



## Border to Coast Pensions Partnership Ltd

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Border to Coast Overseas Developed Equity Fund (“the Fund”)

Report for the Quarter Ended 30<sup>th</sup> September 2019  
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee  
Date of Meeting: 20 November 2019

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Date: 11 November 2019

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### **Purpose of Report**

1. This report summarises the performance and activity of the Border to Coast UK Overseas Developed Equity Fund over Q3 2019.
2. The Committee is recommended to note this report.

### **Important Information**

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## Background

3. Border to Coast launched this internally managed Fund on 26<sup>th</sup> July 2018.
4. The Fund invests primarily in listed equities of companies from overseas developed countries which are included in the benchmark.
5. The Fund has a quality and growth bias with a focus on companies that can withstand economic and market volatility. Quality is defined as companies with an identifiable and sustainable competitive advantage, earnings visibility, balance sheet strength and strong management.
6. The Fund will not generally make active regional allocation decisions so most of the Fund's performance will arise from stock selection.
7. The majority of the Fund's performance is expected to arise from stock selection decisions.

## Performance Objective

8. The Fund's objective is to outperform its Benchmark by at least 1% per annum over three year rolling periods. The Benchmark is a composite of the following regional indices:
  - 40% S&P 500 (US)
  - 30% FTSE Developed Europe ex UK
  - 20% FTSE Developed Asia Pacific ex Japan
  - 10 FTSE Japan
9. The Fund aims to provide a benchmark tracking error relative to the Benchmark of between 1% to 3% depending on market conditions. This is considered to be an appropriate risk profile in view of the performance target.

## Market Value

10. The Fund's market value at the quarter end was £2.9bn.

## Performance

11. Performance (net of fees) to the quarter end is shown below:

	Since inception 26/07/18 % p.a.	Year %	Quarter %
Overall Fund	7.5	6.6	2.8
Benchmark	7.4	6.8	2.8
Actual Variance <sup>1</sup>	+0.1	-0.2	0.0
Target Variance <sup>2</sup>	+1.0	+1.0	+0.3
Performance Relative to Target <sup>3</sup>	-0.9	-1.2	-0.3

<sup>1</sup> Fund performance minus Benchmark performance

<sup>2</sup> Based on the Fund's Performance Objective

<sup>3</sup> Actual Variance minus Target Variance

Notes:

1. Source: Northern Trust
2. Values do not always sum due to rounding
3. Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
4. Past performance is not an indication of future performance and the value of investments can fall as well as rise.

**Comments on Performance**

12. Overall Fund performance was broadly in line with the Benchmark over Q3 2019 and is slightly above Benchmark since inception.

13. The performance of the individual regional sleeves of the Fund over Q3 was as follows:

- US: Fund 4.7% vs Benchmark of 5.0%
- Japan: Fund 7.2% vs Benchmark of 6.6%
- Europe ex UK: Fund 1.9% vs Benchmark of 1.6%
- Asia Pacific ex Japan: Fund -1.6% vs Benchmark of -1.6%

14. On a sector basis, good stock selection added value to the Fund overall – but this was offset by a negative asset allocation impact. Stock selection in Consumer Services and Utilities had the largest positive impact. The Fund’s underweight position in Utilities, the best performing sector over the quarter, detracted from performance.

15. On a country basis both allocation and selection were relatively flat, although a positive contribution to performance via stock selection in Japan, Korea and Belgium was offset by stock selection in the United States.

16. The Fund’s performance is broadly in line with the Benchmark since inception. This relative performance will, however, improve by around 60bps when the Benchmark is updated to be net of withholding tax.

