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PENSIONS PARTNERSHIP

BCPP JOINT COMMITTEE

AGENDA

Venue: Virtual Meeting

Date: Tuesday 16 June 2020

Time: 1.00 pm

Membership:

Chair:-

Cllr Doug McMurdo Bedfordshire Pension Fund

Vice Chair

Cllr Tim Evans Surrey Pension Fund

Membership:-

Cllr Mel Worth	Cumbria Pension Fund
Cllr Mark Davinson	Durham Pension Fund
Cllr Richard Meredith	East Riding Pension Fund
Cllr Eddie Strengiel	Lincolnshire Pension Fund
Cllr John Weighell	North Yorkshire Pension Fund
Cllr Mick Stowe	South Yorkshire Pension Fund
Cllr David Coupe	Teesside Pension Fund
Cllr Eileen Leask	Tyne & Wear Pension Fund
Cllr Bob Stevens	Warwickshire Pension Fund

Terms of Reference of the BCPP Joint Committee

1. The primary purpose of the Joint Committee is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.
2. The Joint Committee will provide effective engagement with the Authorities as the BCPP Pool vehicles are established and ultimately operated. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

The remit of the Joint Committee is:

2.1 Phase 2 – Post Establishment and Commencement of Operations

- 2.1.1 To facilitate the adoption by the Authorities of relevant contracts and policies.
- 2.1.2 To consider requests for the creation of additional ACS sub-funds (or new collective investment vehicles) and to make recommendations to the BCPP Board as to the creation of additional sub-funds (or new collective investment vehicles).
- 2.1.3 To consider from time to time the range of sub-funds offered and to make recommendations as to the winding up and transfer of sub-funds to the BCPP Board.
- 2.1.4 To review and comment on the draft application form for each additional individual ACS sub-fund on behalf of the Authorities prior to the Financial Conduct approval (or the draft contractual documents for any new collective investment vehicle).
- 2.1.5 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.6 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.7 To formulate and propose any common conflicts policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.
- 2.1.8 To agree on behalf of the Authorities high level transition plans on behalf of the Authorities for approval by the Authorities for the transfer of BCPP assets.
- 2.1.9 To oversee performance of the BCPP Pool as a whole and of individual sub-funds by receiving reports from the BCPP Board and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.
- 2.1.10 To employ, through a host authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

AGENDA

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Minutes of the Border to Coast Joint Committee Monday 9 March 2020 - Aspire, Leeds

Present

Members

Councillor Doug McMurdo (Chair)
Councillor David Coupe, Councillor Mark Davinson,
Councillor Tim Evans, Councillor Patrick Mulligan, Councillor
Bob Stevens, Councillor Mick Stowe, Councillor Eddie
Strengiel, Councillor Anne Walsh and Councillor Mel Worth
Deirdre Burnet and Nicholas Wirz (Scheme Member
Representatives)

Border to Coast Ltd Representatives

Daniel Booth, Rachel Elwell, Chris Hitchen and Fiona Miller
Councillor Jeff Watson and Councillor John Holtby,
Shareholder non-executive directors on BCPP Ltd's Board of
Directors

Fund Officers

Ian Bainbridge, Alison Clark, Paul Cooper, Clare Gorman,
Julie McCabe, Chris Norton, Nick Orton, Jo Ray, Gill
Richards and Mamon Zaman

Statutory Officer Representative(s)

George Graham and Julian Neilson

Apologies were received from

Councillor Eileen Leask and Councillor Richard Meredith

1 APOLOGIES FOR ABSENCE/DECLARATIONS OF INTEREST

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

The Chair requested that the Committee's best wishes be conveyed to Cllr Eileen Leask.

2 MINUTES OF THE MEETING HELD ON 20TH NOVEMBER 2019

RESOLVED – That the minutes of the meeting held on 20th November 2019 be agreed and signed by the Chair as a true record.

3 ANNUAL ELECTION OF COMMITTEE CHAIR AND VICE-CHAIR. ANNUAL NOMINATION TO BORDER TO COAST BOARD - IAN BAINBRIDGE

A report was submitted which set out the process by which the Joint Committee would select its Chair and Vice-Chair at the June meeting of the Committee and make a nomination to the Board of Border to Coast for a Non-Executive Director (NED) to sit on the Company Board.

It was noted that the Inter Authority Agreement allowed a Chair and Vice-Chair to serve for a “further term” after the initial election; as both Chair and Vice-Chair were in their second terms they would not be eligible for re-election to the post they currently held.

The Committee discussed the suggestion that the Partner Fund Nominated NEDS should serve a three year term instead of the current two years. It was decided to stay with the current two year appointment for the moment, whilst acknowledging that the Joint Committee was only nominating a candidate and that ultimately the appointment was made by the shareholders on a recommendation from the Company which would include the term for which the NEDs would serve.

RESOLVED – That the Joint Committee agreed that:

- (i) The next meeting would conclude with elections and nominations as specified in the report.
- (ii) The process as set out in the report be adopted.
- (iii) The term of appointment for Partner Fund Non-Executive Directors remain at two years, with the situation to be reviewed again in 2021.

4 JOINT COMMITTEE BUDGET - IAN BAINBRIDGE

A report was submitted which set out the current budget position for 2019/20 and suggested that the budget remained at £40,000 for 2020/21.

RESOLVED – That the Committee:

- (i) Note the current budget position for 2019/20.
- (ii) Agree a budget of £40,000 for 2020/21.

5 PROPOSED FUTURE JOINT COMMITTEE MEETING DATES - CLARE GORMAN

The Committee considered a report which set out the previously agreed Joint Committee meeting dates and also the proposed meeting dates for the 2022/23 municipal year. These were:

- Tuesday 14th June 2022
- Tuesday 27th September 2022

- Tuesday 22nd November 2022
- Tuesday 7th March 2023

With regard to the previously agreed 2020/21 meeting dates, the Committee noted that two dates had been changed at the request of the BCPP Ltd directors.

RESOLVED – That the Committee:

- (i) Note the proposed future Joint Committee meeting dates as set out above.
- (ii) Note the changes to the previously agreed Joint Committee meeting dates as detailed within the report.

6 2019 PARTNER FUNDS FEEDBACK SURVEY - RACHEL ELWELL

R Elwell presented a report which informed the Committee of the results of the second annual survey of the Partner Funds.

Following feedback from the previous survey, the 2019 survey had covered a wider range of audiences including committee chairs, s151 officers, pensions officers and independent advisors.

The Committee noted that overall the feedback from the survey had been positive; 46% of respondents were very satisfied and 49% were somewhat satisfied.

There had also been a number of suggestions on areas for improvement/issues to be mindful of. These included:

- Engagement
- Importance of culture and delivery
- Maintaining a partnership approach
- Future support

A series of actions to address the issues were detailed within the report.

RESOLVED – That the Committee note the results of the 2019 Partner Fund feedback survey.

7 GOVERNANCE CHARTER UPDATE - RACHEL ELWELL

A report was submitted to inform the Committee of proposed changes to the Governance Charter following the annual review.

The following points had been updated:

- An update given the increase in the number of Board Committees to include the Private Markets Committee and a split of the Audit and Risk Committee.
- An update to the strategy section to reflect the 2020-2022 Strategic Plan.
- Scheme member representation on the Joint Committee.

- Reflection of the move to bi-monthly Officer Operations Group meetings, which was a result of holding specific workshops to discuss design and other significant aspects, reducing the need to hold monthly general business meetings.
- Updated chart reflecting new Border to Coast committees.
- General updating to reflect the changes following the implementation of SM&CR.

A copy of the updated Charter with tracked changes was provided as an appendix to the report.

RESOLVED – That the Committee approve the proposed changes to the Governance Charter for publication on the Border to Coast and Joint Committee websites.

8 BORDER TO COAST MARKET REVIEW - DANIEL BOOTH

D Booth presented a report which provided an overview of 2019 market performance and 2020 market pricing.

Members noted that 2019 witnessed strong asset returns across all asset classes. Positive returns were a function of falling interest rates and declining risk premiums and followed negative 2018 returns.

2020 market pricing was for a continuation of the last decade with continued low interest rates, mediocre growth and subdued inflation. Shift in policy responses meant it was unlikely that the next decade would reflect the prior period.

There was volatility around the oil markets and the risks and uncertainties following the outbreak of Coronavirus were still unclear.

The Committee was informed that there was a lot of work going on around climate related risks and the methodology for measuring these.

Members thanked D Booth for the report commenting that it was a useful addition to the Committee's agenda.

RESOLVED – That the report be noted.

9 PERFORMANCE REPORTS - DANIEL BOOTH

The Committee considered the performance reports for the Quarter ended 31st December 2019 for Border to Coast's UK Listed Equity Fund, Overseas Developed Equity Fund, Emerging Markets Equity Fund and the Listed Equity Alpha Fund.

UK Listed Equity Fund – performance was slightly above the benchmark for Q4 2019 and continued to meet the Performance Objectives over longer periods.

Overseas Developed Equity Fund – overall Fund Performance was above its target and was above benchmark since inception.

