



Border to Coast Pensions Partnership Ltd

Border to Coast UK Listed Equity Alpha 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

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Date: 17 February 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q4 2019.
2. The Committee is recommended to note this report.

Important Information

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Background

3. Border to Coast launched this externally managed Fund on 17th December 2018.
4. The Fund invests primarily in listed equities of UK companies from which are included in the index.
5. The Fund combines differentiated strategies based on independent drivers of excess returns that are managed by specialist managers. The allocations to each strategy will reflect the alpha potential in addition to the beta opportunity for each underlying strategy and may change over time.
6. The Fund currently has a mid-cap growth bias with a focus on companies with disruptive models that can sustainably increase their market share.
7. The Fund's performance is expected to arise from both factor and stock selection decisions.

Performance Objective

8. The Fund's objective is to outperform its FTSE All Share Index by at least 2% per annum over three year rolling periods.
9. The Fund aims to provide a benchmark tracking error relative to the Benchmark of between 2% to 5% 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 £1.3bn.

Performance

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

	Since inception 17/12/18 % p.a.	Year %	Quarter %
Overall Fund	20.14	23.40	7.79
Benchmark	16.59	19.17	4.16
Actual Variance ¹	+3.56	+4.24	+3.63
Target Variance ²	+2.00	+2.00	+0.50
Performance Relative to Target ³	+1.56	+2.24	+3.13

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.

¹ Fund performance minus Benchmark performance

² Based on the Fund's Performance Objective

³ Actual Variance minus Target Variance

* Values do not always sum due to rounding

Comments on Performance

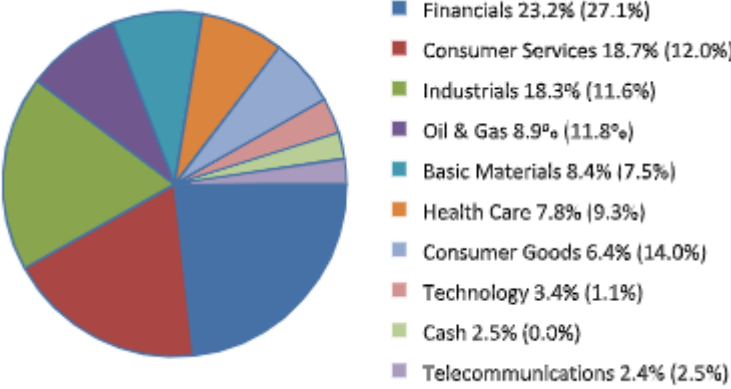
12. Overall Fund performance was above its target over Q4, and above target for the year and since inception.
13. The performance of the individual underlying managers of the Fund over Q4 was as follows:
- Baillie Gifford: Fund 9.14% vs Benchmark of 4.16%
 - Janus Henderson: Fund 16.15% vs Benchmark of 13.31%
 - UBS: Fund 4.27 % vs Benchmark of 4.16%
14. The UK stock market was buoyant during Q4 2019, as sentiment shifted towards a more positive global economic outlook for 2020 and political uncertainty began to fade. Globally, fears of contractions in manufacturing and service industries were reduced, helping to restore confidence that a recession is not imminent. US-China tensions also eased, and the Federal Reserve cut interest rates which further boosted stock prices. In the UK, stocks were boosted as Brexit uncertainty fears abated, following a general election victory for the Conservative Party.
15. From an industry perspective, UK sectors such as technology, industrials, financials and consumer services all out-performed the benchmark. The Fund is over-weight in these sectors, which has contributed to out-performance. UK utilities also strongly outperformed as the possibility of nationalisation reduced.
16. The Fund's performance was consistently positive over the quarter. In particular, the Fund experienced strong returns following the conclusion of the general election on 12 December 2019, with small and mid-cap stocks posting a sharp recovery.
17. The Fund remains well positioned to weather the impact of Brexit with both the small-cap over-weight and the high degree of overseas earners providing potential upside. Whichever scenario prevails it should restore a degree of certainty to the macro-economic environment and allow company fundamentals to drive share prices. We believe that the Fund's focus on stock selection and diversified style exposure will be much more suited to this type of environment.
18. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Royal Dutch Shell (A) (u/w)	0.37	3.95	0.35	Announced asset impairments and weaker refining margins.
Aveva (o/w)	1.92	0.12	0.35	Strong H1 2019 revenues during Q4, due in part to new solutions
Trainline (o/w)	2.10	0.10	0.28	General election reduced prospects of railway nationalisation
Rightmove (o/w)	2.82	0.23	0.27	The company benefitted from reduced Brexit uncertainty
Unilever (u/w)	0.44	1.99	0.25	Issued a sales warning due to a slowdown in South Asia
Hargreaves Lansdown (o/w)	1.69	0.22	-0.18	The stock struggled due to fallout from the Woodford scandal
Ocado (o/w)	2.02	0.24	-0.14	Investors disappointed with the structure of a £600m bond
Man Group (o/w)	1.05	0.10	-0.13	Missed targets for Q3, and investors expect outflows in Q4
3i (o/w)	1.76	0.44	-0.12	Investment in Action (discount Euro retailer) had missed targets
Prudential (u/w)	1.12	1.58	-0.11	The firm's stock rallied following the de-merger from M&G

Source: Northern Trust & Border to Coast

Portfolio Structure

19. 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

20. Notes:

- Industrials (o/w) – partially driven by stock selection within our small cap allocation, where industrials are a significantly larger index weight.
- Consumer Services (o/w) – over-weight position capturing the theme of disruptive, capital-lite businesses attempting to reshape traditional industries.
- Technology (o/w) – driven by an over-weight position in software and services – targeting innovative, high-growth businesses that are not well represented in the UK benchmark.
- Consumer Goods (u/w) – as a counterpart to the Consumer Services over-weight, the Fund has a large under-weight in tobacco due to potential ESG concerns and expensive valuations.
- Financials (u/w) – under-weight as a result of the sector being dominated by large banks with significant UK economic exposure, for which we are materially under-weight. Preference for disruptors and financial services providers (e.g. asset managers).
- Utilities (u/w) – concerns over long-term sustainability of businesses and risk of regulatory interference warrant an under-weight position. (0% allocation to utilities at the end of the quarter)

Risk Profile

21. 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.

22. Both the ex-post and ex-ante tracking error as of quarter end are within the target, standing at 4.72% and 4.89% respectively.

Market Background

23. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation
24. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions
25. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.
26. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.
27. 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%)
28. Value stocks failed to maintain their previous quarter's out-performance of quality - but momentum stocks continued to under-perform.
29. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.