Perspectives from the Multi-Manager People

Asset allocation compass

BMO MM Navigator Funds – Q1 2019

▽ Negative □ Neutral △ Positive

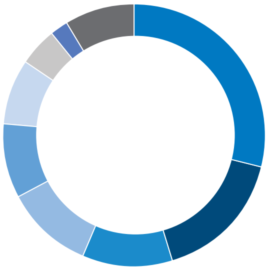
Equities		
US	▽	Despite a backdrop of strong economic data, US markets recently began to price in more difficult times ahead. We remain slightly below neutral as valuations in some cases remain elevated. We remain concerned over the impact of Federal Reserve policy and political noise; concerns over protectionism could further dampen sentiment.
UK	□	The UK faces significant short-term uncertainty from the challenges posed by the Brexit process. The economic data continues to hold up reasonably well, and sterling continues to act as a shock absorber for bad news. Relatively cheap and unloved, the market offers plenty of opportunities for stock pickers, but the uncertainty surrounding Brexit gives us little confidence to add to positions for the moment.
Europe	▽	Economic data in Europe continues to slow but there has been better news from politics, with issues around the Italian deficit resolved for now. Risks from populism remain, however, and questions will continue to be asked about the commitment of some to the European project as governments and priorities change over time. Earnings may pick up a little this year but there are plenty of risks posed to exporters if there is a further slowdown in global growth.
Japan	△	The Japanese economy continues to build traction and corporate Japan remains in good shape with increasingly shareholder-friendly policies; we believe the stock market remains good value. Prime Minister Shinzo Abe continues to push structural reforms, fiscal stimulus remains firmly on the agenda and the Bank of Japan continues to be committed to long-term loose monetary policy to achieve its inflation goals.
Asia	△	The region still looks to offer good value and exposure to some fast-growing economies. The key risk is a slowdown in China, but assuming the country maintains a 6.5%+ growth rate, our sentiment towards the region is likely to remain positive. Expectations of further stimulus, as we saw in 2015–16, are building. However, if this does not come to pass, the fallout could be felt globally. For now, other economies in the region are growing reasonably well.
Emerging markets	△	Many of the issues are cyclical, not structural. These issues are being addressed by conventional monetary and fiscal policies, and arguably political risks are priced in. Any period where US dollar momentum slows sees further performance in emerging markets, though more aggressive US rate hikes could cause problems for countries with high levels of US dollar debt. Long-term positive trends in terms of strong demographics and lower levels of debt contribute to many emerging market economies looking in better shape that their western counterparts.
Fixed income		
Government	▽	Sovereign debt appears well supported, despite alarming total levels of debt, owing to central bank policies. Bonds are seeing more demand thanks to fading risk appetite for equities but are unlikely to generate significant returns. They remain vulnerable to a pickup in economic growth or a change in investor expectations over interest rates and inflation, although the current consensus view appears to be inflation is not an issue – not least with questions being asked over economic growth and the US hiking cycle possibly close to a peak.
Corporate	▽	Within corporate debt, the quality of issuance is deteriorating at the margin and secondary market liquidity continues to be a big concern. Corporate bonds are somewhat vulnerable to interest rate rises and any reversal of flows into the sector. They are offering a yield but limited capital upside, and the risk/reward ratio appears unattractive.
Absolute/ strategic	△	Manager selection continues to be important but, selectively, strategic bond funds have been delivering on the promise of generating consistent returns through asset class volatility. This continues to be our favoured method of fixed income exposure and is likely to remain so.
High yield	▽	Unlikely to offer significant capital returns from here and the quality of issuance remains something of a concern. Risk/reward looks a little more compelling but the yields on offer remain very low. European high yield looks less vulnerable than in the US thanks to support from the European Central Bank – though this is now coming to an end. Fundamentals are deteriorating at the margin, not least in the US, which is further along in the credit cycle.
Emerging markets	△	The value on offer looks attractive but manager selection remains important. Many countries have weathered the storm of a stronger US dollar and the risk/reward looks attractive for investors willing to take a longer-term view and ride out the patches of shorter-term volatility that will be seen when the US is in a rate-hiking cycle. Recent performance has been encouraging at a time when risk appetite has fallen sharply.
Other		
Property	□	We are broadly neutral on property – investors have again forgotten how cyclical this sector usually is. We still have concerns over the liquidity mismatch between daily traded funds and illiquid underlying assets, meaning the biggest funds have to hold plenty of cash, which acts as a drag on performance. Our preference is for specialist and uncorrelated property exposure, such as leisure parks, infrastructure and investments tied to long-term government contracts.
Protection	□	We see protection as making use of index futures to add or remove portfolio beta. We are currently using protection to reduce portfolio equity exposure given a lack of conviction over further upside in markets.
Absolute/ low beta	△	While we are sceptical about the merits of some absolute return products, we believe that, with carefully selected managers, we can add value in this area. If we do foresee any significant market downside, we will consider adding to this space, along with increasing cash.