Emerging Markets Equity Fund – performance was above the benchmark for Q4 2019 but was below the benchmark and target since inception.

UK Listed Equity Alpha Fund – overall fund performance was above its target over Q4 and above target for the year and since inception.

Members noted that the effects on markets of the volatility in oil and the extent of the Coronavirus would be felt in the first quarters of 2020, and maybe beyond.

RESOLVED – That the report be noted.

Exclusion of the Public and Press

10 GLOBAL EQUITY ALPHA TRANSITION - DANIEL BOOTH

A report was submitted which described the main elements of the Global Equity Alpha transitions and addressed the following questions:

- What was the outcome?
- What were the principal causes of the outcome?
- Was implementation shortfall (IS) the best measure for transitions?
- Were pre-transition estimates of IS by transition managers reliable – was there any evidence that they consistently over- or underestimated outcomes?

The report also detailed areas of the transition that it was considered had been carried out well and areas highlighted for improvement and incorporation into future transitions.

RESOLVED – That the report be noted.

11 MULTI-ASSET CREDIT FUND DESIGN - DANIEL BOOTH

A report was submitted that provided an update on the launch of the MAC Fund.

Members were informed that Border to Coast were following a similar design and launch process to the approach used for the three internally managed and three externally managed sub-funds launched to date. The working party of nominated Partner Fund pensions officers and advisors working with Border to Coast would consider the draft amendment to the ACS prospectus that would be required to launch the fund.

Border to Coast had conducted significant preparatory work in anticipation of the launch of the Multi-Asset Credit Fund. The Project Team had undertaken substantial research into the investment, operational and regulatory implications of the new product, as well as extensive engagement with Partner Funds and wider industry.

The report detailed the fund range and product design, indicative commitments, cost proposition, summary fund information and benchmark weights and allocation

changes. It also provided a key summary of risk arising from the launch of the MAC product with a specific focus on risks to Border to Coast.

RESOLVED – That The Joint Committee:

- (i) Note the report.
- (ii) Delegates review and comment on the draft Prospectus to a working party of Partner Fund officers under its Terms of Reference 2.2.4 as set out in the report.

12 STERLING INDEX LINKED BONDS FUND - DESIGN AND PROSPECTUS SUBMISSION - DANIEL BOOTH

The Committee considered a report which covered the design of the proposed Sterling Index-Linked Bond Fund including the expected fund size, performance and risk targets, benchmark, proposed share class, investment management arrangements, any operating model, regulatory (including portfolio stress testing) or procurement implications, and the approach to transition.

RESOLVED - That the Joint Committee:

- (i) Note the Sterling Index-Linked Bond Fund design as set out in the report.
- (ii) Delegate review and comment on the proposed changes to the ACS Prospectus to Partner Fund Officers.

13 EMERGING MARKET AND REGIONAL EQUITY FUNDS - DANIEL BOOTH

A report was submitted which provided a high level fund mapping that would result in three funds: a hybrid Emerging Market Fund, a separate externally managed Emerging Market Fund and an externally managed regional development market fund. Members noted that the proposed approach would meet the requirements of all Partner Funds in the asset classes. Setting out the full proposed range, including the high level design of each fund enabled Partner Funds to make informed investment decisions as investments were pooled.

The main focus of the report was the creation of the hybrid Emerging Market Fund that was planned for Q4 2020, the other two were planned for 2021.

RESOLVED – That the Committee:

- (i) Note the proposed fund mapping for two Emerging Market equity funds and a non-market cap weighted Regional Development Fund.
- (ii) Note the progress on the proposed conversion of the existing internally managed Emerging Market equity fund to a hybrid with the addition of one or more external managers.

- (iii) Delegate Prospectus review and comment to a working party of Partner Fund officers under its Terms of Reference 2.2.4 as detailed within the report.

**14 ALTERNATIVES UPDATE INCLUDING ALTERNATIVES SERIES 1B
SUBSCRIPTION - DANIEL BOOTH**

The Committee considered a report which provided an alternatives update including series 1B subscription.

Members were reminded that the development of Border to Coast's Alternatives capability was identified as a priority for Partner Funds to benefit from the expected cost savings and access to investments afforded by Border to Coast investing on their behalf at scale.

The Committee was informed that following public procurement Border to Coast had selected Albourne Partners Limited as a specialist alternative due diligence consultant to support internal resources on investment/operational due diligence and investment book of record reconciliation.

Border to Coast had made good progress on the allocation of committed funds in Series 1A; these were detailed within the report.

The request for commitments for Series 1B for Private Equity and Infrastructure, and relevant documentation, was currently with Partner Funds, with a 20 March 2020 deadline.

The report gave an overview of the Private Equity and Infrastructure Series 1B investment offerings.

The Committee noted that:

- Deployment of Series 1A commitments was progressing well.
- The Limited Partnership Agreement had been reviewed and no amendments were considered necessary. The Information Memorandum, Subscription Document and Due Diligence Questionnaire had all been updated.
- Following discussions with Partner Funds no material changes had been proposed for Series 1B, Partner Funds had provided indicative commitment levels.
- The investment team continued to be built with strong recent additions.
- Further visibility on costs indicated that the costs of the Alternatives structure would be in line with previous expectations.

RESOLVED – That the Committee:

- (i) Note the update on the Operating Model, Investment Team, information relating to the deployment of capital to Series 1A and the development of Series 1B.

- (ii) Note the overview of the Private Equity and Infrastructure Series 1B offerings.
- (iii) Agrees with the proposal that for Alternatives, the remit under paragraph 2.2.4 of its Terms of Reference (as set out in the report) should be interpreted to cover changes to the Limited Partnership Agreement and material changes to subscription documentation.

15 CEO REPORT FEBRUARY 2020 - RACHEL ELWELL

R Elwell presented her CEO report for the period since the last Joint Committee.

The report contained:

- A progress update, including interactions with Partner Funds.
- A summary of risk positioning and performance of the launched funds.
- An update on progress from a corporate functions perspective and the expected outturn of the Operating Budget.

It was noted that political risk remained high and a matrix showing the results of a recent review by the Board was included in the report.

Since the report was written external events had caused a downturn in the markets and the response to the Coronavirus would be closely monitored. As and when appropriate D Booth would circulate an investment note to keep the Partner Funds up to date.

RESOLVED – That the report be noted.

16 STANDING ITEM - UPDATE ON EMERGING MATTERS - RACHEL ELWELL/FIONA MILLER/IAN BAINBRIDGE

F Miller update the Committee on the work that had been done in conjunction with other pools regarding investment taxes and the tax structuring for the Company.

CHAIR



Border to Coast Joint Committee

Date of Meeting: 16th June 2020

Report Title: Annual Election of Committee Chair and Vice-Chair
Annual Nomination to Border to Coast Board
(for information and read only)

Report Author: Ian Bainbridge, Chair Officer Operations Group

1.0 Executive Summary:

- 1.1 The report to the Joint Committee in March 2020 set out the process by which the Joint Committee would select its Chair and Vice Chair and make a nomination to the Board of Border to Coast for a Non-Executive Director (NED) to sit on the Company Board.
- 1.2 This process was to take place at the end of this June meeting of the Joint Committee. However, as the meeting is now being held by video conference, it has proved necessary to change the proposed approach and to undertake the ballots by email in the days following the meeting.

2.0 Recommendation:

- 2.1 The Joint Committee is recommended to note the report.

3.0 Process to be adopted:

- 3.1 At the March meeting of the Joint Committee a report was presented which set out a process to be followed to elect and nominate candidates and included background details for the roles and responsibilities of the following posts:
 - Chair of the Joint Committee
 - Vice Chair of the Joint Committee, and
 - Partner Fund Nominated Non Executive Director (NED)
- 3.2 Whilst a process was agreed, which would have been followed at the close of the formal June meeting of the Joint Committee, it has proved necessary to amend this process to take account of the fact the meeting is now taking place by video conference.
- 3.3 On 19th May 2020 Ian Bainbridge, the Chair of the Officer Operations Group sent an email to all Members of the Joint Committee advising of the need to change from a

ballot at the end of the Joint Committee meeting and to instead undertake the elections in the days following the Joint Committee by email. This would be essentially the same process used last year for the nomination of a Partner Fund nominated NED.

- 3.4 The email also asked all administering authorities to consider nominations to the posts and asked that these nominations were sent to the Joint Authorities Governance Unit at South Yorkshire by 8th June 2020, who will be co-ordinating this exercise. Candidates were also asked to submit a short supporting statement. For completeness a nil return was also requested from those authorities not nominating anyone.
- 3.5 At the time of writing the report, the details of the candidates are not known but the Joint Committee members should by the time of this meeting, have received a further email from the Joint Authorities Governance Unit at South Yorkshire, providing details of the candidates and further detail on the process to be followed.
- 3.6 It has been previously agreed that any member selected as a NED should not continue to sit on the Joint Committee in a voting capacity. For this reason it is important that the ballot for the nomination to the NED role should be held first in order to determine eligibility for the Chair or Vice-Chair role.
- 3.7 It is considered important that each Partner Fund is provided with the opportunity to be able to take part in the process. This is aided by moving the process for voting to email.
- 3.8 The Joint Committee has previously decided to use the single transferable vote (STV) system for the ballot as this easily allows Partner Fund representatives to participate whether the votes are cast in a meeting, by a proxy or by email.

