



Border to Coast Joint Committee

Meeting date: 11 September 2019

Report Title: Annual Performance Overview: UK Equity Fund & Overseas Developed Fund

Report Sponsor: Border to Coast CIO – Daniel Booth
Border to Coast CEO – Rachel Elwell

1 Executive Summary:

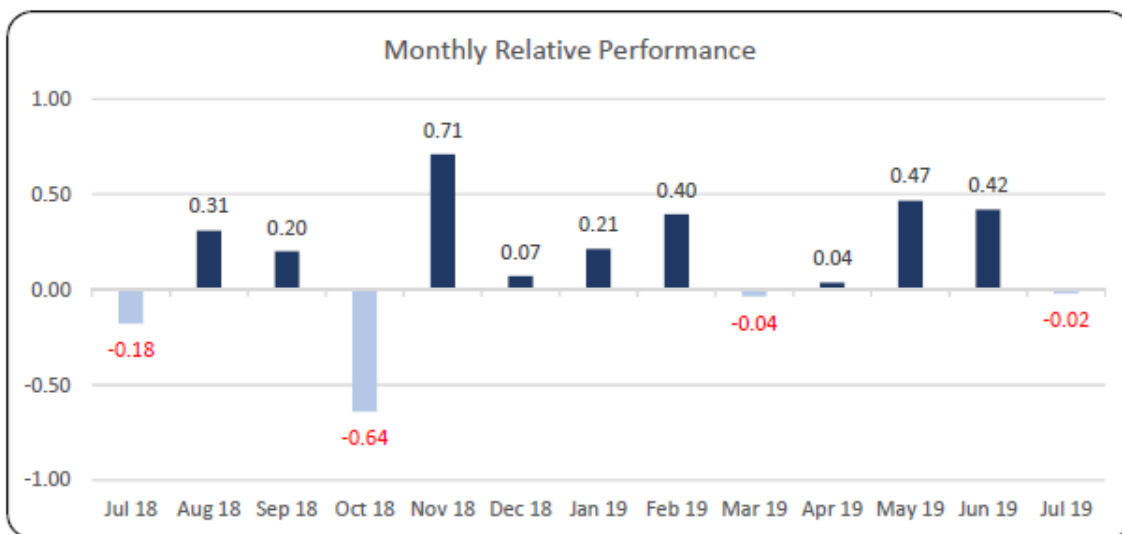
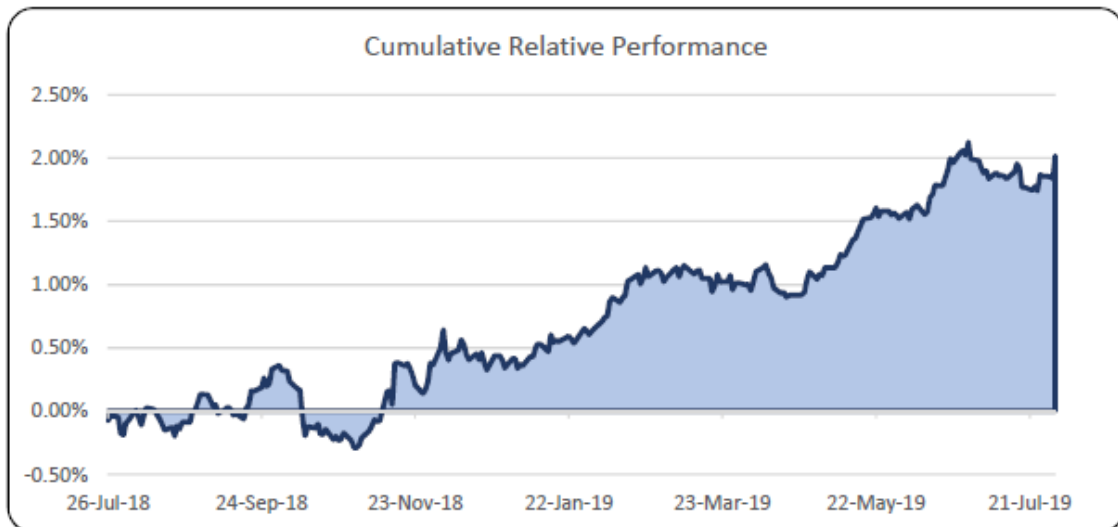
- 1.1 Border to Coast launched the UK Listed Equity Fund and the Overseas Developed Equity Fund on 26th July 2018. This paper provides an overview of fund performance and risk metrics until 31st July 2019 and a summary of the upcoming product review process.
- 1.2 The Border to Coast Authorised Contractual Scheme (“ACS”) is an “umbrella ACS”; a single structure with underlying sub-funds with different investment objectives set out in appendices to the over-arching prospectus. The Joint Committee’s terms of reference refer to the Committee’s role in fund oversight as detailed in ToR point 2.2.9 “To oversee performance of the BCPP Pool as a whole and of individual sub funds ... “
- 1.3 In summary, the UK and Overseas Developed Equity funds are above / in line with their stated performance target whilst they are inline / below their stated risk target (tracking error), so risk-adjusted performance has been strong.

