BMO LGM Global Emerging Markets Growth and Income Fund B USD Acc

LGM Investments
BMO Global Asset Management

August 2018 **For Professional investors only**

Fund details

Portfolio managers	Rishikesh Patel Irina Hunter Damian Bird, CFA
Fund type	UCITS
Domicile	Ireland
Benchmark	MSCI Emerging Markets
Inception date	22 October 2009
Fund size	US$ 518.4m
Strategy size[1]	US$ 1834.1m
NAV per share	US$ 8.1194 (B USD Inc) US$ 15.9369 (B USD Acc) US$ 14.0235 (E USD Acc) US$ 11.6111 (W USD Inc) US$ 11.6413 (W USD Acc)
Min. initial investment	Class A - US$50,000 Class B - US$1,000,000 Class E - US$10,000,000 Class S - US$1,000,000 Class W - US$2,500
Dealing day	every business day
Initial charge	Class B - nil Class E - contact Investment Manager Class S - nil Class W - nil
Investment management fee	Class B - 1.00% Class E - contact Investment Manager Class S - 1.00% Class W - 2.00%

Fund codes by share classes

ISIN B USD Inc	IE00B3BNMD55
ISIN B USD Acc	IE00B3BNMF79
ISIN E USD Acc	IE00BCDYJP02
ISIN W USD Acc	IE00BZCTLS48
ISIN W USD Inc	IE00BZCTLR31
Bloomberg ticker B USD Inc	LGIEMYI ID
Bloomberg ticker B USD Acc	LGIEMYA ID
Bloomberg ticker E USD Acc	LGIEMEA ID
Bloomberg ticker W USD Acc	LGIEMWA ID
Bloomberg ticker W USD Inc	LGIEMWI ID

Administrator

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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, R, S, T & W) after the Dealing Day.

LGM

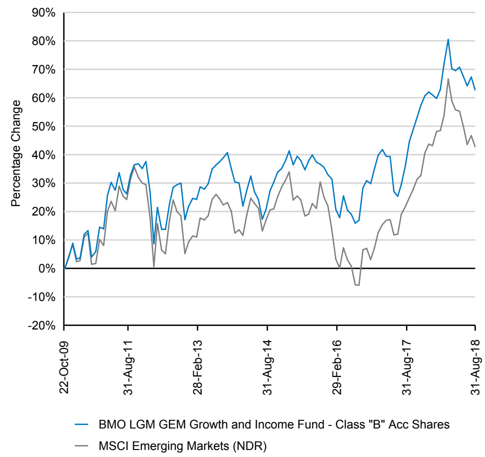
Investment objective

The Fund aims for long-term capital growth through investment in an actively managed portfolio, primarily invested in equity and equity-related securities of companies in emerging markets worldwide, 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. Investments in smaller companies carry a higher degree of risk as their shares may be less liquid and investment values can be volatile.

Performance since launch (%)



Performance data of BMO LGM Global Emerging Markets Growth and Income Fund (class B USD Acc share) are in US$ terms and net of investment management fee. Investors should be aware that past performance should not be considered a guide to future performance.

Performance as at 31 August 2018 (%)

	Fund	Benchmark
Since inception	59.4	35.7
Last month	-2.8	-2.7
Last 3 months	-2.8	-4.7
Last 6 months	-4.4	-10.2
Last 12 months	0.4	-0.7
YTD	-5.4	-7.2

Discrete performance as at 31.08.2018 (%)

	2014	2015	2016	2017	2018
Fund	15.90	-14.57	17.43	14.29	0.37
Benchmark	19.98	-22.95	11.83	24.53	-0.68

Annualised Performance		
1 year	0.4	-0.7
3 years	10.4	11.4
5 years	5.9	5.0
Since Inception	5.4	3.5

Top ten holdings

Company Name	Country	% NAV
Yum China Holdings	China/HK	5.5
Bank Mandiri	Indonesia	5.5
Sands China	China/HK	5.3
ITC	India	5.2
Walmart De Mexico	Mexico	4.9
Universal Robina	Philippines	4.3
Magnit	Russia	4.2
HDFC Bank	India	3.9
ICICI Bank	India	3.8
Mr Price Group	South Africa	3.1
Total[5]		**45.8**
No. of Holdings		**35**

Portfolio characteristics*

	Fund	Benchmark
ROIC (non financials)	25.2%	15.0%
ROE (financials)	16.7%	14.4%
Net debt / Equity (non financials)	6.3%	13.2%
Equity / Assets (financials)	12.1%	10.9%
Dividend Yield (FY1)	2.7	2.9
EV / EBIT (12 months forward)	17.1	21.3
P/E (12 months forward)	20.7	15.5
Turnover rate(12 months)[4]	35.8%	N/A

Risk statistics

	Since Inception
Alpha (annual basis)	2.6%
Annualised volatility (fund)	14.7%
Annualised volatility (benchmark)	17.2%
Sharpe ratio[4]	0.3
Tracking error (ex-post)	7.2%
Information ratio	0.3
Up market capture ratio	84.2
Down market capture ratio	73.5

Market cap (US$bn)

	Fund	Benchmark
< 1 bn	1.1%	0.1%
1-5 bn	21.5%	12.4%
> 5 bn	77.4%	87.5%
Weighted Average (US$bn)	22.6	92.6

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 Global Emerging Markets Growth and Income Fund.
[2]Risk Free Rate: US T-Bill 3 Month
[3]Based on dividends received during the latest full calendar year divided by the dividends received during the previous full calendar year.
[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; P/E - Price to Earnings

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Other details

BMO LGM Global Emerging Markets 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.

