

Border to Coast Pensions Partnership Ltd

**South Yorkshire
Pensions Authority**



23 January 2020

Agenda

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Border to Coast: progress in 2019

Milestones achieved

- Fifth equity fund (Global Equity Alpha) launched
- Three *alternative* assets funds launched
- First bond fund designed and managers selected (Q1 20 launch)
- Statutory accounts approved
- Graduate program up & running

Key statistics

- £14bn equities under management at end Sept 2019 (11 investors)
- Initial £1.75bn committed to alternatives (10 investors)
- Team increased from 51 (Dec 2018) to 73 (Oct 2019)
- 200+ legal agreements in place
- 37 procurement exercises completed
- 25 Board meetings supported

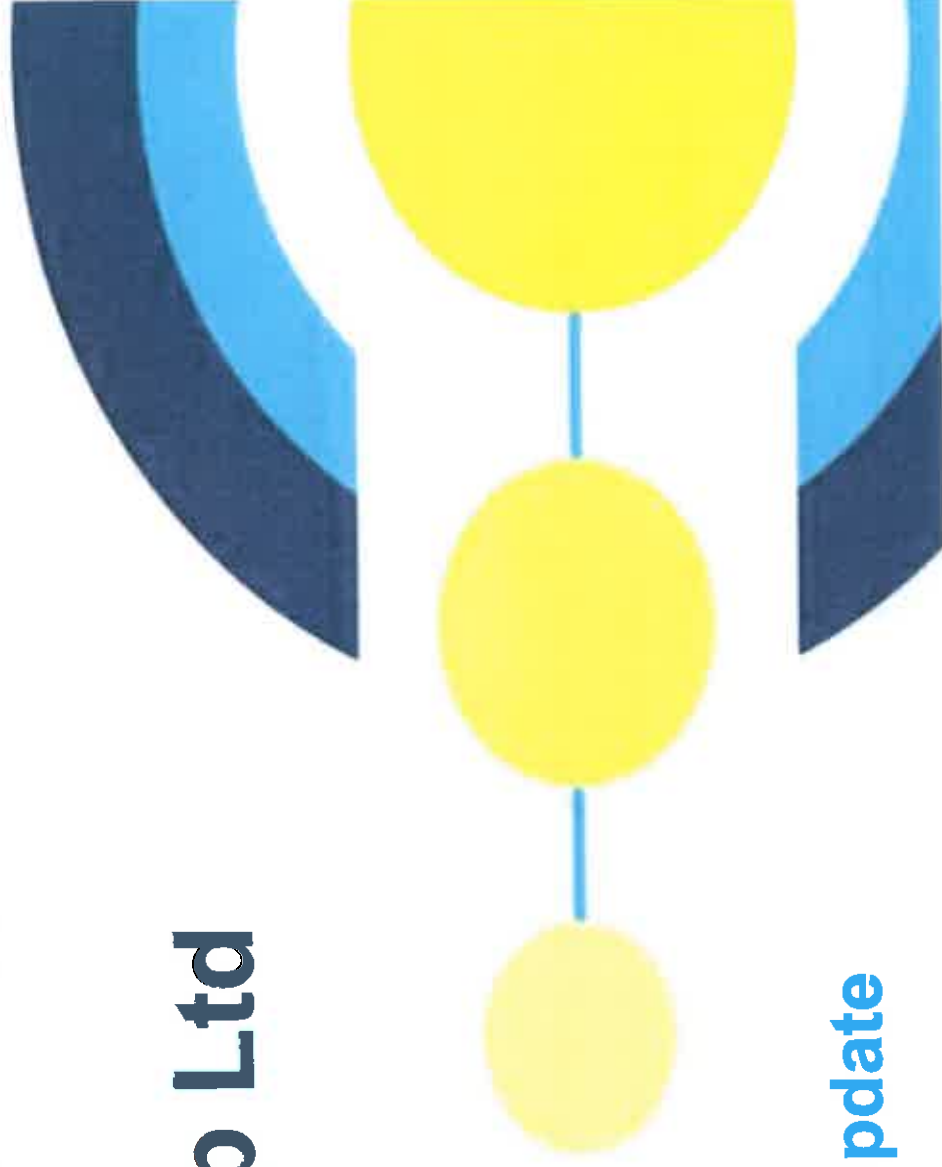


Capability Launch - Timetable

	Launched 2018/19	Scheduled 2020	Scheduled 2021	2022 and beyond
Equities	UK Listed Equity Overseas Developed Emerging Markets	Emerging Market Hybrid	ESG Passive/Factor Regional Alpha Emerging Markets Alpha	
	UK Listed Equity Alpha Global Equity Alpha			
Alternatives	Private Equity Infrastructure Private Credit	Private Equity (series 1b) Infrastructure (series 1b) (etc annually)	Listed Alternatives Cashflow Management and asset allocation	Legacy Diversified Alternatives
		UK Investment Grade Multi-Asset Credit Inflation Linked Bonds		
Bonds				
Property			Global Property	UK Property



Border to Coast Pensions Partnership Ltd



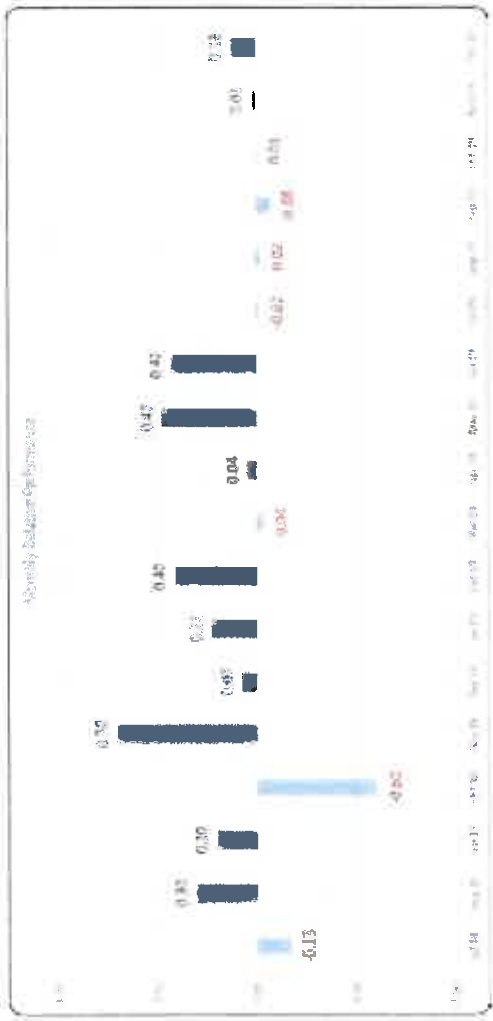
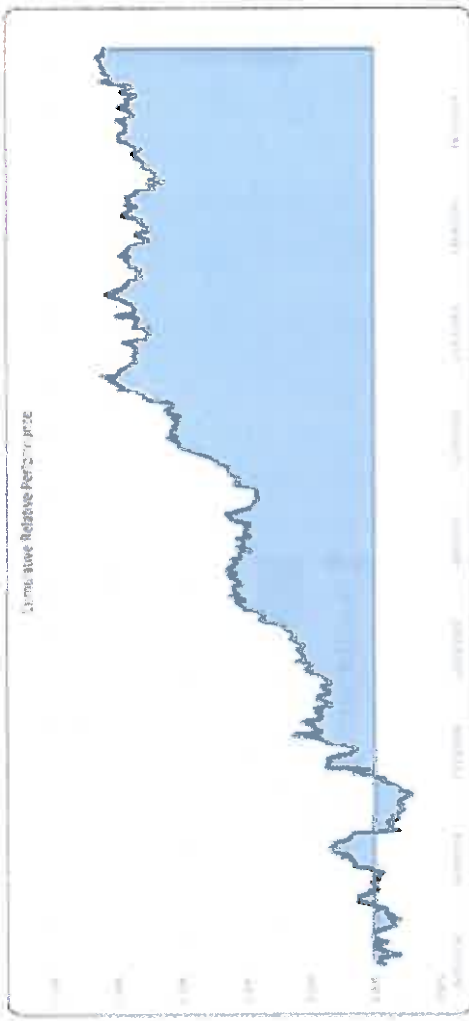
Equity Funds - Update

Market Background

- **Global economic growth** has continued to **soften** during the quarter, although leading indicators have shown some signs of stabilisation
- The recent positive developments in the various trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging regions
- In the UK, the outcome of the recent election has removed a large part of the uncertainty surrounding **Brexit**.
- **Global inflation remains low**, wage growth appears contained and interest rate expectations fallen.
- 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%) under-performed Emerging Markets (+3.5%)
- Value stocks failed to maintain their previous quarter's out-performance of Quality - but Momentum stocks continued to under-perform.
- **We are long-term investors** - try to ignore the noise and focus on long term company fundamentals.