2 Recommendations:

- 2.1 The Committee is asked to note the contents of the report.

3 Annual Performance Overview - UK Listed Equity Fund

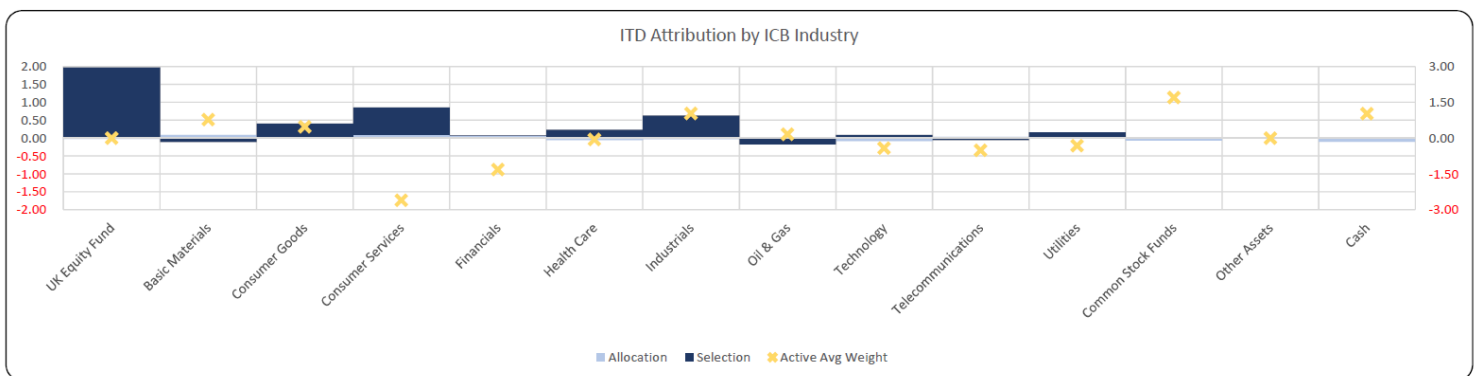
- 3.1 Since launch the UK Equity fund delivered a total return of 4.3% and a relative return of **2.0%** which is above annual target return of benchmark +1%.
- 3.2 Since launch, the UK Equity fund outperformed in 9 of 13 months with strong performance registered from November 2018 onwards:



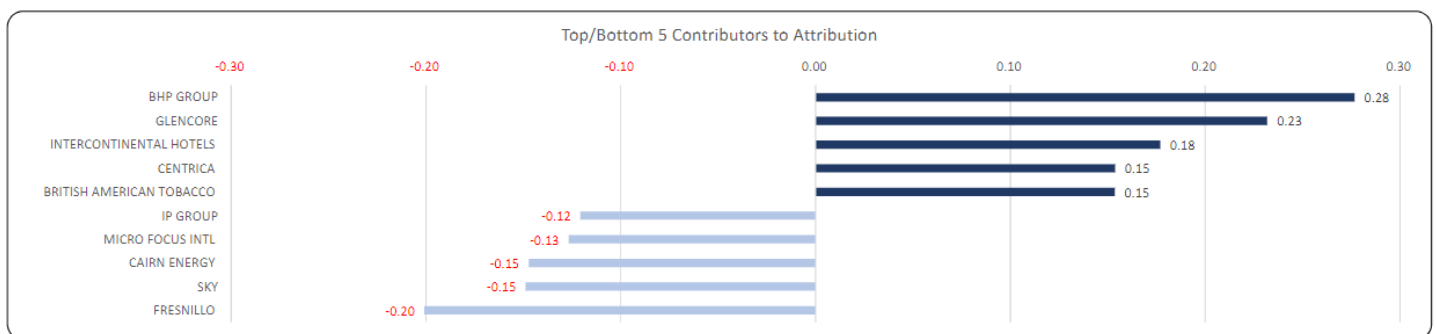
3.3 The fund's largest sector overweights were to external funds (+1.7%), cash (+1.0%) and basic materials (+0.8%) with underweights to Financial (-1.3%) and Consumer Services (-2.6%). The fund outperformed across most sectors with minimal sector risk and the excess performance derived from stock selection (+198 bps) and particularly strong stock selection across Consumer Services (+8.7% outperformance, +77 bps attribution), Industrials (+5.3% outperformance, 64 bps attribution) and Consumer Goods (2.9% outperformance, 41 bps attribution).