Continued

The asset allocation of each of the Navigator funds is designed to be appropriate given each portfolio's defined aims and objectives. Throughout the range we prioritise diversification – across individual fund offerings, geographies and asset classes – and actively manage each portfolio from both bottom-up fund selection and top-down perspectives.

Asset allocation as at 31.12.18

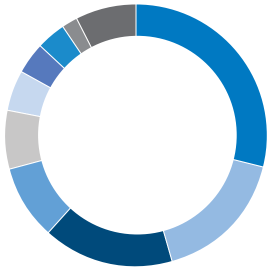
BMO MM Navigator Distribution Fund



Fixed Income	30.76%
UK	17.54%
Specialist Equity	11.91%
Specialist (Non-Equity)	11.50%
Europe	9.67%
Asia	8.62%
North America	5.06%
Japan	2.16%
Liquidity & Other	9.14%

DYNAMIC PLANNER PROFILED 5

BMO MM Navigator Cautious Fund



Fixed Income	30.30%
Specialist (Non-Equity)	17.67%
UK	16.75%
Europe	9.66%
North America	7.65%
Asia	5.33%
Japan	4.05%
Specialist Equity	3.81%
Emerging Markets	2.01%
Liquidity & Other	7.61%

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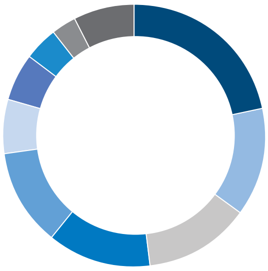
BMO MM Navigator Balanced Fund



UK	22.94%
Specialist (Non-Equity)	14.02%
North America	13.88%
Fixed Income	13.36%
Europe	12.63%
Asia	7.00%
Japan	6.12%
Specialist Equity	4.53%
Emerging Markets	3.26%
Liquidity & Other	7.67%

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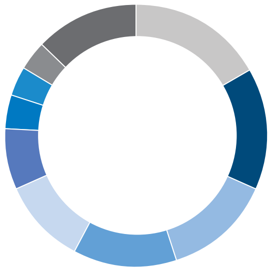
BMO MM Navigator Growth Fund



North America	17.65%
UK	15.55%
Specialist (Non-Equity)	14.00%
Europe	13.46%
Asia	11.07%
Japan	7.98%
Fixed Income	4.18%
Specialist Equity	3.98%
Emerging Markets	3.74%
Liquidity & Other	13.22%

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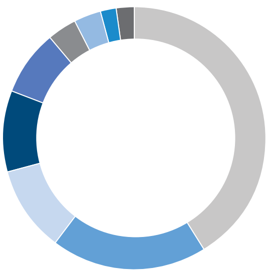
BMO MM Navigator Boutiques Fund



North America	41.34%
Europe	19.14%
Asia	10.49%
UK	10.09%
Japan	8.07%
Emerging Markets	3.60%
Specialist (Non-Equity)	3.24%
Specialist Equity	1.95%
Liquidity & Other	2.07%

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Source: BMO Global Asset Management as at 31 December 2018.

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Telephone calls may be recorded.

Stock market and currency movements mean the value of investments and the income from them can go down as well as up and investors may not get back the original amount invested.

BMO Global Asset Management