BMO LGM Asian Smaller Companies Fund B USD Acc

LGM Investments
BMO Global Asset Management

August 2018 | For Professional investors only

Fund details

Portfolio managers	Damian Bird, CFA Christopher Darling
Fund type	UCITS
Domicile	Ireland
Benchmark	MSCI AC Asia ex Japan Small Cap
Inception date	6 March 2015
Fund size	US$ 14.7m
Strategy size[1]	US$ 14.7m
NAV per share	US$ 10.7539 (B USD Acc)
Min. initial investment	Class B - US$1,000,000
Dealing day	every business day
Initial charge	Class B - nil
Investment management fee	Class B - 1.0%
TER ex investment management fee[2]	0.75% Currently capped by the Investment Manager

Fund codes by share classes

ISIN B USD Acc	IE00BQ713L99
Bloomberg ticker B USD Acc	BLASCBA ID

Administrator

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Dealing details

Dealing instructions must be received not later than 4:00 p.m. (Irish time) on the Business Day prior to the Dealing Day (Class A) and four Business Days prior to the Dealing Day (Class B, E, F, R, S & W). Subscription monies must be received in cleared funds no later than four Business Days after the Dealing Day.

Investment objective

The Fund aims to achieve long-term capital growth through investment in an actively managed portfolio, primarily invest ed in equity and equity-related securities of smaller companies in the Asian region.

Risk warning

Investment involves risk. Share prices may fall as well as rise. Funds invested in emerging markets and in smaller companies may involve a higher degree of risk. Investment in LGM Funds may be unlawful in some jurisdictions. This fact sheet is for general information only. Reference should be made to the Fund's offering documents for full details of the risks involved. The value of investments and 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.

Performance as at 31 August 2018 (%)

	Fund	Benchmark
Since inception	7.5	11.3
Last month	-1.9	-0.9
Last 3 months	-6.7	-7.4
Last 6 months	-4.1	-8.4
Last 12 months	0.9	1.9
YTD	-2.7	-7.8
CY 2017	21.7	33.5
CY 2016	3.1	-2.3

Annualised Performance		
1 year	0.9	1.9
2 years	4.6	7.6
Since inception	2.1	3.1

Performance data of BMO LGM Asian Smaller Companies Fund (class B Accumlating shares) are in US$ terms and net of investment management fee and performance fee. Investors should be aware that past performance should not be considered a guide to future performance.

Discrete performance as at 31.08.2018 (%)

	2014	2015	2016	2017	2018
Fund	-	-	10.61	8.35	0.93
Benchmark	-	-	9.54	13.60	1.94

Top ten holdings

Company Name	Country	%NAV
Cosmo Lady China Holdings	China/HK	6.6
Bajaj Corp	India	6.5
Jyothy Laboratories	India	4.6
PAX Global Technology	China/HK	4.3
Poya International	Taiwan	4.0
Heineken Malaysia	Malaysia	3.8
Shriram City Union Finance	India	3.6
Silverlake Axis	Malaysia	3.5
Convenience Retail Asia	China/HK	3.5
Abbott Laboratories Pakistan	Pakistan	3.3
Total[6]		**43.5**
No. of Holdings		**34**

Portfolio characteristics*

	Fund	Benchmark
ROIC (non financials)	20.7%	9.9%
ROE (financials)	16.9%	12.1%
Net debt / Equity (non financials)	-27.9%	19.6%
Equity / Assets (financials)	41.6%	34.2%
Dividend Yield (FY2)	3.1%	3.2%
DPS growth	18.1%	64.15%
EV / EBIT (12 months forward)	16.3	16.5
P/E (12 months forward)	19.9	17.2
EBITDA margin (non financials)	21.9	20.3
Trading under USD 0.25 m / day[4]	18.0%	4.5%
Turnover rate (12 months)[5]	19.1%	N/A

Risk statistics

	Since Inception
Alpha (annual basis)	0.0%
Annualised volatility (fund)	12.4%
Annualised volatility (benchmark)	14.7%
Sharpe ratio[4]	0.1
Tracking error (ex-post)	8.7%
Information ratio	-0.1
Up market capture ratio	72.8
Down market capture ratio	73.8

Market cap (US$bn)

	Fund	Benchmark
< 1 bn	47.3%	45.7%
1-5 bn	52.7%	53.6%
> 5 bn	0.0%	0.7%
Weighted Average (US$bn)	1.1	1.3

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 Smaller Companies 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 0.75%.
[3] Risk free rate = 3 month US$ T Bills.
[4] Based on 3 months daily average.
[5] Measured as the lesser of purchases or sales divided by the average fund size during the period.
[6] 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; P/E - Price to Earnings

Source throughout the document: 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. All performance is calculated on a NAV to NAV basis. This factsheet is for information purposes only and is based on sources believed to be reliable. It should not be construed as an invitation to purchase or sell shares of the Fund. This document is for sole use of intended recipients and must not be copied or disseminated in whole or part to third parties without the written consent of LGM. LGM and BMO Global Asset Management accept no liability for any loss or damage caused by reliance on or use of the information in this factsheet. Benchmark data source: MSCI. All MSCI index data is copyright and proprietary to MSCI.

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Other details

BMO LGM Asian Smaller Companies 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.

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.