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
UK Equity Fund	100.00	100.00	0.00	4.33	2.33	2.00	-0.02	1.98	1.95
Basic Materials	8.52	7.74	0.78	9.35	10.73	-1.38	0.09	-0.11	-0.01
Consumer Goods	14.61	14.13	0.49	4.54	1.65	2.90	-0.01	0.41	0.40
Consumer Services	9.02	11.62	-2.60	8.30	-0.39	8.69	0.09	0.77	0.86
Financials	24.62	25.94	-1.32	-1.28	-1.28	0.00	0.06	0.01	0.07
Health Care	8.79	8.84	-0.06	23.18	20.01	3.17	-0.06	0.23	0.17
Industrials	12.19	11.15	1.04	3.90	-1.45	5.34	-0.03	0.64	0.60
Oil & Gas	14.31	14.14	0.17	0.04	1.21	-1.17	0.02	-0.17	-0.15
Technology	0.59	1.00	-0.41	34.88	19.85	15.03	-0.08	0.09	0.01
Telecommunications	2.24	2.75	-0.51	-10.08	-7.58	-2.49	0.04	-0.06	-0.02
Utilities	2.39	2.70	-0.31	5.52	-0.86	6.38	0.00	0.15	0.16
Common Stock Funds	1.70	0.00	1.70	-2.95	--	--	-0.07	0.00	-0.07
Other Assets	0.00	0.00	0.00	--	--	--	0.01	0.00	0.01
Cash	1.03	0.00	1.03	0.59	--	--	-0.10	0.00	-0.10

3.4 A graphical depiction of performance of the fund and each sector is shown below with impact of stock selection (dark blue) and sector allocation (light blue) as well as active positioning in each sector (yellow cross). The breadth of strong stock selection across multiple sectors can be clearly seen.



3.5 Since launch, top performers were BHP (overweight), Glencore (underweight), ICH (overweight), Centrica (underweight) & BAT (underweight). The bottom performers were; Fresnillo (overweight), Sky (underweight), Cairn (overweight), Micro Focus (underweight) & IP (overweight).



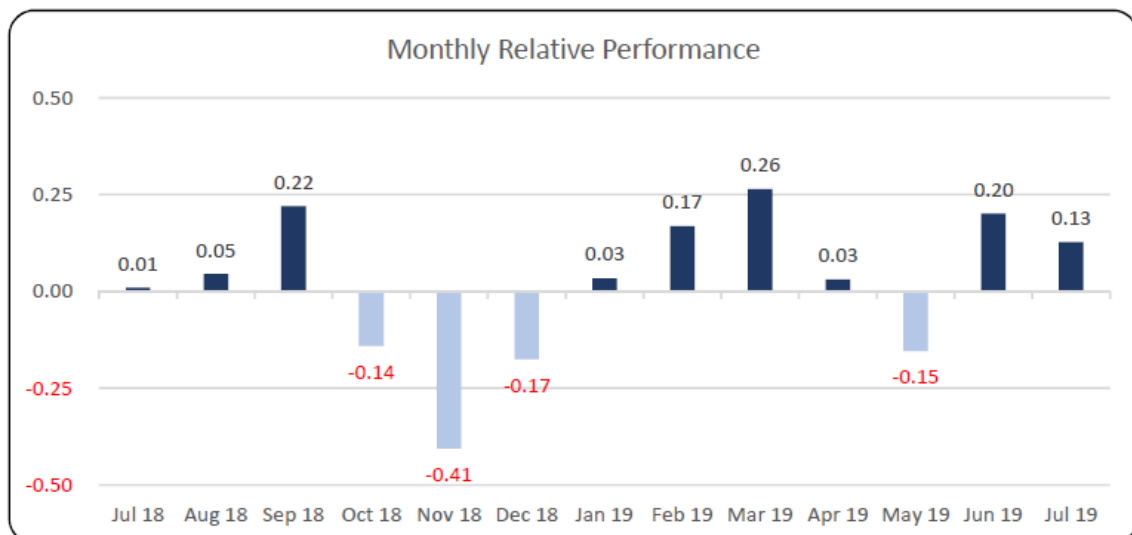
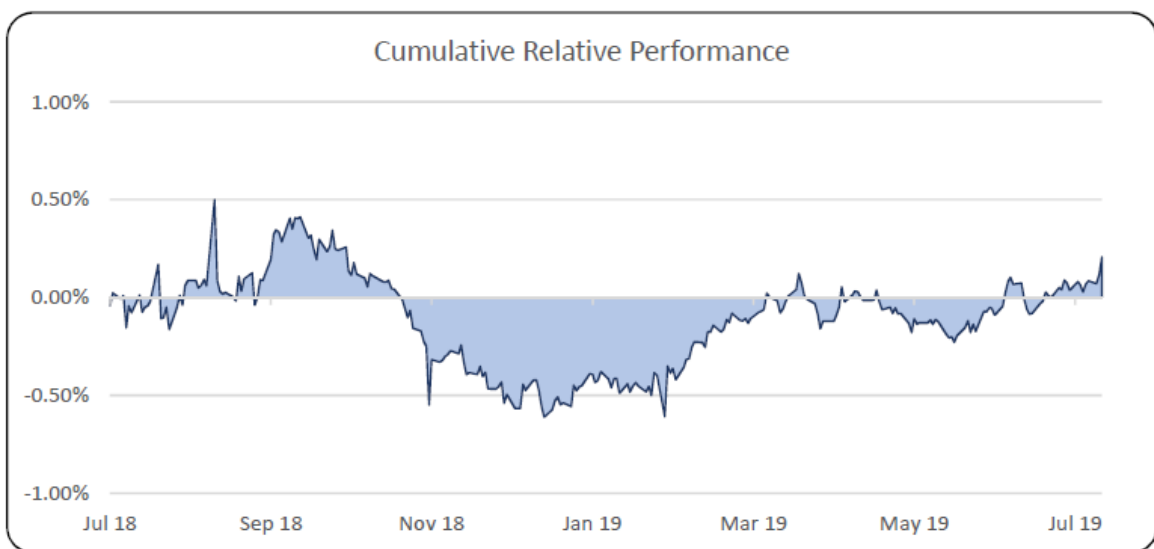
4 Annual Performance Overview – Overseas Developed Equity Fund