Portfolio managers

Rishikesh Patel, Portfolio Manager. Rishikesh holds a post-graduate degree in Finance and Management from Jamnalal Bajaj Institute of Management Studies, Mumbai, and graduated in Commerce from Narsee Monjee College of Commerce & Economics, Mumbai. Before joining LGM in 2006, he worked with ICICI Securities and General Electric. During Rishi's two years at ICICI Securities he was an analyst researching the IT, Real Estate and Cement sectors. Rishi was at General Electric for almost three years and worked across five GE businesses. Since joining LGM he has researched Indian stocks and advised on our Indian mandates. Rishi relocated to our London office in October 2014 and became Co-Portfolio Manager and then Lead Portfolio Manager for our Global Emerging Markets mandates in March and July 2016, respectively.

Irina Hunter, Portfolio Manager. Irina began her career in financial services in 1992 and from 1994 to 1998 worked as Vice President for The U.S.-Russia Investment Fund, a private equity investment fund in Moscow. After a period working in M&A in Canada and Russia she joined AGF Funds Inc. in 2002, based in Toronto where she was a Global Equity Analyst, and later Associate Portfolio Manager. She supported the award winning AGF Emerging Markets Fund and AGF Global Equity Class. Irina has an MBA from the University of Rochester as well as a Bachelor Degree in Finance and Banking from the Moscow Finance Academy. Irina joined LGM in 2007.

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.

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 with outperformance potential.

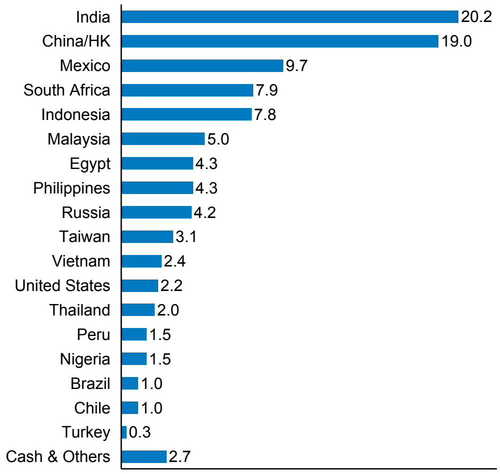
LGM Investments was established in Hong Kong in 1991 and became a wholly owned subsidiary of Bank of Montreal (BMO) in April 2011. It is part of BMO Global Asset Management.

Investment approach

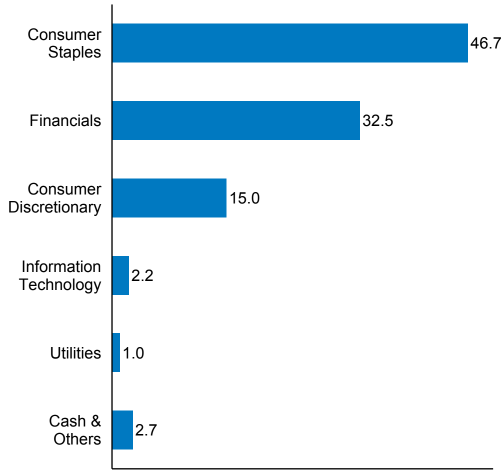
Primary research is the cornerstone of our investment process. We research companies with a long-term view and wait for the opportunity to buy high quality companies without overpaying for their inherent quality.

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.

Geographic breakdown (%)[5]



Sector breakdown (%)[5]



Fund manager's commentary

Emerging market equities dropped in August by around 2.7%, with the portfolio down in line. Turkey was the weakest market, delivering a return of -29% – mostly owing to the lira losing value against the US dollar. Turkey has felt the wrath of the market, which appeared to be triggered by the imposition of tariffs (on steel) by the US, but Turkish fragility is not something particularly new. With high levels of debt (denominated in foreign currencies), a current account deficit, high inflation and a central bank that is under significant political pressure, the situation is stark. The 'risk-off' sentiment unsurprisingly spread to several other emerging markets perceived as 'fragile'; the Argentine peso (depreciating 34%), South African rand (depreciating more than 10%) and Brazilian real (depreciating 10%) were also hit hard. Asian markets were a little more resilient, with several managing to deliver modest gains. However, Chinese equities lost ground (-3.8%) on continued escalation of trade tensions with the US.
Sentiment across 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 markets have fallen 2–6% so far in September (at the time of writing). The pain was initially felt in the currency markets. The Indian rupee, the Indonesia rupiah and the Philippines peso have been 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 materially.
These worries have led to comparisons with both the global financial crisis of 2007–08 and the Asian financial crisis of 1997–98. Most emerging markets are structurally stronger now than they were during these periods, 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.
Looking at the portfolio, Tingyi (Chinese noodles) fell 22% during the month and was the most notable underperformer in the period. 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 a 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 with 6–8% 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 definitely agree.
As at 31 August 2018