



Border to Coast Pensions Partnership Ltd

Border to Coast Emerging Markets Equity Fund ("the Fund")

Report for the Quarter Ended 31 December 2019
(for information)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 9 March 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 17 February 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q4 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 22nd October 2018.
4. The Fund has a quality bias with a focus on companies that can generate long term sustainable growth, with a modest value bias which results in a higher exposure to more cyclical stocks, and a focus on larger companies. Border to Coast are long term investors and we expect low portfolio turnover.
5. Most of the Fund's performance is expected to arise from stock selection decisions with more modest contribution from country and sector allocation decisions.

Performance Objective

6. The Fund's objective is to outperform the S&P Emerging Broad Market Index ("the Benchmark") by 1% per annum over three year rolling periods.
7. 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

8. The Fund's market value at the quarter end was £755.1m.

Performance

9. Performance to the quarter end is shown below:

	Since inception 22/10/18	Year	Quarter
	% pa	%	%
Emerging Markets Equity Fund	+12.68	+14.87	+4.42
S&P Emerging BMI	+13.73	+14.84	+3.31
Actual Variance ¹	-1.05	+0.03	+1.10
Target Variance ²	+1.00	+1.00	+0.30
Performance Relative to Target ³	-2.05	-0.97	+0.80

¹ Fund performance minus Benchmark performance

² Based on the Fund's Performance Objective

³ Actual Variance minus Target Variance

Note

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

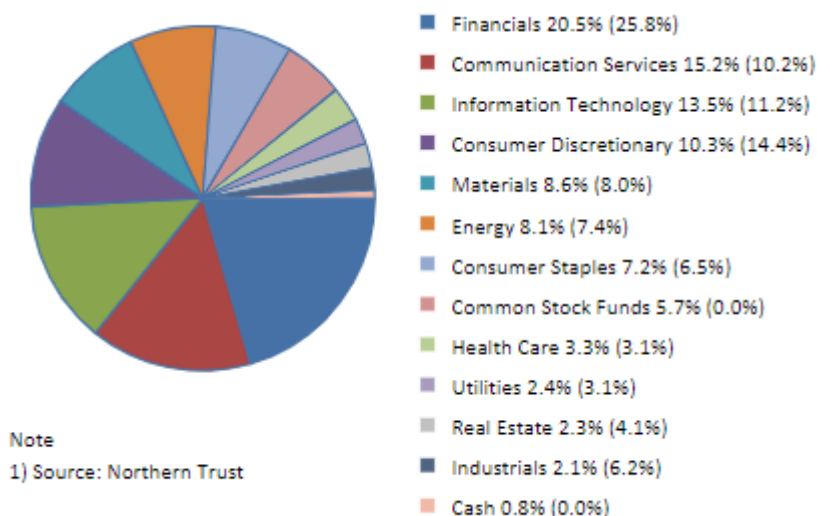
10. Performance was above the Benchmark for Q4 2019 but is below the benchmark and target since inception.
11. Tentative improvement in the trade relations between the US and China had a beneficial impact on export-oriented countries e.g. China, Taiwan and sectors e.g. Industrials, Technology etc.
12. Continued weakness in economic activity, with some signs of stabilisation, which has resulted in widespread interest rate cuts across the region and increased fiscal stimulus, particularly in Asia.
13. A developing global trend of an improvement in the relative performance of Value stocks which have under-performed Quality stocks significantly over the last decade and are now valued at a substantial discount. The sub-fund has a modest over-weight exposure to Value stocks which has had a beneficial impact on performance.
14. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Yageo (o/w)	1.02	0.06	0.46	Benefitted for a tightening of industry inventory levels
Alibaba (o/w)	6.15	4.97	0.14	Benefitted from improvement in investor sentiment
TIM (o/w)	0.78	0.05	0.14	Reported better than expected earnings
Gerdau(o/w)	0.50	0.08	0.14	Improvement in demand from the construction sector
58.Com ADR (o/w)	0.57	0.09	0.14	Relatively low valuation and successful cost cutting
3SBio (o/w)	0.52	0.01	-0.19	Impact of government procurement programme
Magnit (o/w)	0.73	0.00	-0.14	Suffered from tough operating conditions
ITC (o/w)	0.80	0.14	-0.13	Suffered from loss of market share
Larsen & Toubro (o/w)	0.66	0.09	-0.13	Unexpected and sharp slowdown in Indian economy
China Unicom (o/w)	0.52	0.08	-0.11	Weakness in Chinese telecoms due to lacklustre growth