4.0 Recommendation

- 4.1 The Joint Committee is recommended to note the report.

Content of an email from Ian Bainbridge to members of the Joint Committee on 19th May 2020 at 14.36pm

Dear Members of the Joint Committee and Officers,

The June meeting of the Joint Committee was scheduled to conclude with the nomination process for a Partner Fund Nominated Non-Executive Director and the annual election of the Chair and Vice Chair of the Joint Committee. However, due to the Covid-19 pandemic the meeting on 16th June will take place virtually (details to follow) which means it will not be possible to undertake these elections at the end of the meeting. Instead, it is proposed that the nomination and elections should take place in the days after the meeting and by email. This is essentially the same approach that was used last year for the nomination of a Non-Executive Director.

As would normally be the case if the process was to be undertaken at the conclusion of the meeting it is necessary for the elections to take place in the following sequence.

1. Nomination of Non-Executive Director
2. Election of Chair of Joint Committee
3. Election of Vice-chair of Joint Committee

This is because the successful nominee for the role of Non-Executive Director will not be eligible to stand for the role of Chair or Vice Chair of the Joint Committee.

Following the nomination of the candidate for the Non-Executive Director role, the nominee will be subject of formal approval by the Border to Coast Board, vetting by the FCA as a “fit and proper person” and finally approval by the Administering Authorities as shareholders before taking up the role.

It should also be noted that the terms of the Inter Authority Agreement prevent a member for holding the position of Chair and Vice Chair for more than two terms. As the current Chair and Vice Chair have been in post or two terms they cannot stand for the post they currently hold. They could however, stand for the other post. For example, the Chair could stand for the post of Vice Chair and vice versa.

The purpose of this email is to alert all Administering Authorities to the upcoming nomination/election process and to ask that any Administering Authority who is intending to put forward candidates, should declare that intention no later than close of business on Monday 8th June by advising the clerk to the Joint Committee (Gill Richards) at the Joint Authorities Governance Unit at South Yorkshire whose email address is:

GRichards@syjs.gov.uk

Attached is a copy of a Nomination Form which should be completed by each Administering Authority. This asks for the name of the candidate and the role for which they are applying. In addition, a short statement should be provided to support each individual candidate (no more than 500 words). If the candidate is applying for more than one role, this should be clearly indicated on the Nomination Form, but please note only one supporting statement should be provided.

It should also be noted that an Administering Authority may nominate different individuals for role of Non-Executive Director and Chair/Vice Chair. If you choose to do this, please note that you still only submit one supporting statement for each candidate.

The list of candidates and supporting statements will be circulated in advance of the June meeting.

Further details will also be supplied of the exact process to be followed and the timing of the nomination and elections.

Attached is a copy of the report to the last meeting of the Joint Committee which sets out further background and a role profile for each of these positions.

I appreciate that the arrangements at each Administering Authority will be different, so I have sent this email to the Members of the Joint Committee, S151 Officers and Pensions Fund Officers and would ask that each Authority co-ordinate the response to this email in line with their own arrangements and ensure that only one response is received from each.

I should be grateful that once you have discussed this matter within your own Administering Authority, that you respond to Gill Richards by **8th June 2020**.

If you have any questions please come back to either myself or Gill.

Regards

Ian

Ian Bainbridge

Head of Pensions

Tyne and Wear Pension Fund

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Border to Coast Joint Committee

Date of Meeting: 16th June 2020

Report Title: Joint Committee Budget (for information and read only)

Report Sponsor: Ian Bainbridge, Chair Officer Operations Group

1.0 Recommendation

1.1 The Joint Committee is asked to note

- the final spend in 2019/20 was £14,000 against a budget of £40,000
- the position for the 2020/21 budget

2.0 2019/20 Joint Committee Budget

2.1 At the Joint Committee meeting on 11th March 2019 a budget of £40,000 was approved for 2019/20.

2.2 This Budget of £40,000 is based on a basic cost estimate included in a report from Deloitte, obtained in May 2016, as part of the initial cost benefit analysis for the submission to Government. As previously noted it is difficult to determine whether this budget is set at the appropriate level. This will be monitored both in year and for future years and may be adjusted accordingly.

2.3 The Budget is intended to cover costs incurred by the Joint Committee and the partner funds, including the secretarial services to convene and run meetings, and for collective advice and support (internal from partner funds and external sources) which may be required from time to time by all partner funds.

2.4 It is also considered reasonable that this budget is used to cover travel costs and expenses for any members or officers who are attending meetings to represent all partner funds. This will include but will not be limited to meetings with MHCLG and Cross Pool meetings. This budget will not be used where members and officers are attending meetings to represent their own funds including Joint Committee meetings and Officer Operations Group Meetings.

2.5 The budget will also be used to cover travel expenses for scheme member representatives appointed as observers to the Joint Committee. This is

because they will be deemed to be representing the scheme members from all partner funds.

2.6 In line with the cost sharing principles these costs will be shared equally between the partner funds.

3.0 Final Expenditure to 31st March 2020

3.1 In 2019/20 the total expenditure against the budget of £40,000 was £14,000. A breakdown of the expenditure incurred is shown below;

Secretariat Support to Joint Committee - £1,600

Catering and Room Hire for Joint Committee - £3,300

Legal Advice - £8,600

Travel and Subsistence - £500

3.2 As can be seen from the paragraph above the largest element of cost is in relation to legal work. This relates to;

- Advice from Counsel in connection with the appointment of a Partner Fund Nominated Non Executive Director.
- External legal advice in connection with the Border to Coast Compensation Policy, following an error. To date £3,800 has been charged for this, but there has also been work undertaken in 2020/21 and this will be charged against next years budget.

4.0 Budget for 2020/21

4.1 At the Joint Committee meeting in March 2020 a budget of £40,000 was approved for 2020/21.

4.2 A forecast of expenditure against this budget head has not been provided due to the fact it is very early in the financial year.

5.0 Conclusion

5.1 The current expenditure is within the Joint Committee Budget.

5.2 The budget for 2020/21 has been set £40,000.

Report Author:

Ian Bainbridge, ian.bainbridge@southtyneside.gov.uk

Further Information and Background Documents:

N/A



Border to Coast Pensions Partnership Joint Committee

Date of Meeting: 16 June 2020

Report Title: Border to Coast Market Review (for information and read only)

Report Sponsor: Border to Coast CIO – Daniel Booth

1 Executive Summary:

- 1.1 This report provides an overview of 2020 market performance and environment.
- 1.2 March 2020 witnessed extreme equity market volatility, with the worst quarterly UK equity market performance since the South Sea bubble burst in 1720 and the 3rd and 5th worst performance days for the US S&P 500 since 1928. The authorities responded with massive fiscal stimulation (3.7% global GDP v 1.6% in the Global Financial Crisis), financed in some cases with unlimited monetary stimulus, which combined with a flattening Covid-19 infection curve, lead to a sharp rebound in equity markets. The S&P 500 dropped 34% in 23 trading days, bottoming on 23rd March 2020, before rallying 25% in the following 13 trading days.
- 1.3 The graph below shows the price return of the MSCI World (blue shaded area), the outperforming US S&P 500 (green line) and the underperforming UK FTSE (pink line) markets:



