



Teesside Pension Fund

Quarterly Investment Report - Q3 2021

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1) Border to Coast

Executive Summary

Overall Value of Teesside Pension Fund

Value at start of the quarter	£2,945,506,082
Inflows	£0
Outflows	£(155,000,000)
Net Inflows / Outflows	£(155,000,000)
Realised / Unrealised gain or loss	£39,161,352
Value at end of the quarter	£2,829,667,434

Over Q3 2021, Teesside's holdings performed as follows:

- The UK Listed Equity Fund underperformed its benchmark by 0.19%
- The Overseas Developed Markets Equity Fund outperformed its benchmark by 0.56%
- The Emerging Markets Equity Fund outperformed its benchmark by 0.21%

Teesside made redemptions totalling £155,000,000 from the UK Listed Equity Fund during Q3 2021.

Note

1) Source: Northern Trust

2) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund. Performance start date of 18/05/2021 for the overall Emerging Markets Equity Fund with performance start date of the underlying managers being 29/04/2021 following the restructure of the Fund.

3) Returns for periods greater than one year are annualised

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

5) Inflows and Outflows values may include income.

Portfolio Analysis - Teesside Pension Fund at 30 September 2021

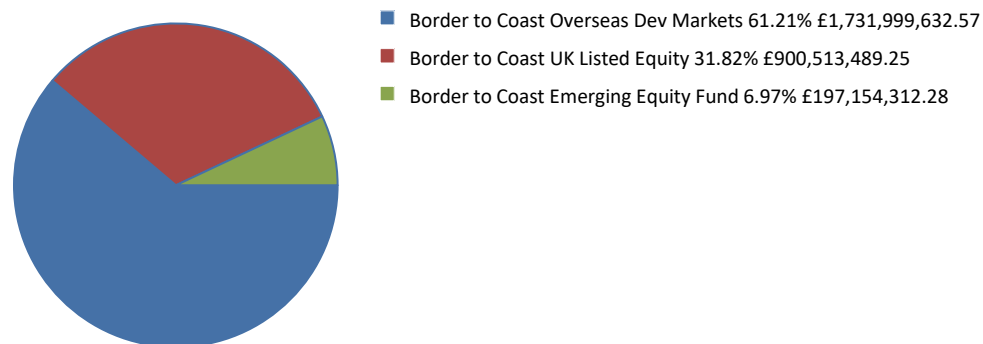
Funds Held

Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	900,513,489.25	31.82
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	1,731,999,632.57	61.21
Border to Coast Emerging Equity Fund	EM Equity Fund Benchmark ³	197,154,312.28	6.97

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

Teesside Pension Fund - Fund Breakdown



Note

1) Source: Northern Trust

Portfolio Contribution - Teesside Pension Fund at 30 September 2021

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	31.82	2.04	2.23	(0.19)	0.72
Border to Coast Overseas Dev Markets	61.21	1.58	1.02	0.56	0.90
Border to Coast Emerging Equity Fund	6.97	(4.26)	(4.47)	0.21	(0.30)
Total	100.00	1.31			

The UK Listed Equity Fund returned 2.04% over the quarter, which was 0.19% behind the FTSE All Share Index.

The Overseas Developed Markets Equity Fund returned 1.58% over the quarter, which was 0.56% ahead of the composite benchmark.

The Emerging Markets Equity Fund returned -4.26% over the quarter, which was 0.21% ahead of the FTSE Emerging Markets.

Overall, Teesside's investments with Border to Coast returned 1.31% during Q3 2021.

Note

1) Source: Northern Trust & Border to Coast

Valuation Summary at 30 September 2021

Fund	Market value at start of the quarter			Inflows (GBP)	Outflows (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter		
	GBP (mid)	Total weight (%)	Strategy weight (%)				GBP (mid)	Total weight (%)	Strategy weight (%)
Border to Coast UK Listed Equity	1,034,586,789.32	35.12			155,000,000.00	20,926,699.93	900,513,489.25	31.82	
Border to Coast Overseas Dev Markets	1,704,988,011.21	57.88				27,011,621.36	1,731,999,632.57	61.21	
Border to Coast Emerging Markets Equity	205,931,281.66	6.99				(8,776,969.38)	197,154,312.28	6.97	
Total	2,945,506,082.19	100.00			155,000,000.00	39,161,351.91	2,829,667,434.10	100.00	

Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Inflows and Outflows values may include income.

Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 30 September 2021

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity	3.42	2.57	0.85	2.05	2.23	(0.17)	26.65	27.89	(1.25)	3.87	3.08	0.79	--	--	--
Border to Coast Overseas Dev Markets	11.31	10.25	1.06	1.58	1.02	0.56	22.77	22.31	0.46	11.26	10.26	1.00	--	--	--
Border to Coast Emerging Markets Equity	8.15	10.07	(1.92)	(4.26)	(4.47)	0.21	13.64	13.54	0.10	--	--	--	--	--	--

Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start date of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund. Performance start date of 18/05/2021 for the overall Emerging Markets Equity Fund with performance start date of the underlying managers being 29/04/2021 following the restructure of the Fund.
- 4) Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
- 5) 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 30 September 2021

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity	3.43	2.57	0.86	2.06	2.23	(0.17)	26.65	27.89	(1.24)	3.88	3.08	0.80	--	--	--
Border to Coast Overseas Dev Markets	11.32	10.25	1.08	1.58	1.02	0.56	22.78	22.31	0.47	11.27	10.26	1.01	--	--	--
Border to Coast Emerging Markets Equity	8.25	10.07	(1.83)	(4.18)	(4.47)	0.29	13.87	13.54	0.33	--	--	--	--	--	--

Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund. Performance start date of 18/05/2021 for the overall Emerging Markets Equity Fund with performance start date of the underlying managers being 29/04/2021 following the restructure of the Fund.
- 4) The performance shown above does not include the costs of operating the ACS such as the investment management, depository and audit fees.
- 5) 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 30 September 2021

UK Listed Equity Fund

The Fund generated a total return of 2.05% during the quarter compared to the benchmark return of 2.23% resulting in 0.17% of underperformance.

The UK lagged broader global market indices by a small margin during the quarter. Continued progress with the vaccine roll-out along with increasing evidence of its efficacy in combating the worst effects of the virus helped the government adopt a more relaxed posture towards the spread of the Delta-plus variant than headline infection rates would previously have prompted. In addition, the extension of stimulus measures ensured the economic recovery remained robust and prevented continued friction from the settling of lingering Brexit issues and broader global supply chain problems from having too great a dampening effect. The relatively high index representation of the Energy sector helped offset the similarly large exposure to Materials, allowing the strong performance of the Financials sector (the largest sector) to ensure a small positive return overall.

Positive performance derived from the following factors:

- Strong stock selection in Energy (overweight Shell, Cairn Energy and underweight BP) as energy prices have recovered with the re-opening of the global economy;
- Overweight position in UK Small Cap collectives which have continued to outperform as the domestic economy re-opens; and
- Overweight Consumer Staples alongside strong stock selection (overweight Morrisons, Ocado not held, partly offset by overweight AB Foods).

This was offset by:

- Stock selection in Healthcare (overweight Smith & Nephew; Dechra Pharma and Indivior not held);
- Underweight Real Estate (Segro not held) with logistics real estate continuing to perform strongly; and

- Underweight Financial Services alongside negative stock selection (Scottish Mortgage Investment Trust not held, overweight Biotech Growth Trust).

The portfolio's risk profile has been gradually increased as concerns over Brexit have receded and the recovery from COVID-related economic weakness becomes clearer. This has most visibly been represented by an increase in the size of the portfolio's exposure to mid-cap companies (generally those present in the FTSE 250 index). The international backdrop remains clouded by an uncertain outlook in China, fading rate of growth in the US, and the prospect of another winter with COVID. In addition, although Brexit is now at least notionally resolved, the impact on specific sectors and companies will only become clear over time and there are several elements of the Brexit deal, not least the Northern Ireland Protocol, that remain a source of tension.

The portfolio managers have increased exposure to more cyclical, value-oriented stocks in acknowledgement of the shifting balance of risks and to add to favoured companies at lower valuations. This has largely helped protect performance as these segments have led the market in recent months. The Fund will continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets, earnings, and income visibility.

