Perspectives from the Multi-Manager People

Asset allocation compass

BMO MM Navigator Funds – Q2 2019

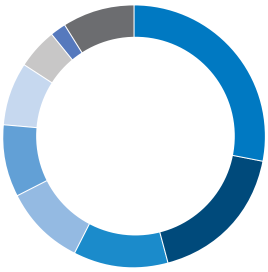
▽ Negative □ Neutral △ Positive

Equities		
US	▽	Despite weakening economic data, US markets recovered very strongly from the weakness of the fourth quarter of 2018. We remain slightly below neutral given valuations remain elevated, not least with the likely deterioration in corporate earnings.
UK	△	The UK faces continued Brexit uncertainty, with a weak government trying to maintain unity while the potential outcomes are still unclear. The economic data is showing signs of weakening, though sterling remains a shock absorber for bad news. UK assets are cheap and unloved, with plenty of opportunities for stock pickers – we added to some of these managers as the risks of a 'no-deal' Brexit have diminished.
Europe	▽	Economic data in Europe continues to slow. Political risks remain elevated, and questions will continue to be asked about the commitment of some to the European project. Earnings look set to slow and the outlook appears to be driven more by whether the rest of the world can see stronger growth to support the export-led eurozone economy.
Japan	△	The Japanese economy has slowed but corporate Japan remains in good shape with increasingly shareholder-friendly policies; recent manager meetings left us convinced 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 remains committed to long-term loose monetary policy to achieve their inflation goals.
Asia	△	The region still looks to offer good value and exposure to some fast-growing economies. The key risk is a slowing China, but assuming the country maintains a 6.0%+ growth rate, our sentiment is likely to remain positive on the region. Expectations of further stimulus are building and recent data points to this starting to feed through. This will have a positive halo effect on the wider region.
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 – something that cannot necessarily be said for many developed markets. 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 thanks to central bank policies. Bonds are seeing more demand due 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 having come to an end.
Corporate	▽	Quality of issuance is deteriorating at the margin and secondary market liquidity continues to be a big concern. Corporate bonds have some vulnerability 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 yields on offer remain very low. 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 inevitable patches of shorter-term volatility that will be seen when the US is in a rate hiking cycle.
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 drags 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	△	Whilst sceptical over the merits of some absolute return products, we believe that with carefully selected managers, we can add value here. If we do foresee any significant market downside, we will consider adding to this space and increasing cash.

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-Mar-2019

BMO MM Navigator Distribution Fund



Fixed Income	30.60%
UK	19.50%
Specialist Equity	12.71%
Specialist (Non-Equity)	10.91%
Europe	9.75%
Asia	8.47%
North America	5.34%
Japan	2.23%
Liquidity & Other	9.52%

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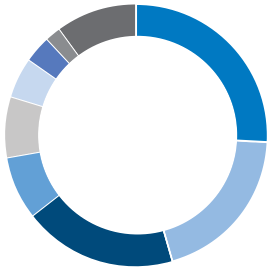
BMO MM Navigator Cautious Fund



Fixed Income	27.14%
Specialist (Non-Equity)	20.48%
UK	19.57%
Europe	8.09%
North America	7.80%
Asia	5.28%
Japan	3.36%
Emerging Markets	2.03%
Liquidity & Other	10.27%

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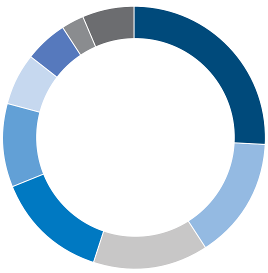
BMO MM Navigator Balanced Fund



UK	27.11 %
Specialist (Non-Equity)	15.51%
North America	14.73%
Fixed Income	14.36%
Europe	10.72%
Asia	6.82%
Japan	5.41%
Emerging Markets	2.93%
Liquidity & Other	6.48%

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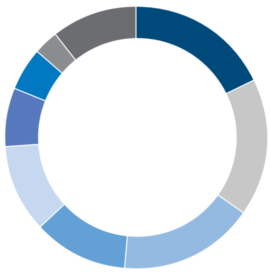
BMO MM Navigator Growth Fund



UK	18.33%
North America	17.50%
Specialist (Non-Equity)	17.15%
Europe	12.09%
Asia	11.25%
Japan	7.40%
Fixed Income	5.38%
Emerging Markets	3.24%
Liquidity & Other	10.68%

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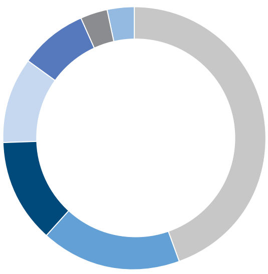
BMO MM Navigator Boutiques Fund



North America	45.00%
Europe	17.50%
UK	12.68%
Asia	10.75%
Japan	8.45%
Emerging Markets	3.35%
Specialist (Non-Equity)	3.23%
Liquidity & Other	-0.97%

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Source: BMO Global Asset Management as at 31-Mar-2019.

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Telephone calls may be recorded.

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested.

BMO Global Asset Management