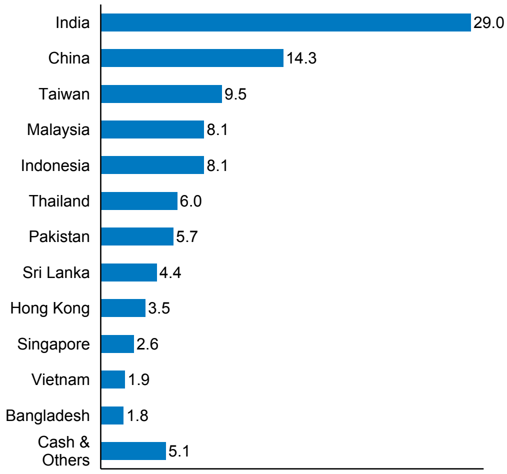
About LGM Investments

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

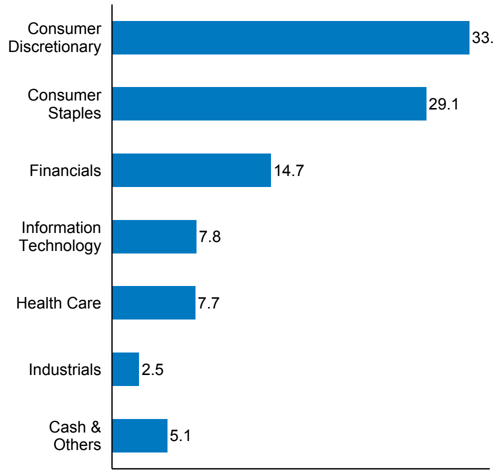
We are active bottom up stock pickers with a long-term perspective. Quality underpins all our investment thinking and results in non-index driven, high conviction portfolios.

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[6](%)



Sector breakdown[6](%)



Fund manager's commentary

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. 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. Small caps tend to suffer disproportionately in this sort of environment because of their lower liquidity. Across the region, Hong Kong and China were the worst hit, falling more than 5% each over the month (MSCI small cap indices in US dollar terms). Most other markets were down 2–4%, but Thailand was the notable exception, with a near 4% gain over the month. India was the only other market to close in positive territory (just!).

The portfolio's net asset value dropped almost 2% in real money terms over the month, lagging its benchmark in the process (see table for detail). While one month is clearly an extremely short period of time, we would normally expect to be more resilient against the market in periods of volatility. Unfortunately this was not the case in August, largely for stock specific reasons.

Xiabuxiabu (casual 'hot-pot' restaurants in China) fell 27% in August and was the portfolio's worst-performing stock over the month. A couple of factors caused this poor performance. The first was a sector-wide issue relating to health and safety concerns after anthrax was apparently discovered on a number of Chinese sheep farms. The second was more stock-specific and related to the deterioration in profit margins revealed in the company's second-quarter numbers. The first issue certainly grabbed the headlines but was of marginal relevance to Xiabu because the company imports the vast majority of the meat used at its restaurants. Xiabu has always been exceptionally zealous in guarding the integrity of its food supply chain – recognising that food scares are the single biggest threat to its business model – so we are confident that the company is unaffected by this current issue. The weaker profit margin reflected Xiabu's unwillingness to pass on higher raw material and labour costs to its customers. The priority is to keep prices steady in order to attract more customer traffic. It is worth noting that Xiabu's restaurant margins still remain at a very healthy 20% level (one of the highest in our universe) and that same-store-sales grew a robust 7.3% year on year during the quarter. Less significantly, the upcoming listing of competitor Haidilao is also having some impact on Xiabu's share price, although Haidilao is coming to the market with a very expensive price tag and offers a labour-intensive business model that is significantly less attractive than Xiabu's, in our opinion. Xiabu itself is now trading at 15x forward earnings, which we believe is excellent value relative to its growth prospects and attractive store economics.

At the other end of the spectrum, AK Medical rose a very decent 25% in August, making it the portfolio's best-performing stock over the month. AK Medical, a relatively recent addition to the portfolio, is China's leading manufacturer of artificial knee and hip-replacement joints. AK is also a pioneer in the use of 3D printing techniques for the manufacture of bespoke replacement joints. AK announced a very strong set of results for the first half of 2018, with revenue and profits growth of 69% and 43% respectively. The stock is trading at 25x forward earnings and a 17x enterprise value/earnings before interest, tax, depreciation and amortization ratio, which does not look especially cheap, but we believe this is more than justified by the company's strong competitive position (first mover advantages), excellent management team, minimal disruption risks (research and development is incremental rather than revolutionary) and high returns in what is still a nascent and fast-growing industry in China.

There were no significant changes to the portfolio in August beyond trimming some expensive Vitasoy (Hong Kong listed soy beverages) and buying some cheap Pax Global (China point-of-sale equipment).

As at 31 August 2018

Notice to investors in Switzerland:The Prospectus (Swiss Version), Key Investor Information Document, Articles of Association, Annual and Interim Reports in German, as well as further information, can be obtained free of charge from our Swiss Representative: Carnegie Fund Services S.A., 11, rue du Général Dufour, CH-1204 Geneva, Switzerland, Web: www.carnegie-fund-services.ch. The paying agent in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva. The current prices can be found at: www.fundinfo.com.