Note

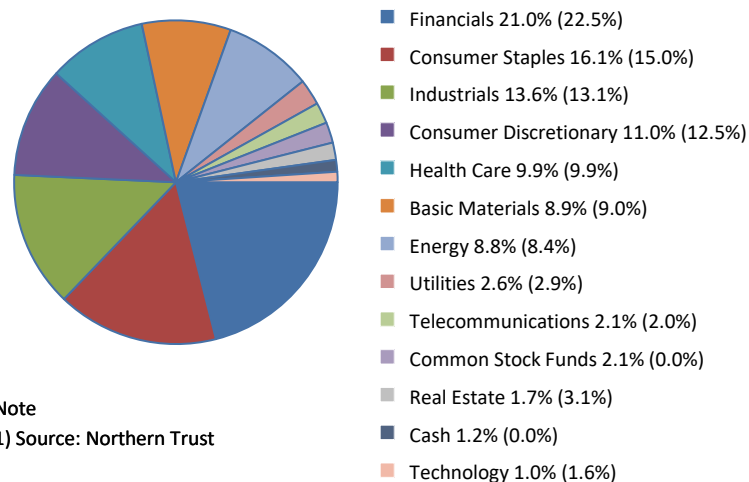
1) Source: Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2021

Largest Relative Over/Underweight Sector Positions (%)

Common Stock Funds	+2.06
Consumer Staples	+1.15
Industrials	+0.50
Energy	+0.41
Telecommunications	+0.09
Consumer Discretionary	-1.48
Financials	-1.48
Real Estate	-1.42
Technology	-0.56
Utilities	-0.33

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-cap companies via specialist funds/collective vehicles with long-term track records of outperformance.

Consumer Staples (o/w) – broad mix of food and beverage producers together with food retailers which collectively offer strong cash generation, robust balance sheets and have benefited from resilient trading throughout the pandemic.

Industrials (o/w) – broad mix of companies typically with significant global market positions, benefitting from the post-pandemic global economic re-opening and rising infrastructure expenditure.

Consumer Discretionary (u/w) – bricks and mortar non-food retail structurally challenged by increasing online penetration and high occupancy costs, exacerbated by extended shut down of high street stores and leisure sites in response to the COVID-19 pandemic. Delayed relaxation of international travel restrictions has left travel sector balance sheets carrying significantly higher levels of debt, with an unclear longer-term impact on business travel.

Financials (u/w) – predominantly due to being underweight investment trusts and Asian-focused banks (US-China relations remain strained), partly offset by overweight positions in Insurers and Wealth Managers as they are expected to benefit from the long-term increase in Asian and Emerging Market wealth.

Real Estate (u/w) – concerns around retail/leisure sector exposure including vacancy rates, rent re-negotiations and accumulated rent arrears, together with uncertainty around the on-going impact of COVID-19 and continuation of home/flexible working on the long-term demand for office space.

Border To Coast UK Listed Equity Fund Attribution at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Ultra Electronics	0.30	41.85	0.09	42.02	0.11
Ocado	0.00	0.00	0.33	(17.00)	0.08
Royal Dutch Shell B	3.02	19.26	2.52	19.31	0.08
Impax Environmental Markets	1.04	10.35	0.06	10.28	0.07
IP Group	0.41	20.29	0.06	20.72	0.06

Ultra Electronics (o/w) – the Board recommended acceptance of an all-cash bid from Cobham, owned by US buyout firm, Advent.

Ocado (u/w) – capacity constraints continue to hold back revenue growth, with recovery from the impact of a fire at a key distribution centre taking longer than anticipated.

Royal Dutch Shell B (o/w) – strong energy prices during the quarter driven by recovering global economic activity, alongside constrained supply growth and lower natural gas reserves ahead of northern hemisphere winter. The agreement to sell its US Permian Basin assets to ConocoPhillips and associated carbon emissions reduction was well received, with the majority of proceeds to be returned to shareholders.

Impax Environmental Markets (o/w) – environmentally-focussed energy and water efficiency fund which has continued to benefit from strong Net Asset Value appreciation, compounded by the shares extending their Net Asset Value premium during the quarter.

IP Group (o/w) – the intellectual property commercialisation company reported strong portfolio valuation gains during the quarter, particularly from the largest portfolio holding Oxford Nanopore, as it announced its intention to list.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund Attribution Continued at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Glencore	0.88	15.90	1.92	16.26	(0.12)
Biotech Growth Trust	0.52	(14.05)	0.02	(14.35)	(0.10)
Meggitt	0.00	0.00	0.24	60.10	(0.08)
Entain	0.00	0.00	0.51	22.03	(0.08)
Associated British Foods	0.54	(16.09)	0.27	(16.06)	(0.06)

Glencore (u/w) – a diversified mining company continuing to benefit from broad based commodity strength (such as copper, nickel, zinc and coal) supporting strong cash flow and balance sheet deleveraging.

Biotech Growth Trust (o/w) – the wider healthcare sector is weak in the post-pandemic recovery period alongside an ongoing US political debate on healthcare reform. The Fund is biased towards smaller biotech companies which have underperformed.

Meggitt (u/w) – the aerospace manufacturer accepted an all-cash bid at c. 70% premium to its prevailing share price from US industrial company Parker-Hannifin.

Entain (u/w) – the company confirmed receipt of an improved bid from US peer DraftKings with speculation that the company is interested in Entain's non-US assets. MGM Resorts are also potentially looking to buy out its existing US joint venture with Entain.

Associated British Foods (o/w) – sales figures for retail division Primark remain below pre-COVID levels, impacted by lockdowns and absence of an online presence, and new space growth targets disappointed.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast UK Listed Equity Fund at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Schroder UK Smaller Companies Fund	+1.08
Impax Environmental Markets	+0.98
Liontrust UK Smaller Companies	+0.98
Antofagasta	+0.68
Lloyds Banking Group	+0.59
Glencore	-1.04
Scottish Mortgage Investment Trust	-0.84
SEGRO	-0.59
Entain	-0.51
3i Group plc	-0.50

Note

1) Source: Northern Trust

Top 5 Holdings Relative to Benchmark:

Schroder UK Smaller Companies Fund – UK small-cap stocks have continued to outperform larger-cap stocks as the UK domestic economy re-opens on vaccine progress. Proprietary ESG scoring systems and significant direct ESG engagement.

Impax Environmental Markets – leading ESG-focused fund delivering strong long-term outperformance, specialising in alternative energy, energy efficiency, water treatment, pollution control and waste technology.

Liontrust UK Smaller Companies – focussed on intellectual property, strong distribution channels and durable competitive advantage. They place a strong emphasis on sustainable investment and undertake extensive ESG engagement and reporting.

Antofagasta – the company operates at the lower end of the cost curve and benefits from attractive long-term demand for copper, driven by electric vehicles, transition to renewable energy and global infrastructure investment.

Lloyds Banking Group – well capitalised exposure to the re-opening UK domestic economy with strong market position in mortgages and lending, with the weighting reflecting a zero holding in NatWest given the UK government controlling shareholding.

Bottom 5 Holdings Relative to Benchmark:

Glencore – historically a higher risk commodity company with significant operations in geographies with weaker governance; ongoing corruption investigations including US Department of Justice and UK Serious Fraud Office into allegations of bribery. We initiated a position earlier in the year due to signs of improvements of governance.

Scottish Mortgage Investment Trust – investment trust with a focus on global large-cap technology; the Fund has a preference for Allianz Technology Trust with a similar investment focus.

SEGRO – a real estate holding company focussed on logistics and industrial units across Europe; Fund had similar UK exposure through St Modwen until it recently agreed to be acquired by private equity firm Blackstone.

Entain – Fund has similar exposure and preference for Flutter with its greater market share in the rapidly expanding US online sports betting and gaming market.

3i Group plc – a global private equity investor but with a highly concentrated investment portfolio, with nearly half the current net asset value invested in a single asset - Action, a European discount retailer.

Major transactions during the Quarter

Purchases:

Glencore (£16.2m) – reducing underweight position on valuation grounds - switching from BHP Group and Anglo American.