4.1 Since launch, the Overseas Developed Equity fund delivered a total return of 3.6% and a relative return of **0.93%** benchmark (net withholding tax) and **0.13%** benchmark (gross withholding tax). Note as the portfolio is measured net of withholding tax it is best practice to measure the benchmark net of withholding tax (as a like-for-like comparison). This

change has been discussed with the Board and communicated to invested Partner Funds. Excess return (net withholding tax) is broadly in-line with target return of benchmark +1%.

4.2 Please note the benchmark data net of withholding taxes is taken from Bloomberg and not from Northern Trust. The above benchmark correction (from gross to net of withholding tax) has not yet been applied by Northern Trust and therefore *all attribution data shown below* is versus a benchmark gross of withholding tax (i.e. benchmark assumes no tax impact) and therefore is lower. Once the Northern Trust system is updated with net WHT benchmark (a customised composite of the underlying regional benchmarks) the performance attribution will switch to reporting versus a net benchmark.

4.3 Since launch the Overseas Developed fund has outperformed in 9 of 13 months albeit with a negative skew caused by Nov 18 relative drawdown. Performance has been reasonably strong YTD leading to more than a full recovery of 4Q 18 underperformance.

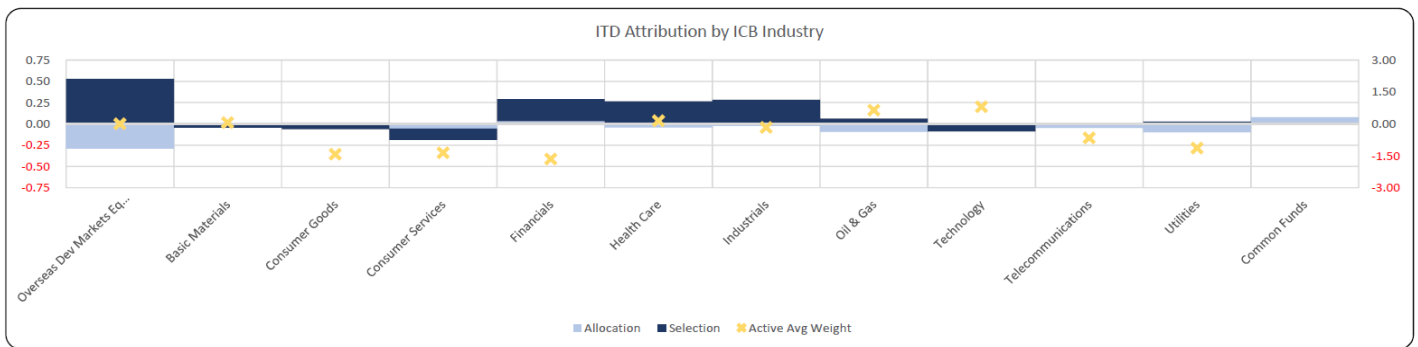


4.4 The fund added value from stock selection (+53 bps) with a negative contribution from sector positioning (-29 bps). Sector allocations were affected adversely by overweight to Cash (-8 bps), Oil & Gas (-9 bps) and underweight to Utilities (-10 bps). Stock selection was driven by strong performance across Industrials (+2.3% outperformance, +28 bps attribution), Healthcare (+2.5% outperformance, +27 bps attribution) & Financials (1.3%

