Perspectives from the Multi-Manager People

Asset allocation compass

BMO MM Navigator Funds – Q1 2020

▽ Negative □ Neutral △ Positive

Equities		
US	▽	The US was the strongest performing major market in 2019 but the majority of the returns came from multiple expansion – corporate earnings failed to grow. With US equities looking relatively expensive in comparison with other markets, we see more attractive opportunities elsewhere for the moment.
UK	△	Our UK exposure has been increased on the back of the election result, which delivers some political stability and more certainty over Brexit, albeit not a complete resolution to a potential 'no-deal' come the end of 2020. UK equities look attractively valued, particularly further down the market cap scale where stock-picking managers are finding plenty of opportunities.
Europe	▽	Following a strong year of market returns in 2019, we have taken some money off the table in Europe given our concern that the expected economic re-acceleration in 2020 will not be sufficient to boost corporate earnings to the expected levels. Fewer concerns with politics for 2020 but other regions are preferred.
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.
Asia	△	The region looks attractively valued and gives exposure to some fast-growing economies. The key risk is of a slowing China but assuming China maintains a 6.0%+ growth rate our sentiment is likely to remain positive on the region. Chinese efforts to maintain growth around 6% will have a positive halo effect on the wider region. A détente in the US-China trade war is also a big positive.
Emerging markets	□	Many of the issues in emerging markets are cyclical, not structural – they 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 EM economies looking in better shape that their western counterparts. Given the low overall allocation to Asia/EMs in the portfolios our preference is for Asian funds, leaving the portfolios broadly neutral on EMs.
Fixed income		
Government	▽	Sovereign debt appears well supported despite alarming total levels of debt, thanks to ongoing central bank 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 still relatively close to record lows) it seems significant returns are unlikely to be made from taking long-term exposure – this is an area where it pays to be active, and hence our preference for strategic bonds.
Corporate	▽	Quality of issuance has deteriorated 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. Offers a relatively high yield but limited capital upside and the 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 a concern. Risk/reward is not particularly attractive with yields on offer relatively 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 an extended one given the 'lower for longer' outlook for interest rates.
Emerging markets	□	Value on offer looks attractive but manager selection remains very important. Many countries have weathered the storm of a stronger USD 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 if risk appetite fades or the USD rallies.
Other		
Property	□	Broadly neutral on property in general – investors once again have 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.

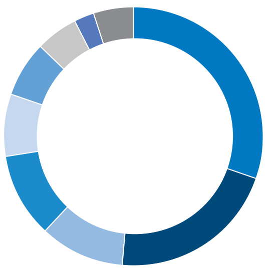
Compass contains forward-looking statements which can be identified by the use of terminology such as 'may', 'should', 'expect', 'anticipate' or 'believe'. These do not constitute investment advice or recommendations to buy or sell investments and you should not place undue reliance on such returns and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

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-Dec-2019

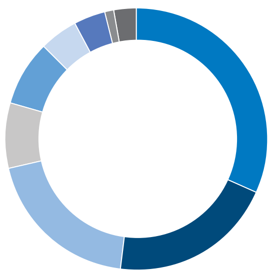
BMO MM Navigator Distribution Fund



Fixed Income	31.83%
UK	21.85%
Specialist (Non-Equity)	11.01%
Specialist Equity	10.85%
Asia	8.35%
Europe	7.17%
North America	5.53%
Japan	2.55%
Liquidity & Other	5.04%

DYNAMIC PLANNER PROFILED 5

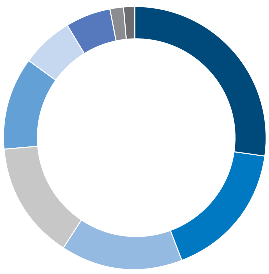
BMO MM Navigator Cautious Fund



Fixed Income	31.73%
UK	20.44%
Specialist (Non-Equity)	19.25%
North America	8.18%
Europe	8.12%
Asia	4.71%
Japan	3.74%
Emerging Markets	1.31%
Liquidity & Other	2.53%

DYNAMIC PLANNER PROFILED 5

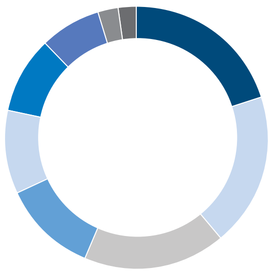
BMO MM Navigator Balanced Fund



UK	27.37%
Fixed Income	16.88%
Specialist (Non-Equity)	15.15%
North America	14.43%
Europe	11.29%
Asia	6.32%
Japan	5.61%
Emerging Markets	1.81%
Liquidity & Other	1.14%

DYNAMIC PLANNER PROFILED 6

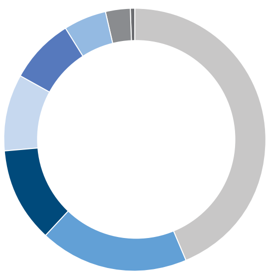
BMO MM Navigator Growth Fund



UK	20.00%
Specialist (Non-Equity)	19.10%
North America	17.48%
Europe	11.74%
Asia	10.24%
Fixed Income	9.43%
Japan	7.40%
Emerging Markets	2.57%
Liquidity & Other	2.04%

DYNAMIC PLANNER PROFILED 7

BMO MM Navigator Boutiques Fund



North America	43.76%
Europe	18.30%
UK	11.72%
Asia	9.44%
Japan	7.97%
Specialist (Non-Equity)	5.20%
Emerging Markets	3.11%
Liquidity & Other	0.49%

DYNAMIC PLANNER PROFILED 7

Source: BMO Global Asset Management as at 31-Dec-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