Sales:

BHP Billiton (£24.8m) – part reduction of large benchmark holding to contribute towards investor redemption and part switch into Glencore on relative valuation grounds.

Border To Coast Overseas Developed Markets Equity Fund - Overview at 30 September 2021

Overseas Developed Markets Fund

The Fund generated a total return of 1.58% during the quarter compared to the composite benchmark return of 1.02% resulting in outperformance of 0.56%. Japan was the strongest market (6.83%) while Asia Pacific Ex-Japan markets were, in aggregate, the weakest (-5.09%). The Asia Pacific Ex-Japan portfolio slightly lagged its benchmark during the quarter, but the other 3 portfolios outperformed their respective benchmarks ensuring a positive outcome for the quarter.

The Fund has continued to benefit from ongoing strength in equity markets supported by extensive monetary and fiscal stimulus. Markets have also been buoyed by vaccines significantly improving the outcomes for individuals with COVID-19, thus reducing the need for containment measure and allowing monetary and fiscal stimuli to ensure most economies are experiencing V-shaped recoveries. Supply problems – whether due to lack of goods or logistical problems in getting them from supplier to end-markets – have caused disruptions to the recovery, and the recent spike in energy prices also threatens to have an impact on economies as we move into the fourth quarter, giving investors reason to be a little cautious.

The Fund has outperformed due to the following:

- Strong stock selection in Japan and the US, particularly within Industrials and Healthcare;
- Positive allocation in Europe, being overweight Energy and Technology but underweight Real Estate, Utilities and Consumer Discretionary; and
- Overweight in Technology which has performed strongly.

This has been partly offset by:

- Weak stock selection and negative allocation outcome in Pacific ex-Japan; and
- Underweight position in Healthcare which has outperformed.

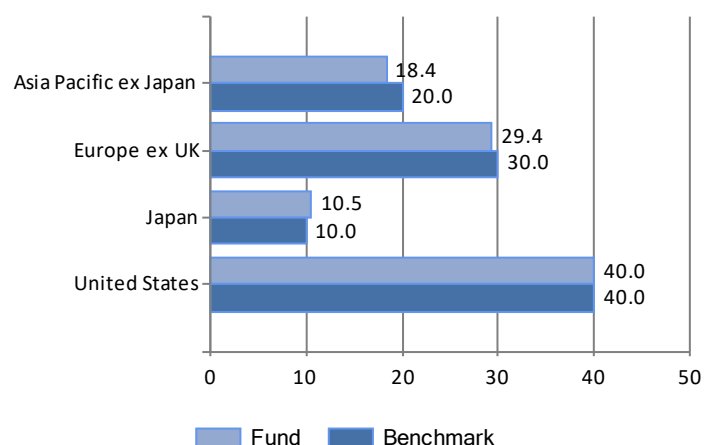
The Fund has a relatively low risk profile driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle to upper end of the targeted tracking error range of 1 – 3%. It is unlikely that there will be material changes to portfolio positioning 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 30 September 2021

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

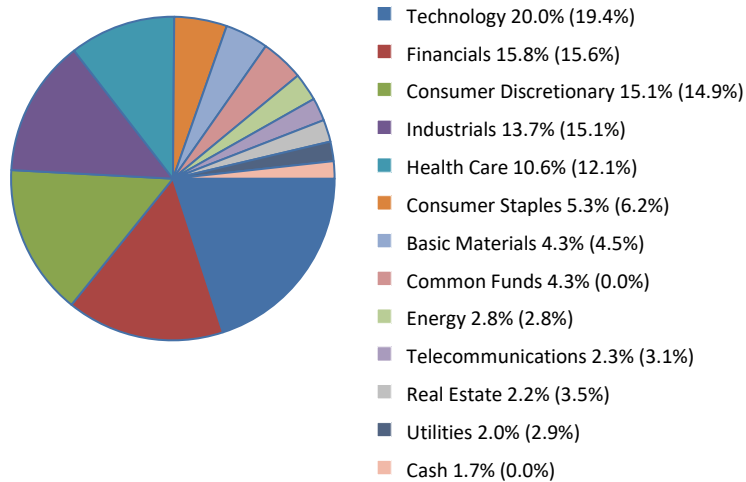
Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Overseas Developed Equity Fund	11.31	10.25	1.06	1.58	1.02	0.56	22.77	22.31	0.46	11.26	10.26	1.00
United States	15.50	14.46	1.04	3.95	2.95	1.00	23.80	24.12	(0.32)	14.89	14.10	0.79
Japan	9.27	6.60	2.67	8.17	6.83	1.34	21.81	16.54	5.27	8.54	5.99	2.55
Europe ex UK	7.99	7.93	0.06	0.74	0.60	0.14	21.24	21.13	0.11	8.52	8.45	0.07
Asia Pacific ex Japan	8.67	6.66	2.00	(5.14)	(5.09)	(0.06)	22.12	22.25	(0.12)	9.01	6.95	2.06

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 30 September 2021

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.

Financials (o/w) – small overweight position driven by larger overweight in Pacific ex-Japan and more neutral positions in other regions. Interest rate cycle looking more favourable for Banks’ earnings than has been the case for some time, particularly in the Pacific region.

Industrials (u/w) – driven in general by a preference for the higher secular growth rates and lower leverage of IT companies, particularly given the uneven nature of the recovery in Europe and potential for interest rates to trend higher.

Healthcare (u/w) – one of the sectors to benefit from the pandemic, but this has been reflected in valuations. With economic recovery fuelling a rebound in earnings in other segments of the market, opportunities have appeared more attractive elsewhere.

Real Estate (u/w) – the high leverage that is typically associated with the sector leaves the sector exposed in a rising interest rate environment. Normally improving economies would be favourable for asset pricing and demand trends but these compensatory factors are less certain in a post COVID-19 world.

Note

- 1) Source: Northern Trust
- 2) The pie-chart shows the sector allocation of the fund . The benchmark sector allocation is shown in brackets.

Border To Coast Overseas Developed Markets Equity Fund Attribution at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Alphabet A	2.00	12.18	0.88	12.18	0.11
Kakao	0.00	0.00	0.17	(29.45)	0.07
Novo Nordisk	0.96	18.42	0.54	18.90	0.06
Vivendi	0.08	32.64	0.03	(32.23)	0.05
Vanguard US Mid Cap ETF	3.05	2.47	0.00	0.00	0.04

Alphabet A (o/w) – benefited from a supportive environment for digital advertising.

Kakao (u/w) – Internet stocks hit on potential government clampdown on excessive profits and abuse of market dominance.

Novo Nordisk (o/w) – improved revenue and earnings outlook from new drug diabetes drug, Wegovy.

Vivendi (o/w) – the 60% spin off of UMG (Universal Media Group) and potential buyback has been received well.

Vanguard US Mid Cap ETF (o/w) – the largest position within the Fund, providing exposure to smaller companies which outperformed large caps during the quarter.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Tesla	0.00	0.00	0.69	16.89	(0.09)
Alphabet C	0.00	0.00	0.82	8.95	(0.06)
Samsung Electronics	2.21	(10.11)	1.85	(10.19)	(0.06)
Logitech International	0.19	(23.67)	0.05	(24.11)	(0.05)
Hyundai Motor	0.31	(18.81)	0.15	(18.34)	(0.04)

Tesla (u/w) – resilient production defied market concerns and expected beneficiary of US proposals for new electric vehicle (EV) subsidies with no volume cap.

Alphabet C (u/w) – benefited from a supportive environment for digital advertising.

Samsung Electronics (o/w) – market focus on direction of memory chip pricing continues to impact performance.

Logitech International (o/w) – earnings guidance suggested an expected decline in profitability in the second half of the year.

Hyundai Motor (o/w) – combination of seasonality and chip shortages have adversely impacted the Korean auto manufacturers.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.05
Alphabet A	+1.12
Vanguard US Small Cap Value ETF	+0.71
Microsoft	+0.44
NVIDIA Corporation	+0.43
Alphabet C	-0.82
Tesla	-0.69
PayPal	-0.33
Mastercard	-0.33
Samsung Electronics Prefs	-0.31

Top 5 Holdings Relative to Benchmark:

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

Alphabet A – parent company of Google; offset by not holding the C shares which results in a moderate overweight exposure to Alphabet overall.