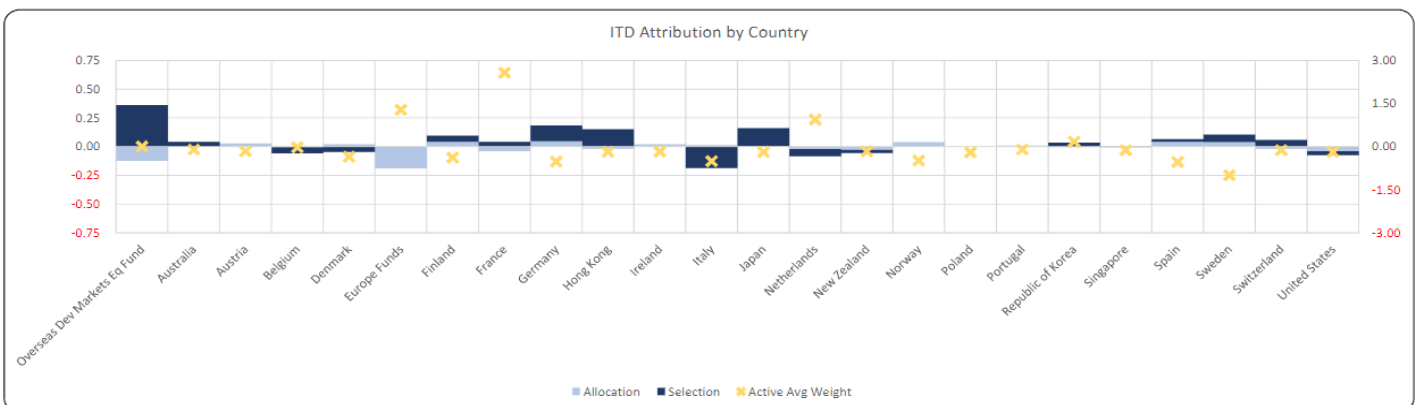
outperformance & 26 bps attribution) with underperformance from Consumer Services (-2% & -14 bps).

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
Overseas Dev Markets Eq Fund	100.00	100.00	0.00	9.63	9.38	0.25	-0.29	0.53	0.23
Basic Materials	4.95	4.89	0.06	2.71	3.75	-1.04	0.01	-0.05	-0.04
Consumer Goods	11.70	13.12	-1.42	10.73	11.46	-0.74	0.02	-0.06	-0.04
Consumer Services	8.34	9.69	-1.36	10.90	12.92	-2.02	-0.05	-0.14	-0.19
Financials	21.15	22.81	-1.65	8.75	7.43	1.31	0.03	0.26	0.29
Health Care	11.95	11.80	0.14	12.72	10.27	2.45	-0.04	0.27	0.23
Industrials	13.66	13.83	-0.17	10.95	8.67	2.28	-0.02	0.28	0.26
Oil & Gas	5.12	4.48	0.64	-3.85	-5.03	1.18	-0.09	0.07	-0.03
Technology	13.96	13.15	0.81	10.45	11.19	-0.74	0.00	-0.09	-0.08
Telecommunications	2.04	2.69	-0.65	17.22	16.94	0.28	-0.05	0.00	-0.04
Utilities	2.40	3.54	-1.14	21.17	19.82	1.35	-0.10	0.03	-0.07
Common Funds	4.21	0.00	4.21	9.34	--	--	0.08	0.00	0.08
Hedge Funds	0.00	0.00	0.00	--	--	--	0.00	0.00	0.00
Other Assets	-0.01	0.00	-0.01	--	--	--	0.01	0.00	0.01
Cash	0.54	0.00	0.54	1.68	--	--	-0.08	0.00	-0.08

4.5 A graphical depiction of performance of the fund and each sector is shown below with impact of stock selection (dark blue) and sector allocation (light blue) as well as active positioning in each sector (yellow cross).

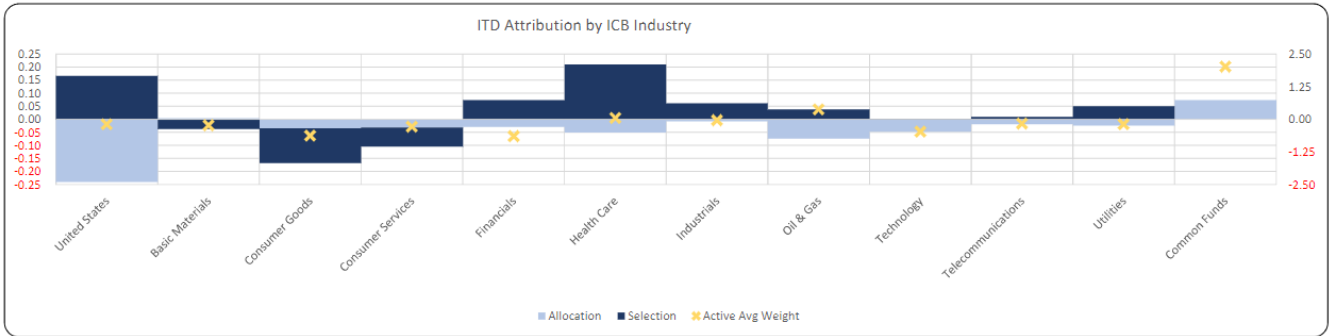


4.6 Country basis strong performance across Germany, Hong Kong & Japan with weak performance from Italy and an allocation to a European small cap fund (subsequently has been reduced).



