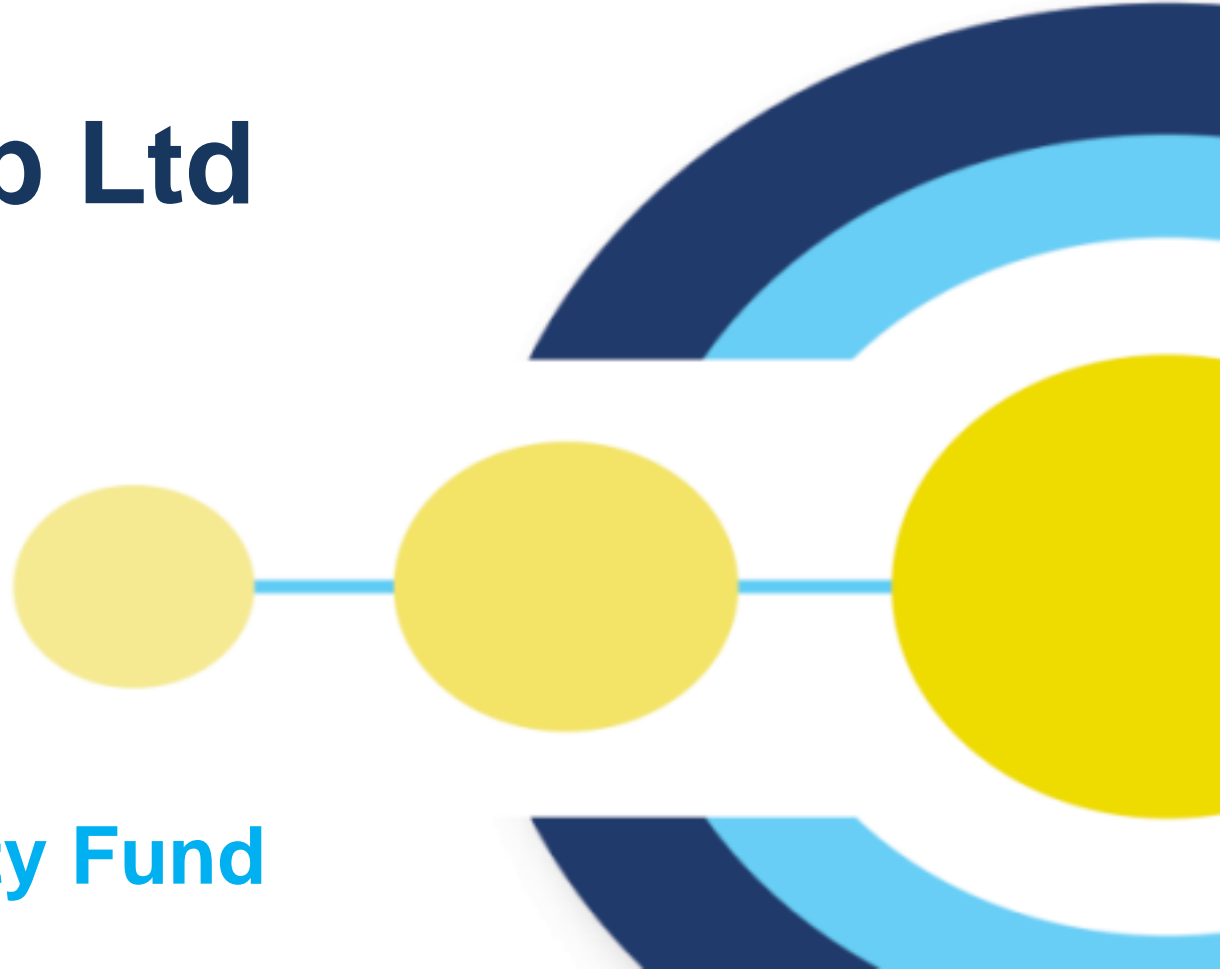
Source: Border to Coast. Past performance is not a reliable indicator of future performance and is not guaranteed.

(\*) As at 05/02/2021.



# Border to Coast Pensions Partnership Ltd

UK Listed Equity Fund

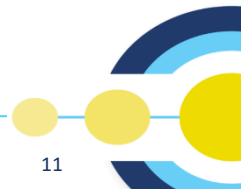


# UK Listed Equity Overview

## Q4 2020

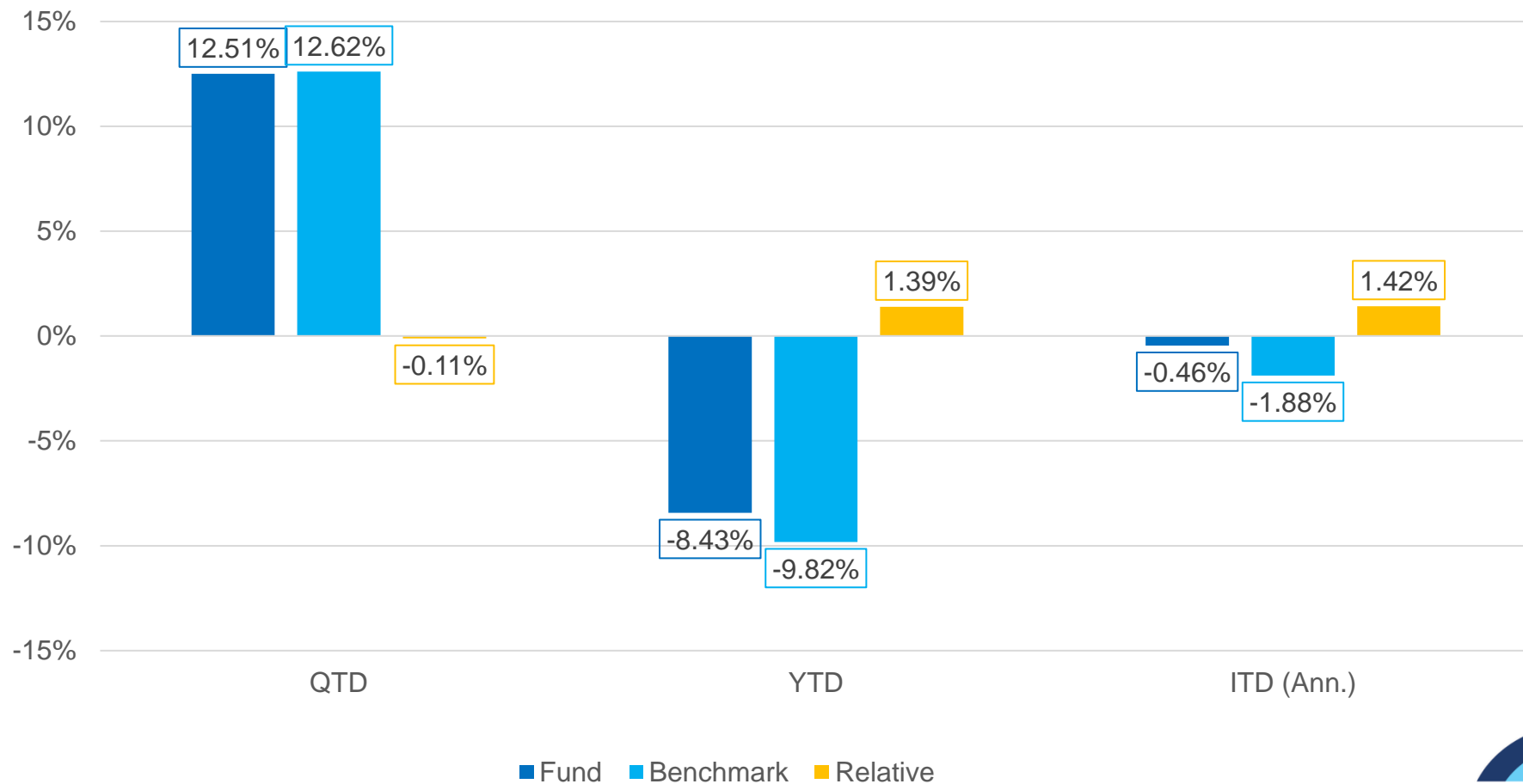
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- The UK was one of the strongest equity markets due to the delivery of a Brexit deal and positive news flow regarding vaccine development; the latter due to a combination of the recognition that the UK has been disproportionately impacted by the COVID-19 pandemic and the level of advance vaccine orders.
- The Fund was largely able to match the strong performance of the benchmark during the quarter and thus maintain the outperformance achieved in the first 9 months of the year. This has been due to the following factors:
  - Strong performance from specialist funds offering exposure to growth segments and smaller companies;
  - Strong selection and increasing exposure in both the Energy and Financials sectors, and
  - Strong stock selection in Consumer Discretionary and Communications Services.
- This was partly offset by:
  - An underweight position in smaller companies, which rebounded during the quarter;
  - Underweight to Consumer Discretionary and Communications Services sectors which have rebounded on the prospect of economic recovery, and
  - Weaker stock selection in Materials, Industrials and Healthcare.