UK Listed Equity Fund – Performance



	QTD	1 Yr	ITD*
Fund	4.28%	20.96%	5.49%
Benchmark	4.16%	19.17%	4.05%
Relative	0.12%	1.79%	1.44%

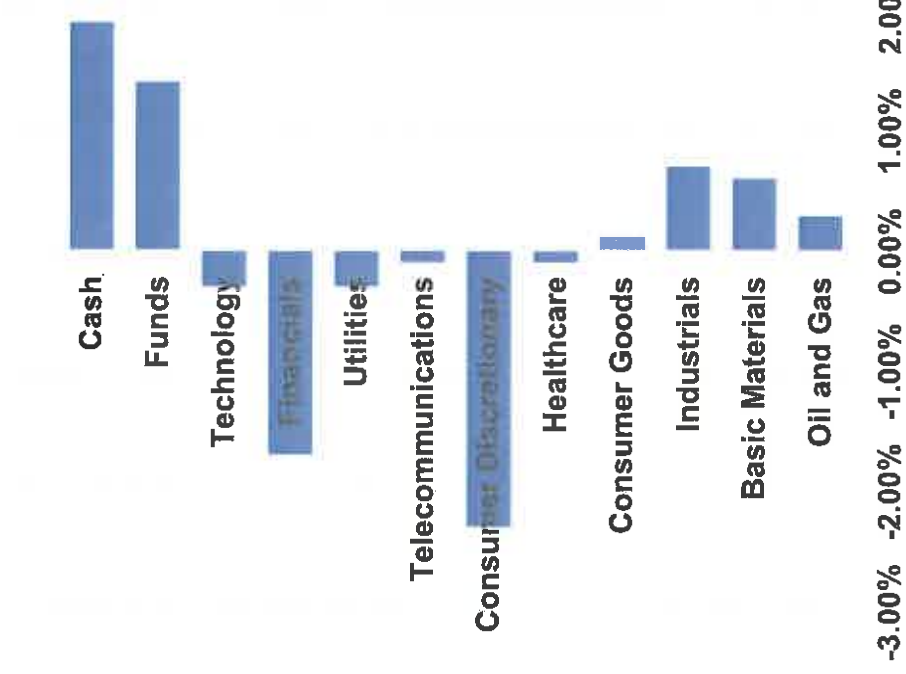
As at 31 December 2019
 Inception date: 2 July 2018
 Benchmark: FTSE All Share
 Performance is net of fees

Investment Objective:
 To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

Past performance is not a reliable indicator of future performance and is not guaranteed.
 Source: Northern Trust, Border to Coast
 *ITD return is per annum



UK Listed Equity Fund – Portfolio Positioning



Top 5		Relative weight
Antofagasta		+0.92
Intercontinental Hotels Group		+0.77
Impax Environmental Markets		+0.75
Schroder UK Smaller Companies		+0.73
BHP Group		+0.69

Bottom 5		Relative weight
Glencore		-1.07
British American Tobacco		-0.65
BP		-0.62
Royal Bank of Scotland		-0.46
Anglo American PLC		-0.46

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 Source: Northern Trust, Border to Coast



UK Listed Equity Fund

– Quarterly Performance Contributors

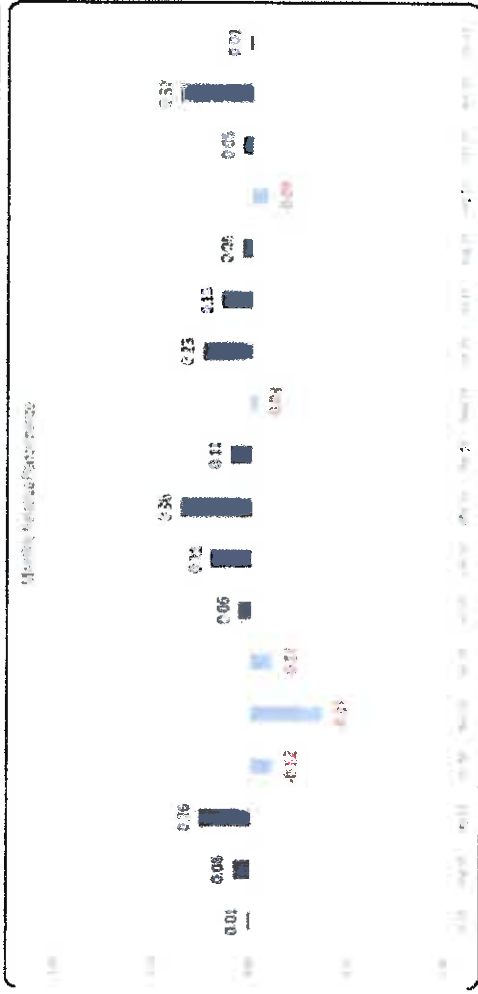
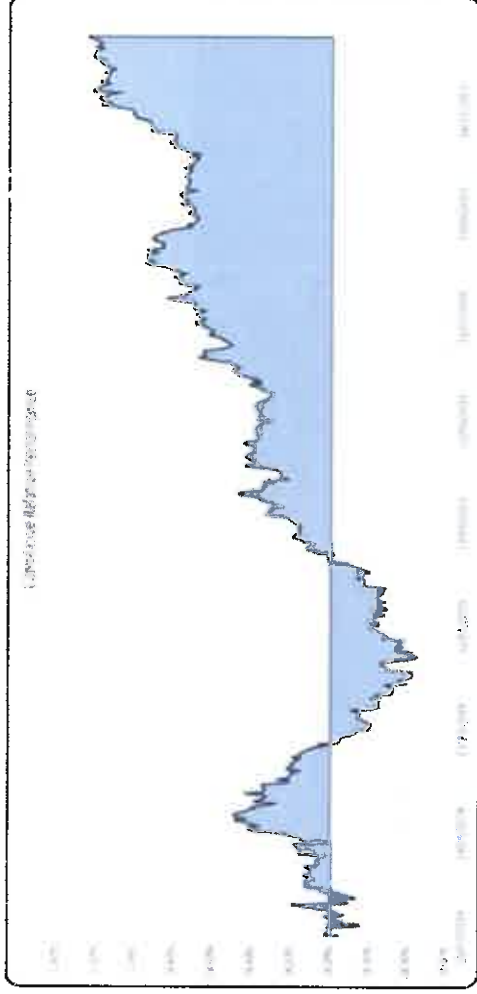
Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Biotech Growth Trust (o/w)	0.56	0.02	0.12	Increased merger and acquisition activity
JP Morgan Smaller Co. (o/w)	0.40	0.01	0.11	UK Smaller companies have rallied post UK election
Montanaro UK Smaller Co. (o/w)	0.45	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
Barraitt Developments (u/w)	0.00	0.32	-0.05	Brexit Beneficiary. Supportive gov housing policy

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Source: Northern Trust, Border to Coast



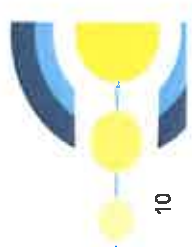
Overseas Developed Equity – Performance



	QTD	1yr	ITD*
Fund	1.32%	21.77%	7.11%
Benchmark	0.9%	20.02%	6.22%
Relative	0.43%	1.75%	0.88%

As at 31 December 2019
 Inception date: 9 July 2018
 Benchmark: S&P 500 (40%), FTSE Developed Europe ex-UK (30%), FTSE Developed Pacific ex-Japan (20%), FTSE Japan (10%)
 Performance is net of fees

Investment Objective:
 To outperform the Benchmark by at least 1% p.a. over rolling 3 year periods

