BMO LGM Asian Growth and Income Fund B USD Acc

LGM Investments
BMO Global Asset Management

August 2018 | For Professional investors only

Fund details

Portfolio manager	Damian Bird, CFA Christopher Darling
Fund type	UCITS
Domicile	Ireland
Benchmark	MSCI AC Asia ex Japan
Inception date	28 November 2013
Fund size	US$ 2.2m
Strategy size[1]	US$ 179.5m
NAV per share	US$ 13.0827 (B USD Acc) US$ 13.2707 (W USD Acc)
Min. initial investment	Class B - US$1,000,000 Class W - US$2,500
Dealing day	every business day
Initial charge	Class B - nil
Investment management fee	Class B - 0.75% Class W - 1.50%
TER ex investment management fee[2]	0.50% Currently capped by the Investment Manager

Fund codes by share classes

ISIN W USD Acc	IE00BYNZSR26
ISIN B USD Acc	IE00B2R8GQ87
Bloomberg ticker B USD Acc	LGAGIFB ID

Administrator

State Street Fund Services (Ireland) Ltd.
78, Sir John Rogerson's Quay
Dublin 2, Ireland

Telephone: + 3531 776 8150
Fax: + 3531 523 3783

Contact details

LGM Investments Limited
95 Wigmore Street London
W1U 1FD, UK

Telephone: +44 (0)20 3650 6600
Fax: +44 (0)20 7495 8651
Email: info@lgminvestments.com
Website: www.lgminvestments.com

Dealing details

Dealing instructions must be received not later than 11am (Irish time) on Dealing Day. Subscription monies must be received in cleared funds no later than four Business Days (class A, B, E, F, R, S & W) after the Dealing Day.

Other details

BMO LGM Asian Growth and Income Fund is a sub-fund of BMO Investments II (Ireland) plc, an umbrella fund with segregated liability between sub-funds authorised by the Central Bank of Ireland as a UCITS (undertaking for collective investment in transferable securities).

Key Investor Information Document and Prospectus are available from the Fund's Investment Manager, LGM Investments Limited.

LGM

Investment objective

The Fund aims to achieve long-term capital growth through investment in an actively managed portfolio, primarily invested in equity and equity-related securities of companies in the Asian region with the potential for capital appreciation and a growing stream of dividends.

Risk warning

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested. Securities in emerging markets may involve a higher degree of risk. These markets are typically less liquid and may experience greater volatility in prices and currencies than more established markets.

Performance as at 31 August 2018 (%)

	Fund	Benchmark
Since inception	31.1	33.7
Last month	-1.6	-1.0
Last 3 months	-3.8	-5.0
Last 6 months	-3.0	-7.0
Last 12 months	6.8	2.8
YTD	-3.3	-4.9

Annualised Performance		
1 year	6.8	2.8
2 years	10.3	13.3
3 year	13.1	13.1
Since 1 December 2013	5.9	6.3

Performance data is in USD $ terms. Investors should be aware that past performance should not be considered a guide to future performance. All fund performance data is net of management and performance fees.

Discrete performance as at 31.08.2018 (%)

	2014	2015	2016	2017	2018
Fund	-	-17.15	18.96	14.00	6.80
Benchmark	-	-16.06	12.94	24.83	2.76

Top ten holdings

Company Name	Country	% NAV
Yum China Holdings	China	6.3
British American Tobacco Malaysia	Malaysia	6.0
Sands China	Hong Kong	5.9
Bank Mandiri	Indonesia	5.7
Universal Robina	Philippines	5.6
ICICI Bank	India	4.8
ANTA Sports Products	China	4.6
Bank Rakyat	Indonesia	4.1
United Bank	Pakistan	4.1
Kasikornbank	Thailand	4.0
Total[5]		**51.1**
No. of Holdings		**30**

Portfolio characteristics*

	Fund	Benchmark
ROIC (non financials)	19.7%	13.9%
ROE (financials)	14.4%	13.9%
Net debt / Equity (non financials)	-0.2%	7.4%
Equity / Assets (financials)	11.0%	13.0%
Dividend Yield (FY2)	2.8%	3.0%
DPS growth	5.7%	45.6%
EV / EBIT (12 months forward)	20.1	19.7
P/E (12 months forward)	21.9	16.2
EBITDA margin (non financials)	23.1	28.7
Trading under USD 0.25 m / day	0.0	0.0
Turnover rate (12 months)[4]	15.6%	N/A

Risk statistics

	Since Inception
Alpha (annual basis)	1.4%
Annualised volatility (fund)	11.1%
Annualised volatility (benchmark)	13.9%
Sharpe ratio[4]	0.5
Tracking error (ex-post)	6.7%
Information ratio	-0.1
Up market capture ratio	73.5
Down market capture ratio	66.4

Market cap (US$bn)

	Fund	Benchmark
< 1 bn	0.0%	0.1%
1-5 bn	21.3%	10.2%
> 5 bn	78.7%	89.7%
Weighted Average (US$bn)	32.8	102.1

Sources: Factset, LGM, MSCI, BMO Global Asset Management

Data historic unless stated otherwise. Please note that dividend yield is based on portfolio holdings and does not reflect the actual yield an investor in the Fund would receive.