# UK Listed Equity Fund Performance to 31<sup>st</sup> December 2020

## UK Listed Equity Fund



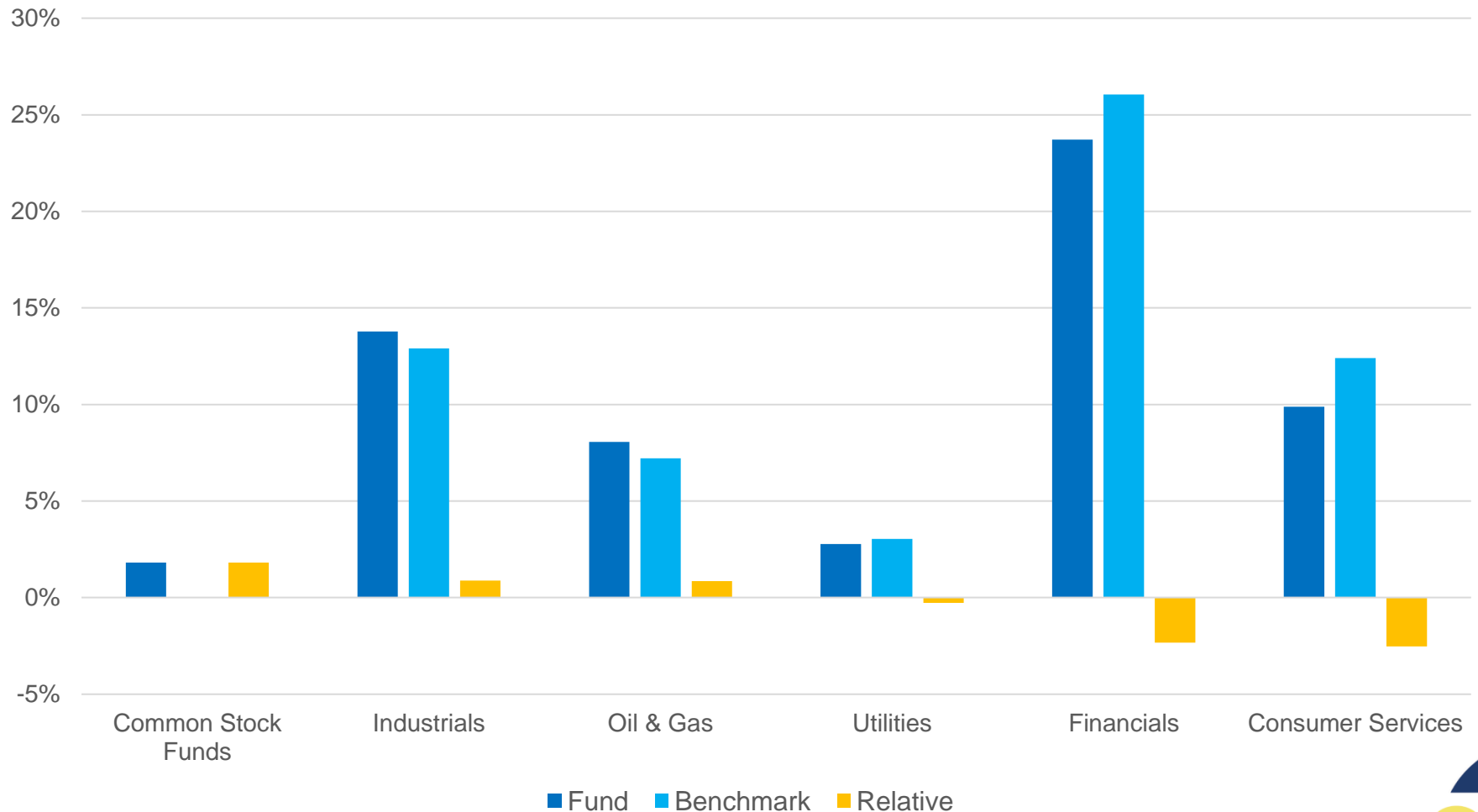
# UK Listed Portfolio Positioning for Q4 2020

Top Five Active Positions	Top Five	Narrative
<b>Antofagasta</b>	1.1%	Low cost producer, long-term demand for copper, driven by electric vehicles, transition to renewable energy and Chinese infrastructure investment.
<b>Impax Environmental</b>	1.0%	Leading ESG focused fund delivering strong long-term outperformance, specialising in alternative energy, energy efficiency, water treatment, and waste technology.
<b>Schroder Unit Trust</b>	1.0%	Providing UK small-cap exposure, with a long-term track record of outperformance.
<b>BHP</b>	0.9%	Diversified commodity exposure and strong cash generator benefitting from low cost production, proximity to end markets and continued robust demand from China.
<b>Liontrust UK Smaller Companies</b>	0.9%	Specialist UK small-cap fund manager with long-term track record of outperformance.
Bottom Five Active Positions	Bottom Five	Narrative
<b>Ocado</b>	-0.5%	Beneficiary of UK online grocery market growth and offers a technology solution to food retailers globally; however, valuation is stretched and the company has recently received patent infringement challenge in US and UK.
<b>Segro Plc</b>	-0.5%	Real estate holding company focused upon logistics/industrial units across Europe; Fund has similar UK exposure through St Modwen.
<b>Scottish Mortgage Investment Trust</b>	-0.8%	Investment trust with a focus on global large-cap technology companies; preference for Allianz Technology Trust with a similar investment focus.
<b>Flutter Entertainment</b>	-0.9%	Beneficiary of the ongoing deregulation taking place in the US online and sports betting market; position established post quarter end.
<b>Glencore</b>	-1.2%	Ongoing corruption investigations into allegations of bribery; coal exposure higher than peers; poor ESG score relative to peer group.

# UK Listed Equity Fund Top Contributors/Detractors for Q4 2020

Contributors	Top Five	Narrative
<b>Antofagasta (+)</b>	<b>0.2%</b>	Higher copper prices, driven by robust infrastructure demand from China and Covid-19 related supply restrictions at major producers in central and southern America.
<b>Ocado (-)</b>	<b>0.2%</b>	Slowing sales growth, in part due to capacity constraints, and received a technology patent infringement challenge.
<b>Herald Investment Trust (+)</b>	<b>0.1%</b>	Benefitted from its focus on small-cap technology and media stocks, with a bias to the UK.
<b>BlackRock Smaller Companies (+)</b>	<b>0.1%</b>	Recovery in small-caps driven by the prospect of a vaccine-related reopening of the economy and a UK trade deal with the EU.
<b>JP Morgan Smaller Companies (+)</b>	<b>0.1%</b>	Recovery in small caps and narrowing of the discount to NAV.
Detractors	Bottom Five	Narrative
<b>International Consolidated Airline (-)</b>	<b>-0.1%</b>	Beneficiary of the COVID-19 vaccine announcements which open up the possibility of a return to air travel.
<b>Natwest Group (-)</b>	<b>-0.1%</b>	Loan impairments below expectations, strong capital position and mortgage volumes/pricing improving. Preference for Lloyds Bank which is seeing similar tailwinds.
<b>Reckitt Benckiser (-)</b>	<b>-0.1%</b>	Hygiene products have seen strong sales growth during pandemic but creates tough comparatives as vaccines emerge; infant nutrition in China remains challenging.
<b>AstraZeneca (+)</b>	<b>-0.1%</b>	Pharma sector weakness around the US election outcome (potential drug pricing reform) together with announcement of acquisition of US biotech company Alexion for \$39bn.
<b>Glencore (-)</b>	<b>-0.3%</b>	Robust commodity prices driven by Chinese demand although key bribery investigations remain unresolved.