Vanguard US Small Cap Value ETF – provides exposure to smaller value companies as market rotates into companies expected to benefit from post-Covid recovery.

Microsoft – structural growth from Azure cloud hosting business and migration of Business Office to MS 365 online, with associated opportunity for value added sales and increased customer stickiness.

NVIDIA Corporation – product leadership offers exposure to PC gaming refresh cycle and structural growth in AI data centres.

Bottom 5 Holdings Relative to Benchmark:

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

Tesla – high valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.

PayPal – growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

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

Note

1) Source: Northern Trust

Summary of Performance - Funds (Net of Fees) Border to Coast Emerging Markets Equity Fund at 30 September 2021

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	8.15	10.07	(1.92)	(4.26)	(4.47)	0.21	13.64	13.54	0.10	EM Equity Fund Benchmark ³
Border to Coast	5.84	7.48	(1.64)	2.68	3.45	(0.77)	--	--	--	FTSE Emerging ex China (Net)
FountainCap	(9.17)	(16.08)	6.91	(11.48)	(15.52)	4.04	--	--	--	FTSE China (Net)
UBS	(19.01)	(16.08)	(2.93)	(15.72)	(15.52)	(0.20)	--	--	--	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.	58%	62%
FountainCap	China specialist with long term, high conviction strategy focused on three megatrends: Innovation Economy, Clean Energy, and Consumption Upgrade.	17%	17%
UBS	China specialist seeking to identify upcoming 'industry leaders' that will benefit from China's structural growth and transition to a services-led economy.	25%	21%

Note

1) Source: Northern Trust & Border to Coast

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

3) ³EM 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 30 September 2021

Emerging Markets Equity Fund

China continued to be the headline story in Emerging Markets (“EM”) over the quarter. Having performed strongly last year, on the back of successful COVID policy and early re-opening, China has slipped towards the bottom of the pack this year. Global investors have become increasingly nervous about the Government imposing severe regulatory restrictions on a range of sectors (e.g. after-school tutoring sector) deemed crucial in the mission towards ‘Common Prosperity’. This combined with continuing tension between the US and China, as well as concern over the credit worthiness of the property sector (see the Evergrande story), has prompted investors to look elsewhere for opportunities.

In an EM ex-China setting, India was the big beneficiary over the quarter, helped additionally by success in tackling the COVID pandemic. Although India is traditionally an expensive market, following the recent rally it is now encroaching on the top-end of its historic valuation range. Other markets that performed well during the quarter were those with a strong orientation towards commodities; particularly oil and gas. Russia and Saudi Arabia are the obvious beneficiaries of rising energy prices, with those markets gaining ~30% on a year-to-date basis.

Elsewhere, inflationary pressures are causing a number of EM Central Banks to begin tightening monetary policy (e.g. Brazil and Russia). Turkey, however, has continued with a more unorthodox approach favoured by President Erdoğan. So far this year, Turkey has performed even worse than China – due to currency depreciation.

Against this backdrop, the Fund outperformed the benchmark by 0.21%, bringing year-to-date relative performance to +1.4%. Absolute performance, however, was negative, with the benchmark dragged down by China – which fell more than 15% in the period. Since the restructure of the Fund in April, the new externally managed allocation to China has outperformed by 1.2%, however, the EM ex-China allocation has detracted (down 1.6% vs. the respective benchmark).

Over the quarter, the EM ex-China sleeve, managed internally by Border to Coast, delivered a positive absolute return, though it underperformed its benchmark by 0.8%. Underperformance was primarily driven by Financials, with Health Care and Information Technology also weighing on returns. Within Financials, overweight positions in B3 and Banco Bradesco (both Brazil) detracted, with concerns over increased competition and lower volumes (B3) and COVID claims (Bradesco) weighing on investor sentiment. Positive contributions from positioning in Industrials and Materials (particularly SABIC) were not sufficient to offset the aforementioned detractors.

Note

1) Source: Border to Coast

In aggregate, the Fund’s allocation to China was a positive contributor to relative returns, with the China portion of the Fund outperforming by 1.7% over the quarter. Within this allocation, FountainCap was the key driver of outperformance, ending the quarter +4% vs. FTSE China. UBS, on the other hand, was virtually flat vs. benchmark over the period. A key driver of this performance differential is positioning in big tech and tech-adjacent names (which are large benchmark constituents – and fall across a variety of sectors, for example Alibaba is Consumer Discretionary). FountainCap are materially underweight these names, instead taking select exposure in those names that are less likely to be caught in the regulatory headlights. This positioning was particularly beneficial in Q3, where Alibaba and Tencent (some 20% of the index) fell ~30% and ~20% respectively on regulatory fears. UBS, in comparison, are broadly market weight across these two securities.

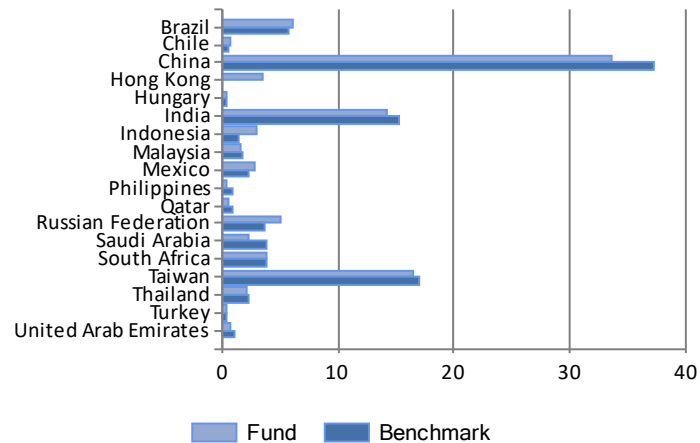
Outside of these more familiar names, positioning in Real Estate (no exposure), financials (underweight) and energy (overweight) were contributors to FountainCap outperformance. One contributor of note (+1% contribution for FountainCap) was Sungrow Power, an equipment supplier in the renewables space, which returned more than 30% as the market believes the stock is well positioned to benefit from renewed policy focus in this area (e.g. rooftop solar projects).

For UBS, positioning in Consumer Discretionary (positive), was offset by positioning in Consumer Staples, Financials and Health Care. UBS’ exposure to baijiu (Chinese liquor) producers Kweichow Moutai and Wuliangye was a particularly material detractor to performance (aggregate 1.3% detractor for UBS) during the quarter. Investors became concerned during the quarter that such beverage manufacturers would soon fall into the regulatory cross hairs with potential price controls on the horizon. These fears did begin to alleviate towards the end of the quarter, with positive business changes also resulting in share price bounces.

As we head towards the end of 2021, we remain optimistic about the global economic recovery but are cautious about the risks that we face. COVID variants could lead to renewed lockdown measures (especially in regions with lower vaccination rates), inflation is soaring in certain economies and regulatory risks – particularly in China – are ever-present in investors’ minds. Our investment philosophy continues to be rooted in long-term thinking and analysis and we believe that our stock and thematic positioning, particularly in China, will serve us well in the long term.

Border to Coast Emerging Markets Equity Fund at 30 September 2021

Regional Breakdown



Emerging Markets Equity Fund

The Border to Coast Emerging Markets Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE Emerging Markets benchmark by at least 1.5% per annum over rolling 3 year periods (before calculation of the management fee).

The majority of the Fund’s performance will arise from stock selection decisions.

Sector Weights:

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

Common Funds (o/w) – the aggregate ETF/Investment Trust exposure within the Fund, used to express country positioning in the internally managed Emerging Markets ex. China sleeve.