Source: Bloomberg

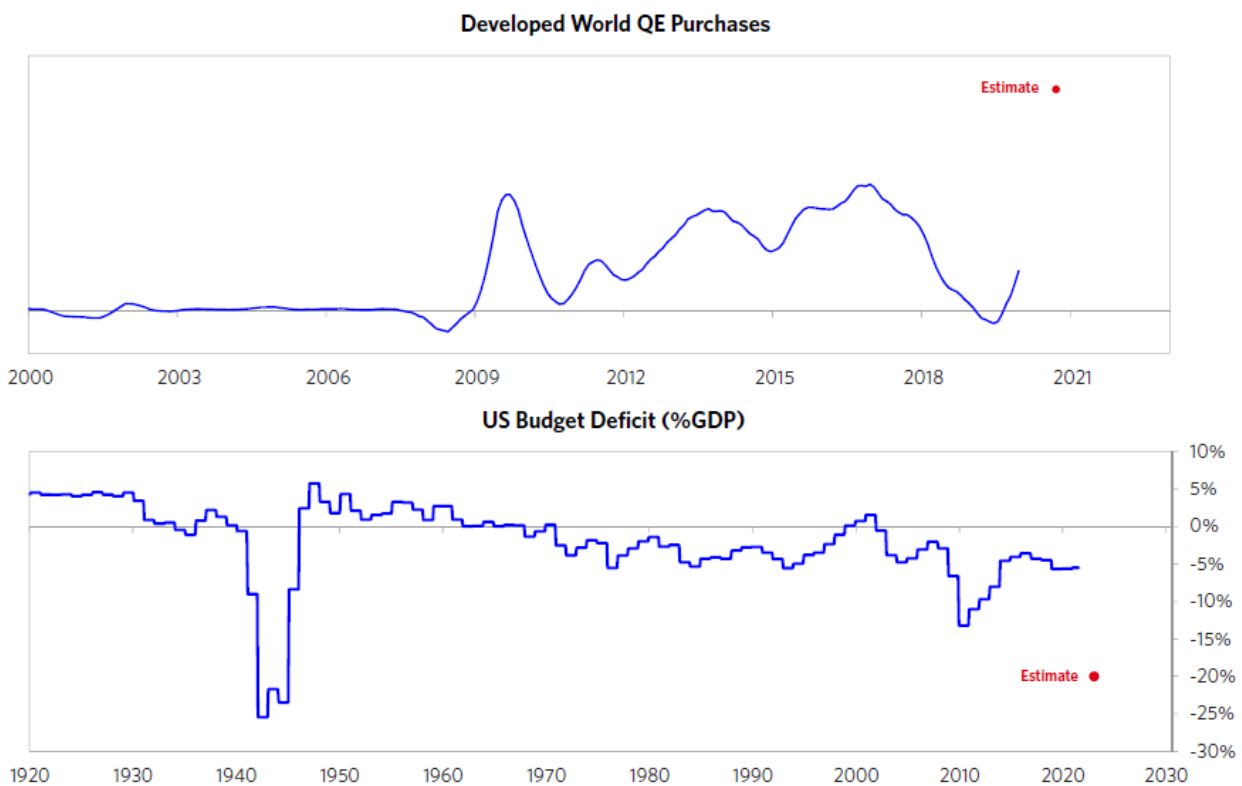
1.4 The performance of our funds throughout this period is dealt with in separate reports. As long-term investors we believe we are well positioned to benefit from the changing market environment and the likely paradigm shift which will follow this crisis period.

2 Recommendation

2.1 That the report be noted.

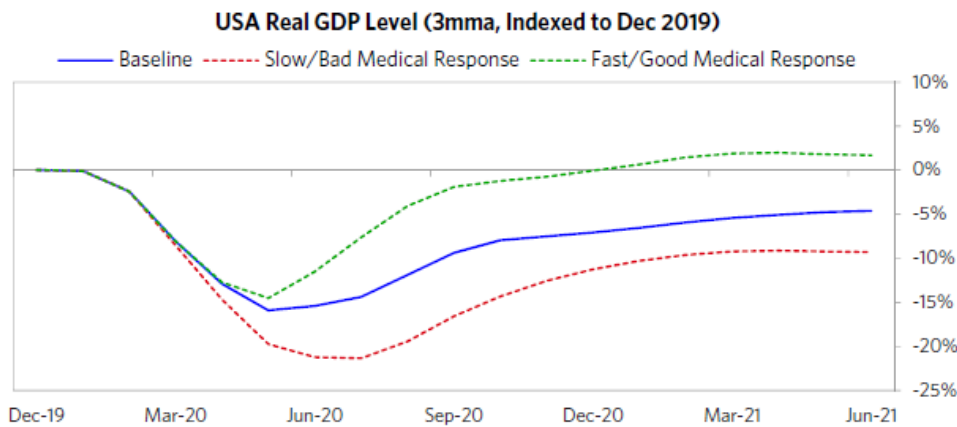
3 Macroeconomic Overview:

3.1 Coordinated fiscal and monetary response across countries which have the ability to do so, with substantial budget deficit financed with unprecedented levels of Central Bank purchases. Bridgewater research estimates Developed World QE asset purchases will be a multiple of the stimulation during Great Financial Crisis (GFC) and that the level of US Budget Deficit will be largest in peacetime history.



Source: Bridgewater Associates

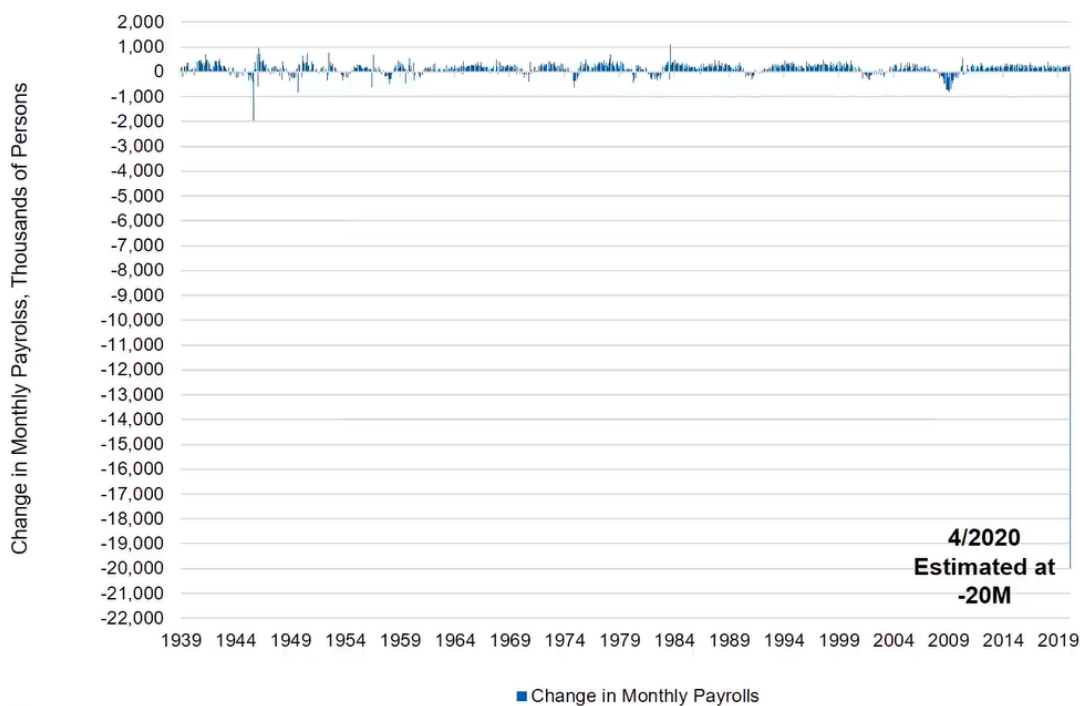
3.2 The above combined fiscal and monetary response has been necessary to ward off a depression following a historical economic shutdown with an unprecedented quarterly decline in economic growth (GDP). The graph below shows Bridgewater expected US GDP decline which in baseline scenario is not forecast to recover to prior crises level in the next 12mths.



Source: Bridgewater Associates

- 3.3 We have seen a substantial rise in unemployment, for example over 20 million Americans registering for benefits over 5-week period (making prior recessions look minor) and increasing US unemployment rate from <4% to 15% (and expected to peak at 20%):

Monthly Change in Total Payrolls (Estimated)



Source: Research Affiliates

- 3.4 Near-term strong *deflationary* pressures from lower aggregate demand (related to shut down and gradual re-opening), delay in fixed asset investment (i.e. building), the rise in unemployment and corporate defaults (HY mkt 2020 6th worst year after only first 5mths) and associated individual and corporate scarring likely led to cautious behaviour.
- 3.5 Longer-term increase *inflationary risk* with majority countries running large fiscal deficits and a substantial increase in monetary supply (quantitative easing). Questionable if future government will practise fiscal discipline (i.e. tax rises) against a background of a weak economic recovery. This is likely to lead to excessive stimulation and a change in the underlying investment environment with higher levels of future inflation.

3.6 This is an important point for managing long-term inflation linked liabilities.

4 Market Performance Overview:

4.1 As of 26th May, public equity markets had recovered a large part of their decline with the MSCI World (USD) returning **-8.4%**, although the FTSE 100 underperformed **-17.2%** return. Fixed Income markets rallied with US and UK nominal yields declining **124 bps** (to 0.68%) and **63 bps** (to 0.19%) respectively.

Name	Ccy	Level	1 Day	WTD	MTD	QTD	YTD
Equity (Δ %)							
MSCI World	USD	2,137	1.1	3.1	4.3	15.8	-8.4
MSCI EM	USD	927	0.1	2.5	0.4	9.6	-16.2
S&P 500	USD	3,036	1.5	2.7	4.5	17.8	-5.3
Nasdaq 100	USD	9,442	0.6	0.3	5.0	21.0	8.6
Dow Jones	USD	25,548	2.2	4.4	5.2	17.0	-9.6
Russell 2000	USD	1,436	3.1	6.0	9.7	24.8	-13.4
FTSE 100	GBP	6,144	1.3	2.5	4.5	9.0	-17.2
Eurostoxx 50	EUR	3,051	1.7	5.0	5.0	10.6	-17.3
Nikkei 225	JPY	21,419	0.7	5.1	6.1	13.2	-8.6
Hang Seng	HKD	23,301	-0.3	1.8	-4.9	-0.7	-16.7
Fixed Income (Δ yld/sprd bps)							
Rates - Developed Markets (Δ yld bps)							
U.S. 10 Yr	USD	0.68	-1	2	4	1	-124
Bund 10 Yr	EUR	-0.41	2	7	17	6	-23
Canada 10 Yr	CAD	0.55	0	4	0	-15	-115
UK Gilts 10 Yr	GBP	0.19	-2	2	-4	-16	-63
Japan 10 Yr	JPY	0.00	0	0	3	-2	2
Australia 10 Yr	AUD	0.88	-1	1	-1	12	-49
Spain 10 Yr	EUR	0.65	2	2	-8	-3	18
Italy 10 Yr	EUR	1.50	-5	-10	-26	-2	9

Source: PIMCO

4.2 Other performance trends we have seen during the crisis period include:

4.2.1 *Market Capitalisation* – small cap has underperformed larger cap by circa 10% YTD.

