For Professional Clients and/or Qualified Investors only

Month in focus

BMO Responsible Global Equity Fund

May 2019

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Jamie Jenkins offers insights into the performance of BMO's Responsible Global Equity Fund in May and discusses recent activity and portfolio positioning.

At a glance

- Stock selection helps fund in challenging month for global equities
- Earnings help Amdocs regain ground
- Aptiv and A.O. Smith impacted by exposure to China
- Microsoft enters portfolio after we exit Amazon.com

Trade tensions push equities lower – stock selection helps relative performance

In a negative month for global equities, we take some encouragement from our performance relative to the wider market. Stock selection was the key driver of resilience, with Kerry Group benefiting from a solid trading update and Amdocs regaining some ground after a better-than-expected earnings report. Mastercard also performed well after providing investors with a positive update at the end of April. On the negative side, names with Chinese exposure detracted as US/China tensions rumbled on. Both Aptiv (automotive supplier) and A.O. Smith (water heaters) felt the impact, with the latter also affected by a 'short seller report'.

At the sector level, being underweight Consumer Staples and overweight Information Technology detracted. Stock selection within both these areas added value, however.

Exit Amazon.com, new position in Microsoft

Our decision to exit Amazon.com was the standout transaction of the month. Several factors contributed to this move, not least growing concerns about Amazon's move into advertising and associated worries about how they utilise personal consumer data and the onset of greater regulatory scrutiny. We are also mindful that whilst some progress has been made with our engagement efforts, the pace of improvement has slowed. Microsoft replaces Amazon.com – its addition reflecting our positive assessment of its earnings prospects and its ESG sustainability outlook.

We also sold Covetrus (animal health technology) and Kontoor Brands (jeans-wear), which span out of Henry Schein and VF Corp, respectively.

Broader positioning remains unchanged, with an ongoing bias towards higher quality, sustainable growth companies that can prosper in any near-term economic and policy-driven volatility. We continue to add to positions where we see strong underlying quality and where the market allows us to top up holdings at more attractive levels. And where appropriate, we have been building positions that offer more defensive revenue streams given the slowdown in economic growth expectations and trimming holdings that have performed strongly and offer reduced upside potential.

Sector-wise, Information Technology, Industrials and Healthcare are our main overweights, whilst Financials is a modest overweight. The portfolio is underweight Communication Services, Energy and Consumer Staples. At the regional level, Emerging Markets, Japan (take a look at our recent Japan trip note) and the UK are our biggest overweights, with the U.S. our largest underweight.

Trade rhetoric overshadows positive earnings

Whilst resurfacing rhetoric around trade-pressured equity markets generally, the Q1 earnings season continued in robust fashion, with many companies posting better-than-expected results. That said, a number of obstacles remain in place, with global trade issues, geopolitical tensions and central bank actions among the factors capable of triggering short-term volatility. Whilst valuations have now returned to levels that appear to be fair given the conditions, we still feel that there is a positive outlook over the medium term for equity markets. We remain vigilant but stay constructive overall.

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

Percentage growth %					
	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Responsible Global Equity Fund	5.53	11.80	14.16	-5.14	36.83
MSCI World	4.45	7.48	15.26	-5.42	31.56

Source: BMO Global Asset Management Limited as at 30-May-19. 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.

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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