[1]Total assets of all portfolios managed by LGM following a similar benchmark to the BMO LGM Asian G&I Fund.
[2]The Investment Manager has currently agreed to waive or reduce its investment management fee and reimburse expenses to the extent necessary to prevent the total expense ratio (TER) excluding investment management fee of the Fund from exceeding 0.50%.
[3]Risk free rate = 3 month US$ T Bills.
[4]Measured as the lesser of purchases or sales divided by the average fund size during the period.
[5]Totals may not be exact due to rounding.
*ROIC - Return on Invested Capital; ROE - Return on Equity; EV / EBIT - Enterprise Value / Earnings Before Interest and Taxes; EBITDA-Earnings Before Interest, Taxes, Depreciation and Amortization; P/E - Price to Earnings

Source: LGM Investments ("LGM"), BMO Global Asset Management, Lipper. All data is as at the last business day of the month, if it is not a Dealing Day for the Fund, an indicative NAV has been used.

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Portfolio manager

Damian Bird, CFA, Portfolio Manager. Damian joined LGM in 2015 as an Asian equity Portfolio Manager and became Co-Portfolio Manager for our Global Emerging Markets mandates in July 2016. Damian spent more than five years at Arisaig Partners, including two years in Singapore where he focused on Asian and Eastern European consumer equities. In January 2011 he relocated to Cape Town where he spent three and a half years as a key decision maker in the asset allocation process for the US$1 billion Arisaig Africa Consumer Fund. Prior to LGM, Damian was a Portfolio Manager at Infusive Asset Management, where he launched and managed the Infusive Consumer Alpha Global Leaders Fund, a long-only equity fund that invests globally in the consumer sector. Damian holds a BA Honours in Economics and History from Oxford University and is a CFA Charterholder.

Christopher Darling, Portfolio Manager. Christopher graduated from University College London and then took an MSc in economic history from the London School of Economics. He worked as a member of the Asian equities team at Capel Cure Myers in London, before joining Guardian Royal Exchange in 1991. At GRE, he launched and managed the GRE Japan Trust and was head of Asia Pacific equities. He spent eight years at Lombard Odier from 1995, where he managed Japanese portfolios for institutional clients, as well as the Asia Pacific component of EAFE funds. Immediately prior to joining LGM in Hong Kong in 2006, he worked in Hong Kong with the investment banking boutique, Fox-Pitt, Kelton Ltd, specialising in Asian and Japanese financials.

Investment approach

Primary research is the cornerstone of our investment process. We research companies with a long-term view and wait for the opportunity to buy high quality companies without overpaying for their inherent quality.

Our focus on quality companies with sustainable business models generating substantial excess returns over their cost of capital through the cycle leads us towards asset light business models with modest capital needs; robust balance sheets; and proven management teams with disciplined capital management. We seek clear and fair alignment between majority and minority shareholders.

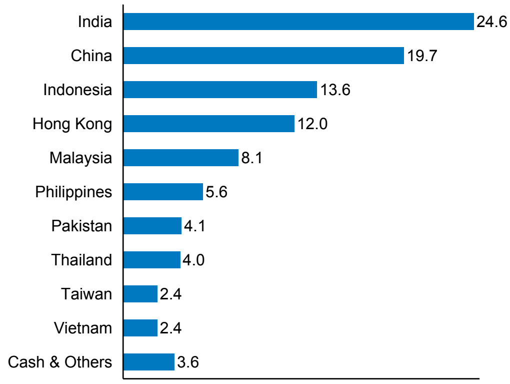
About LGM Investments

LGM Investments is a specialist Asian, Global Emerging (GEM) and Frontier Markets equity manager. Our investment professionals are based in London and Hong Kong.