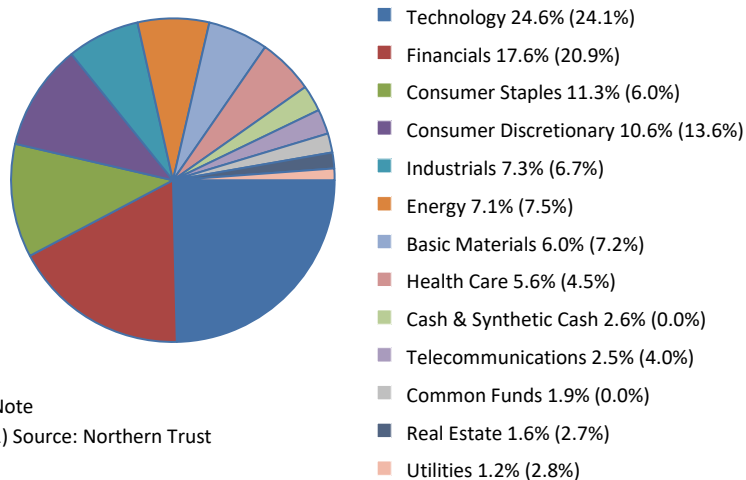
Health Care (o/w) – demographic trends (aging EM populations), increasing prosperity and perhaps even medical tourism are expected to drive medical spending higher (both personal and governmental) in Emerging Markets. The Fund is exposed to a diverse set of innovative businesses in this sector.

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

Consumer Discretionary (u/w) – the Chinese e-commerce giant Alibaba is roughly 5% of the FTSE Emerging benchmark and dominates the consumer discretionary sector. The Fund is underweight Alibaba, instead deploying capital in names such as Anta Sports and NetEase. The Fund is also underweight to the automobiles sub-sector, where Chinese EV firm Nio is a large index weight.

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

Sector Portfolio Breakdown



Note

1) Source: Northern Trust

Border to Coast Emerging Markets Equity Fund Attribution at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Alibaba	1.60	(33.11)	3.66	(33.94)	0.90	Consumer Discretionary	China
SABIC Agri-Nutrients	1.00	49.85	0.12	49.93	0.32	Basic Materials	Saudi Arabia
NIO	0.00	0.00	0.65	(31.38)	0.26	Consumer Discretionary	China
Sungrow Power	0.81	32.27	0.03	32.26	0.21	Energy	China
Tencent	4.05	(19.38)	5.00	(19.25)	0.20	Technology	China
HCL Technologies	0.89	33.80	0.26	34.05	0.18	Technology	India
Chailase	0.78	33.42	0.17	32.92	0.18	Financials	Taiwan
Bilibili	0.00	0.00	0.23	(44.36)	0.17	Technology	China
ZEE Entertainment	0.36	46.54	0.05	46.36	0.15	Consumer Discretionary	India
Reliance Industries	2.21	21.90	1.49	22.46	0.15	Energy	India

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 Continued at 30 September 2021

Positive Issue Level Impacts

Alibaba (u/w) – a Chinese multinational technology company. The company’s shares participated in the broad-based sell-off in the Chinese technology sector as regulators introduced a spate of regulatory actions against some of the country’s largest technology companies. The Fund is underweight.

SABIC Agri-Nutrients (o/w) – as investors are no doubt aware, there has been a global squeeze on gas prices and as a result, some fertilizer producers exposed to spot gas prices have mothballed production. The firm’s key competitive advantage is in having secure supplies under long-term (i.e. low price) contracts.

NIO (u/w) – shares slumped during the period alongside other highly valued growth names as a wave of fear hit Chinese equity markets. Concerns over regulatory intervention, Sino-US relations, and contagion from the potential collapse of property developer Evergrande led to a risk-off environment for stocks like NIO. The Fund has no exposure to NIO.

Sungrow Power (o/w) – supplies equipment and parts for solar, wind and other renewable power projects. The stock benefitted from a rotation into names with lower regulatory risk and was buoyed by the prospect of increased demand in 2022 as policy makers start to push rooftop solar projects.

Tencent (u/w) – a Chinese technology conglomerate. The Fund benefited from an underweight position in Tencent as it, and the wider Chinese technology sector, came under increased scrutiny from regulators, including a plan to limit kids’ video game play time to three hours a week.

HCL Technologies (o/w) – within a sector that has been benefitting from particularly strong demand as companies race to improve their digital offerings and cloud-based services. HCL has a strong order backlog and continues to win new contracts which combined with a relatively modest share price multiple (vs. peers) helped underpin the strong performance.

Chailease (o/w) – during the period, the firm reported quarterly results ahead of expectations. With investor appetite cooling for once for the tech hardware sector, Taiwanese financials were in demand and Chailease rallied by 30% over the quarter.

Bilibili (u/w) – owns and operates a Chinese video sharing website. Bilibili, like other technology names, suffered as investors were fearful of continued intervention from the government. The Fund has no exposure to Bilibili.

ZEE Entertainment (o/w) – shares of the Indian media conglomerate rallied hard on two occasions in September. Firstly, following news that a leading shareholder had proposed ousting several board members to improve governance at the firm. The stock then rallied again on news that management had agreed a deal to merge with Sony Pictures India.

Reliance Industries (o/w) – India’s leading refinery has been investing heavily in other businesses in recent years. The business empire of India’s richest man now includes Jio, the country’s leading mobile operator and a retail and e-commerce platform that though unprofitable, has been rapidly bulking up its operations.

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 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)	Sector	Region
Gazprom	0.00	0.00	0.74	37.11	(0.23)	Energy	Russian Federation
Hansoh Pharmaceutical	0.22	(40.53)	0.03	(40.48)	(0.19)	Health Care	China
C&S Paper	0.48	(34.98)	0.00	(35.67)	(0.18)	Consumer Staples	China
Jiangsu Hengrui Medical	0.91	(24.65)	0.05	(24.21)	(0.17)	Health Care	China
NetEase	0.00	(27.46)	0.00	(27.56)	(0.16)	Consumer Discretionary	China
ANTA Sports Products	1.21	(17.71)	0.30	(17.61)	(0.16)	Consumer Discretionary	China
Hefei Meyer	0.17	(30.18)	0.00	(30.05)	(0.14)	Industrials	China
Ping An Bank	0.84	(18.66)	0.05	(18.70)	(0.14)	Financials	China
B3	0.64	(27.38)	0.20	(27.48)	(0.14)	Financials	Brazil
Naspers	1.54	(19.15)	0.49	(19.16)	(0.13)	Technology	South Africa

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 Continued at 30 September 2021

Negative Issue Level Impacts

Gazprom (u/w) – the unprecedented spike in global gas prices, which coincided with the completion of Gazprom’s Nord Stream 2 pipeline –to transport gas from Russia into northern Europe – renewed investor appetite for Russia’s Gazprom, the world’s leading producer of natural gas. The Fund has no exposure to Gazprom, which rallied by almost 40% in the period.

Hansoh Pharmaceutical (o/w) – the share price trended steadily lower during the period, in which Hansoh reported results which came up short of consensus estimates, highlighting centralised procurement pricing pressures could be a headwind for revenue growth in the shorter-term.

C&S Paper (o/w) – manufactures and distributes household paper products. The shares continued to slide during the period as severe margin contraction weighted on profitability. Results during the period saw material profit decline, mainly due to aggressive price discounts and promotional spending to reduce stock.

Jiangsu Hengrui Medical (o/w) – a weak start to the period continued following disappointing earnings results due to higher R&D spend and pricing pressure. Strong performance from the innovative drugs business was not enough to offset sales and pricing decreases for more established drugs.

NetEase (o/w) – develops and operates online games, electronic commerce, and internet media, amongst other things. In line with other Chinese internet giants, NetEase saw its share price fall materially as the threat of increased regulation (in this case limits on the amount of time children in China can play online games each week) spooked investors.

ANTA Sports Products (o/w) – the share price trended downwards over the period following a very strong Q2 despite underlying performance remaining robust. A rebound in COVID cases in August raised questions of whether H2 2021 business performance would deteriorate, with management becoming incrementally more conservative with messaging.

Hefei Meyer (o/w) – Meyer is a market leader in colour sorting machinery and in recent years has expanded its business to cover the dental industry. Share price performance was largely driven by an uptick in COVID cases in China during the quarter, halting a recovery in the dental market.

Ping An Bank (o/w) – Ping An has material exposure to property developers, with developer loans ~10% of Ping An’s book (almost double peer average). With growing uncertainty over the future of fellow developer Evergrande, rising credit risk in the property sector has weighted on investor sentiment, and therefore the share price.

B3 (o/w) – the shares of Brazil’s leading stock exchange fell quite sharply during the period on fears of increased competition and results which highlighted a slight decline in average daily trading volume.