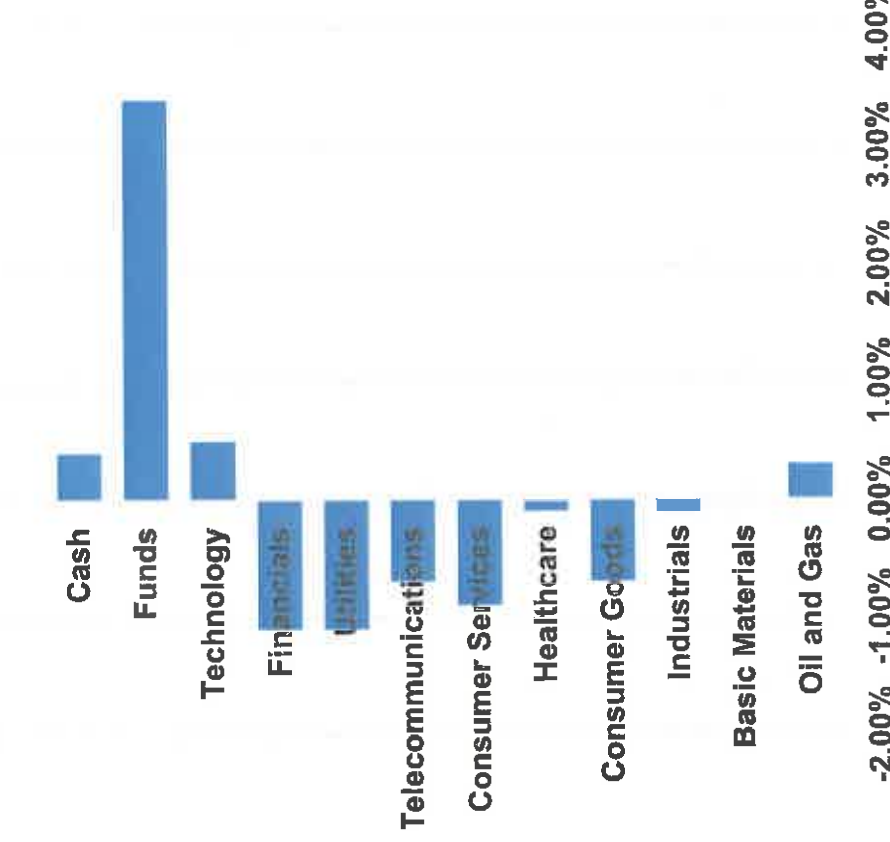


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 Source: Northern Trust, Border to Coast
 *ITD return is per annum

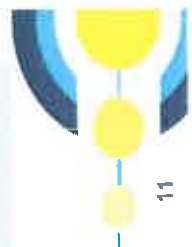
Overseas Developed Equity

– Portfolio Positioning

Top 5	Relative weight
Vanguard US Mid Cap ETF	+2.94%
Alphabet A	+0.56%
Airbus	+0.54%
JP Morgan Euro Smaller Co.	+0.39%
Visa Inc	+0.38%
Bottom 5	Relative weight
Alphabet C	-0.60%
Mastercard	-0.40%
Comcast	-0.31%
PepsiCo	-0.28%
Enel SPA	-0.26%



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 Source: Northern Trust, Border to Coast



Overseas Developed Equity

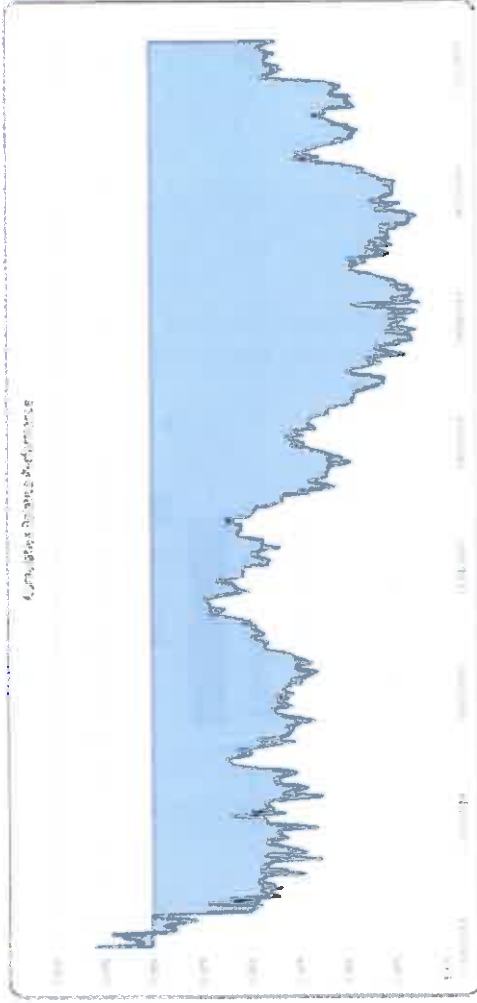
– Quarterly Performance Contributors

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
NVIDIA Corporation (o/w)	0.51	0.22	0.06	Benefitted in general improvement in semiconductor stocks
Nokia (u/w)	0.00	0.09	0.04	Cut profit guidance and halted dividend pay outs
UnitedHealth Group (o/w)	0.57	0.42	0.03	Improved political sentiment, plus solid results
CSL (o/w)	0.92	0.66	0.03	Shares out-performed due to solid results
HMB Healthcare (o/w)	0.36	0.00	0.03	Out-performed on the back of successful fundraising
Constellation Brands (o/w)	0.33	0.05	-0.04	Investor disappointment on softening of business disposal plans
Vanguard US Mid Cap ETF (o/w)	2.94	0.00	-0.04	Mid-cap under-performed \$8.2500 by 2% over quarter
Home Depot (o/w)	0.66	0.36	-0.04	Concerns that recent weak results may indicate deeper problems
McDonalds Corp (o/w)	0.43	0.22	-0.04	Sudden departure of CEO not well received
Kennings (u/w)	0.00	0.21	-0.03	Quarterly results better than expected

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Source: Northern Trust, Border to Coast



Emerging Markets Equity – Performance



	QTD	1yr	ITD*
Fund	4.42%	14.87%	12.68%
Benchmark	3.31%	14.84%	13.73%
Relative	1.10%	0.03%	-1.05%

As at 31 December 2019
 Inception date: 22 October 2018
 Benchmark: S&P Emerging BMI
 Performance is net of fees

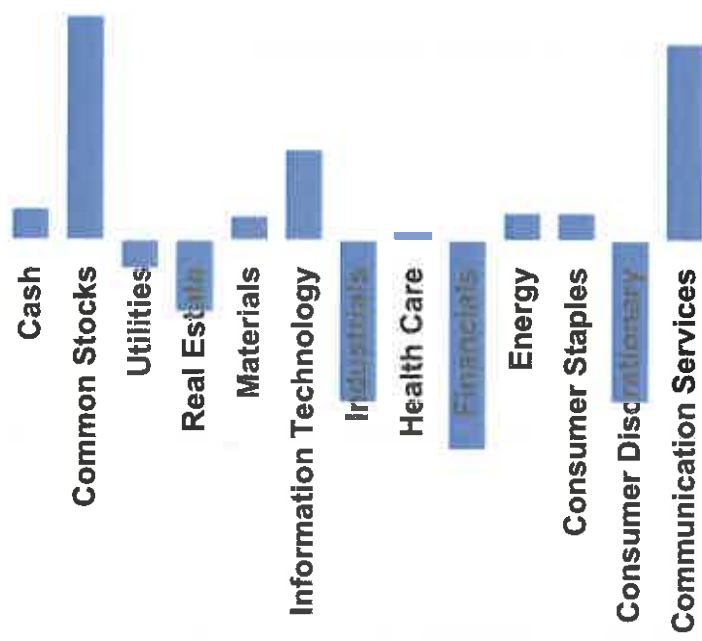
Investment Objective:
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Emerging Markets Equity

– Portfolio Positioning

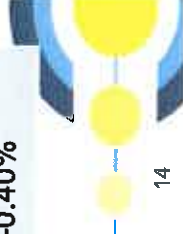


-10.00% -5.00% 0.00% 5.00% 10.00%

Top 5	Relative weight
iShares South Africa ETF	+3.91%
iShares Turkey ETF	+1.49%
Tencent	+1.34%
Ping An Insurance Group	+1.25%
China Mobile	+1.20%

Bottom 5	Relative weight
Naspers LTD	-1.07%
Housing Development Finance Corp	-0.86%
Meituan Dianping	-0.69%
JD.com Inc	-0.46%
Bank Central Asia	-0.40%

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Source: Northern Trust, Border to Coast