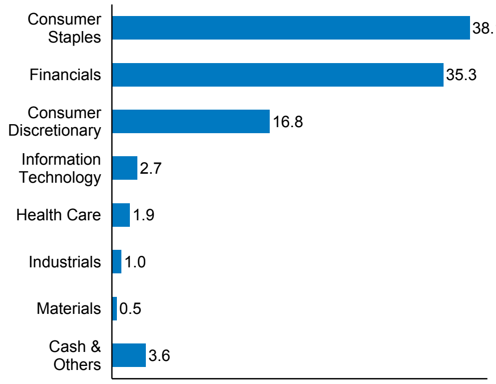
We are active bottom up stock pickers with a long-term perspective. Quality underpins all our investment thinking and results in non-index driven, high conviction portfolios.

LGM Investments was established in Hong Kong in 1991 and became a wholly owned subsidiary of Bank of Montreal (BMO) in April 2011. It is part of BMO Global Asset Management.

Geographic breakdown (%)



Sector breakdown (%)



Fund manager's commentary

China's 2.3% fall pushed the benchmark into negative territory in August, but most other Asian markets actually closed the month with positive gains (MSCI series in US dollar terms). The Philippines and Thailand led performance for the second month in a row, rising 2.5% and 2.2% respectively. China's poor performance was again caused by its trade problems with the US, which regrettably show few signs of being resolved any time soon.

Sentiment across Asia and the broader emerging market world has deteriorated in recent weeks, with problems in Turkey, Argentina and, latterly, South Africa leading to 'contagion' anxieties in our region. Most Asian markets have fallen 2–3% so far in September (at the time of writing). The pain was initially felt in the currency markets. The Indian rupee, the Indonesian rupiah and the Philippine peso were notably weak, with falls of 11%, 9% and 7% respectively year to date (YTD). The sell-off is now spreading to equities, with Indonesia suffering the most.

These worries have led to comparisons with both the global financial crisis of 2007–08 and the Asian financial crisis of 1997–98. Asian markets are structurally far stronger now than they were during the Asian financial crisis, but these arguments tend to fall on deaf ears. Contagion has nothing at all to do with rational analysis; it's all about 'risk off' and repatriation. The smaller, more open and less liquid markets – like Indonesia – tend to suffer disproportionately in this sort of environment. Likewise, the larger and more liquid stocks in those markets tend to be the easiest to sell when investors are looking for an exit route. This partly explains why MSCI Indonesia is the region's worst-performing market YTD (-16% in US dollar terms) and why Bank Mandiri has fallen 25% from its March 2018 peak.

Tingyi (Chinese noodles) fell 22% during the month and was entirely responsible for the portfolio's underperformance. The company announced some excellent second-quarter results during the month: sales grew 11%; earnings before interest, tax, depreciation and amortization (EBITDA) grew 29%; and net profit doubled. However, the market responded negatively to CEO James Wei's relatively downbeat short-term outlook. Mr Wei cautioned that, having raised prices 2–3 times since late 2017, some of Tingyi's distributors had built inventory in anticipation of further price hikes. We believe this will likely cap sales growth in the third quarter – which is traditionally the strongest quarter – and perhaps in the final quarter too. Restructuring in the beverage segment will also probably lead to weaker top line growth over the short-term. The aim here is to move the product up-market with the introduction of premium brands, but there will be some disruption to sales during the transition period. Longer term, this is positive for sales growth and margins. Finally, there were also some concerns over rising competitive pressures after one of the smaller players began offering discounts on higher end products. The competitive environment for noodles has been relatively benign for the last couple of years and Tingyi has always been very clear that it won't engage in destructive price competition.

Tingyi's strategy remains unaltered, with a focus on improving efficiency, reducing costs, building the brand and strengthening distribution channels in order to create a better platform for longer-term sustainable growth after 2020. After the recent share price weakness, Tingyi is now trading at a 24x forward price/earnings ratio and a 8.5x enterprise value/EBITDA ratio with 6–% free cash flow yield. In our view, this is starting to look excellent value for a company that has significantly improved its operating structure in recent years, while maintaining a strong market position in each of its key product segments.

If we had one complaint it would be the dividend. Tingyi's 50% pay-out sounds good on paper, but earnings are depressed by the company's high deprecation charge. As a percentage of cash flow, the dividend is actually quite low. In recent years, Tingyi has correctly used cash to buy out minorities and pay down debt. But now the company is back in a net cash position, there is plenty of scope to boost the dividend.

One final point to mention is that the founding Wei family have been increasing their stake in the business. In fact, they sold their interest in the iconic Taipei 101 skyscraper – one of the most famous buildings in Asia – in order to pay for more shares in Tingyi. They clearly see more upside in the Chinese noodle business than in Taiwanese property, and we would agree.

As at 31 August 2018