BMO LGM Global Emerging Markets Smaller Companies Fund Class E USD Acc

LGM Investments
BMO Global Asset Management

August 2018 | For Professional investors only

Fund details

Portfolio managers	Irina Hunter Claire Franklin
Fund type	UCITS
Domicile	Ireland
Benchmark	MSCI Emerging Markets Small Cap Index (Net Dividends Reinvested)
Inception date	1 August 2017
Fund size	US$ 304.1m
Strategy size[1]	US$ 0.0m
NAV per share	US$ 9.6072 (E USD Acc)
Min. initial investment	Class E - US$10,000,000
Dealing day	every business day
Initial charge	Class E - contact Investment Manager
Investment management fee	Class E – contact Investment Manager

Fund codes by share classes

ISIN E USD Acc	IE00BQ713Z36

Administrator

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Dealing details

Dealing instructions must be received not later than 4:00 p.m. (Irish time) four Business Days prior to the Dealing Day (Class E and F*). Subscription monies must be received in cleared funds no later than two Business Days 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 smaller companies in emerging markets worldwide

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 as at 31 August 2018 (%)

	Fund	Benchmark
Since inception	-3.9	0.9
Last month	-6.2	-2.1
Last 3 months	-8.5	-7.4
Last 6 months	-13.8	-10.6
Last 12 months	-4.5	-0.9
YTD	-9.8	-9.3

Annualised Performance		
1 year	-4.5	-0.9
Since inception	-3.6	0.8

Performance data of BMO LGM Global Emerging Markets SmallerCompanies Fund (class E 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	-	-	-	-	-4.50
Benchmark	-	-	-	-	-0.87

Top ten holdings

Company Name	Country	% NAV
Shriram City Union Finance	India	5.4
AmRest Holdings	Poland	4.2
CARE Ratings	India	4.1
British American Tobacco Malaysia	Malaysia	4.0
Federal Bank	India	3.8
AVI	South Africa	3.7
Alicorp	Peru	3.6
Xiabuxiabu Catering Management China	China	3.6
Major Cineplex Group	Thailand	3.5
Bajaj Corp	India	3.5
Total		**39.3**
No. of Holdings		**39**

Portfolio characteristics**

	Fund	Benchmark
ROIC (non financials)	27.8%	9.2%
ROE (financials)	16.9%	12.7%
Net debt / Equity (non financials)	8.7%	22.2%
Equity / Assets (financials)	26.0%	30.0%
Dividend Yield	3.1%	2.7%
NTM EV/EBIT	15.7	16.5
P/E (12 months forward)	19.8	16.0
Trading under USD 0.25 m / day	1.1	4.9
12 month Turnover	9.4	N/A

Risk statistics

	Since Inception
Alpha (annual basis)	-4.2%
Annualised volatility (fund)	12.2%
Annualised volatility (benchmark)	11.7%
Sharpe ratio[4]	-0.4
Tracking error (ex-post)	8.2%
Information ratio	-0.6
Up market capture ratio	72.3
Down market capture ratio	100.2

Market cap (US$bn)

	Fund	Benchmark
< 1 bn	35.5%	48.7%
1-5 bn	64.5%	50.7%
> 5 bn	0.0%	0.7%
Weighted Average (US$bn)	1.5	1.2

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.

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
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.
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 Global Emerging Markets 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 Managers

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.

Claire Franklin, CFA, **Portfolio Manager**. Claire joined the F&C Emerging Markets team in 2006 where she has focused on Emerging Europe, the Middle East and South Africa. Prior to this, she spent the first 3 years of her career at Sloane Robinson Investment Management as a junior analyst covering Asian companies. Claire graduated with a BSc (Hons) in Banking and International Finance from Cass Business School, London. She is a CFA Charterholder and a member of the CFA society of the UK.

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.