Emerging Markets Equity

– Quarterly Performance Contributors

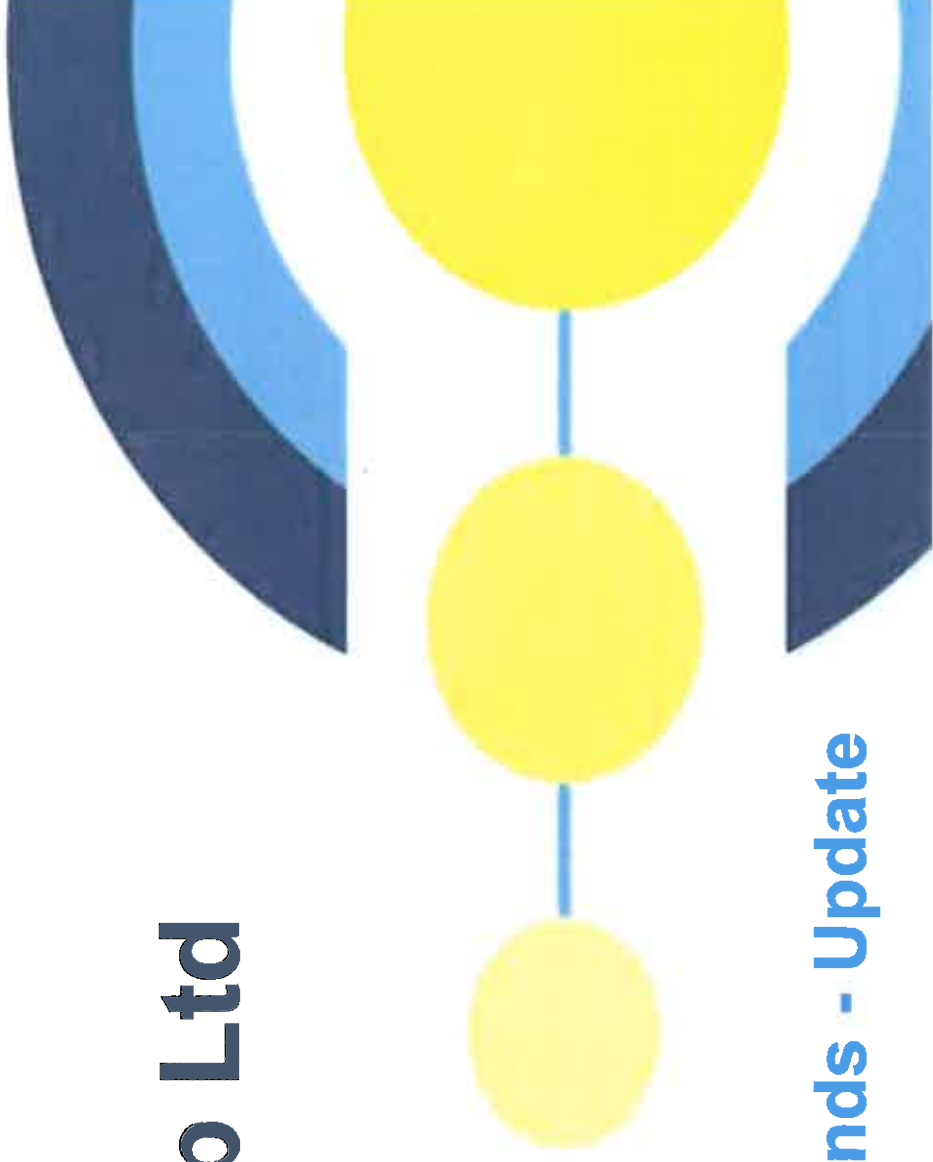
Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)	Commentary
Yageo (o/w)	1.02	0.06	0.46	Benefitted for a tightening of industry inventory levels
Alibaba (o/w)	6.15	4.97	0.14	Benefitted from improvement in investor sentiment
TIM (o/w)	0.78	0.05	0.14	Reported better than expected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

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Source: Northern Trust, Border to Coast



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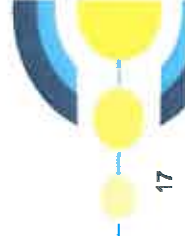


Fixed Income Funds - Update

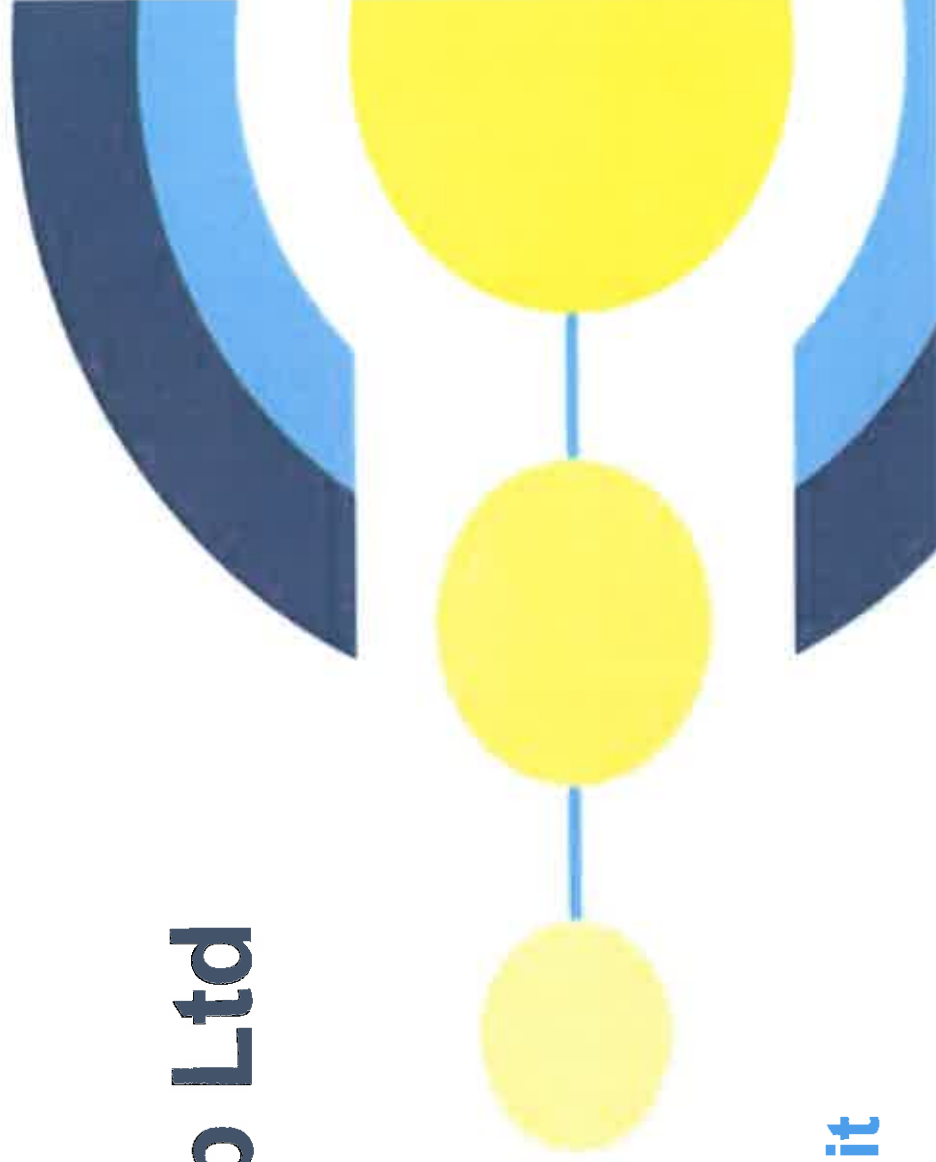
Fixed Income Funds - Pipeline

	Investment Grade Credit	Multi-Asset Credit	Inflation Linked Bonds
Approx. Size	£2bn	£2-3bn	£1-2bn
Launch Date	January 2020	Q1 2021	Mid-2020
Benchmark	iBoxx GBP Non-Gilts	SONIA (cash)	FTSE A UK IL Gilts 15Yr (TBC)
Target¹	BM +0.6% p.a.	Cash +3-4%	BM +0.2% to 0.25% p.a. (TBC)
Border to Coast – FCA Regulated ACS Structure			

¹ Measured over rolling five year periods net of costs. Future forecasts are for illustration purposes only and are not a reliable indicator of future performance.