# Sector Positioning – Top/Bottom Weights



# Material Trades in Q4 2020

## Purchases

### Unilever PLC (£105.6m)

Share unification of the UK and Dutch lines led to a 120% increase in benchmark weight.



### Lloyds Bank PLC (£5.2m)

Added on valuation grounds, excess capital position and the prospect of a vaccine-led recovery in 2021 as the UK economy re-opens. Loan book impairments continue to be below expectations.



## Sales

### William Hill PLC (£24.1m)

Sold holding after the Board recommended acceptance of an all-cash bid from its US joint venture partner, Caesars Entertainment Inc.



### South32 Ltd (£9.0m)

Sold holding following the recent strong recovery in the share price and delays to the sale of the coal business in South Africa, which contributed to a poor carbon metric.





# **Border to Coast Pensions Partnership Ltd**

**Overseas Developed Markets  
Equity Fund**



# Overseas Developed Equity Overview

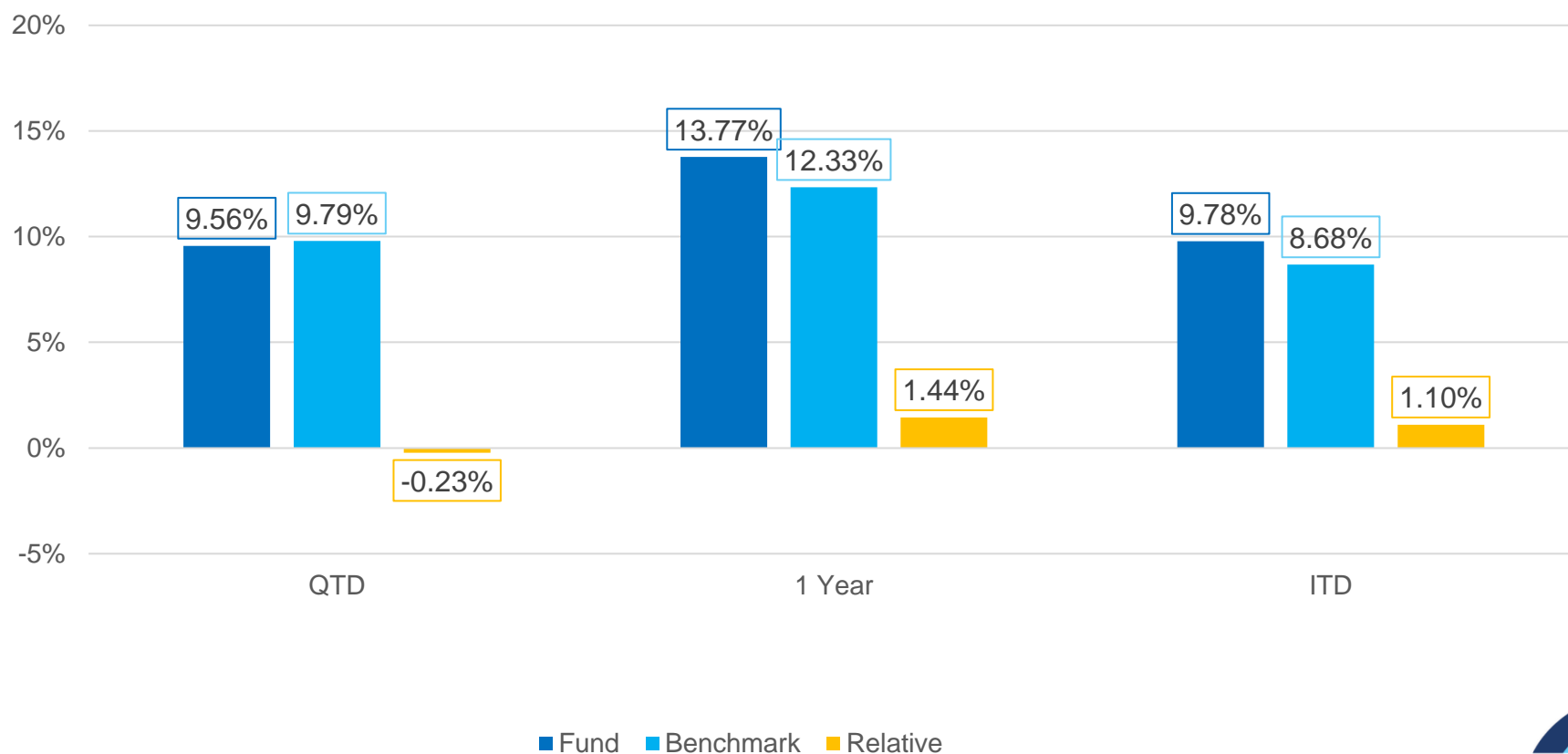
## Q4 2020

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- The Fund has continued to benefit from the recovery in equity markets, supported by extensive monetary and fiscal stimulus. Markets were buoyed by the prospect of vaccines bringing an end to the COVID-19 pandemic and carrying the prospect of an economic recovery. Markets remained firm through the quarter, despite the strength of the second wave of the pandemic impacting Europe and the US towards the end of the quarter.
- The Fund has underperformed due to the following:
  - Bias towards large-cap stocks, particularly in the US and Europe, and an underweight to smaller companies which have led the market during the quarter;
  - Weaker stock selection in Healthcare and Consumer Services, and
  - Underweight position in Financials which outperformed the broader market.
- This has been partly offset by:
  - Strong stock selection in Resources and Industrials;
  - Underweight position in Utilities which underperformed the broader market, and
  - Strong performance from Common Funds with investments in specialist growth segments and smaller companies.