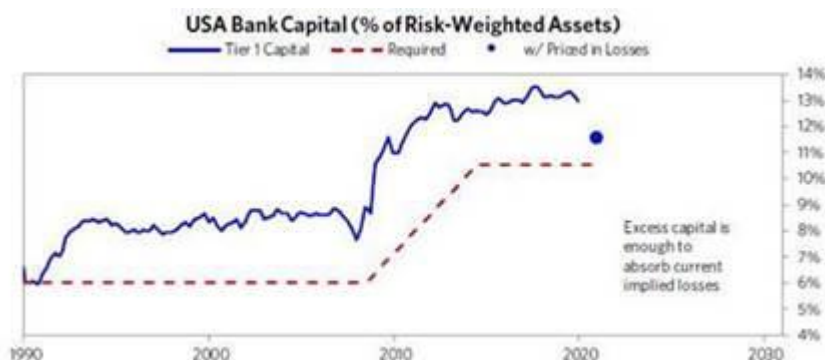
4.2.2 *Country Positioning* – as noted earlier in the paper, US S&P (*green line*) outperformed UK FTSE 100 (*pink line*) with a greater than 10% performance differential:



Source: Bloomberg

4.2.3 *Sector Positioning* – we have seen significant differentiation in performance across sectors in the period. Examples of underperforming sectors include industrials, which have more exposure to cyclical conditions and supply chain interruptions, and financials which are tainted as levered cyclicals with a negative impact from rising defaults and lower net interest margins (lower rates / flatter yield curve).

4.2.4 However, we note risks within financial stocks are lower than at the time of the GFC – for example US Bank Tier 1 capital ratios have improved from 4-5% to 12-14% (with capital build depressing past earnings). Banks could now absorb current market implied losses from their excess regulatory capital without needing to raise additional debt / equity to satisfy higher capital requirements (different position from GFC).



Source: Bridgewater Associates

4.2.5 *Style Positioning* – Value stocks (stocks with cheaper valuation to reflect lower future growth prospectus) have underperformed quality as we saw a flight from risk during the period. We note that Value has outperformed long-term (+3.0% p.a. 1963-20) but underperformed during the last 13 years (-3.1% 2007-20). The recent drawdown has resulted in Value factor valuations trading at their cheapest in history (1/10th growth stocks) – below 2000 tech bubble - and now all bar 1 value measures are trading in top (cheapest) decile with many trading in top 1% percentile (Mar 20 percentile rank, far right column):

Changes in Relative Valuation Hold True for Alternative Definitions of Value

Performance of Alternative Value Definitions, United States, July 1963 – Mar 2020

	Jun 1963–Dec 2006		Jan 2007 – Mar 2020		Jun 1963 – Mar 2020		Historical Percentile Rank	
	Average	t-stat	Average	t-stat	Average	t-stat	June 2007	Mar 2020
HML, Book-to-Price	5.7%	3.88	-4.7%	-1.75	3.2%	2.50	22%	100%
HML, Small-Cap	7.5%	4.35	-3.9%	-1.44	4.9%	3.29	52%	99%
HML, Large-Cap	3.8%	2.47	-5.6%	-1.71	1.6%	1.14	13%	98%
Value-to-Neutral	2.4%	3.43	-2.1%	-1.17	1.3%	1.95	48%	96%
Neutral-to-Growth	3.3%	2.73	-2.6%	-1.88	1.9%	1.94	13%	99%
iHML, iBook-to-Price	6.2%	4.78	-2.3%	-0.88	4.2%	3.61	41%	97%
Earnings-to-Price	5.3%	3.09	-1.7%	-0.73	3.6%	2.55	40%	90%
Sales-to-Price	5.8%	4.01	-1.0%	-0.48	4.2%	3.47	22%	98%
Dividends-to-Price	1.5%	1.02	-2.7%	-1.08	0.5%	0.43	80%	55%
Composite	4.9%	3.87	-3.1%	-1.16	3.0%	2.07	40%	95%

Source: Research Affiliates

5 Conclusion

- 5.1 Substantial Q1 2020 equity market drawdown from lower earnings and expanding risk premiums was followed by a rapid recovery due to the combination of massive fiscal and monetary stimulus with a flattening infection curve. Fixed Income assets rallied as interest rates and inflation expectations declined. Pension plans with long-dated inflation linked liabilities should look though near-term weakness (over next 18 months) and be cognisant of longer-term inflation risk exposed to.
- 5.2 As a long-term investor we believe that our underlying portfolios are well positioned to benefit from the changing market environment and the future paradigm shift.

Report Author:

Daniel Booth, CIO daniel.booth@bordertocoast.org.uk

28th May 2020

Important Information

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Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 31 March 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 16 June 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 26 May 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Fund over Q1 2020.
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 £3.5bn.

Performance

10. Performance to the quarter end is shown below:

	Since inception 26/07/18 % pa	Year %	Quarter %
UK Listed Equity Fund	-11.07	-16.45	-24.00
FTSE UK All Share Index	-12.89	-18.45	-25.13
Actual Variance ¹	+1.81	+2.00	+1.13
Target Variance ²	+1.00	+1.00	+0.25
Performance Relative to Target ³	+0.81	+1.00	+0.88

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 above the Benchmark for Q1 2020 and continues to meet the Performance Objective over longer periods.
12. There has been a sharp fall in UK markets, caused by a nationwide lockdown resulting from the coronavirus crisis. The market was also significantly affected by the fall in commodity prices, especially the sharp drop in oil prices as 18% of the market consists of Resources stocks.
13. Although the Fund was impacted by the market falls, it benefitted relatively due to:
 - A bias toward quality, resilient companies with strong balance sheets.
 - Underweight to smaller companies, which can underperform in periods of stress.
 - Exposure to companies with overseas earnings, which benefitted from the fall in Sterling.
 - Underweight in discretionary consumer spending, which has suffered from the lockdown.
 - Modest cash holdings.
14. Due to Brexit uncertainty, the Fund has maintained a relatively low-risk profile since launch. This has been beneficial in the current environment; therefore, it is unlikely that there will be any material change to the Fund's composition. There has been some modest rotation into more cyclical, value stocks to take advantage of relative performance, and we have added to favoured companies at lower valuations.
15. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Glencore (u/w)	0.00	0.76	0.32	Open investigations by the US Dept. of Justice and issues at key growth assets.
International Airlines Group (u/w)	0.00	0.19	0.23	Airline fleets grounded globally due to coronavirus, restricting operations.
Carnival (u/w)	0.00	0.09	0.15	Cruise operations curtailed due to coronavirus, with several high-profile cases.
Royal Bank of Scotland (u/w)	0.00	0.29	0.15	Interest margin pressure, plus rising impairments expected due to lockdown.
National Grid (o/w)	2.42	1.87	0.15	Defensive attributes, with attractive mix of a UK monopoly and US growth.
HSBC (u/w)	4.95	5.24	-0.14	Uptick in Asia activity post-shutdown offset declining interest margin concerns.
Elementis (o/w)	0.12	0.02	-0.14	Cut to earnings forecast due to weak chromium and energy markets.
Next (o/w)	0.70	0.30	-0.12	Stores and online operations closed due to coronavirus containment measures.
William Hill (o/w)	0.16	0.03	-0.12	Outlets closed, online operations severely impacted by cancelled sports events.
Lloyds Banking Group (o/w)	1.51	1.27	-0.12	Net interest margin pressure. Lockdowns, unemployment may raise impairments.

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	+1.50
Basic Materials	+1.03
Industrials	+0.97
Consumer Goods	+0.27
Oil & Gas	+0.06
Financials	-3.32
Consumer Services	-1.77
Utilities	-0.27
Technology	-0.14
Telecommunications	-0.13

Source: Northern Trust

17. Common Stock Funds (o/w) – exposure to smaller companies and sector-specialist investments via collective vehicles with long-term track records of outperformance.
18. Basic Materials (o/w) – strong cash generation enabling significant debt reduction, increased shareholder distributions, and increased capital investment over the longer term.
19. Industrials (o/w) – diversified sector benefiting from exposure to longer-term growth in global investment capital expenditure.
20. Financials (u/w) – underweight in Banks due to concerns over UK consumer debt and residual Brexit uncertainty, partly offset by overweight to Insurers and Wealth Managers.
21. Consumer Services (u/w) – high street suffers from pressure on UK consumer discretionary spending and high occupancy costs, as well as online operators.
22. Utilities (u/w) – regulatory and political headwinds alongside increased scrutiny of shareholder returns.
23. During the quarter, the largest individual transactions were:
- British American Tobacco (£8.1m) – strong cash flows, attractive dividend and easing of regulatory headwinds.
 - BHP (£6.2m) – added on recent weakness despite relatively stable iron ore price.
 - Hansa Trust (-£5.8m) – reduced legacy holding, as buying interest for this otherwise relatively illiquid holding increased.
 - Blackrock Smaller Companies Trust (-£3.7m) – reduced overweight position as shares trading at premium to net asset value (NAV).