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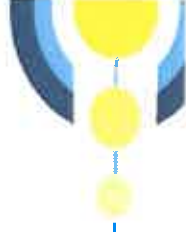
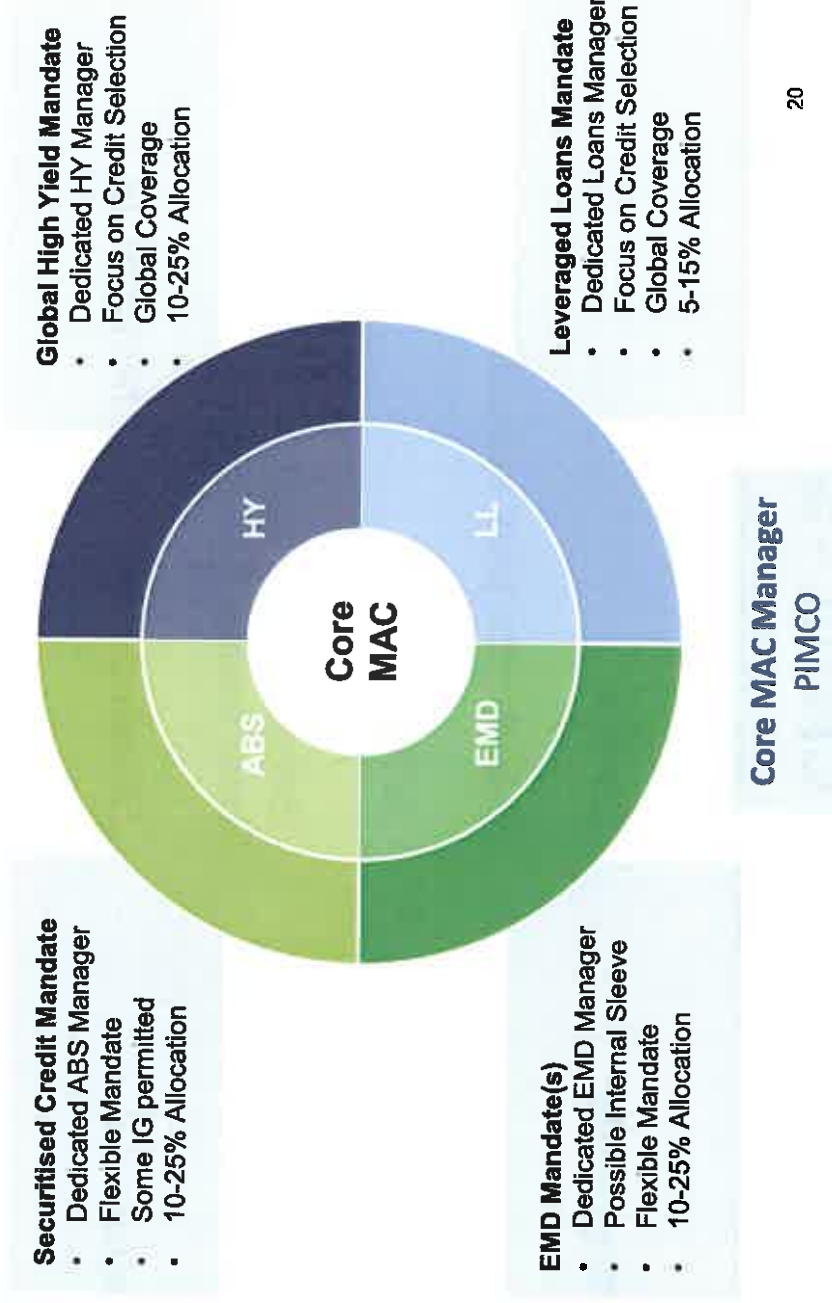
Multi-Asset Credit

Multi-Asset Credit - Specification

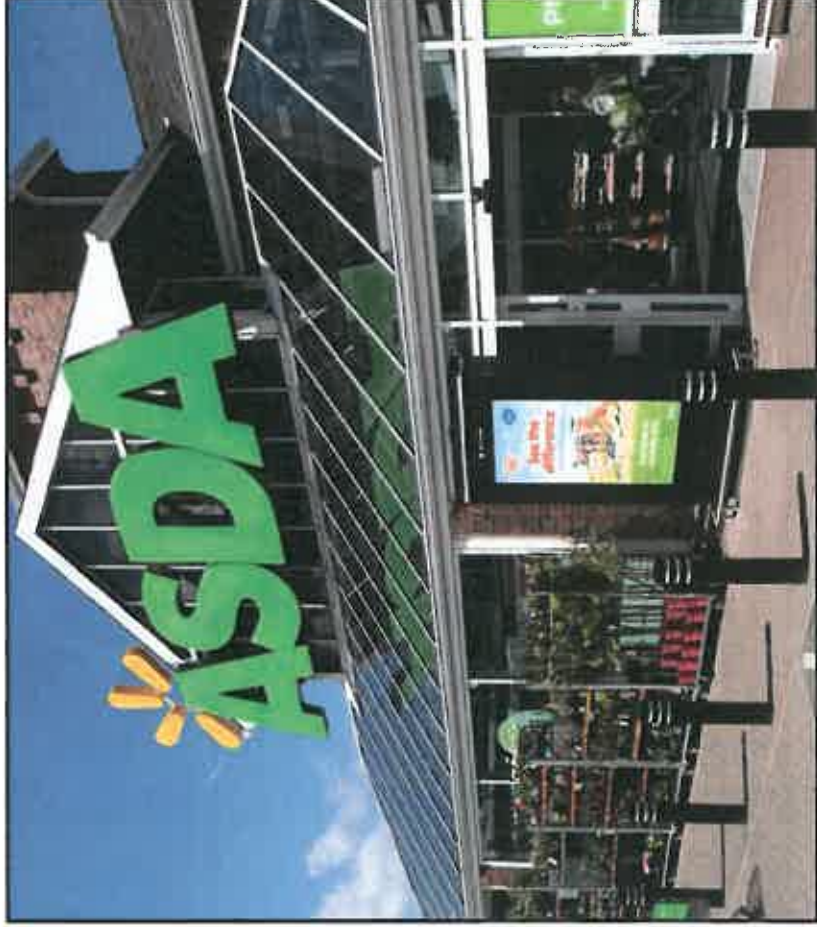
Starting AUM:	£2-3bn
Strategies:	5-6 (1 core plus specialists)
Primary Benchmark:	SONIA (cash)
Performance Target:	Benchmark +3% to 4% pa (net) over rolling 5 year periods
Comparator:	Blended asset class benchmark



Multi-Asset Credit - Structure



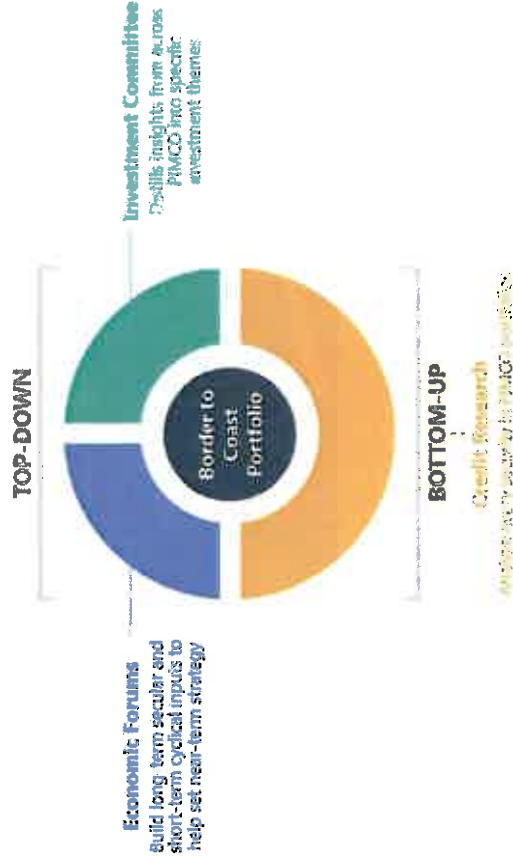
MAC: Core-Satellite Approach



PIMCO – Selected Core MAC Manager

P I M C O

- £1.52 trillion AUM
- £315 billion credit platform
- MAC launched in 2003
- 65 credit analysts



Summary

PIMCO is an established MAC manager, with broad credit resources and industry-leading macro management.