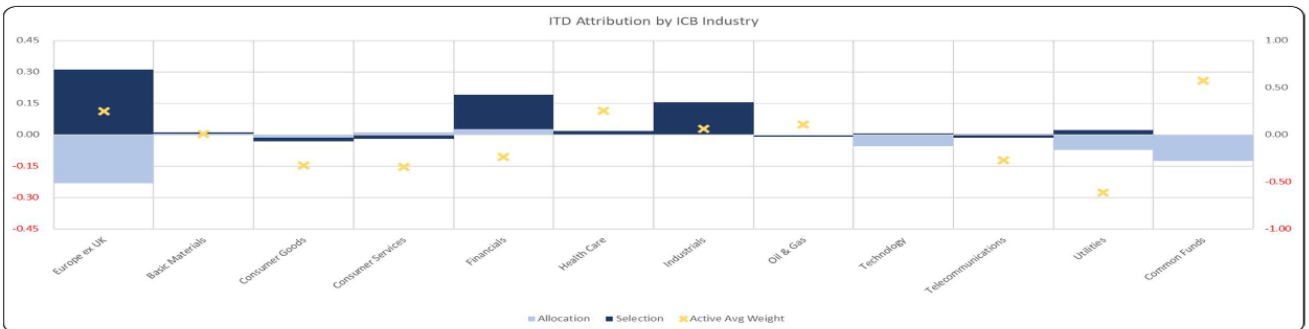
4.6.1 US Sleeve (40%) positive stock selection (esp. Healthcare) offset negative sector allocation:

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
United States	40.27	40.46	-0.19	14.40	14.52	-0.12	-0.24	0.17	-0.07
Basic Materials	0.64	0.87	-0.23	-1.20	5.60	-6.80	0.00	-0.04	-0.03
Consumer Goods	2.56	3.19	-0.63	10.47	16.39	-5.92	-0.03	-0.13	-0.17
Consumer Services	5.35	5.63	-0.28	17.44	19.17	-1.72	-0.03	-0.07	-0.10
Financials	6.79	7.44	-0.65	16.51	15.35	1.16	-0.03	0.07	0.04
Health Care	5.52	5.46	0.05	15.94	11.56	4.38	-0.05	0.21	0.16
Industrials	4.86	4.90	-0.04	18.07	16.63	1.44	-0.01	0.06	0.05
Oil & Gas	2.60	2.22	0.38	-7.25	-8.71	1.46	-0.07	0.04	-0.04
Technology	8.17	8.64	-0.47	15.68	15.90	-0.22	-0.05	0.00	-0.05
Telecommunications	0.66	0.82	-0.16	24.86	23.13	1.73	-0.02	0.01	-0.01
Utilities	1.10	1.28	-0.18	31.85	26.19	5.66	-0.02	0.05	0.03
Common Funds	2.02	0.00	2.02	13.33	--	--	0.07	0.00	0.07



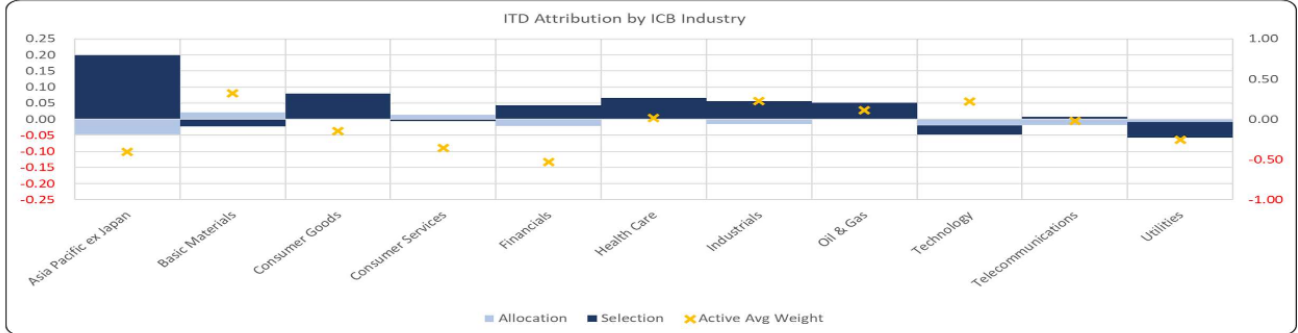
4.6.2 *European Sleeve (30%)* positive stock selection (esp. Industrial & Financials) offset allocation impact (esp. an external European small cap fund):

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
Europe ex UK	30.18	29.93	0.25	6.86	6.49	0.37	-0.23	0.31	0.08
Basic Materials	1.71	1.71	0.01	-5.44	-5.96	0.52	0.00	0.01	0.01
Consumer Goods	5.54	5.87	-0.33	15.20	15.76	-0.55	-0.01	-0.02	-0.03
Consumer Services	0.97	1.32	-0.34	4.31	6.42	-2.11	0.01	-0.02	-0.01
Financials	6.01	6.24	-0.24	0.13	-2.69	2.82	0.03	0.16	0.19
Health Care	4.69	4.44	0.25	11.30	10.85	0.46	-0.00	0.02	0.01
Industrials	4.67	4.61	0.06	10.04	6.49	3.54	-0.00	0.15	0.15
Oil & Gas	1.64	1.53	0.11	-1.02	-0.78	-0.24	-0.01	-0.00	-0.01
Technology	2.96	1.92	1.04	5.40	5.28	0.12	-0.05	0.01	-0.05
Telecommunications	0.71	0.98	-0.27	8.24	10.21	-1.97	0.00	-0.01	-0.01
Utilities	0.71	1.32	-0.61	25.77	23.48	2.29	-0.07	0.02	-0.05
Common Funds	0.57	0.00	0.57	-7.68	--	--	-0.12	0.00	-0.12