# Performance to 31<sup>st</sup> December 2020

## Overseas Equity Fund



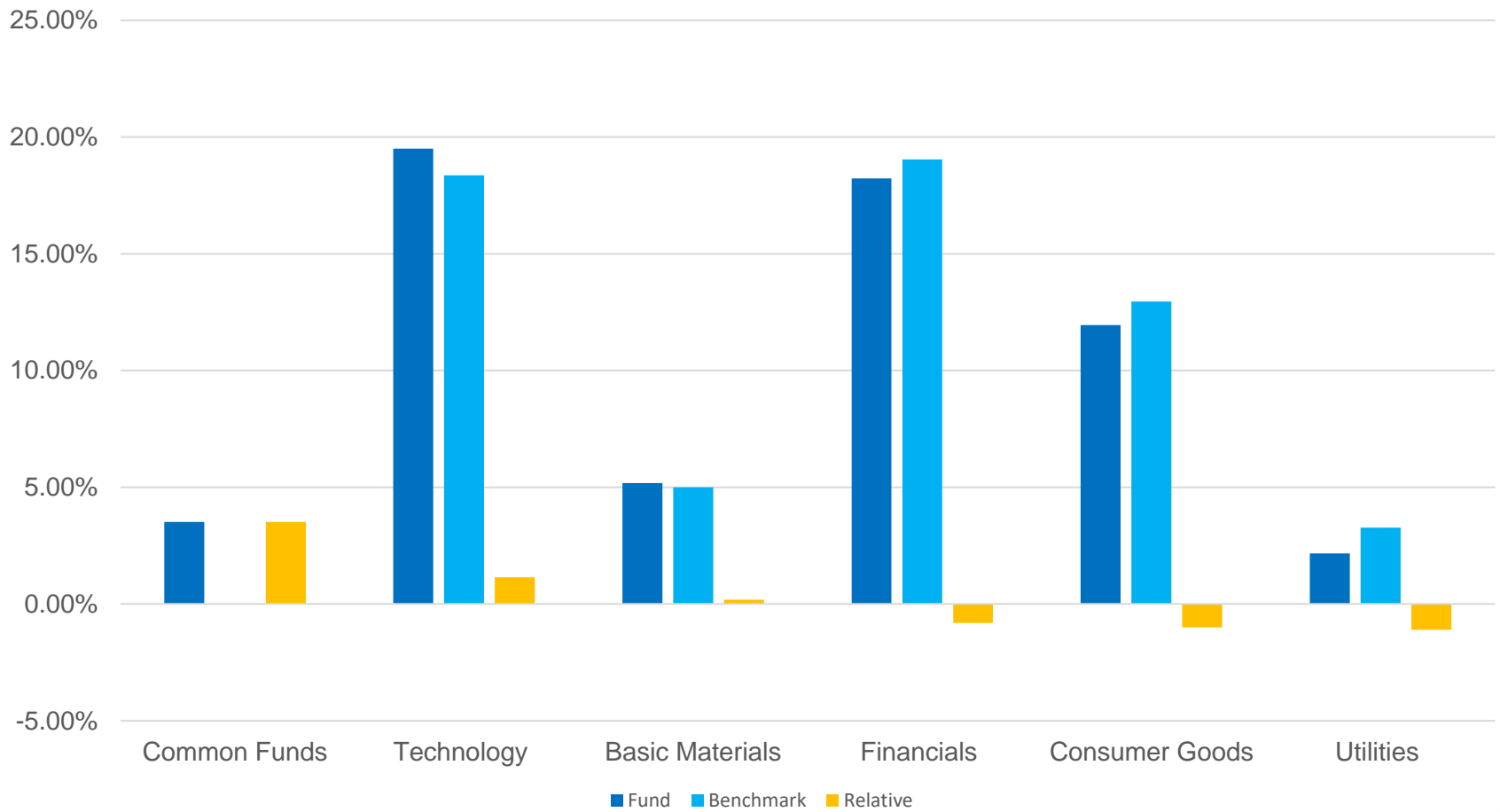
# Top Contributors/Detractors for Q4 2020

Contributors (Relative Weight)	Top Five	Narrative
<b>Samsung Electronics Ords (o/w)</b>	<b>0.15</b>	Prospects for recovery in all business segments, led by DRAM (dynamic random access memory) semiconductor chips, and potential for improved shareholder returns.
<b>Samsung SDI (o/w)</b>	<b>0.09</b>	Continued positive news flow regarding electric vehicle (EV) growth forecasts led to outperformance in the EV Battery names.
<b>Airbus (o/w)</b>	<b>0.08</b>	Beneficiary of the impact of positive vaccine developments on a recovery in air travel; aircraft deliveries were also slightly higher than expected.
<b>Xinyi Solar (o/w)</b>	<b>0.06</b>	Positive trading update and Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products.
<b>Fortescue Metals (o/w)</b>	<b>0.06</b>	Strong rise in iron ore prices due to increased Chinese demand and continued supply disruptions.
Detractors (Relative Weight)	Bottom Five	Narrative
<b>Samsung Electronics Prefs (u/w)</b>	<b>-0.10</b>	Benefited from the same drivers as Samsung Electronics Ords. The Fund is overweight Samsung Electronics overall but has no exposure to the preference shares.
<b>NVIDIA Corporation (o/w)</b>	<b>-0.08</b>	Shares stalled following strong gains, strategically advantageous acquisition of Arm facing an anti-trust challenge.
<b>SAP (o/w)</b>	<b>-0.06</b>	Significant profit warning and reduced earnings guidance with expectations of higher capital expenditure as integration of recent acquisitions has not been successful.
<b>Home Depot (o/w)</b>	<b>-0.06</b>	Rotation away from companies that have benefited from pandemic disruption towards companies with greater leverage to a recovery.
<b>Dollar General (o/w)</b>	<b>-0.05</b>	Concern that record same store sales numbers will not be maintained at the current pace once the US recovers from the pandemic.

# Portfolio Positioning for Q4 2020

Top Five Active Positions	Top Five	Narrative
Vanguard US Mid Cap ETF	2.86%	Provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.
Samsung Electronics	0.87%	Exposed to structural growth in the memory chip market; diversified earnings stream and large shareholder return potential; overweight in the ordinary shares partly offset by not owning the preference shares.
Alphabet A	0.70%	Parent company of Google; offset by not holding the C shares which results in a modest overweight exposure to Alphabet overall.
Visa Inc	0.43%	Exposed to strong drivers of the move to cashless payments and growth in cross border transactions.
JP Morgan European Smaller Companies	0.43%	Provides relatively defensive exposure to smaller companies in Europe.
Bottom Five Active Positions	Bottom Five	Narrative
Tesla	-0.68%	High valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.
Alphabet C	-0.64%	Exposure in A shares aggregate to a modest overweight exposure to Alphabet overall.
Mastercard	-0.40%	Preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, on valuation grounds.
Samsung Electronics Prefs	-0.35%	Overweight Samsung Electronics overall via the more liquid Ordinary shares.
PayPal	-0.35%	Growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

# Sector Positioning – Top/Bottom Weights



# Material Trades in Q4 2020

## Purchases

### Banks (£9.9m)

Westpac (+£2.9m); BOC HK (+£2.5m); KB Financial (+£2.5m); and DBS (+£2.0m) – Reduced underweight in Banks in Pacific portfolio as market started to focus on the potential recovery in the sector.

 **Westpac**

 **KB**

 **DBS**

 **中銀香港(控股)有限公司**  
BOC HONG KONG (HOLDINGS) LIMITED

## Sales

### Unilever (£17.0m)

Full disposal as company is no longer in the index following full relocation to the UK.



### Xinyi Solar (£4.5m)

Strong performance enabled the Fund to continue to take profits in this non-benchmark holding.



# Border to Coast Pensions Partnership Ltd

Alternative Investments





# Alternative Investments - Fund Range

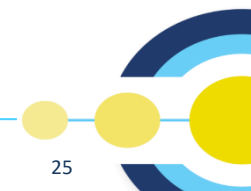
## Launched Alternative Asset Classes

	<b>Private Equity</b> <i>Investment in privately held companies</i>	<b>Infrastructure</b> <i>Real assets providing essential services</i>	<b>Private Credit</b> <i>Lending to privately held companies</i>
<b>Series 1A</b>	£500m	£675m	£580m
<b>Series 1B</b>	£485m	£760m	n/a
<b>Target<sup>1</sup></b>	10% p.a.	8% p.a.	6% p.a.
<b>Border to Coast – Unregulated Collective Investment Scheme</b>			

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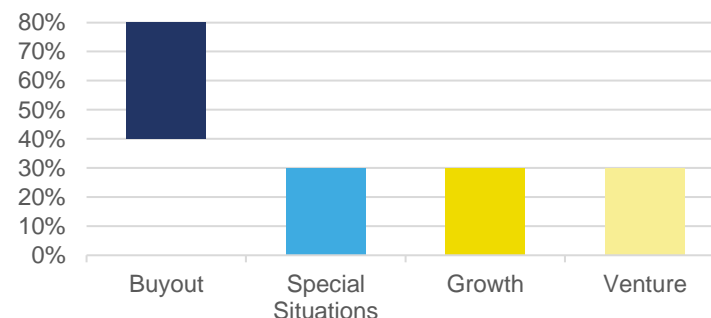
# Border to Coast Pensions Partnership Ltd