Experience –

- 16 years MAC track record
- Outperformed index in 97% of 5-year rolling periods
- Downside protection during large credit market drawdowns
- Eve Tourmier (Portfolio Manager) - 20 years investment experience

Strategy –

- Transparent approach merging top-down and bottom-up elements
- Concentrated portfolio with strong performance
- Portfolio Manager has flexibility and control in portfolio themes
- Main sources of added value: asset allocation and security selection
- Similar returns to high yield bonds with lower risk since inception

Resources –

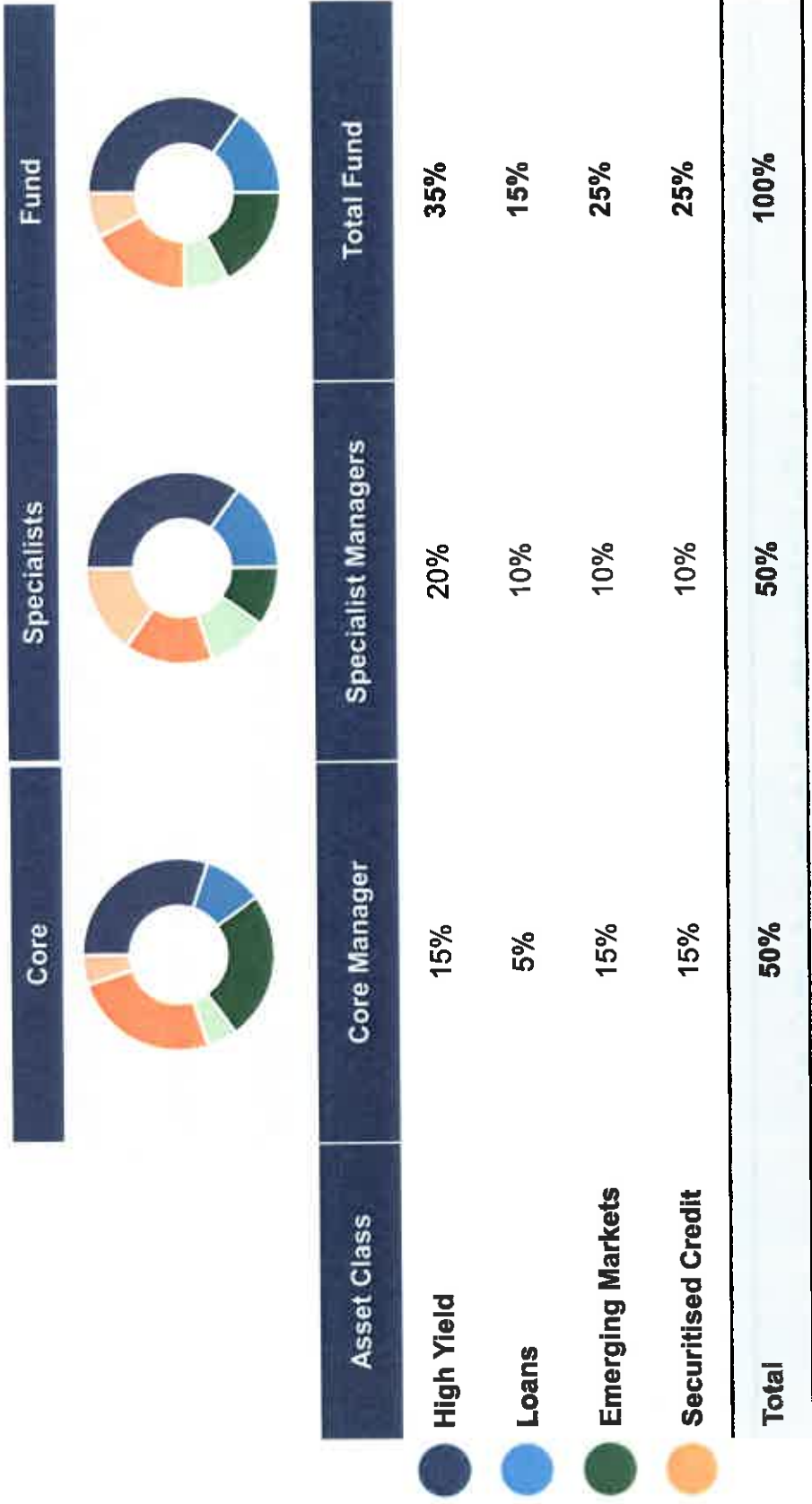
- Large dedicated credit research and analytics teams
- Bespoke risk model for portfolio construction
- Border to Coast access to firm-wide resources and experts
- Support in operational set-up, including with ACS structure

Past performance is not predictive of future performance.

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What Might MAC Look Like in Practice?



Source: Border to Coast
 Notes: Indicative example of potential long-term allocations



Specialist Mandates

- What Are We Looking For?

- Specialists in high yield, emerging market debt, loans and securitised credit
 - *Note - final buckets may vary*
- Focus on value-add from credit selection and asset sourcing
- Diversified portfolios given asymmetry of potential return outcomes
- Conservative approach to risk management
- Low turnover and long-term focus
- Not excessively benchmark aware given sub-optimal structure of credit indices
- Multiple responses are acceptable (e.g. for multiple buckets)



Two-Stage Scoring Approach

Stage One: PQQ

Stage Two: ITT

Manager Webinar	PQQ Submission	ITT Submission	Interviews and ODD
<ul style="list-style-type: none"> • Outline process • Minimum criteria • Timeline • Define mandates 	<ul style="list-style-type: none"> • Questionnaire for each sub-asset • Score applicants on objective data • Additional review to check outliers 	<ul style="list-style-type: none"> • Shortlist invited to submit ITT doc • Concentrated scoring on high quality universe • Follows usual process 	<ul style="list-style-type: none"> • Highest scorers interviewed • Portfolio construction process • Selection subject to ODD



PQQ = Pre-qualification questionnaire
 ITT = Invitation to tender
 ODD = Operational due diligence



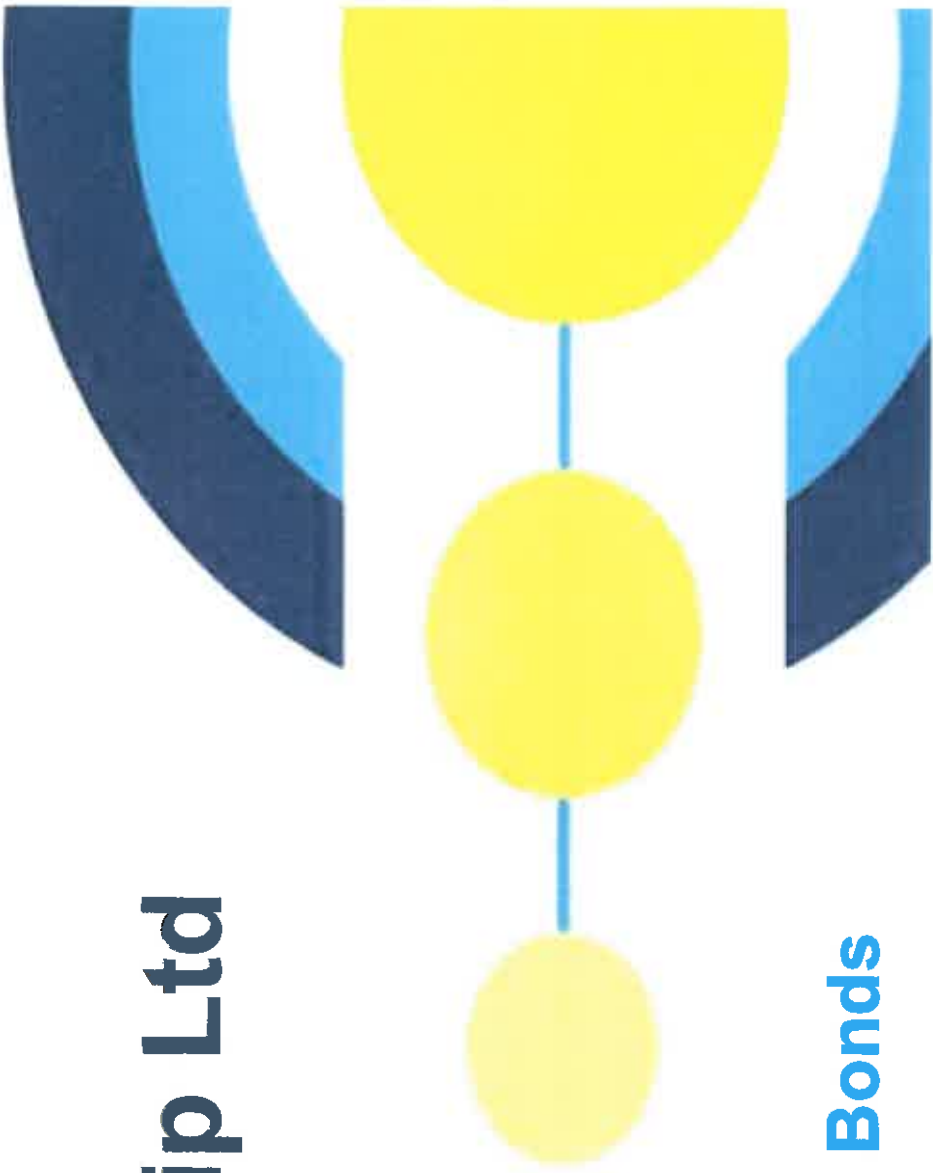
Multi-Asset Credit Fund

- Indicative Timetable

Q3 2019	Core RFP launched	RFP launched in Q3 2019
Q4 2019	Core Scoring	Scoring by selection adviser and Border to Coast
Q4 2019	Core Manager Interviews	Clarification of RFP responses
Q4 2019	Appointments	Core MAC Manager appointed
Q4 2019	Investment Strategy	Border to Coast and Core Manager finalise fund strategy
Q1 2020	Specialist RFP launched	Specialist RFP released in Q1 2020
Q1 2020	Specialist Scoring	Scoring by selection adviser and Border to Coast
Q1 2020	Specialist Manager Interviews	Clarification of RFP responses
Q2 2020	Appointments	Specialist Managers appointed
Q3 2020	FCA Approval, operational set-up	Submission of prospectus & operational set-up with managers and NT
Q1 2021	Fund launch	Tentative Fund Launch Date Q1 2021