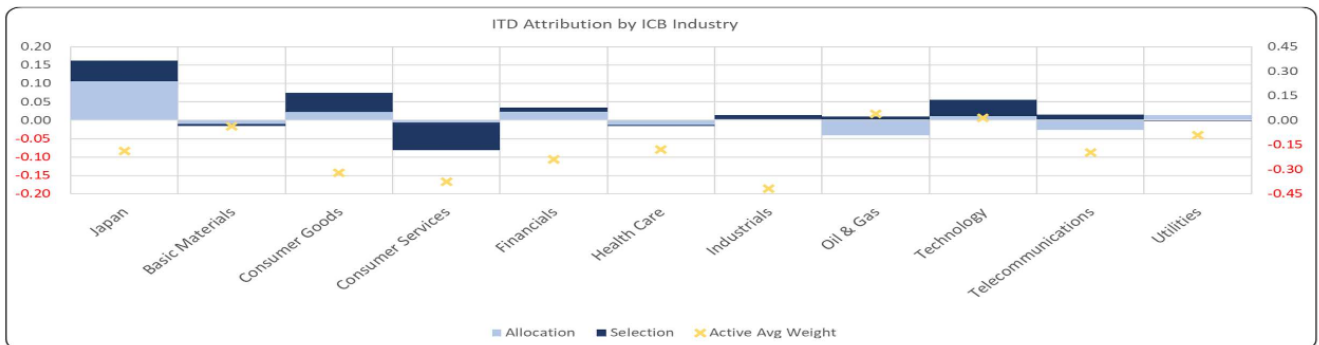
4.6.3 *Developed Asian (20%)* sleeve had strong stock selection across multiple sectors:

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
Asia Pacific ex Japan	19.37	19.77	-0.40	8.45	7.60	0.85	-0.05	0.20	0.15
Basic Materials	2.06	1.74	0.32	14.79	16.16	-1.38	0.02	-0.02	-0.00
Consumer Goods	1.57	1.71	-0.14	8.95	4.21	4.74	0.00	0.08	0.08
Consumer Services	1.27	1.63	-0.36	2.21	2.58	-0.37	0.01	-0.01	0.01
Financials	7.21	7.74	-0.53	11.76	11.10	0.66	-0.02	0.04	0.02
Health Care	1.07	1.05	0.02	9.74	3.35	6.39	0.00	0.06	0.07
Industrials	2.33	2.10	0.23	5.40	2.96	2.44	-0.01	0.06	0.04
Oil & Gas	0.74	0.63	0.11	9.30	2.53	6.77	-0.00	0.05	0.05
Technology	2.30	2.07	0.22	-1.67	-1.01	-0.66	-0.02	-0.03	-0.05
Telecommunications	0.35	0.37	-0.02	21.39	21.64	-0.24	-0.02	0.01	-0.01
Utilities	0.48	0.73	-0.25	-0.87	9.80	-10.67	-0.01	-0.05	-0.06



4.6.4 Japan sleeve (10%) positive impact from sector allocation and stock selection:

Attribution Summary	Weights			Returns			Attribution		
	Portfolio	Benchmark	+/-	Portfolio	Benchmark	+/-	Allocation	Selection	Total Effect
Japan	9.65	9.84	-0.19	2.31	0.96	1.36	0.11	0.06	0.16
Basic Materials	0.54	0.58	-0.04	--	-5.20	--	-0.01	-0.00	-0.02
Consumer Goods	2.03	2.35	-0.32	--	-1.04	--	0.02	0.05	0.07
Consumer Services	0.74	1.12	-0.37	--	6.07	--	-0.01	-0.08	-0.08
Financials	1.14	1.38	-0.24	--	-6.10	--	0.02	0.01	0.03
Health Care	0.67	0.85	-0.18	--	4.73	--	-0.01	-0.00	-0.02
Industrials	1.80	2.22	-0.42	--	1.75	--	0.00	0.01	0.01
Oil & Gas	0.14	0.10	0.04	--	-24.06	--	-0.04	0.01	-0.03
Technology	0.53	0.52	0.01	--	9.98	--	0.01	0.04	0.06
Telecommunications	0.32	0.52	-0.20	--	14.36	--	-0.03	0.02	-0.01
Utilities	0.11	0.20	-0.09	--	-3.00	--	0.01	-0.00	0.01
Common Funds	1.62	0.00	1.62	--	--	--	0.13	0.00	0.13



5 Annual Risk Overview

5.1 Both funds have risk statistics broadly in-line with the underlying indices and tracking errors at or below their stated active risk ranges.

