

Perspectives from the Multi-Manager People

Asset allocation compass

BMO MM Navigator Funds – Q3 2019



▽ Negative □ Neutral ▲ Positive

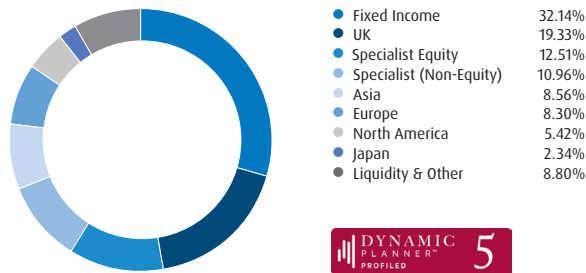
Equities	
US	▽ The US appears to be relatively late in the current economic cycle, but a recession may still be some way off. Despite economic data continuing to weaken, US indices are at record highs thanks to the prospects for rate cuts in the second half of the year. We remain slightly underweight but added to the region over the second quarter.
UK	▽ While we recognise that UK assets remain relatively good value, increasing concerns over the renewed political risks around Brexit caused us too to reduce our UK exposure. With 'no deal' back on the agenda and the two candidates for prime minister seemingly willing to accept such an outcome, we expect UK equities to underperform for some time – not least when the prospects for a 'good deal' now seem relatively low and a general election looks more likely. We continue to have significant exposure to stock-picking managers in the UK but have chosen to trim our UK overweight position back towards neutral.
Europe	▽ The economic data in Europe may be bottoming but downside risks remain from external influences. Risks from politics have now declined and it is positive to see the European Central Bank looking to boost inflation expectations over time through loose monetary policy. However, concerns remain about the ongoing trade war and potential US tariffs on EU exports, particularly the autos sector. We remain underweight.
Japan	▲ The Japanese economy has slowed but corporate Japan remains in good shape with increasingly shareholder-friendly policies; a recent round of manager meetings leaves 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. The consumption tax increase set for later this year has the potential to be a headwind for the economy and sentiment.
Asia	▲ The region still looks to offer good value and exposure to some fast-growing economies. The key risk is of a slowing China, but assuming the country maintains a 6.0%+ growth rate, our sentiment is likely to remain positive. 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 in emerging markets are cyclical and not structural – these issues are being addressed by conventional monetary and fiscal policies, and arguably political risks are priced in. Long-term positive trends in terms of strong demographics and lower levels of debt contribute to many emerging market economies looking in better shape than their western counterparts. Given the low overall allocation to Asia/emerging markets in the portfolios, our preference is for Asian funds, leaving the portfolios broadly neutral on emerging markets.
Fixed income	
Government	▽ Sovereign debt appears well supported, despite alarming total levels of debt, thanks to the ongoing policies of the central banks – policies that look set to continue for some time yet. Bonds are seeing more demand thanks to weakening economic data but given price levels (and yields close to or at record lows), it appears that significant returns are unlikely to be made from taking long-term exposure. This is an area where it pays to be active, hence our preference for strategic bonds.
Corporate	▽ Quality of issuance is deteriorating at the margin and secondary market liquidity continues to be a big concern at times when risk appetite fades. Corporate bonds have some vulnerability to interest rate rises (though these seem very distant) and any reversal of flows into the sector. Offering a relatively high yield but limited capital upside and risk/reward appears unattractive, not least given the amount of borrowing that has taken place by companies yet to be tested by an economic downturn.
Absolute/strategic	▲ Manager selection continues to be important but, selectively, strategic bond funds have been delivering on the promise of delivering consistent returns through asset class volatility. This continues to be our favoured method of fixed income exposure and is likely to remain so for the foreseeable future.
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 still remain very low. Fundamentals are deteriorating at the margin, not least in the US, which is further along in the credit cycle – though we accept this cycle may well be extended given the likely path for interest rates is lower from here.
Emerging markets	□ Value on offer looks attractive but manager selection remains very 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. We have taken some profits recently after a strong run in the first half of the year.
Other	
Property	□ Broadly neutral on property in general – 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. We have a strong preference 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 using protection currently 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 in this area. If we do foresee any significant market downside, we will consider adding to this space along with increasing cash.

Compass contains forward-looking statements which can be identified by the use of terminology such as 'may', 'should', 'expect', 'anticipate' or 'believe'. These do not constitute investment advice or recommendations to buy or sell investments and you should not place undue reliance on such returns and statements, as actual returns and results could differ materially due to various risks and uncertainties.

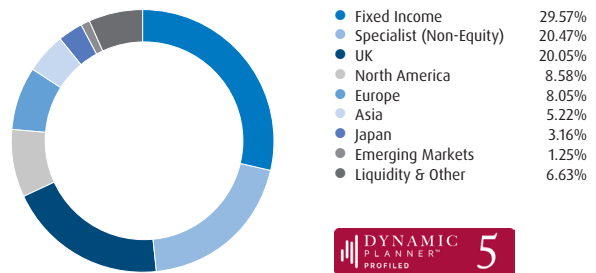
The asset allocation of each of the Navigator funds is designed to be appropriate given each portfolio's defined aims and objectives. Throughout the range we prioritise diversification – across individual fund offerings, geographies and asset classes – and actively manage each portfolio from both bottom-up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

Asset allocation as at 30-Jun-2019

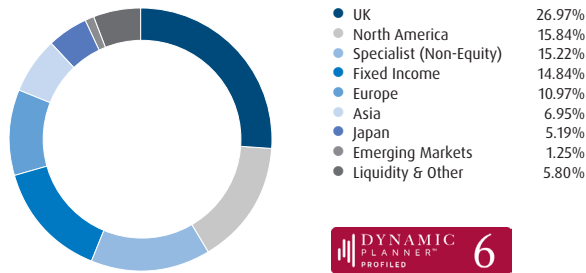
BMO MM Navigator Distribution Fund



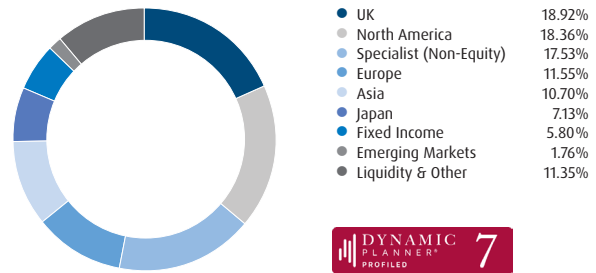
BMO MM Navigator Cautious Fund



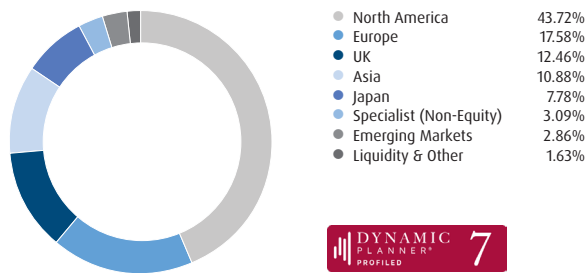
BMO MM Navigator Balanced Fund






BMO MM Navigator Growth Fund



BMO MM Navigator Boutiques Fund



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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.

Source: BMO Global Asset Management as at 30-Jun-2019.