Private Equity

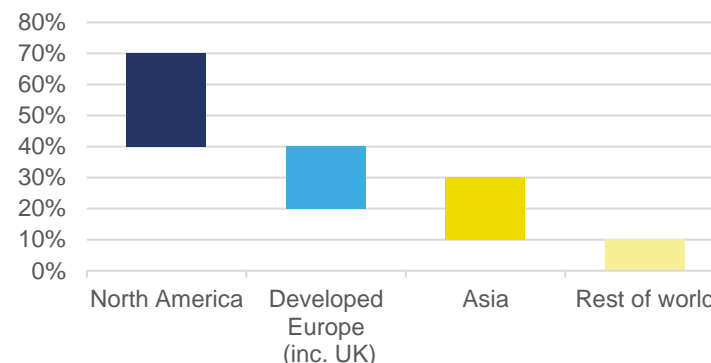


# Private Equity: Asset Allocation

Strategy	Permitted Range <sup>1</sup>
Buyout	40 – 80%
Special Situations	0 – 30%
Growth	0 – 30%
Venture	0 – 30%



Geography	Permitted Range <sup>1</sup>
North America	40 – 70%
Developed Europe (inc. UK)	20 – 40%
Asia	10 – 30%
Rest of world	0 – 10%



<b>Benchmark</b>	<b>10% p.a. (net)<sup>2</sup></b>
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**Series 1A Commitments**  
**Series 1B Commitments**

**£500m**  
**£485m**

<sup>1</sup> Based on total commitments over a full Series (e.g. 1A, 1B, 1C)

<sup>2</sup> Secondary benchmark – MSCI ACWI + 3% (PME+ basis)

# Private Equity: Areas of Focus

## OPERATIONAL VALUE ADD

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

## BUY AND BUILD

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

## MID-MARKET FOCUS

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

## CO-INVESTMENTS

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

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

# Private Equity: Areas of Focus

## ASIA

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

## SECTOR SPECIALISTS

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

## SECTOR THEMES

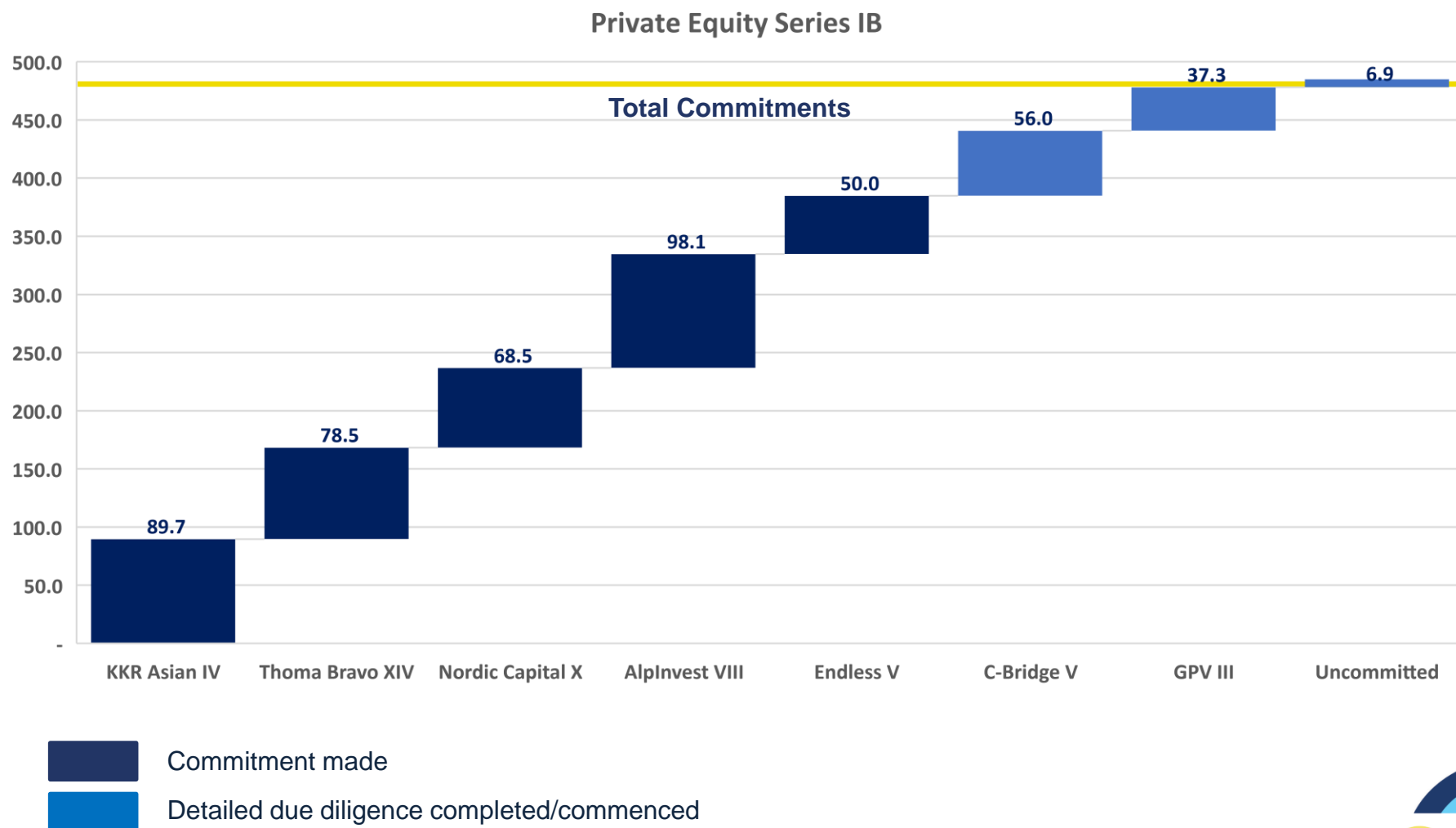
Long term structural drivers – Technology (AI, IoT, cloud) and Healthcare (trends in global demographics and increased per capita spending).

## DISTRESSED

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

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

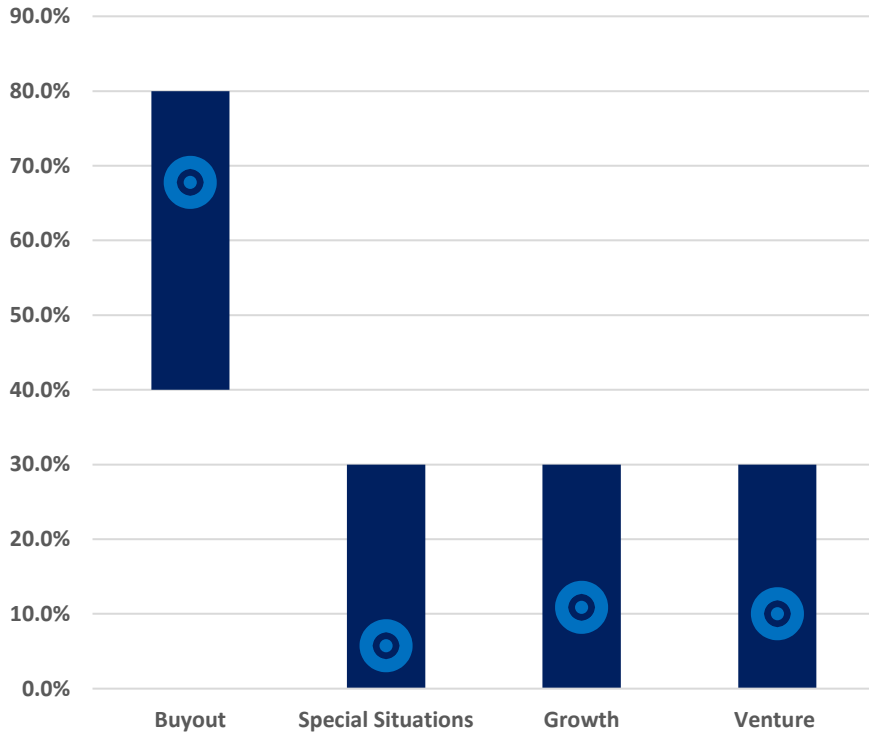
# Private Equity 1B: Commitments to Date