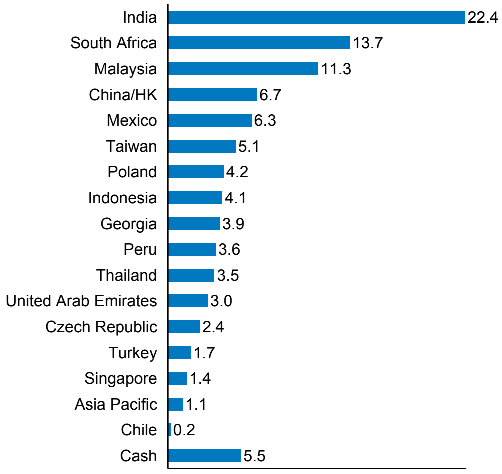
About LGM Investments

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

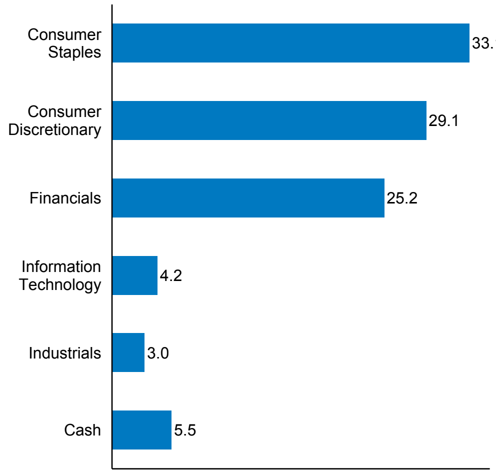
We are active bottom up stock pickers with a long-term perspective. Quality underpins all our investment thinking and results in non-index driven, high conviction portfolios.

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

August was a volatile month generally for emerging markets, dominated by a strengthening US dollar, majors concerns in relation to Turkey and continuing China-US trade tensions and tariffs. The portfolio weakened in August, and materially underperformed the index. While one month is clearly an extremely short period of time, it is usually in periods of significant volatility that we would expect to be more resilient versus the market, which unfortunately was not the case in August. A combination of events impacted the relative performance in the month, which we briefly discuss below. While we are clearly not happy with negative returns, rest assured we have not altered how we invest and we remain completely focused on finding high-quality small cap companies in the emerging universe and delivering the best hard currency absolute return in the long term.

Emerging market currencies generally depreciated against the US dollar, with the Turkish Lira losing over 25% of its value. Turkey 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 not looking great. The 'risk-off' sentiment unsurprisingly spread to several other emerging markets perceived as 'fragile'; the Argentine peso (depreciating 34%), South African rand (depreciating over 10%), Brazilian real (depreciating 10%) were all hit in the month.

The portfolio suffered at the hands of these material swings in currencies given the we have made investments in some of the affected markets, particularly South Africa. In addition to these 'top down' impacts, there were also some stock-specific issues which cost performance.

The portfolio's investments in South Africa (approximately 14% of portfolio) were the largest overall detractor from relative performance. The overarching impact occurred due to currency weakness, while the portfolio companies (JSE, Famous Brands and AVI) continued to report decent domestic earnings. Famous brands, a South African quick-service restaurant operator, was down c.19% (including the rand weakness). The company highlighted in a trading statement that while there is a substantial improvement in the like for like sales of its South African operations, results for its UK-based Gourmet Burger Kitchen (acquired in 2016) will be substantially worse. While the GBK news is disappointing, what is more positive is that the company is considering strategic options for GBK, which has been an underperforming asset for some time.

Positions in Turkey also lost value. The overall exposure in the portfolio is relatively contained at c2.5%. However, this still cost the portfolio material value. TSKB, a development bank (that has most of its lending and funding in US dollars), and Logo, our SME software provider, were both down more than 30% including Turkish lira losses (approximately 26%). As mentioned above, Turkish imbalances are hardly new and, perhaps with the power of hindsight, we could have taken a more conservative view towards the market given these imbalances (despite the strong fundamental investment case for both companies). While we are not in the business of making 'macro calls', we must consider the impact of this kind of risk as we are ultimately responsible for delivering hard currency returns to our clients. Risks are substantial from a materially weaker currency where there is greater potential of corporate default, downward revision to corporate growth and margins and upwards adjustment in cost of capital; all of which are all significant to the bottom-up investor.

Elsewhere, in China, XiabuXiabu, a casual 'hot-pot' restaurant chain (and a top-five holding), was down by about 27% in August and was the largest single stock detractor. There were a few issues which came to light in the period. The first was a possible 'scare' in its supply chain (there was news that possible traces of anthrax were found on some Chinese lamb farms). The second was in relation to softer margins reported in its earnings release amid strong top line growth. We view the first issue as less of a major concern to the investment case. While certainly headline-grabbing, the majority of Xiabu lamb is imported, meaning (if there is confirmed outbreaks) it will have limited to no effect on Xiabu suppliers, to our understanding. Xiabu has also launched a comprehensive review and investigation into its supply chain. This provides us with confidence that the company is responding appropriately. While this may have no impact on its supply change, trust in these situations can be lost very quickly. We are encouraged by the company's reactions and transparency so far. The softer margins are a reflection of Xiabu's willingness not to increase prices despite significant raw materials costs increases, thus increasing affordability and traffic at restaurants. We should point out that restaurant margins remain at a healthy 20% level (which is on the higher side among our global emerging market peers) and like-for-like revenues grew at a healthy level of 7.3%. Both ourselves and our colleagues managing our Greater China strategy added to the company on the weakness.

As at 31 August 2018