Naspers (o/w) – during the period, in line with Q2 2021, Chinese oligopolistic internet giants continued to suffer in the face of rising regulatory pressure. Against this backdrop, Tencent, the main holding in Naspers’ portfolio, saw its share price slip lower – pulling down with it, Naspers.

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 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Kweichow Moutai	+2.27
iShares South Africa ETF	+1.45
Hengli Hydraulic	+1.16
Hong Kong Exchanges & Clearing	+1.08
Naspers	+1.04
Alibaba	-2.06
Tencent	-0.96
China Construction Bank	-0.94
Gazprom	-0.74
NIO	-0.65

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.

iShares South Africa ETF – provides exposure to a basket of South African businesses. Overall, the Fund is broadly neutral vs. the benchmark in respect of South African stocks.

Hengli Hydraulic – manufacturers a range of hydraulic components for heavy industry. The firm is well positioned to benefit from continued urbanisation and infrastructure spending in mainland China (as well as globally).

Hong Kong Exchanges & Clearing – the firm is a key conduit of capital flows to/from China and should benefit from increasing Northbound (foreign investment into China) and Southbound (Chinese investors accessing global markets) volumes over time.

Naspers – the South African media business wears the crown of being South Africa’s largest company as a result of its 30% economic interest in Tencent. However, it trades at a substantial and widening discount to its core asset (Tencent) – which is what makes its stock attractive from an investment standpoint.

Bottom 5 Holdings Relative to Benchmark:

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

Tencent – technology conglomerate with numerous business units – for example, mobile messaging (WeChat) and video games. The Fund does hold some exposure but there are deemed to be better opportunities elsewhere.

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.

Gazprom – the Fund does not hold a position in the Russian Gas titan. With a record of poor governance it looks a less compelling investment than peer (and affiliate) Novatek, which has better long-term growth prospects driven by demand for liquefied natural gas.

NIO – a Chinese automobile manufacturer which specialises in designing and developing electric vehicles. Operating in a highly competitive sector, with significant execution risk, the stock appears expensive on traditional measures.

Major Transactions During the Quarter

Purchases:

Will Semiconductor (£4.5m) – by sales, Will Semi ranks as the Global No. 3 supplier of CMOS image sensors. With the CMOS image sensor market likely to grow at more than 10% per annum, Will Semi stands to benefit from its high-quality portfolio, and could potentially see a doubling of its current market share by 2025.

Sales:

Smoores International (£3.5m) – recent regulatory developments concerning the electronic cigarette industry have compromised the investment thesis for the holding. The worst-case scenario would be for the Chinese Government to fully enforce the ‘Tobacco Monopoly’ law, which could cause Smoores to lose virtually all revenues.

APPENDICES

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Alphabet A	2.00	0.88	0.11
Vanguard US Mid Cap ETF	3.05	0.00	0.04
Aon	0.30	0.07	0.04
PayPal	0.00	0.33	0.04
Oracle	0.44	0.16	0.03

Alphabet A (o/w) – benefited from a supportive environment for digital advertising.

Vanguard US Mid Cap ETF (o/w) – the largest position within the Fund, providing exposure to smaller companies which outperformed large caps during the quarter.

Aon (o/w) – shares rallied after the Justice Dept blocked a large merger that had been a cause of investor nervousness.

PayPal (u/w) – challenging quarter for the payments sector due to concerns around disruption from new entrants.

Oracle (o/w) – evidence that growth businesses (cloud services and related hardware) are starting to eclipse low growth activities.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Tesla	0.00	0.69	(0.09)
Alphabet C	0.00	0.82	(0.06)
Activision Blizzard	0.25	0.07	(0.04)
The Cheesecake Factory	0.18	0.00	(0.02)
Moderna	0.00	0.15	(0.02)

Tesla (u/w) – resilient production defied market concerns and expected beneficiary of US proposals for new electric vehicle (EV) subsidies with no volume cap.

Alphabet C (u/w) – benefited from a supportive environment for digital advertising.

Activision Blizzard (o/w) – potential legal, regulatory and operational fall-out from workplace gender bias and harassment case.

The Cheesecake Factory (o/w) – prior “going out rally” continued to unwind in the face of the Delta variant.

Moderna (u/w) – potential for further revenue growth as a result of FDA approval of COVID booster shots.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - United States at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+3.05
Alphabet A	+1.12
Vanguard US Small Cap Value ETF	+0.71
Microsoft	+0.44
NVIDIA Corporation	+0.43
Alphabet C	-0.82
Tesla	-0.69
PayPal	-0.33
Mastercard	-0.33
Comcast	-0.28

Top 5 Holdings Relative to Benchmark:

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

Alphabet A – parent company of Google; offset by not holding the C shares which results in a moderate overweight exposure to Alphabet overall.

Vanguard US Small Cap Value ETF – provides exposure to smaller value companies as market rotates into companies expected to benefit from post-COVID recovery.

Microsoft – growth from Azure cloud hosting business and migration of Business Office to MS 365 online, with associated opportunity for value added sales and increased customer stickiness.

NVIDIA Corporation – product leadership offers exposure to PC gaming refresh cycle and structural growth in AI data centres.

Bottom 5 Holdings Relative to Benchmark:

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

Tesla – high valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.

PayPal – growth in sector but exposure accessed through other portfolio holdings including Visa and FIS.

Mastercard – preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, on valuation grounds.

Comcast – faces challenges in its broadcast media and theme park businesses; preference for Charter, a pure play broadband provider.

Major transactions during the Quarter

Purchases:

Walmart (£16.5m) – recent relative de-rating leaves potential from new growth initiatives undervalued.

Sales:

3M Co (£10.6m) – strong protective equipment sales peaking & ongoing uncertainty in microplastics lawsuit.

Note

1) Source: Northern Trust

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Novo Nordisk	0.96	0.54	0.06
Vivendi	0.08	0.03	0.05
ASML	1.45	1.04	0.04
NN Group	0.35	0.06	0.04
Kering	0.00	0.18	0.04

Novo Nordisk (o/w) – improved revenue and earnings outlook from new drug diabetes drug, Wegovy.

Vivendi (o/w) – the 60% spin off of UMG (Universal Media Group) and potential buyback has been received well.

ASML (o/w) – benefiting from increased software and hardware sales due to an increase in 5G infrastructure and AI-related demand.

NN Group (o/w) – profits exceeded expectations across all business segments.

Kering (u/w) – luxury sector impacted by Chinese government’s focus on “common prosperity” and wealth redistribution with Gucci brand impacted by higher exposure to Chinese consumers.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Logitech International	0.19	0.05	(0.05)
Zalando	0.18	0.07	(0.03)
Holcim	0.21	0.09	(0.03)
Continental	0.16	0.04	(0.03)
Koninklijke Philips	0.38	0.14	(0.03)

Logitech International (o/w) – earnings guidance suggested an expected decline in profitability in the second half of the year.

Zalando (o/w) – expectations for higher earnings growth have faded.

Holcim (o/w) – concerns that informal inquiries from US prosecutors regarding historic payments in Syria to maintain operations could result in a formal investigation.

Continental (o/w) – weakness post spin-off of powertrain business.

Koninklijke Philips (o/w) – weakness in sleep and respiratory business in part due to a significant product recall.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Novo Nordisk	+0.42
ASML	+0.41
TotalEnergies	+0.39
Schneider Electric	+0.38
HBM Healthcare	+0.35
Daimler	-0.26
Prosus	-0.25
Zurich Insurance Group	-0.21
Enel SPA	-0.21
EssilorLuxottica	-0.20

Top 5 Holdings Relative to Benchmark:

Novo Nordisk – strong market position in diabetes treatment with growth of products into obesity treatment.

ASML – strong demand expected due to economic recovery, ongoing microchip shortages, and increasing trend for companies and governments to reduce their reliance on imported microchips.

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

Schneider Electric – the only company with an integrated approach offering all critical aspects of the value chain with superior market access and high market share in higher margin low voltage products.

HBM Healthcare – one of two biotech trusts providing exposure to an area of the market which is harder to access; strong track record of bringing private companies to the market and identifying mispriced public stocks.

Bottom 5 Holdings Relative to Benchmark:

Daimler – structural concerns regarding the sector as a whole and particular concerns regarding the strength of the balance sheet.