17. The top and bottom 5 contributors to performance over the quarter were:

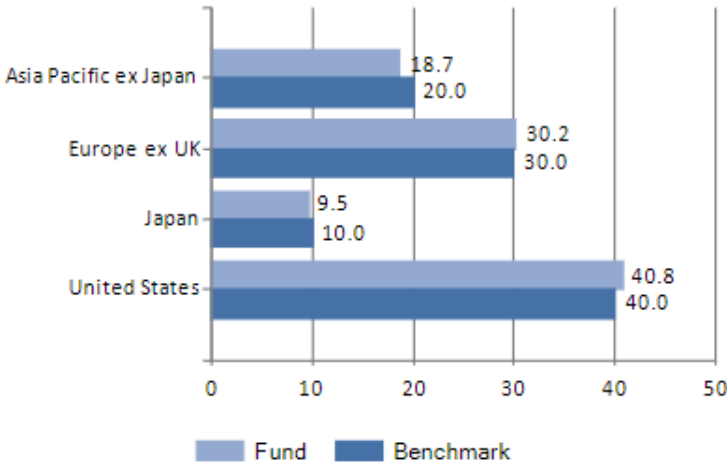
Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Alphabet A (o/w)	1.15	0.59	0.06	Strong results resulted in the shares recovering
Dollar General (o/w)	0.40	0.07	0.05	Sales growth and operational efficiencies
Zimmer Biomet (o/w)	0.28	0.05	0.03	New management team showing early benefits
Home Depot (o/w)	0.72	0.41	0.03	Positive housing sentiment boosted DIY business
Proctor & Gamble (o/w)	0.76	0.50	0.03	New product initiatives & increased marketing spend
Alphabet C (u/w)	0.00	0.60	-0.07	Strong results resulted in the shares recovering
Pfizer (o/w)	0.57	0.32	-0.05	Merger with Upjohn & Mylan poorly received
Tapestry (o/w) (*)	0.00	0.01	-0.05	Struggling “Kate Spade” brand has failed to deliver
Airbus (o/w)	0.85	0.33	-0.05	Adverse ruling from the World Trade Organisation
SAP (o/w)	0.77	0.52	-0.04	Slowdown in revenue growth & decrease in margins

(\*) Initially overweight but position was sold down by the end of August.

Source: Northern Trust & Border to Coast

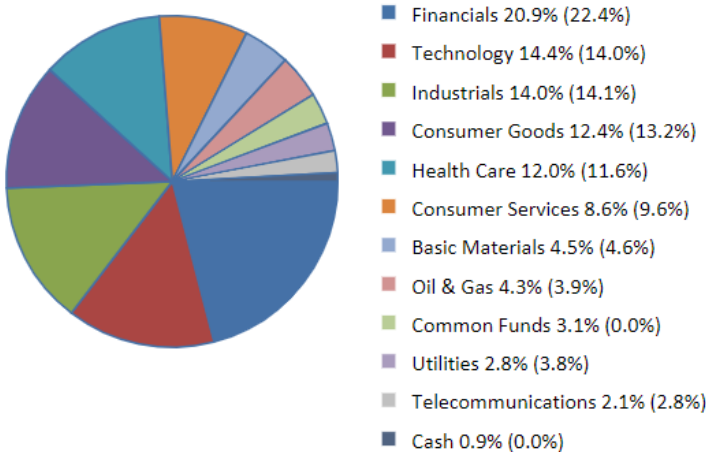
**Portfolio Structure**

18. The regional breakdown of the Fund and Benchmark, at the quarter end, is set out below:



Source: Northern Trust

19. The sector breakdown of the Fund and Benchmark, at the quarter end, was:  
Sector Portfolio Breakdown



Source: Northern Trust

Note: The pie-chart shows the sector allocation of the Fund with the Benchmark sector allocation shown in brackets.

20. Notes:

- Common Stock Funds (+) exposure to smaller companies via collectives in US, Europe and, recently, Japan.
- Technology (+) long term structural growth drivers and change in software business models to ongoing subscription revenues.
- Health Care (+) – strong long-term fundamentals driven by demographic changes.
- Utilities (-) – pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power are having an adverse impact on “traditional” power generation companies.

- Consumer Services (-) – concerns over consumer spending, structural shift to online retail and digital delivery of content away from cable.
- Financials (-) – significant underweight in Banks due to various concerns. Partly offset by overweight positions in Insurers and Wealth Managers.

21. During the quarter, the largest individual transactions were:

- Vanguard Mid-Cap ETF (+£20.7m) – reducing the Fund's underweighting of smaller US companies.
- Vanguard FTSE Japan (-£6.3m) – has been utilised for market exposure whilst taking profits from direct holdings.

### **Risk Profile**

22. The risk profile of the Fund is monitored on an ex-post (forward looking) and ex-ante (backward looking) basis using data from the fund custodian, Northern Trust, for ex-post, and Bloomberg for ex-ante.

23. Both the ex-post and ex-ante tracking error as of quarter end are below target, standing at 0.63% and 0.61% respectively.

### **Market Background**

24. Global economic growth continued to slow during Q3, which may continue in the short term. Trade tensions between the US and China have had a global impact, including on Emerging Markets. The UK continues to be impacted by the uncertainty around Brexit.

25. Global inflation remains low, wage growth appears contained and interest rate expectations fallen. Concerns persist that there is insufficient room for use of monetary policy in the event of a recession.

26. There has been a continued appreciation in global equity markets (MSCI ACWI up 6.2% during Q2) with the Developed world (+4%) continuing to outperform Emerging Markets (-1%).

27. Markets were relatively strong in July but there was a pullback in August due to concerns regarding a global economic slowdown, which subsequently reversed in September.

28. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.