



Border to Coast Pensions Partnership Ltd

Border to Coast UK Listed Equity Fund ("the Fund")

Report for the Quarter Ended 30th September 2019
(for information)

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

Author: Andrew Stone, Border to Coast CRM team
Date: 11 November 2019

Purpose of Report

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

Important Information

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511). The information provided in this paper does not constitute a financial promotion and is only intended for the use of Professional Investors. The value of your investment and any income you take from it may fall as well as rise and is not guaranteed. You might get back less than you invested. Issued by Border to Coast Pensions Partnership Ltd, Toronto Square, Leeds, LS1 2HP.

Background

3. Border to Coast launched this internally managed Fund on 26th July 2018.
4. The Fund has a quality bias with a focus on companies that can generate long term sustainable growth and benefit from long term demographic trends. Border to Coast are long term investors and we expect low portfolio turnover.
5. Cyclical exposure will typically be focused on companies with an identifiable competitive advantage. The fund seeks to avoid poorer quality cyclical stocks other than when emerging from a deep market correction.
6. The majority of the Fund's performance is expected to arise from stock selection decisions.

Performance Objective

7. The Fund's objective is to outperform the FTSE All-Share Index ("the Benchmark") by 1% per annum over three year rolling periods.
8. The Fund aims to provide a benchmark tracking error of 1% to 3% depending on market conditions. This is deemed an appropriate risk profile in view of the performance target.

Market Value

9. The Fund's market value at the quarter end was £4.5bn.

Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18 % pa	Year %	Quarter %
UK Listed Equity Fund	+3.0	+4.3	+1.2
FTSE UK All Share Index	+1.4	+2.7	+1.3
Actual Variance ¹	+1.6	+1.6	-0.1
Target Variance ²	+1.0	+1.0	+0.3
Performance Relative to Target ³	+0.6	+0.6	-0.4

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.

¹ Fund performance minus Benchmark performance

² Based on the Fund's Performance Objective

³ Actual Variance minus Target Variance

Comments on Performance

11. Performance was below the Benchmark for Q3 2019 but continues to meet the Performance Objective over longer periods.
12. The underperformance over the quarter was largely due to sector asset allocation positions, with Consumer Services having the most notable impact. Several positive stock selection decisions were negated by underperformance within the Financials sector.
13. Performance has been strong and consistent since inception, with Q3 2019 being the first full quarter over which the Fund has underperformed the Benchmark.
14. The key drivers of performance since inception has been positive stock selection in Consumer Services, Industrials and Consumer Goods with a bias towards overseas earnings which have benefited from sterling depreciation as a result of Brexit uncertainty. The relative underweight to domestic-focused stocks has reduced over the last few months but the portfolio remains underweight UK exposure.
15. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Micro Focus (u/w)	0.00	0.17	0.13	Profit Warning taken poorly by the market
Glencore (u/w)	0.00	1.16	0.11	Operational issues and unresolved investigations
Cobham (o/w)	0.26	0.16	0.10	Deal with Advent International at a premium
Next (o/w)	0.92	0.34	0.06	Online sales outweighing declining instore sales.
Ultra Electronics (o/w)	0.33	0.06	0.05	Earnings ahead of expectations.
Prudential (o/w)	2.36	1.66	-0.12	Concerns over Asia growth slowdown
Fresnillo (o/w)	0.40	0.05	-0.10	Silver and gold output guidance disappointed
BHP Group PLC (o/w)	2.22	1.56	-0.09	Falling commodity prices from slowing global growth
Flutter Entertainment (u/w)	0.00	0.25	-0.06	US division delivered profit earlier than anticipated
Biotech Growth Trust (o/w)	0.43	0.01	-0.05	Healthcare reform weighs on the biotech sector

Source: Northern Trust & Border to Coast

Portfolio Structure

16. The most significant overweight and underweight allocations at a sector level, relative to the Benchmark, at the quarter end were as follows:

Common Stock Funds	+1.24
Industrials	+0.86
Basic Materials	+0.42
Oil & Gas	+0.26
Consumer Goods	+0.24
Financials	-2.28
Consumer Services	-2.11
Technology	-0.26
Utilities	-0.26
Telecommunications	-0.24

Source: Northern Trust

17. Notes:

- Common Stock Funds (+) – exposure to smaller companies and sector-specialist investments via collective vehicles.
- Industrials (+) – diversified sector benefiting from increased global investment capital expenditure.
- Basic Materials (+) – strong cash generation enabling significant debt reduction & greater shareholder distributions.
- Financials (-) – underweight in Banks due to UK debt concerns and Brexit uncertainty, partly offset by overweighting Insurers and Wealth Managers.
- Consumer Services (-) – high street expected to continue struggle. Structurally challenged by online competition.
- Technology (-) – relatively small sector following M&A activity - remaining stocks are of a mixed quality.

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

- Standard Life Aberdeen PLC (+ £12.7m) – new holding at a net attractive entry valuation.
- Vodafone Group PLC (+ £11.3m) – closed underweight position following positive company updates.

Risk Profile

19. The risk profile of the Fund is monitored on an ex-post and ex-ante basis using data from the fund custodian, Northern Trust, for ex-post, and Bloomberg for ex-ante.

- The ex-post (backward looking) tracking error as of quarter end was 1.06%, just inside the risk appetite of 1% - 3%.
- The ex-ante (forward looking) tracking error as of quarter end was 0.80%, slightly under the risk appetite.
- The risk profile of the Fund is currently at the lower end of the target range due to the current level of uncertainty in the UK stock market as a result of Brexit and the impending general election. This positioning is likely to continue in the short term until there is more clarity around these issues.

Market Background

20. 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.

21. 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.

22. 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%).

23. 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.

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