Prosus – concerns about conflict of interest of the management team who are also managers at Naspers, an associated company in South Africa.

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

Enel SPA – higher risk profile due to large exposure to Italy (political uncertainty) and Latin America.

EssilorLuxottica – high valuation and, although previous governance concerns have been resolved, there is integration risk around its last major acquisition.

Major transactions during the Quarter

Purchases:

Thales (£2.5m) – increasing overweight - profitable defence business and expected recovery in non-defence.

Sales:

Alcon (£6.2m) – non-core holding within the healthcare space spun out of Novartis in 2019.

Note

1) Source: Northern Trust

Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Shionogi	0.17	0.04	0.03
Fujifilm	0.26	0.07	0.03
Renesas Electronics	0.22	0.03	0.03
Dai-ichi Life	0.18	0.05	0.02
Sony	0.47	0.30	0.02

Shionogi (o/w) – optimism on expected commencement of trial of COVID-19 vaccine, a nasal spray ideal for developing countries.

Fujifilm (o/w) – excellent results and full year forecast revised upwards.

Renesas Electronics (o/w) – continuing global chip shortages should enable Renesas to boost margins, with production now fully resumed following the fire earlier this year.

Dai-ichi Life (o/w) – good results and share price well supported by high dividend yield combined with a large share buyback programme.

Sony (o/w) – strong results significantly beating expectations resulting in increased full year guidance; proposed merger with Zee Entertainment in India taken positively.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Recruit Holdings	0.00	0.18	(0.04)
Softbank Group Corp	0.35	0.17	(0.03)
Daiichi Sankyo	0.00	0.11	(0.02)
Nintendo	0.25	0.11	(0.02)
Oji Holdings	0.18	0.01	(0.02)

Recruit Holdings (u/w) – expensive valuation but considered to be a beneficiary of reopening of economy.

Softbank Group Corp (o/w) – negative sentiment continues due to absence of an extension of the share buyback scheme, general weakness in the Technology sector, and implications of Chinese policy on Alibaba and other Softbank holdings.

Daiichi Sankyo (u/w) – recent underperformance has reversed this quarter but not holding this pharmaceutical stock has been a positive contributor to performance over the longer term.

Nintendo (o/w) – concerns about future growth prospects, particularly from the Switch product, loss of potential growth in China, and general weakness in the sector.

Oji Holdings (o/w) – paper products manufacturer continued to drift lower despite positive results as a result of declining pulp prices.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Japan at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Ballie Gifford Shin Nippon	+0.34
Tokyo Electron	+0.24
Shin-Etsu Chemical	+0.23
Hitachi	+0.21
Fujifilm	+0.20
Recruit Holdings	-0.18
Honda Motor	-0.11
Nidec	-0.11
Daiichi Sankyo	-0.11
Fanuc	-0.09

Top 5 Holdings Relative to Benchmark:

Ballie Gifford Shin Nippon – smaller companies focus with strong long-term relative performance.

Tokyo Electron – good growth prospects, strong balance sheet and potential for increased returns.

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

Hitachi – diverse industrial should continue to reap the benefits from restructuring and a more focused approach. Acquisition of GlobalLogic should prove to be a good long-term strategic move.

Fujifilm – growth potential in healthcare segment expected to more than offset declines in the traditional document operations business.

Bottom 5 Holdings Relative to Benchmark:

Recruit Holdings – trades on a premium valuation relative to peers in a difficult environment for recruitment.

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

Nidec – concern that future strategy is unclear and company forecasts are too optimistic; move away from declining HDD (hard disk drive) motors will continue to squeeze margins.

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

Fanuc – preference for Keyence in factory automation due to quality of earnings.

Major transactions during the Quarter

Purchases:

Daikin Industries (£11.0m) – new holding in Industrials sector with strong growth prospects in Heat Pumps and rebound in air-conditioning as economies recover post COVID-19.

Sales:

Hoshizaki (£5.4m) – exited holding due to lack of catalysts for outperformance.

Note

1) Source: Northern Trust

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2021

Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Kakao	0.00	0.17	0.07
Techtronic Industries	0.36	0.16	0.04
Macquarie Group	0.48	0.28	0.03
Samsung Electronics Prefs	0.00	0.31	0.03
BeiGene	0.00	0.11	0.02

Kakao (u/w) – internet stocks hit on potential government clampdown on excessive profits and abuse of market dominance.

Techtronic Industries (o/w) – strong results highlights capability to gain market share and increase margin through efficiency gains.

Macquarie Group (o/w) – positive earnings guidance due to favourable market conditions.

Samsung Electronics Prefs (u/w) – market focus on direction of memory chip pricing continues to impact performance.

BeiGene (u/w) – a recent new entrant to the benchmark, the biotech company fell heavily post-listing.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2021

Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung Electronics	2.21	1.85	(0.06)
Hyundai Motor	0.31	0.15	(0.04)
Galaxy Entertainment	0.14	0.07	(0.04)
LG Electronics	0.20	0.07	(0.04)
SK Hynix	0.42	0.28	(0.04)

Samsung Electronics (o/w) – market focus on direction of memory chip pricing continues to impact performance.

Hyundai Motor (o/w) – combination of seasonality and chip shortages have adversely impacted the Korean auto manufacturers.

Galaxy Entertainment (o/w) – the on-off opening up of the Macau borders has led to continued uncertainty.

LG Electronics (o/w) – impacted by fading “Stay-at-home” benefits due to its exposure to Appliance and TV business.

SK Hynix (o/w) – market focus on direction of memory chip pricing continues to impact performance.

Note

1) Source: Northern Trust & Border to Coast

Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 30 September 2021

Largest Relative Over/Underweight Stock Positions (%)

Samsung Electronics	+0.35
Techtronic Industries	+0.21
Macquarie Group	+0.20
Goodman	+0.19
James Hardie	+0.19
Samsung Electronics Prefs	-0.31
Kakao	-0.17
UOB	-0.15
Afterpay	-0.12
Kia	-0.11

Top 5 Holdings Relative to Benchmark:

Samsung Electronics – exposed to structural growth in the memory chip market; the group also has a diversified earnings stream and large shareholder return potential

Techtronic Industries – technology leading focus on cordless power tools market should lead to improving margins and market share, especially as it starts to skew the business to the Professional market in the US.

Macquarie Group – well diversified financial services company with large exposure to structural growth areas within infrastructure, strong balance sheet and very highly regarded management.

Goodman – Goodman offers above-peer earnings growth supported by strong structural demand for modern logistics and warehouse space.

James Hardie – the group continues to benefit from a multi-year recovery in US housing, taking market share in all regions and generating industry-leading margins.

Bottom 5 Holdings Relative to Benchmark:

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

Kakao – this Korean internet company is benefiting from its fintech, e-commerce, and entertainment businesses; the Fund has a preference for NAVER.

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

Afterpay – the “Buy Now Pay Later” platform has grown rapidly in recent years and the lack of a holding represents a significant underweight; research is being conducted into whether this would be a suitable holding.

Kia – South Korean auto company with similar exposure as the preferred holding, Hyundai Motor, which also owns 34% of Kia.

Major transactions during the Quarter

Sales:

New World Development (£5.3m) – restructure of Hong Kong property developer holdings, with a preference for Henderson Land due to stronger balance sheet and more conservative management.

Note

1) Source: Northern Trust

Market Background at 30 September 2021

Markets continued to rise through most of the quarter, maintaining the momentum built in the previous quarter with investors having seemingly adjusted to the prospect of a more hawkish US Federal Reserve. Having stabilised last quarter, bond yields retreated and, as a result, growth stocks and large caps continued to outperform value stocks and small caps. In many ways, this was a resurgence of the goldilocks scenario whereby, contrary to what is traditionally believed, what is good for bonds is also good for equities. This benign state persisted until late in the quarter when disruptions to power supplies reflected in sharp squeezes in gas and electricity prices across multiple geographies, finally puncturing the balloon of investor complacency as the prospect of high inflation weighed on sentiment again and bond yields rose.