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Inflation Linked Bonds

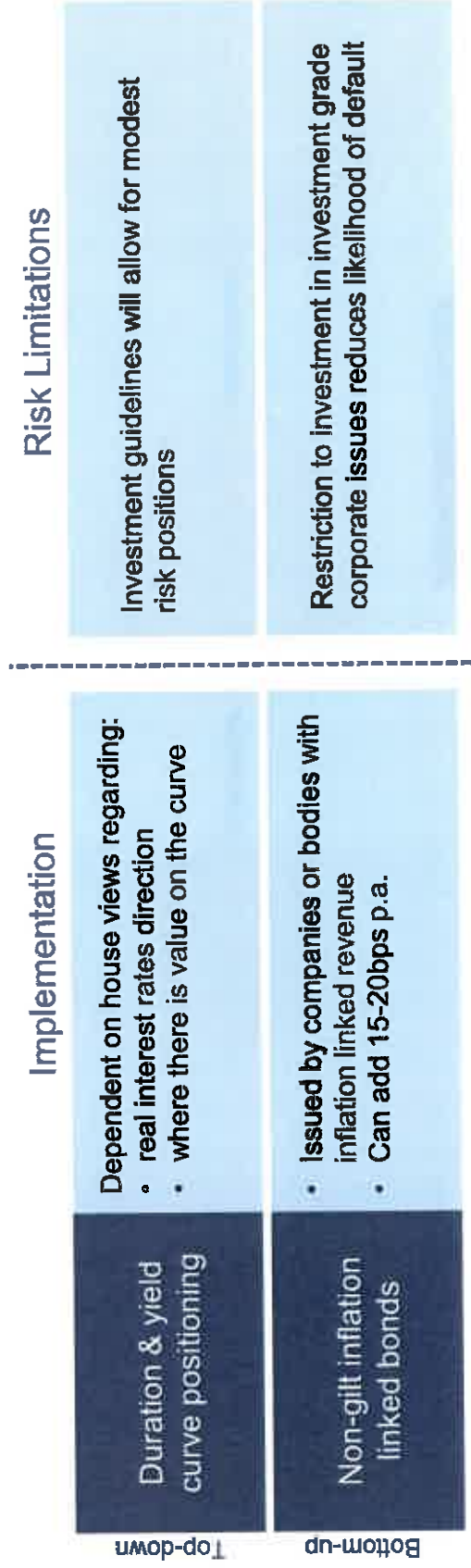
Inflation Linked Bonds - Design

Internally managed sub-fund

- **Cost competitive: minimal internal resource required**
- **Small universe: 28 index-linked UK government bonds**
- **Modest outperformance target: +15 – 25bps**
- **Low active risk: tracking error of 25 – 50bps**
- **Excess return potential from taking off-benchmark positions in corporate/ supranational index-linked (10-20% allocation)**
- **Benchmark selection: duration of 15yr (tbc)**



Investment Process

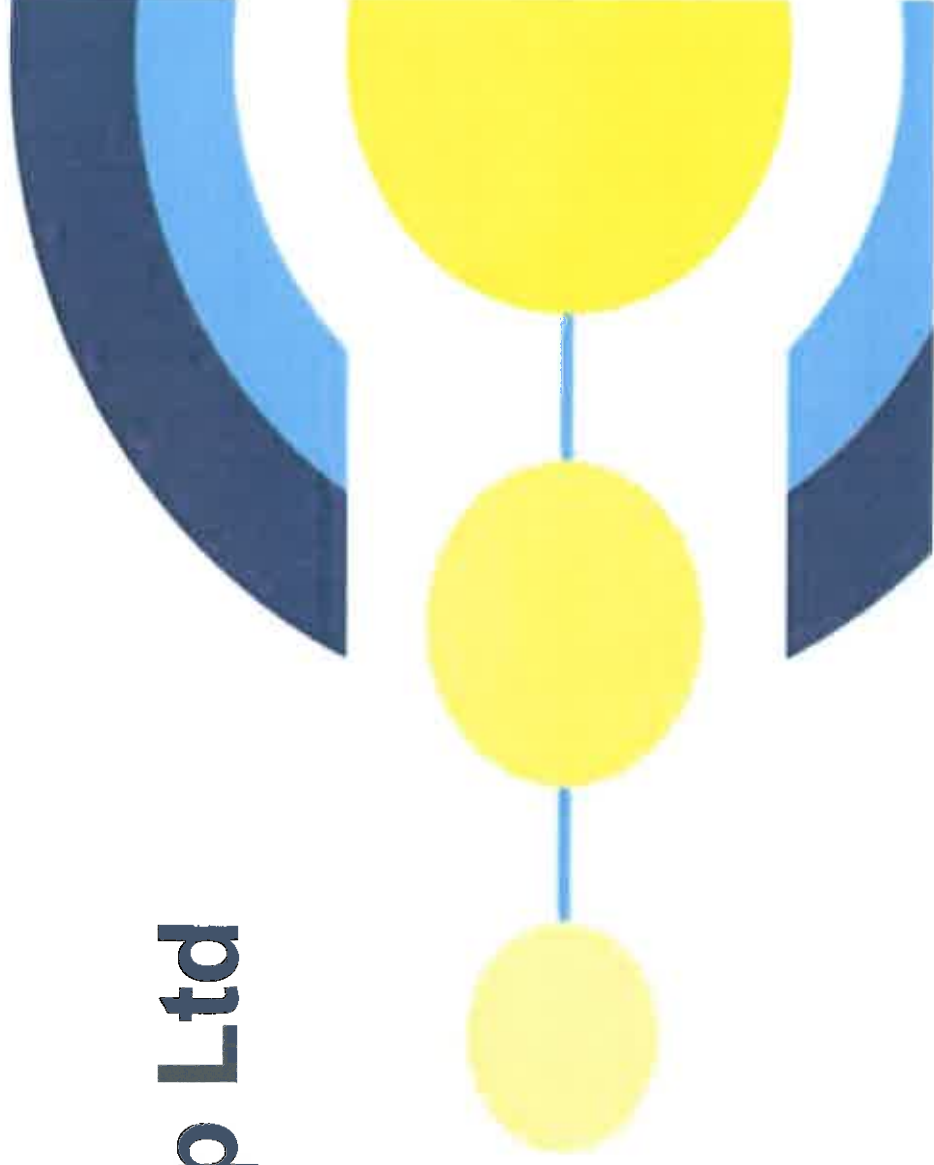


Portfolio Construction

- Duration and curve positioning will be managed relative to the benchmark
- Non-gilt positions will be diversified to ensure a good spread of credit risk
- Portfolio liquidity will be ensured by restricting exposure to non-gilt bonds to a modest level



Border to Coast Pensions Partnership Ltd



Alternatives

Alternative Fund Range

	Launched Alternative Asset Classes		Other Alternatives
Private Equity <i>Investment in privately held companies</i>	Infrastructure <i>Real assets providing essential services</i>	Private Credit <i>Lending to privately held companies</i>	<ul style="list-style-type: none"> • Diversified • Liquid • Listed
Commitments	£500mn	£675mn	£580mn
Launch Date	May 2019	July 2019	October 2019
Target¹	10% p.a.	8% p.a.	6% p.a.

