Month in focus

BMO Responsible Global Equity Fund

October 2020

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The Global Equities team offers insights into the performance of BMO Responsible Global Equity Fund in October and discusses recent activity and portfolio positioning.

At a glance

- October saw equity markets give a little back on profit-taking. Investors supported recently underperforming sectors whilst taking some profits in more strongly performing areas.
- Profit-taking in the market led to underperformance in the month, as some of the best performers in the portfolio fell back.
- We introduced a holding of KDDI, the Japanese telecom group, to take advantage of positive structural trends in its mobile and data markets despite some political and regulatory risk.
- We see scope for equity markets to move higher, even though some sectors and stocks have become more fairly valued given the short-term challenges that remain at both the economic and corporate level.

Profit-taking in the market led to underperformance in the month, as some of the best performers in the portfolio fell back.

The fund underperformed the benchmark in October. Stock selection was a drag for the fund. On the positive side, US life sciences business, Thermo Fisher, delivered robust third quarter profits benefiting from some Covid-19 tailwinds. Indian bank, HDFC Bank, reported strong fiscal second quarter results which boosted investor sentiment around its prospects whilst another bank, US niche lender, SVB Financial, also delivered results ahead of investor expectations. Detracting from performance was European tech bellwether, SAP, who issued weak guidance as margins are being impacted more than expected from the slower transition to the cloud. US payments company, Mastercard, was weaker as a lack of cross-border revenues, stemming from international travel remaining muted, led to lower operating margins. The fund also saw a negative impact from not owning benchmark heavyweight, Alphabet, owner of Google, as it performed strongly in October.

Geographic asset allocation was a positive, driven by our overweight to emerging markets. Sector allocation was a negative, with our zero weight in utilities, underweight in communication services and overweight to information technology all contributing to negative relative performance.

We introduced a holding of KDDI, the Japanese telecom group, to take advantage of positive structural trends in its mobile and data markets despite some political and regulatory risk.

The fund initiated a holding in Japanese telecom operator, KDDI, as we feel its exposure to positive structural trends are not currently reflected in the share price given some political and regulatory risk. We added to French electrical equipment provider, Schneider Electric, to boost the fund's energy efficiency exposure. We added to DNB, the Norwegian Bank, following a negative share price reaction to fundamentally solid results.

We sold our holding in US Bancorp, as we see limited ESG credentials and as the price approached our fair value. We trimmed US life sciences business, Mettler-Toledo, where the investment thesis remains intact, but where the valuation is more reflective of the opportunities.

Our portfolio positioning retains its bias towards higher quality, sustainable growth companies that can prosper in spite of market volatility. We continue with our strategy of looking to add to positions in high quality sustainable companies where the market allows us to add at more attractive levels. Where appropriate, we have most recently been adding to some of our holdings that have not seen a strong recovery in the market rebound, or have been weak for a particular short-term reason, whilst trimming holdings that we see as being either of lower quality than the names we are replacing them with, or, where we think that the share price strength has made the valuation less appealing. Whilst there will be some periods of short-term underperformance, we remain of the view that higher quality companies should outperform over the long-term due to their robust cash flow, focus on improving total shareholder returns and increasing franchise value.

Our main overweight sectors are information technology, healthcare, and industrials. This is funded by underweight positions in communication services, consumer staples and utilities.

We see scope for equity markets to move higher, even though some sectors and stocks have become more fairly valued given the short-term challenges that remain at both the economic and corporate level.

October saw equity markets remain range bound and, once again, they gave a little back after a stronger start to the month. A mix of more value-oriented names performed better, including banks and utilities. However, this wasn't a switch to a value at the expense of growth trend, instead, investors rewarded recently underperforming sectors whilst taking some profits in more strongly performing areas. This fits our investment thesis, where we see markets able to make further gains but remain vigilant that some sectors and stocks are more fairly valued given the short-term challenges that remain at both the economic and corporate level. With third quarter earnings coming to a close, investors remained focused on the potential impact of a second wave of the coronavirus and uncertainty over the US election. Whilst we acknowledge the potential for risk to become more elevated given those concerns, we still believe there is scope for equity markets to move higher.

Discrete performance vs. benchmark – 12 month rolling (EUR, net of fees)

Percentage growth %	2020	2019	2018	2017	2016
Responsible Global Equity Fund	8.8	16.7	4.1	20.5	-0.6
MSCI World	0.0	14.5	4.0	15.5	2.0

Discrete performance vs. benchmark – 12 month rolling (US$, net of fees)

Percentage growth %	2020	2019	2018	2017	2016
Responsible Global Equity Fund	13.6	14.9	1.2	28.0	-1.4
MSCI World	4.4	12.7	1.2	22.8	1.2

Source: BMO Global Asset Management Limited as at 31-Oct-20. Share class I. Benchmark: MSCI World. The discrete annual performance table refers to 12-month periods, ending at the date shown. Figures subject to rounding.

Past performance should not be seen as an indication of future performance. Changes in rates of exchange may also reduce the value of your investment.

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Key risks

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.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

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How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our ***reo***® engagement service, through which we provide engagement and voting services covering global equities and credit.

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The Fund is a sub fund of BMO Investments (Lux) I Fund, a société d'investissement à capital variable (SICAV), registered in Luxembourg and authorised by the Commission de Surveillance du Secteur Financier (CSSF).

English and German language copies of the Fund's Prospectus and English, Dutch, Danish, Finnish, French, German, Italian, Norwegian, Spanish and Swedish language copies of the key investor information document (KIID) can be obtained from BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, telephone: Client Services on 0044 (0)20 7011 4444, email: client.service@bmogam.com or electronically at www.bmogam.com. Please read the Prospectus before taking any investment decision.

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In Switzerland, the Prospectus, 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 is Banque Cantonale de Genève, 17, quai de l'Ile, CH-1204 Geneva. The current prices can be found at: www.fundinfo.com.

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