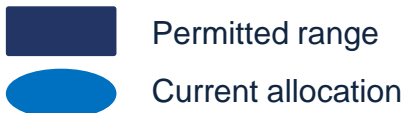
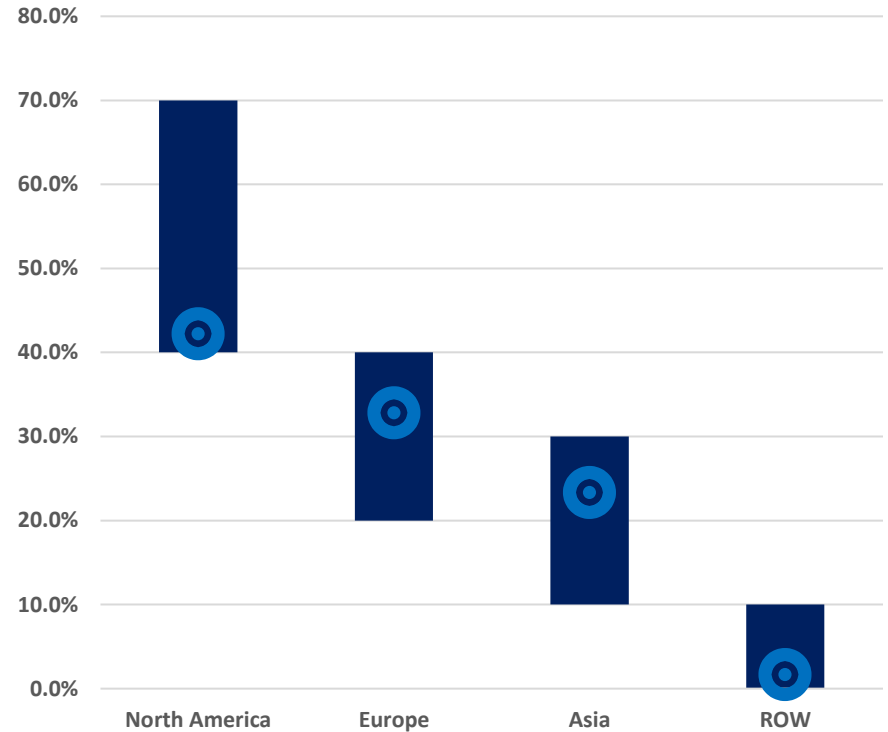
Note: Commitments in £m using exchange rates at time of approval  
Residual uncommitted capital to be cancelled

# Private Equity: Asset Allocation

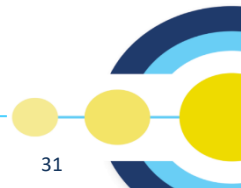
Private Equity Series I



Private Equity Series I



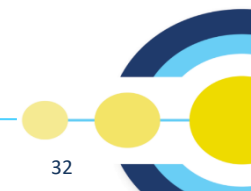
Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole



# Private Equity: 1C pipeline

Strategy	Geography	Commitment
Buy-out	North America	£70m
Buy-out	North America	£65m
Buy-out	Europe	£70m
Co-investment Fund (Buy-out)	Global	£100m
Special Situations	Global (North America: 50%; Europe: 50%)	£80m
Growth	Global (North America: 75%)	£60m
Venture	North America	£40m

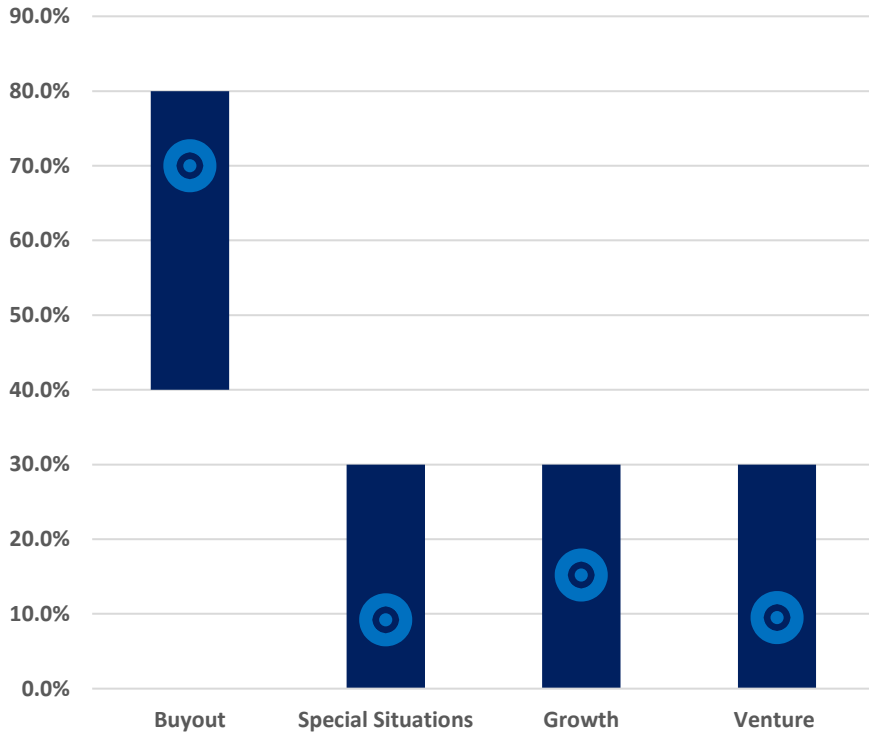
Note: Assumes that commitments of £485m are received for Series 1C (based on commitments received for Series 1B)



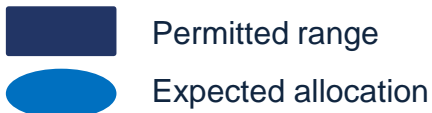
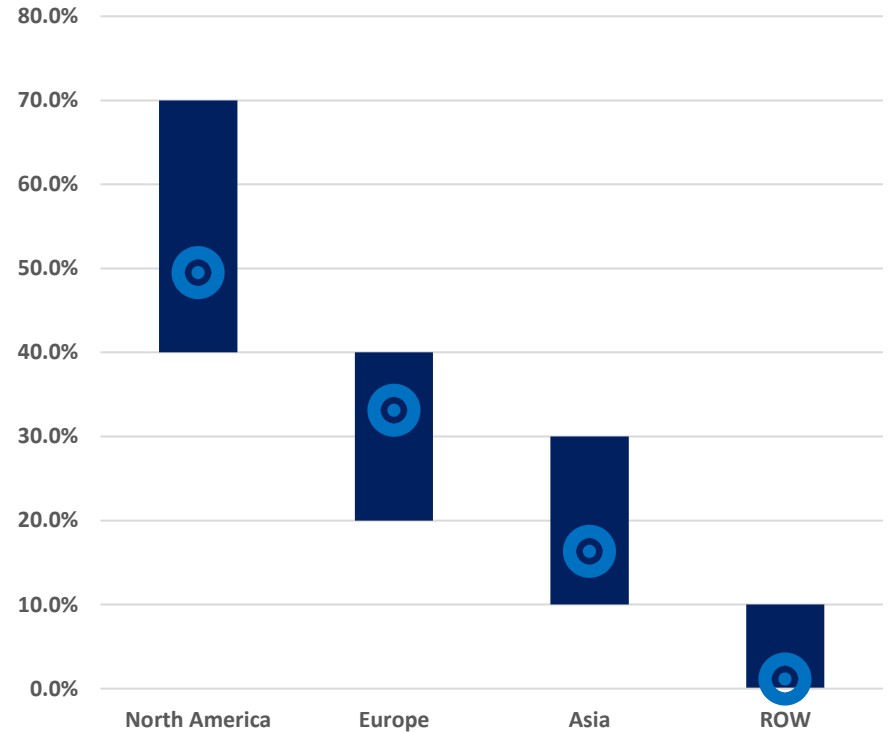


# Private Equity: Asset Allocation (post 1C)

Private Equity Series I



Private Equity Series I



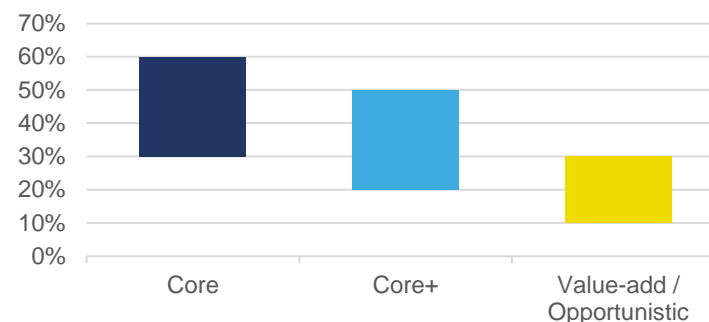
# Border to Coast Pensions Partnership Ltd