Risk Profile

24. 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 1.19%, just inside the risk appetite of 1% - 3%.
 - The ex-ante (forward looking) tracking error as of quarter end was 0.98%, slightly below the risk appetite.
 - The risk profile had already been positioned at the lower end of the target range due to uncertainty regarding Brexit, which has been beneficial as the coronavirus pandemic hit markets. We do not anticipate any material change to the risk profile of the Fund.

Market Background

25. Coronavirus impacted global economic activity. Reduced activity and earnings could persist through 2020 – uncertainty over shape of the recovery.
26. Russia and Saudi Arabia refused to curtail oil production in line with the coronavirus-driven lack of consumer demand, causing a 50% collapse in oil price.
27. Fiscal stimulus measures to reduce the virus' economic impact exceeded \$6tn, and interest rates were cut across markets. Ensuing fiscal deficits will need addressing once the crisis is contained.
28. Unemployment rose sharply in late March, which will affect wage growth and consumer spending.
29. Due to the crisis, investors are risk-averse and prone to selling value and smaller companies as they seek quality and low volatility, intensified by an increase in leverage and algorithmic trading.
30. Bond spreads increased significantly in high yield, with investment grade and government bonds also affected. Total negative yielding debt has halved since last August.
31. Equity markets reversed $\frac{2}{3}$ of all 2019 gains in Q1, ending the 2010s' bull market with the sharpest correction since 1987. Financials, Industrials, Resources and Consumer Goods were most affected.
32. Risk aversion meant developed markets outperformed emerging markets, but the UK was the weakest developed market. In emerging markets, China outperformed as some activity resumed.

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Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 31 March 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 16 June 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 26 May 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast Overseas Developed Equity Fund over Q1 2020.
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 invests primarily in listed equities of companies from overseas developed countries which are included in the index.
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 £2.5bn.

Performance

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

	Since inception 26/07/18 % p.a.	Year %	Quarter %
Overall Fund	-4.24	-6.20	-15.76
Benchmark	-5.29	-7.59	-16.32
Actual Variance ¹	+1.05	+1.39	+0.55
Target Variance ²	+1.00	+1.00	+0.25
Performance Relative to Target ³	+0.05	+0.39	+0.30

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.
5. Beneficial impact of withholding tax rates was 0.46% over FY2019.

Comments on Performance

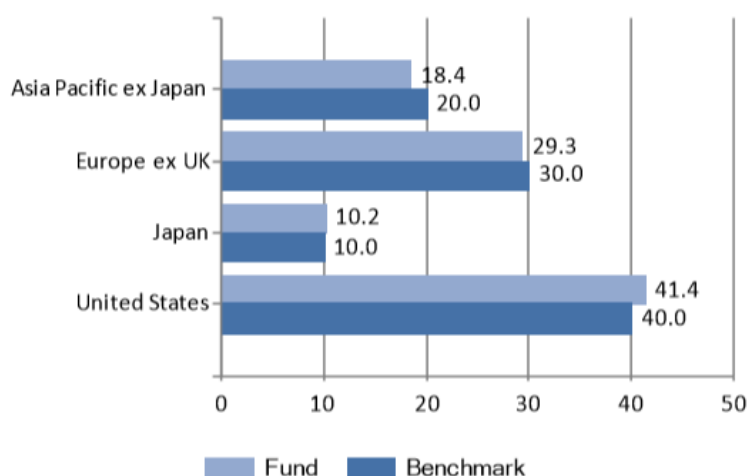
12. Overall Fund performance was above its target over Q1 2020 and is above Benchmark since inception.
13. The performance of the individual regional sleeves of the Fund over Q1 was as follows:
 - US: Fund -8.67% vs Benchmark of -9.76% (+1.09)
 - Japan: Fund -4.41% vs Benchmark of -3.91% (-0.49)
 - Europe ex UK: Fund -11.61% vs Benchmark of -11.41% (-0.20)
 - Asia Pacific ex Japan: Fund -15.45% vs Benchmark of -15.53% (+0.08)
14. The coronavirus crisis caused sharp market falls, which had a particularly negative impact on Pacific ex-Japan – specifically Hong Kong (proximity to China), Australia (significant trading with China), and Korea (restrictive lockdown).
15. Although the Fund was impacted by the market falls, it benefitted relatively due to:
 - A bias toward quality, resilient companies with strong balance sheets.
 - Underweight to smaller companies, who can underperform in periods of stress.
 - Underweight to consumer sectors, which were severely impacted by lockdowns and social distancing measures, as well as rising unemployment.
 - Overweight to Technology, which has been relatively resilient; particularly sectors which benefit from lockdowns, e.g. gaming and media streaming.
 - Strong company selection in most sectors.
16. Due to low correlation between the four portfolios, the Fund has a relatively low risk profile. There is likely to be a modest risk increase due to ongoing rationalisation of the quantity of holdings in the portfolios, which is expected to continue in the short to medium term; however, it is unlikely that there will be any material change to the Fund composition in the short term.
17. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
NVIDIA Corporation (o/w)	0.72	0.30	0.13	Protected by hyperscale data centre growth and machine learning applications.
Novo Nordisk (o/w)	0.96	0.55	0.10	Leading diabetes treatment seen as non-discretionary in current market.
Microsoft (o/w)	2.71	2.25	0.10	Resilient in current climate with cloud platform, online business suite, and X Box.
Dollar General (o/w)	0.44	0.07	0.07	Defensive grocery staples, benefiting from higher Federal food stamp issuance.
Alphabet A (o/w)	1.35	0.65	0.06	Parent of Google; relatively resilient and out-performed the broader market.
Airbus (o/w)	0.50	0.20	-0.23	Grounded global aircraft and increased risk of airline failure causing weakness.
Vanguard US Mid Cap ETF (o/w)	2.69	0.00	-0.14	Significant underperformance from smaller companies in the index over Q1.
Citigroup (o/w)	0.41	0.17	-0.09	As the most global large US bank, Citigroup was heavily impacted by the crisis.
The Cheesecake Factory (o/w)	0.11	0.00	-0.08	Operationally and financially levered, suffering many crisis-driven unit closures.
BNP Paribas (o/w)	0.33	0.18	-0.08	Concerns on rise in non-performing loans and asset valuations due to the crisis.

Source: Northern Trust & Border to Coast

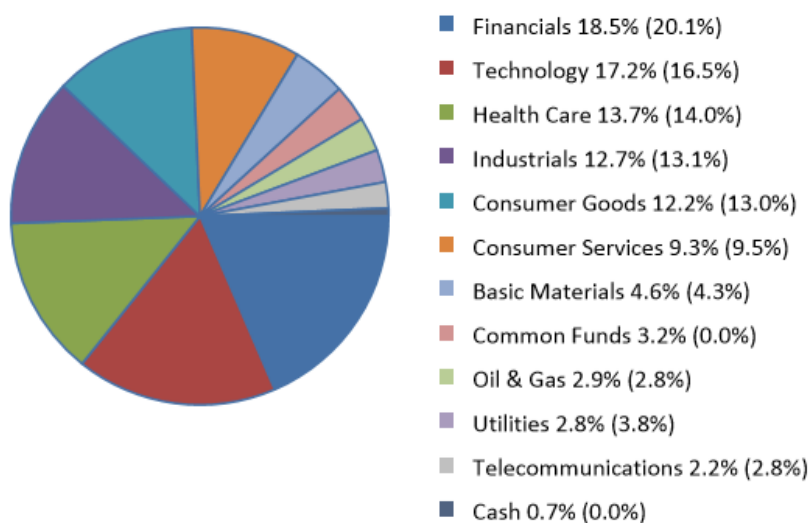
Portfolio Structure

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



Source: Northern Trust

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:

- Common Stock Funds (o/w) – Exposure to smaller companies via collective vehicles, specifically in US, Europe, and Japan.
- Technology (o/w) – Boasts long-term structural growth drivers, including: Internet of Things; Artificial Intelligence; electric/autonomous vehicles; new generation memory chips; rising subscription models; transition to cloud-based services.

