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BMO LGM Global Emerging Markets Fund

31 May 2021

The portfolio delivered a decent gain in the month adding upwards of 4% versus an index gain of 2% (as measured by the MSCI Emerging Markets index in AUD). The ebb and flow of new COVID-19 cases continues to be a major factor impacting sentiment. We wrote at length about the Indian experience last month, where a pernicious new variant as well as government complacency in permitting super-spreader events saw the number of daily cases balloon to more than 400,000 in early May. Thankfully the impact of targeted lockdowns quickly drove this down to around 127,000 by month-end. Elsewhere across the region we have seen rising cases in Korea, Taiwan, Singapore, Malaysia and Thailand (albeit from a very low base in most of these countries) and falling numbers in the Philippines and Indonesia.

India's market resilience continued and actually gained momentum into the second half of the month as COIVD-19 cases appeared to have rapidly decreased from the peak. The Indian Rupee also recovered most of its previous month's losses. In general PMI's for May in Asia were quite strong, however off their highs in most cases. India was unsurprisingly weaker, with a reading of 50.8 for May vis-a-vis 55.5 for April because of the impact of the second COVID-19 wave.

Aside from COVID-19 concerns, inflation worries have continued to dominate the headlines, especially following the US CPI print for April, which at 4.2% was the highest number since 2008. This combined with significant jumps in various commodity prices (coal, iron ore, grain, palm oil, copper, crude oil etc) as well as rising shipping rates and semiconductor prices, has spooked global equity markets and turned growth optimism into inflation pessimism because of worries about rising interest rates.

From a portfolio perspective, the main contributors to relative gains were positioning in India and China. As mentioned, Indian equities despite concerns over the COVID-19 outbreak were strong in May and investments in HDFC Bank, Colgate India and Marcio delivered strong gains between 9-18%. In China/Hong Kong, not owning some of the high growth, high momentum names like Alibaba, Meituan, Dianping or Baidu.com added relative value as these names were all volatile during the month. These names did rally somewhat into month end however ended in the red by the close. What is always more important of course is what is owned, and our investments China/Hong Kong overall outperformed. ByHealth (Vitamin & Dietary Supplements) contributed the most (up 13% in May) with continuing strong gains on very impressive operating numbers. Other positions that did well included Anta sports and China Resources Gas.

Drag on performance included having less invested in Brazil and Russia given they were both among the strongest markets. In Brazil, not owning Petrobras (0.5% of Index), and Vale (1% of Index) were the main detractors as they gained 17% and 9% respectively. In a not too dissimilar situation in Russia, not owning the State-owned energy company Gazprom (0.5% Index) which gained 16% was the main detractor in that market. These names were likely helped by the increased demand and rising global price of commodities. These are not investments we would consider, given they lack the high-quality, sustainability characteristics we demand and are highly cyclical, dependant on global commodity markets and have significant debt financing.

Taiwan and Thailand were among the weaker performers in May, although Taiwan rallied almost 10% from a mid-month low and is still the region's best performing market YTD.

As at 31 May 2021

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