Infrastructure

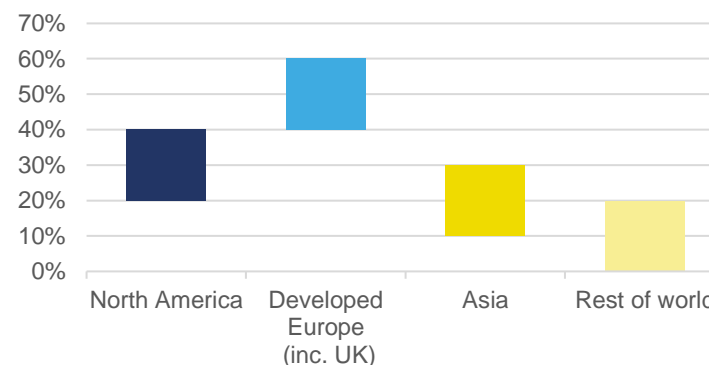


# Infrastructure: Asset Allocation

Strategy	Permitted range <sup>1</sup>
Core	30 – 60%
Core+	20 – 50%
Value-add / Opportunistic	10 – 30%



Geography	Permitted range <sup>1</sup>
North America	20 – 40%
Developed Europe (inc. UK)	40 – 60%
Asia	10 – 30%
Rest of world	0 – 20%



<b>Benchmark</b>	<b>8% p.a. (net)</b>
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<b>Series 1A Commitments</b>	<b>£675m</b>
<b>Series 1B Commitments</b>	<b>£760m</b>

<sup>1</sup> Based on total commitments over a full Series (e.g. 1A, 1B, 1C)

# Infrastructure: Areas of Focus

## OPERATIONAL VALUE ADD

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

## SECTOR THEMES

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

## GREENFIELD

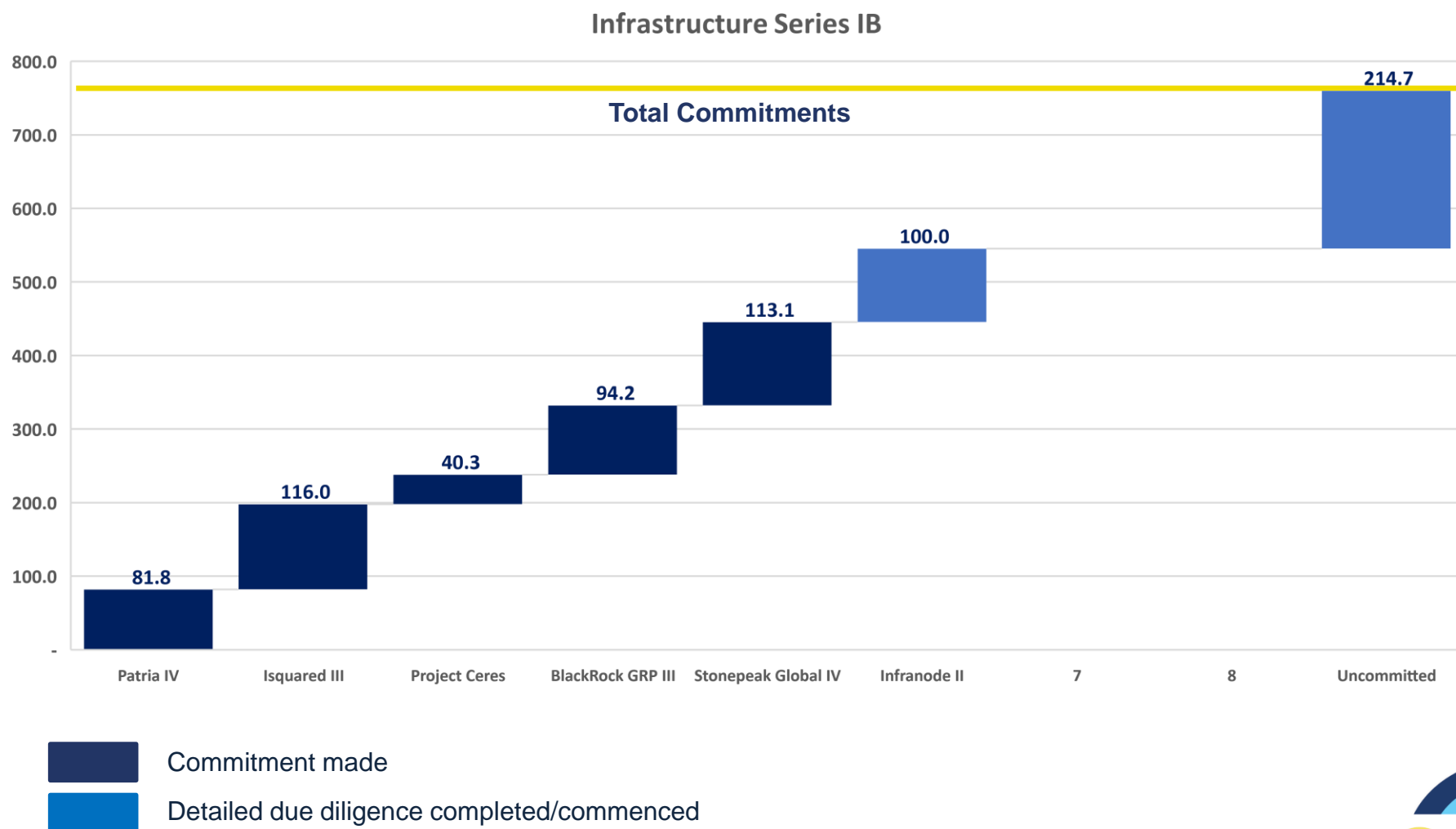
Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.

## EMERGING MARKETS

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

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

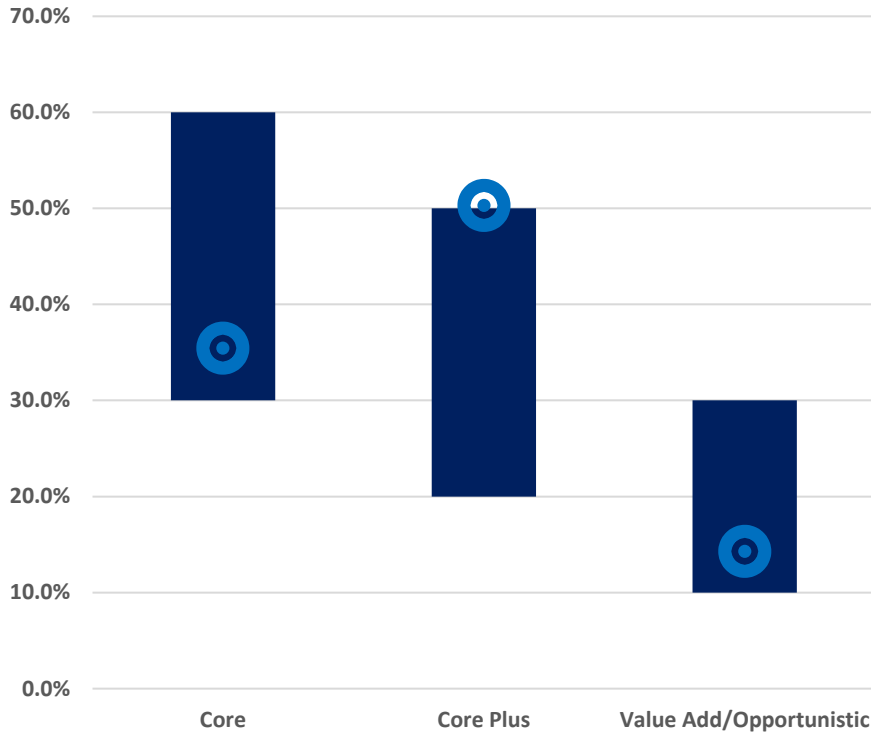
# Infrastructure 1B: Commitments to Date