- Basic Materials (o/w) – Valuations significantly below long-term average and strong free cash flow generation enable increased shareholder distributions.
- Financials (u/w) – Underweight in Banks due to profitability concerns, non-performing loans, legacy litigation issues and risk of increased regulation. Partly offset by overweight to Insurers and Wealth Managers that may benefit from investment wealth increasing long-term (despite short-term pressures).
- Utilities (u/w) – Considered relatively defensive in current climate, but pressure from increased capital investment, government policy changes and increased regulation are adversely impacting “traditional” power generation companies.
- Consumer Goods (u/w) – High valuations combined with exposure reduction following significant out-performance during the quarter. Larger underweight to Tobacco due to long-term business model concerns. Recent market correction

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

- UBS (£4.7m) – switch from Credit Suisse due to lower valuation and higher dividend yield.
- Wabtec (£4.3m) – fall in valuation following a slow-down in US rail freight and poorly received acquisition activity fails to recognise long-term prospects and a strong recurring revenue stream.
- Clorox (-£8m) – valuation premium relative to the market afforded too much credit for short-term attraction of a defensive product mix and high US domestic exposure.
- Kao Corporation (-£4.9m) – disposal of holding due to rising input prices pressuring margins.

Risk Profile

22. The risk profile of the Fund is monitored on an ex-post (backward looking) and ex-ante (forward 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 the 1% - 3% target range, standing at 0.65% and 0.73% respectively.

Market Background

24. Coronavirus impacted global economic activity. Reduced activity and earnings could persist through 2020 – uncertainty over shape of the recovery.

25. Russia and Saudi Arabia refused to curtail oil production in line with the Coronavirus-driven lack of consumer demand, causing a 50% collapse in oil price.

26. Fiscal stimulus measures to reduce the virus’ economic impact exceeded \$6tn, and interest rates were cut across markets. Ensuing fiscal deficits will need addressing once the crisis is contained.

27. Unemployment rose sharply in late March, which will affect wage growth and consumer spending.

28. Due to the crisis, investors are risk-averse and prone to selling value and smaller companies as they seek quality and low volatility, intensified by an increase in leverage and algorithmic trading.
29. Bond spreads increased significantly in high yield, with investment grade and government bonds also affected. Total negative yielding debt has halved since last August.
30. Equity markets reversed $\frac{2}{3}$ of all 2019 gains in Q1, ending the 2010s' bull market with the sharpest correction since 1987. Financials, Industrials, Resources and Consumer Goods were most affected.
31. Risk aversion meant developed markets outperformed emerging markets, but the UK was the weakest developed market. In emerging markets, China outperformed as some activity resumed.



Border to Coast Pensions Partnership Ltd

Border to Coast Emerging Markets Equity Fund (“the Fund”)

Report for the Quarter Ended 31 March 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 16 June 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 26 May 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast Emerging Markets Equity Fund over Q1 2020.
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 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 £611m.

Performance

9. Performance to the quarter end is shown below:

	Since inception 22/10/18 % pa	Year %	Quarter %
Emerging Markets Equity Fund	-4.69	-14.12	-19.06
S&P Emerging BMI	-4.30	-14.32	-19.48
Actual Variance ¹	-0.39	+0.21	+0.42
Target Variance ²	+1.00	+1.00	+0.25
Performance Relative to Target ³	-1.39	-0.79	+0.17

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.
5. Beneficial impact of withholding tax rates was 0.11% over FY2019.

Comments on Performance

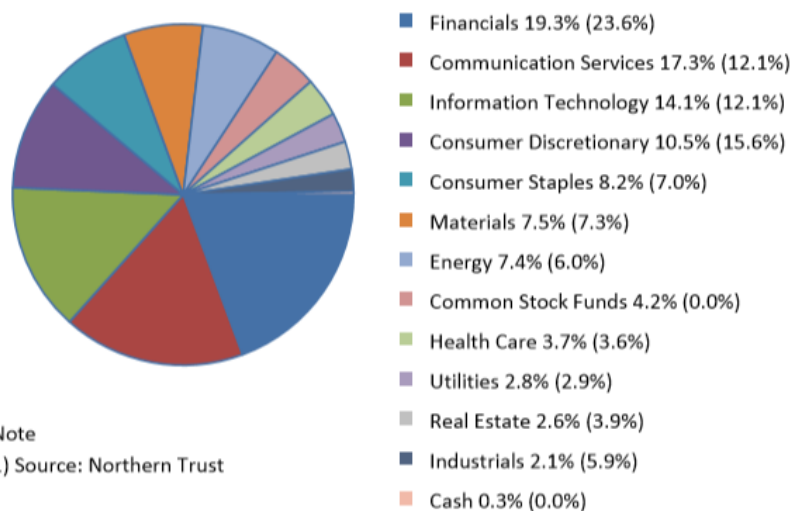
10. Performance was above the Benchmark for Q1 2020 but is below the benchmark and target since inception.
11. The coronavirus crisis caused sharp market falls, which initially significantly impacted China before spreading to Asia, the Middle East, and Latin America.
12. Although the Fund was impacted by the market falls, it benefitted relatively due to:
 - Bias toward quality, resilient companies with strong balance sheets, with a modest tilt to value.
 - Underweight to smaller companies, which can underperform in periods of stress.
 - Underweight to Financials (mainly banks), which significantly under-performed due to economic concerns, increased non-performing loans and asset impairments, and interest rate cuts.
 - Overweight to Communication Services, which is relatively defensive and benefitted from increased demand during lockdowns.
 - Overweight to China (starting to recover economically) and underweight to South Africa (sovereign debt downgrade); partly offset by overweight to Russia (significant energy exposure).
 - Strong stock selection in Utilities, Resources and Financials – offset by weaker selection in the Technology and Consumer sectors, particularly in China.
13. The Fund’s risk profile is higher compared to the other internal sub-funds but is still relatively low risk for an active Emerging Markets fund. It is unlikely that there will be any material change to the Fund’s construction in the short term.
14. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Polymetal International (o/w)	1.24	0.07	0.46	Benefits from gold price strength; seen as a safe haven in current environment.
Tencent (o/w)	7.12	5.56	0.45	Computer games and communications services benefited from the lockdown.
Alibaba (o/w)	7.05	6.06	0.26	Chinese online retailer; gained market share from physical retail during lockdown.
China Construction Bank (o/w)	2.70	1.59	0.24	Sentiment improved as China appeared to bring coronavirus under control.
Hengan International (o/w)	0.89	0.10	0.23	Personal hygiene manufacturer had strong results as the crisis increased demand.
iShares South Africa (o/w)	3.13	0.00	-0.77	South Africa underperformed, with economic activity and currency both weak.
Banco Bradesco (o/w)	0.79	0.32	-0.33	Brazilian bank, impacted by current climate and poor foreign investor sentiment.
Petrobras (o/w)	0.50	0.24	-0.29	Brazilian oil company impacted by the sharp fall in oil price and production cuts.
Itau Unibanco (o/w)	0.97	0.43	-0.28	Asset impairment concerns and flattening yield curve affected net interest margins.
Ambev (o/w)	0.91	0.20	-0.26	Appeared defensive, but suffered crisis-led market share losses and closures.

Source: Northern Trust & Border to Coast

Portfolio Structure

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



Note

1) Source: Northern Trust

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:

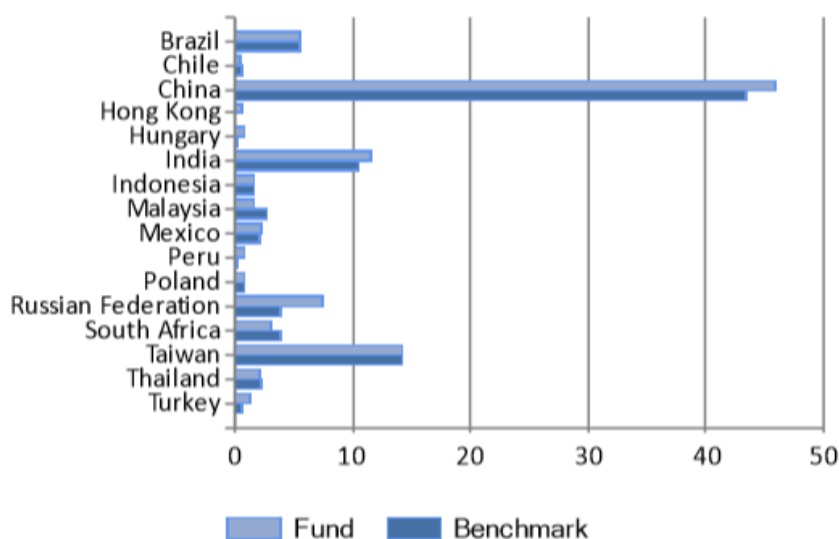
- **Communications Services (o/w)** – A relatively defensive sector with positive long-term growth dynamics, including 5G technology, growth in “the internet of things”, move towards home working, and potentially industry consolidation/co-operation.
- **Common Stock Funds (o/w)** – Provides country exposure via exchange traded funds (ETFs), predominantly South Africa, where it is considered to be more appropriate than investing in underlying companies, due to tax implications or the size of the market.
- **Information Technology (o/w)** – Long-term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous Vehicles, and new generation memory chips. Although impacted by coronavirus, there are positive signs of a turnaround from demand for next generation smartphones.
- **Consumer Discretionary (u/w)** – Consumer spending saw a significant short-term impact from lockdowns; high pre-crisis valuations were unconvincing but are now more attractive; demographic trends and rising disposable income remain long-term drivers.
- **Financials (u/w)** – Large underweight driven by an underweight in Banks, due to high valuations in some markets and due to headwinds against profitability, which is partly offset by an overweight to Insurance due to long-term growth prospects.
- **Industrials (u/w)** – the sector tends to be skewed towards mid and small-cap companies of varying quality; finding attractive large-cap investments is challenging.

