



Border to Coast Pensions Partnership Ltd

Border to Coast UK Listed 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 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 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 a 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 £4.7bn.

Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18	Year	Quarter
	% pa	%	%
UK Listed Equity Fund	+5.49	+20.96	+4.28
FTSE UK All Share Index	+4.05	+19.17	+4.16
Actual Variance ¹	+1.44	+1.79	+0.12
Target Variance ²	+1.00	+1.00	+0.25
Performance Relative to Target ³	+0.44	+0.79	-0.13

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

11. Performance was slightly above the Benchmark for Q4 2019 and continues to meet the Performance Objective over longer periods.
12. Outcome of the general election reduced uncertainty around Brexit. As well as a relief bounce in the market and sterling strength, UK-focused companies were the main beneficiaries, with overseas earners under-performing. This was a reversal of the trends seen since the referendum in 2016 and was not unexpected.
13. The Fund benefited from the recovery in smaller companies, which tend to have a UK bias, but this was partly offset by an over-weight position in overseas earners relative to domestic earnings.
14. Portfolio positioning during the tumultuous events since inception has been difficult and has resulted in the Fund having a relatively low risk profile, whilst still generating performance above target.
15. The reduction in market uncertainty should enable the relative risk profile of the Fund to increase over the medium term.
16. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Biotech Growth Trust (o/w)	0.56	0.02	0.12	Increased merger and acquisition activity
JP Morgan Smaller Co. (o/w)	0.40	0.01	0.11	UK Smaller companies have rallied post UK election
Montagu UK Smaller Co. (o/w)	0.45	0.01	0.10	UK Smaller companies have rallied post UK election
Travis Perkins (o/w)	0.59	0.17	0.09	Better than expected quarterly trading statement
Glencore (u/w)	0.00	1.07	0.09	Bribery investigation opened by UK serious fraud office
Tullow Oil (o/w)	0.10	0.04	-0.15	A series of disappointing drilling outcomes
International Airlines Group (u/w)	0.00	0.42	-0.09	Beneficiary of reduction in Brexit uncertainty
Unilever (o/w)	2.40	1.99	-0.06	Reduced sales growth due to slowing emerging market growth
Barclays (u/w)	1.02	1.30	-0.05	Positive trading statement ahead of expectations
Barratt Developments (u/w)	0.00	0.32	-0.05	Brexit Beneficiary. Supportive gov housing policy

Source: Northern Trust & Border to Coast

Portfolio Structure

17. 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	+1.36
Industrials	+0.69
Basic Materials	+0.53
Oil & Gas	+0.19
Consumer Goods	+0.02
Consumer Services	-2.28
Financials	-1.68
Utilities	-0.30
Technology	-0.27
Health Care	-0.09

Source: Northern Trust

18. Notes:

19. Common Stock Funds (+) – exposure to smaller companies and sector-specialist investments via collectives.

20. Industrials (+) – diversified sector benefiting from increased global investment capital expenditure.

21. Basic Materials (+) – strong cash generation enabling significant debt reduction, increased shareholder distributions, and capital investment into the longer term at current commodity prices.

22. Consumer Services (-) – high street expected to continue to suffer from pressure on UK consumer discretionary spending and high occupancy costs.

23. Financials (-) – under-weight in Banks due to concerns over UK consumer debt and residual Brexit uncertainty, partly offset by over-weight positions in Insurers and Wealth Managers.

24. Utilities (-) – regulatory and political headwinds (including recent nationalisation risk ahead of UK elections) alongside increased scrutiny of shareholder returns.

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

- M&G PLC (£20.8m) – new position following the separation from Prudential. Positive meeting with company.
- Travis Perkins PLC (-£4.9m) – reduced over-weight – shares recovered sharply following trading statement.

Risk Profile

26. 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 0.98%, just outside the risk appetite of 1% - 3%.
 - The ex-ante (forward looking) tracking error as of quarter end was 0.87%, slightly under the risk appetite.
 - The risk profile of the Fund has been positioned at the lower end of the target range due to uncertainty regarding Brexit and the general election. As some of these issues have been resolved to a certain extent the risk profile of the fund is likely to increase modestly.

Market Background

27. Global economic growth has continued to soften during the quarter, although leading indicators have shown some signs of stabilisation
28. The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions
29. In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding Brexit.
30. Global inflation remains low, wage growth appears contained and interest rate expectations fallen.
31. 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%)
32. Value stocks failed to maintain their previous quarter's out-performance of Quality - but Momentum stocks continued to under-perform.
33. We are long-term investors - aiming to ignore short-term noise and focus on long term company fundamentals.