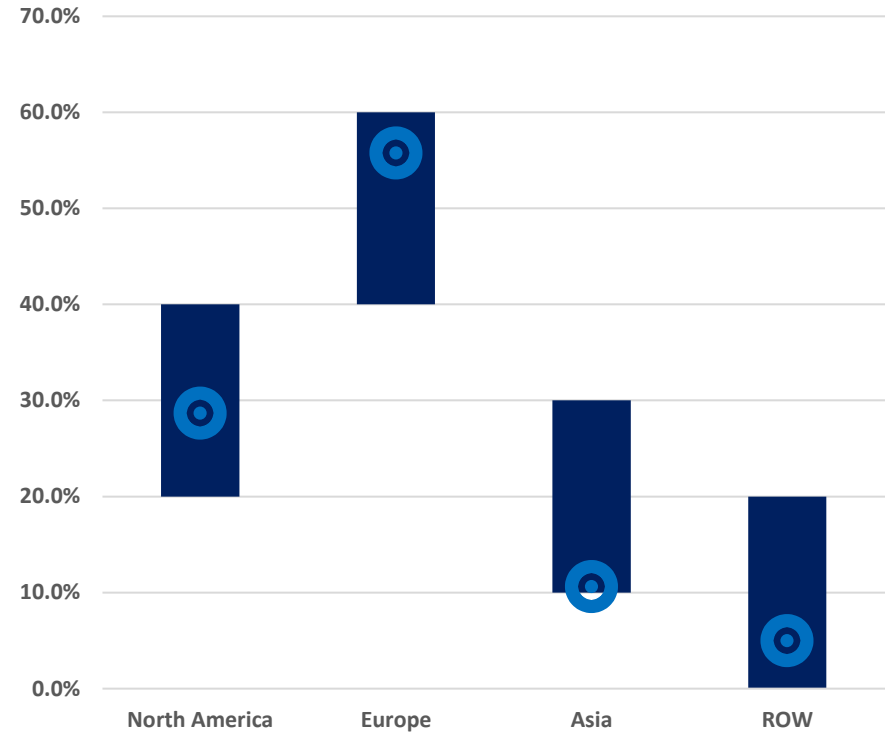
Note: Commitments in £m using exchange rates at time of approval  
Residual uncommitted capital to be cancelled

# Infrastructure: Asset Allocation

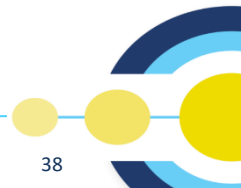
Infrastructure Series I



Infrastructure Series I



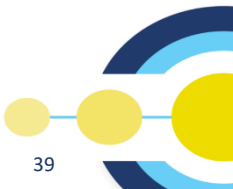
Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole



# Infrastructure: 1C pipeline

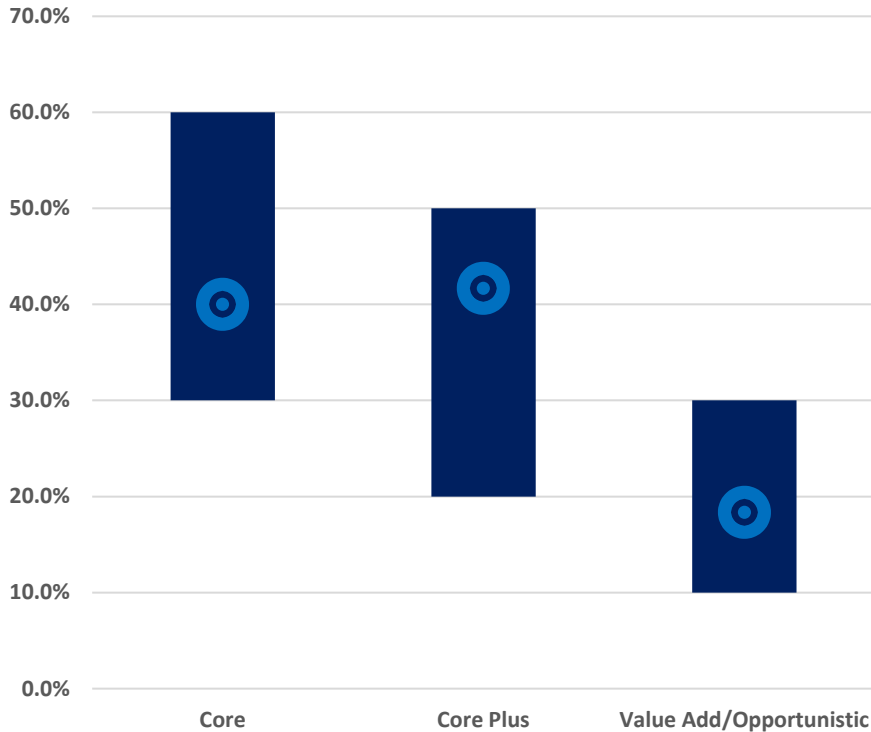
Strategy	Geography	Commitment
Core (Brownfield)	North America	£120m
Core+	Asia	£100m
Core (Open Ended)	Global	£120m
Core+ (Specialist)	Global	£100m
Core+ (Renewables)	Global	£120m
Core (Greenfield)	Europe	£100m
Core (Greenfield)	North America	£100m

Note: Assumes that commitments of £760m are received for Series 1C (based on commitments received for Series 1B)

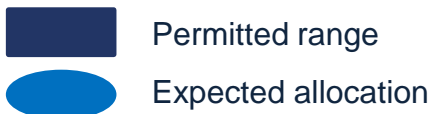
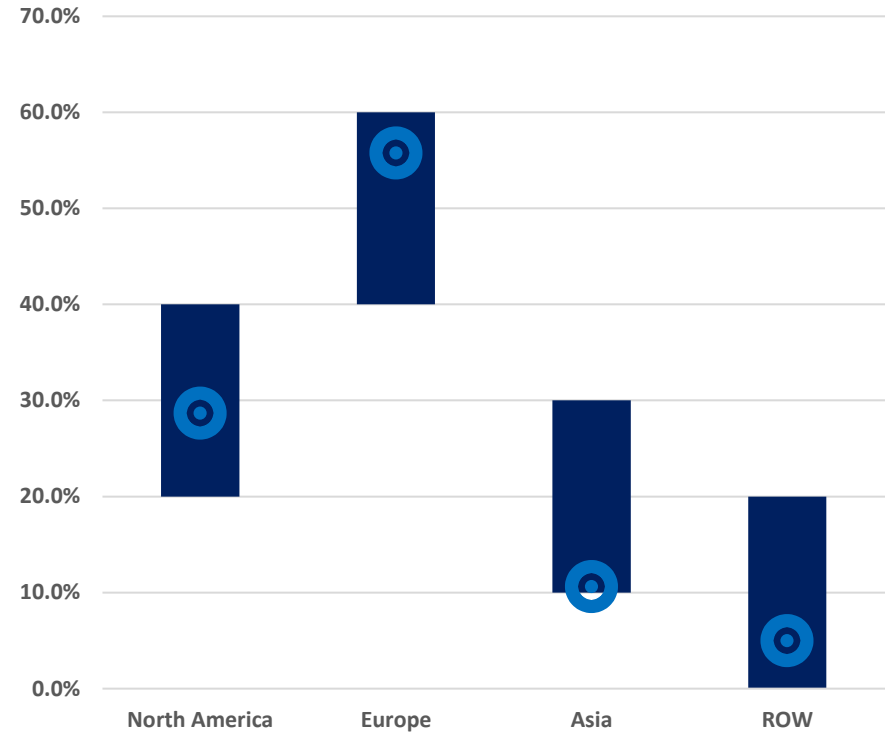


# Infrastructure: Asset Allocation (post 1C)

Infrastructure Series I



Infrastructure Series I





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