Fund / Benchmark	July 19	July 19
UK Equity Fund volatility	10.32	Stock count 118
FTSE All-Share volatility	10.47	Beta (ex ante) 0.99
Tracking Error	0.79	Active Share 29.0
Overseas Dev Markets Eq Fund vol	11.57	Stock count 382
Blended Benchmark volatility	11.38	Beta (ex ante) 1.02
Tracking Error	0.62	Active Share 41.3
US Fund	13.15	Stock count 113
S&P 500	13.12	Beta (ex ante) 1.00
Tracking Error	0.86	Active Share 42.1
Europe Fund	12.40	Stock count 95
FTSE Europe ex UK	12.08	Beta (ex ante) 1.02
Tracking Error	1.16	Active Share 42.4
Asia Fund	12.05	Stock count 93
FTSE Developed Asia ex Japan	11.65	Beta (ex ante) 1.03
Tracking Error	1.08	Active Share 30.8
Japan Fund	13.90	Stock count 81
FTSE Japan	13.46	Beta (ex ante) 1.02
Tracking Error	1.79	Active Share 55.7

- 5.2 *UK Equity fund* which has a stock count of 118 names with a slightly lower volatility (10.32 v 10.47) and market exposure (“Beta”) (0.99 v 1.0) and a tracking error of 0.79% (below 1-3% target range). The lower risk level has not adversely impacted performance and is considered appropriate due to uncertainty over Brexit and our stage of corporate development.
- 5.3 *Overseas Developed fund* has a stock count of 382 names and a marginally higher volatility (11.57 v 11.38) and market exposure or Beta (1.02 v 1.0) and a tracking error of 0.62% (targeted range 1-3%). Tracking error is within target for each underlying sleeve (albeit in lower end) but diversification benefit means aggregated tracking error is below target at the overall fund level. The lower risk level is considered appropriate due to our stage of corporate development.
- 5.4 As per below table 60-70% fund risk is coming from individual stock selection decisions (non-factor risk) with the main other risks (5-20%) being industry allocation and style exposure. In terms of industry exposure both funds are underweight Financials and Consumer Services (1-2%) with a small exposure to external third-party funds. For Style exposure the UK is underweight Value (partly reflecting Brexit uncertainty) whilst the Overseas Developed fund is underweight Small Cap as our internal portfolio managers are more focused on covering the larger market names.

Risk Breakdown	Non-Factor Contrib (%)	Currency	Industry	Country	Style
UK Listed Equity Fund	68.0%	-0.5%	6.8%	6.5%	19.1%
Overseas Dev Markets Eq Fund	60.7%	3.4%	18.6%	6.2%	11.2%
US Fund	67.5%	0.0%	16.5%	0.0%	16.0%
Europe Fund	49.6%	5.6%	19.1%	14.6%	11.1%
Asia Fund	70.7%	0.7%	15.2%	2.8%	10.6%
Japan Fund	67.4%	0.0%	21.0%	0.0%	11.5%

6 Annual Proposition Overview

6.1 As part of our annual proposition review we are evaluating the performance target, team structure, portfolio construction, benchmark and risk & compliance limits for the two funds as shown below:

	UK	OVERSEAS DEVELOPED
Performance	●	●
Resources	●	●
Portfolio structure		●
Portfolio construction		●
Benchmark		●
Risk profile	●	●
Compliance limits	●	●

6.2 Portfolio structure and construction are particularly relevant for the Overseas Developed Equity Fund due to the way in which the fund is currently structured (with 4 separate regional sleeves). The benchmark for this fund is also currently a mix of benchmark providers (S&P and FTSE) and a bespoke non-market capitalisation weighting (overweight EU and Australia, underweight US), which leads to a need for periodic review.

6.3 This results of the review will be discussed with the Board and the invested Partner Funds before any decisions are taken to make changes.

7 Risks

7.1 The key risks include:

7.1.1 **Mismatch with customer requirements.** Funds will only be successful in maintaining assets if customer requirements are being met. We are continuing to work closely with advisers and pensions officers through regular calls and meetings to ensure alignment between fund characteristics and Partner Fund requirements.

7.1.2 **Investment styles / strategies of managers do not perform as expected.** There is a risk that market conditions differ from the periods used for analysis and that portfolio managers change their approaches over time. These risks are mitigated by using regular monitoring of performance, risk and research documentation to ensure consistency of approach.

7.1.3 **Product evolution.** Any future product changes (benchmarks, geographical weights, portfolio construction etc.) will involve some degree of transition which will result in costs and risks during this period and therefore will only be undertaken following an internal cost-benefit analysis.

8 Conclusion

8.1 The Joint Committee is asked to consider the recommendations in Section 2 to this paper.

9 Report Author:

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23 August 2019

Important Information

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