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

- **Reliance Industries (£5.4m)** – Indian industrial conglomerate-built telecoms subsidiary.

- Novatek (£3.5m) – leading Russian energy producer, switching from oil to gas.
- Lukoil (-£6.4m) – relative outperformance resulted in a valuation premium above peers.
- Suzano (-£3.8m) – Brazil’s leading pulp producer, but poor fundamentals and weak balance sheet.

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 2.46%, inside the risk appetite of 1% - 3%.
- The ex-ante (forward looking) tracking error as of quarter end was 2.83%.

Market Background

20. Coronavirus impacted global economic activity. Reduced activity and earnings could persist through 2020 – uncertainty over shape of the recovery.

21. Russia and Saudi Arabia refused to curtail oil production in line with the Coronavirus-driven lack of consumer demand, causing a 50% collapse in oil price.

22. Fiscal stimulus measures to reduce the virus’ economic impact exceeded \$6tn, and interest rates were cut across markets. Ensuing fiscal deficits will need addressing once the crisis is contained.

23. Unemployment rose sharply in late March, which will affect wage growth and consumer spending.

24. Due to the crisis, investors are risk-averse and prone to selling value and smaller companies as they seek quality and low volatility, intensified by an increase in leverage and algorithmic trading.

25. Bond spreads increased significantly in high yield, with investment grade and government bonds also affected. Total negative yielding debt has halved since last August.

26. Equity markets reversed $\frac{2}{3}$ of all 2019 gains in Q1, ending the 2010s' bull market with the sharpest correction since 1987. Financials, Industrials, Resources and Consumer Goods were most affected.
27. Risk aversion meant developed markets outperformed emerging markets, but the UK was the weakest developed market. In emerging markets, China outperformed as some activity resumed.



Border to Coast Pensions Partnership Ltd

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

Report for the Quarter Ended 31 March 2020
(for information and discussion)

Report to the Border to Coast Pensions Partnership Ltd Joint Committee
Date of Meeting: 16 June 2020

Author: Jamie Roberts, Border to Coast CRM team
Date: 26 May 2020

Purpose of Report

1. This report summarises the performance and activity of the Border to Coast UK Listed Equity Alpha Fund over Q1 2020.
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 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 £973.7m.

Performance

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

	Since inception 17/12/18 % p.a.	Year %	Quarter %
Overall Fund	-11.47	-21.53	-29.53
Benchmark	-9.46	-18.45	-25.13
Actual Variance ¹	-2.01	-3.08	-4.39
Target Variance ²	+2.00	+2.00	+0.50
Performance Relative to Target ³	-4.01	-5.08	-4.89

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

Comments on Performance

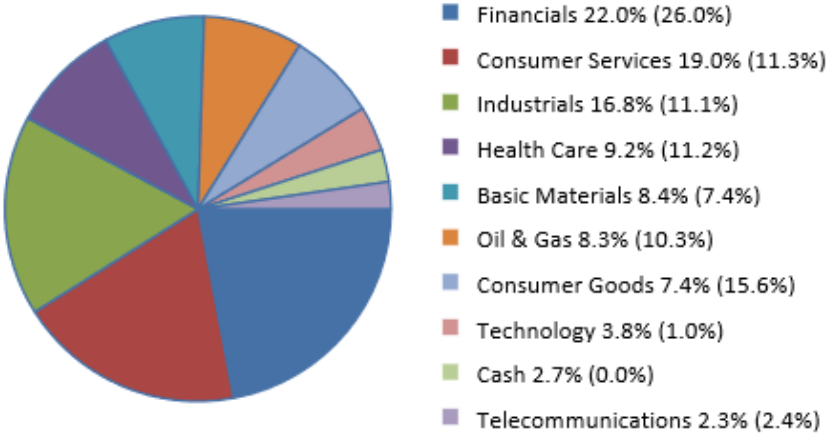
12. The Fund's performance was disappointing over Q1, and is now below benchmark over the past year and since inception (the equivalent figures were strongly positive as at the end of 2019). We do, however, believe that the majority of the relative underperformance has been driven by COVID-19 related impacts.
13. The heightened volatility of equity markets caused by Coronavirus reduced the influence of strong company fundamentals on share price. As a consequence we have seen extreme market-induced movements which drove prices down throughout the quarter.
14. Despite some added value from long-term themes, negative movements over the quarter outweighed any benefit. The Fund's relative short-term performance suffered due to:
- Structural overweight to mid-cap and an underweight to large-cap.
 - Underweight to quality defensive sectors, as our managers seek added value from company analysis and stock selection in less predictable sectors.
 - Value factor exposure across the Fund, as investors abandoned value for premium quality assets. This particularly impacted the Fund's value manager, UBS.
15. As an Alpha strategy the Fund has a relatively high active risk profile, which causes periods of meaningful divergence from the index. We continue to believe this is the appropriate approach to generate added value and meet the Fund's rolling 3-year outperformance target of +2% p.a.
16. The Fund's manager allocations were rebalanced in February. Janus Henderson were rebalanced down to their target weight following strong performance, and the UBS mandate was replenished.
17. The top and bottom 5 contributors to performance over the quarter were:

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Ocado (o/w)	2.62	0.31	0.53	Supermarket shares maintained value as delivery volumes rose due to COVID-19.
Royal Dutch Shell A (u/w)	0.35	3.33	0.51	Underperformed; buybacks halted & spending reduced 20% post-OPEC breakdown.
Genus (o/w)	1.12	0.12	0.27	Animal genetics company; maintained value after reporting revenue growth of 13%.
Team17 (o/w)	0.42	0.00	0.21	Share price rallied from the successful launch of two new games, improving outlook.
Abcam (o/w)	1.84	0.00	0.21	A producer & seller of antibodies. Lost value but steadied by rising long-term outlook.
Carnival (o/w)	0.62	0.09	-1.13	Cruise operator. Shares fell as the "Diamond Princess" had an outbreak of COVID-19.
AstraZeneca (u/w)	1.37	5.39	-0.89	Investor value was protected as demand for chronic medication remained stable.
Reckitt Benckiser (u/w)	0.00	2.20	-0.56	Health, hygiene and home products. COVID-19 did not impact product demand.
SIG (o/w)	0.16	0.01	-0.53	The CEO and CFO exited in Q1, and the firm announced a further profit warning.
National Grid (u/w)	0.00	1.87	-0.47	Protected value with stable revenues – utilities were largely immune to COVID-19.

Source: Northern Trust & Border to Coast

Portfolio Structure

18. 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

19. Notes:

- Consumer Services (o/w) – Overweight position captures the theme of disruptive, capital-lite businesses attempting to reshape traditional industries.
- Industrials (o/w) – Driven by stock selection in high-tech manufacturing, corporate and consumer services able to capitalise on growing industries.
- Technology (o/w) – Overweight in software and services – targeting innovative, high-growth businesses that are less represented in the UK benchmark.
- Consumer Goods (u/w) – Counterpart to the Consumer Services overweight, with a large underweight in tobacco given potential ESG concerns and expensive valuations.
- Financials (u/w) – Underweight due to large banks with significant UK economic exposure dominating the sector. Preference for disruptors and financial service 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.

Risk Profile

20. The risk profile of the Fund is monitored on an ex-post (backward looking) and ex-ante (forward looking) basis using data from the fund custodian, Northern Trust, for ex-post, and Bloomberg for ex-ante.
21. The ex-post tracking error was 5.32% at quarter end, just outside of the 2-5% range, while the ex-ante sat comfortably inside the range at 3.76%.
22. Ex-post is tracked inception to date. Since the fund launched in December 2018 we have seen heightened volatility over this short time period due to Brexit in 2019 and Covid-19 in 2020.

Market Background

23. Coronavirus impacted global economic activity. Reduced activity and earnings could persist through 2020 – uncertainty over shape of the recovery.
24. Russia and Saudi Arabia refused to curtail oil production in line with the Coronavirus-driven lack of consumer demand, causing a 50% collapse in oil price.
25. Fiscal stimulus measures to reduce the virus' economic impact exceeded \$6tn, and interest rates were cut across markets. Ensuing fiscal deficits will need addressing once the crisis is contained.
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27. Due to the crisis, investors are risk-averse and prone to selling value and smaller companies as they seek quality and low volatility, intensified by an increase in leverage and algorithmic trading.
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30. Risk aversion meant developed markets outperformed emerging markets, but the UK was the weakest developed market. In emerging markets, China outperformed as some activity resumed.

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