In aggregate, global equity markets returned 7.3% in the quarter, giving up a substantial proportion of the gains seen up to early September. Developed markets (7.6%) outperformed emerging markets (4.5%). Japan was the strongest major market (6.8%), but the rest of the Asia Pacific region performed poorly in aggregate as Hong Kong (-14.7%) moved in sympathy with Chinese equity markets and the rest of the region couldn't escape the downdraft.

At a sector level, Technology continued to outperform, buoyed by low interest rates and investor concerns over the sustainability of economic growth. Financials, however, was the best performer as increased inflation expectations raised the prospect of higher interest rates, which tend to benefit the sector. Materials was the weakest sector due to concerns over the impact of a slowdown in growth on demand as well profit taking following the steep rise in commodity prices, although it may be more closely linked to investors switching to energy stocks as their preferred vehicle to maintain exposure to any inflationary trends.

Inflation, and the degree to which current spikes in inflation will prove transitory or feed into something more sustained and more material than has been experienced for over 30 years, is one of probably the two principal concerns for investors. How much of the recent spike in prices is due to supply-chain issues and bottlenecks, and how quickly these can be addressed,

are critical factors in this debate and were until more recently assumed to be the dominant factors. The spike in energy prices is the latest chapter in this inflation story, but the reasons behind this particular cost spike are more nuanced and have given more prominence to the view that this bout of inflation may not recede as quickly as had been thought. With wage increases also evident across an increasing number of segments of the labour markets, it seems increasingly dangerous to dismiss current trends as transitory and the narrative from central banks is having to shift to accommodate this. A shift in the "lowflation" paradigm that has characterised the past 30 years and been marked by a steady decrease in interest rates over this period, which has undoubtedly helped fuel the substantial increase in asset values over the same period, would necessitate a change in investors' mindset and could cause marked disruption to financial and other asset markets.

The other concern is China, where worries over its economic growth rate and increasingly strained relationship with the US have had to evolve more recently to encompass what currently appears to be a marked change in the Communist Party's willingness to allow the market and economy to evolve relatively freely. Their stated desire to ensure a more even distribution of the wealth derived from economic growth has come on the heels of interventions across a number of different segments of the economy which have demonstrated a desire to execute more control over the economy and a willingness to pursue this agenda in a manner the Party deems appropriate. This has come as something of a shock to investors grown accustomed to a more laissez-faire approach, and undoubtedly goes a long way to explaining the 20% sell-off in Chinese equity markets over the course of the quarter. The evolving collapse of property company, Evergrande, has not helped sentiment, particularly as it has been against the backdrop of a marked slowdown in construction and indications from the authorities that they consider the property market to be an increasing concern as the manifestation of wealth disparity between different socio-economic groups. Investors have grown accustomed to China being a core component of global economic growth, a source of superior earnings growth for companies, and an

Note

1) Source: Border to Coast

Market Background at 30 September 2021

increasingly material part of allocation discussions over the past 20 years, but this view may now have to be revised.

Valuations of equity markets are above their long-term average and, although investor sentiment remains positive, further market progress would seem to remain heavily dependent upon continued strong economic growth feeding through into earnings. The extent to which inflation increases, and whether this is accompanied by economic growth, will impact the scale and distribution of this earnings growth across sectors. Consumer balance sheets remain strong and given the increasing breadth of wage inflation consumers may continue to feel relatively comfortable even if inflation rises and should provide impetus for growth. This may prove a valuable crutch for economies as there are increasing indications that the extensive fiscal and monetary support which has allowed economies to weather the worst of the disruption caused by Covid will be eased in 2022. Together with tighter monetary policy and the spectre of tax increases this may otherwise provide a headwind for growth. Although these tax increases are likely to be focused on corporates, this may be partly offset by incentives to invest which could be positive for productivity growth and may mitigate the adverse impact of wage inflation on profitability. Capital spending is also likely to be boosted as companies invest to either adapt or benefit from the energy transition.

With the outlook for Chinese growth clouded by the shift in political posture and impacted in the short term by rising energy prices and a slowdown in the construction sector, impetus for growth will have to come from elsewhere. The US has been one of the leaders of the global economic recovery with the success of its vaccine programme and aggressive fiscal stimulus underpinning its rapid rebound. This has begun to fade as infection rates remain elevated and tightness in supply chains and the labour market cause bottlenecks whilst simultaneously flashing warning signs on inflation. The Fed has indicated that interest rate rises may occur earlier and be larger than previously communicated, while the fiscal and infrastructure

stimuli may end up constrained by political differences. As such it may fall to other regions to pick up the baton.

Europe has lagged the rebound, having had the least aggressive fiscal response despite the ECB's supportive stance. There lies the potential for this slow but steady approach to gather momentum, as the fiscal support packages are due to be sustained over a longer period of time. In addition, the focus on the energy transition may stimulate some capital spending to add another leg to what is likely to be a consumer led recovery. Against this the region, and Germany in particular, is exposed to export demand and as such may face a headwind as both the US and China slow, while the political transition in Germany could also impact confidence. On balance, though, the outlook remains encouraging.

Entering the fourth quarter of what has been to date yet another very solid year for equity markets, there are reasons to be cautious. In addition, the systemic leverage issues we have referred to in previous quarters have been brought to mind again by Evergrande which shows how widespread they potentially are. Regulators are having to stay vigilant, and central bankers must be wary of how quickly stimulus is withdrawn to avoid a liquidity crunch that could expose some stress points in the system with broader financial market consequences. It also remains to be seen how COVID impacts behaviours and economies through the northern hemisphere winter, something the central bankers are also likely to be alert to. Right now it feels as if investors need to tip-toe carefully to the end of the year, being mindful of the opportunities and threats that these various, disparate, factors will present.

Note

1) Source: Border to Coast

Border to Coast News

People:

- During the quarter we appointed Mike Vinton as our new Head of Compliance. Mike has worked in financial services for over 25 years including compliance roles at LGPS Central, Nestle Capital Management and Investec. Mike qualified as a Chartered Accountant at KPMG in Leeds. Sarah Haswell, our interim Head of Compliance, will continue to be with us until the end of October.
- We are delighted to welcome Chuan Li who has joined the fixed income team as a portfolio manager and will co-manage the internal fixed income portfolio mandates. Prior to joining Border to Coast, Chuan gained solid credit portfolio management experience as an assistant fund manager at Aviva Investors.
- Ben Dunning has also joined us within the External Management team. Ben joins us as an Assistant Portfolio Manager, having spent the majority of his career to date at Isio (previously part of KPMG) where he worked in investment consulting and credit research.

Investment Funds:

- We're delighted to say that we have now received budget approvals for the next phase of our Real Estate programme from all eleven Partner Funds. This allows the team to begin the next of phase of development to get our capabilities launched over the next couple of years.
- Our investment team have put together a series of Investment Insight videos, offering a deep dive into a selection of funds and asset classes. The videos can be found on the 'Insights' section of the Border to Coast Website. We hope you find them useful – and would be grateful to hear any feedback you have on them.

Responsible Investment:

- Recognising the urgent need to tackle climate change, we recently announced our commitment to achieving net-zero greenhouse gas emissions across our investments by 2050 or sooner. We have also published our first standalone Climate Change Policy, developed in collaboration with our Partner Funds. The policy details our approach to fulfilling our commitment to managing the risks and opportunities associated with climate change and aims to ensure clarity of approach to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements.
- In July, we signed to support an Investor Position Statement – A call for Corporate Net Zero Transition Plans, along with 54 other investors coordinated by the Institutional Investors Group on Climate Change (IIGCC). The statement calls for firms to disclose comprehensive net zero transition plans, identify the directors accountable for the plan and provide a routine shareholder vote on progress against the plan.
- As reported previously, we published our annual Responsible Investment and Stewardship report in July. This report has now been submitted to the Financial Reporting Council to support our application to become a signatory to the new UK Stewardship Code.

Other news:

- We're delighted to announce that the 3rd floor development of the Border to Coast offices is now officially completed. This marks an important moment in our development as a professional asset manager – and in how we continue to develop our hybrid ways of working both internally and externally.
- During the quarter we held our third Annual Conference, it was a wonderful opportunity to hear from you all. After 2 years, it was great being back together in person, sharing views and discussing a range of different topics. We hope you enjoyed it as much as we did.

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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