Source: Northern Trust & Border to Coast

Portfolio Structure

15. The sector breakdown of the Fund and Benchmark, at the quarter end, was:



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

Source: Northern Trust

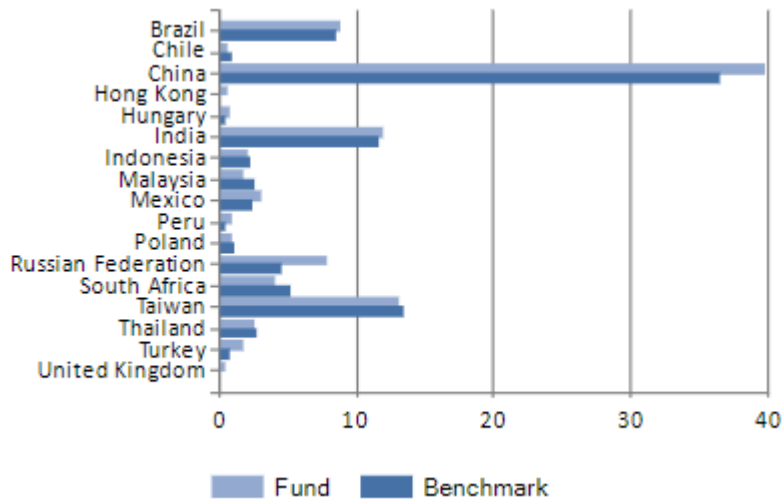
16. The most significant overweight and underweight allocations at a sector level, relative to the Benchmark, at the quarter end were as follows:

- Common Stock Funds (+) – provides timely exposure for investment of cash inflows, exposure to smaller countries within the index, and exposure to smaller companies in general.
- Communications Services (+) – exposure to a relatively defensive sector with positive long-term growth dynamics through the transition towards 5G technology, growth in “the internet of things” and potentially industry consolidation/co-operation.
- Information Technology (+) – long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous Vehicles, and new generation memory chips. Although the sector has been impacted in the short term from the escalating trade tensions, there are positive signs of a turnaround as a result of demand for next generation smartphones.
- Financials (-) – large under-weight driven by an under-weight in Banks, due to high valuations in some markets and more generally due to the headwinds against profitability, which is partly offset by an over-weight position in Insurance.
- Industrials (-) – the sector tends to be skewed towards mid and small-cap companies of varying quality and exposure will tend to come from investments in collective vehicles.
- Consumer Discretionary (-) – consumer stocks in Emerging Markets are generally not attractively priced at the current time, although demographic trends and increased disposable incomes are positive long-term drivers.

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

- Alibaba (£7.5m) – added to position – continuation of strong results announcements.
- iShares MSCI Emerging Markets ETF (-£38m) – unwinding ETF to invest directly in underlying stocks.

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



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 1.55%, just inside the risk appetite of 1% - 3%.
- The ex-ante (forward looking) tracking error as of quarter end was 2.18%.
- The risk profile of the Fund has been positioned at the lower end of the target range as a result of the increased uncertainty regarding the US/China trade dispute and the risk of a broad-based economic slowdown.

Market Background

20. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation

21. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions

22. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.

23. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.

24. There has been a modest appreciation in global equity markets (MSCI ACWI) with a total return of 1.1% (in sterling terms) during the quarter. Developed markets (+0.7%) underperformed Emerging Markets (+3.5%)

25. Value stocks failed to maintain their previous quarter's out-performance of quality stocks and momentum stocks continued to under-perform.
26. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.