Border to Coast – Unregulated Collective Investment Scheme

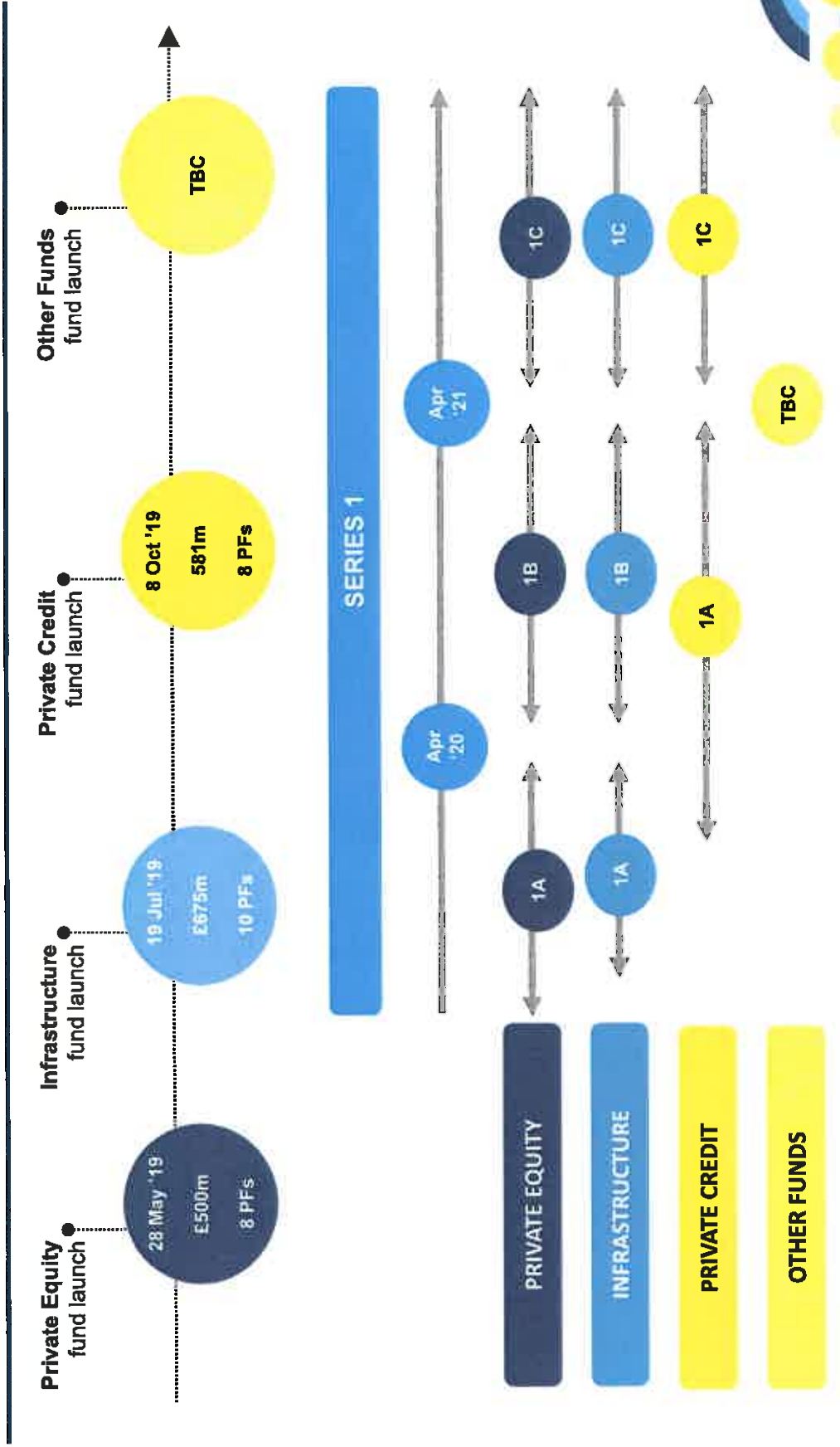
Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

¹ Measured over rolling three year periods net of costs.

Future forecasts are for illustration purposes only and are not a reliable indicator of future performance.



Timeline



Private Equity: Areas of Focus

OPERATIONAL VALUE ADD	Deliver enhanced returns through operational improvements rather than being reliant on leverage.
BUY AND BUILD	Adding value through building a platform and taking advantage of higher multiples for scale businesses.
MID-MARKET FOCUS	Lower valuation multiples and leverage levels.
CO-INVESTMENTS	Access to a diversified range of investments, either through co-investment funds or direct co-investments, with a lower fee structure.

Note: These are areas of focus and will form part of a suitably diversified portfolio



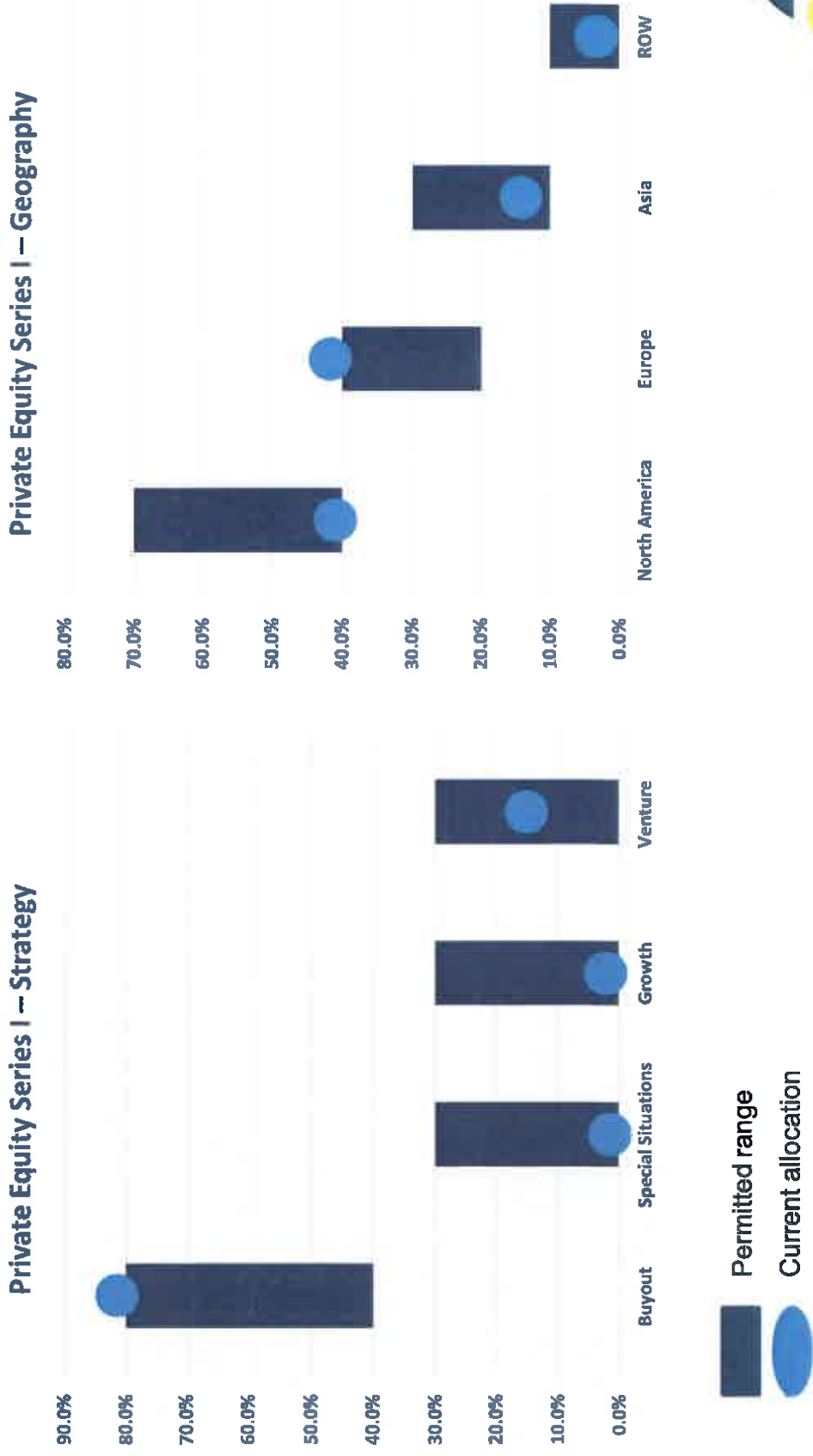
Private Equity: Areas of Focus

ASIA	Stronger economic growth over the long term, less developed Private Equity market, and lower valuation multiples.
TECHNOLOGY	Potential for technological disruption to generate significant value.
HEALTHCARE	Trends in global demographics and increased per capita spending.
DISTRESSED	Potential for attractive opportunities given position in business cycle and extended valuations.

Note: These are areas of focus and will form part of a suitably diversified portfolio



Private Equity: Asset Allocation



Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole

Infrastructure: Areas of Focus

OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.

ENERGY TRANSITION

Tilt towards investments that are enabling or benefiting from the move to a lower carbon economy (e.g. renewable energy, battery technology)

GREENFIELD

Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.

EMERGING MARKETS

Stronger economic growth and longer term demographics driving demand for infrastructure in a less developed market with lower valuation and leverage levels albeit with a different risk profile.

Note: These are areas of focus and will form part of a suitably diversified portfolio

