defaqto

Fund Review

BMO

Lifestyle Fund Family

September 2020

BMO Global Asset Management

Contents

Defaqto fund reviews

This document is designed to provide the reader with a quantitative overview of the funds reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager's philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk. All of this information goes towards creating this comprehensive Fund Review.

Defaqto Ratings

Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.

Show at a glance how a fund or fund family performs in comparison to the rest of the market.

Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.

An overall assessment of service – by advisers for advisers.

Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:

Fund review

BMO Global Asset Management

BMO
Lifestyle Fund Family
Danny Luggah, CFA

Executive summary

The Lifestyle fund of funds suite comprises five actively managed, risk-targeted funds, ranging from Lifestyle 3 (the lowest risk) to Lifestyle 7 (highest risk). Each fund is managed within volatility bands prescribed by external provider Distribution Technology (DT) as appropriate to its profile within the range, and each has its own discrete Defaqto risk rating, from 3-7.

The Lifestyle suite is run by a ten-person team led by highly respected multi-manager specialists Rob Burdett and Gary Potter. Burdett and Potter have worked together in the multi-manager space for over 23 years with conspicuous success. The team as a whole has a notably flat structure and strong levels of experience. The structure is that of a Limited Liability Partnership (LLP), which allows the team to operate with a fair degree of autonomy within the Bank of Montreal group (BMO), but nevertheless gives it access to the wider resources of the BMO group.

The team constructs the portfolio with reference to DT's prescribed strategic asset allocation; any tactical tilts relative to that are typically small and in any case limited to +/-5%. This aligns well with the team's philosophy and skill set; in their view, they can add far more value by fund selection than by asset allocation. Their investment philosophy is to be client-focused (thinking about real people and their attitude to loss), flexible, pragmatic, risk-aware and principled. Their investment approach and philosophy rests overtly on fund selection, and is underpinned by a process that appears detailed, thoughtful, thorough and robust. Interestingly, there is no formal requirement for a fund/fund manager under consideration to have a three-year track record or minimum fund size. The reasons are twofold; firstly, they are not afraid of, or averse to, the "new", and secondly they do not want their selection of funds to be unduly influenced by past performance or size of assets.

On a five-year view, returns have been solid and well aligned with the discrete risk/return profile of each fund in the range. Notably, and importantly, volatility has consistently been at the very bottom end of the prescribed DT range.

About BMO

The Bank of Montreal Financial Group (BMO), established in Canada in 1817, is a diversified financial services provider based in North America. It has over 45,000 employees, providing personal banking, commercial banking, wealth management and investment banking services to over 12 million customers. The group's asset management division, BMO Global Asset Management, has around £225bn AUM. Its asset management activity is focused in four major investment hubs - Canada (Toronto/Montreal), the US (Chicago/Miami), EMEA (London/Edinburgh) and Asia Pacific (Hong Kong) - and overall it has over 20 offices in 14 countries. In 2014, F & C became part of the BMO Financial Group and the majority of its products and services have been rebranded to BMO, as the group seeks to emphasise the global reach of its product range and investor solutions capability.

The core of the multi-manager team, led by Rob Burdett and Gary Potter, was originally established in 1996 at Rothschild Asset Management, leaving in 2001 to establish the Credit Suisse Multi-Manager business. They left in 2007 to join Thames River Capital, creating the LLP which still exists today; the team subsequently became part of F & C in 2010 when F & C acquired Thames River Capital. In 2014, BMO acquired F & C. The team operates as an LLP within the BMO group; this gives them a degree of autonomy whilst enabling them to use and access the wider services of BMO. The team manages the Lifestyle fund range (five risk targeted funds - £1.1bn AUM) and the Navigator range (five risk profiled funds - £1.6bn AUM).

Fund	Family Diamond Rating	Risk Rating	Income Risk Rating
BMO MM Lifestyle 3 Fund	5	3	n/a
BMO MM Lifestyle 4 Fund		4	n/a
BMO MM Lifestyle 5 Fund		5	n/a
BMO MM Lifestyle 6 Fund		6	n/a
BMO MM Lifestyle 7 Fund		7	n/a

Quantitative review

All analysis using Morningstar data to 28/8/2020

Investment objective

Each fund in the Lifestyle risk targeted range has its own specific targeted volatility bands which determine its target asset allocation, all provided by Distribution Technology (DT) - a third party, specialist risk profiler. The funds aim for capital return and income. There are no explicit targets for either over any given time frame, but all are intended for investors with at least a five-year investment horizon. Each fund invests in equities, bonds and property as appropriate for its risk profile (Lifestyle 3 being the lowest and Lifestyle 7 the highest). Derivatives may be used to implement tactical asset allocation changes/beta adjustments (so as not to disturb the underlying assets); limited leverage is also (in theory) permitted.

Fund information

Fund	Launch Date	Fund Manager	Domicile	Assets	Approach	Type
BMO MM Lifestyle 3 Fund	02/12/2013	TEAM	GBR	Active	Risk Targeted	OEIC
BMO MM Lifestyle 4 Fund	13/09/2012	TEAM	GBR	Active	Risk Targeted	OEIC
BMO MM Lifestyle 5 Fund	13/09/2012	TEAM	GBR	Active	Risk Targeted	OEIC
BMO MM Lifestyle 6 Fund	13/09/2012	TEAM	GBR	Active	Risk Targeted	OEIC
BMO MM Lifestyle 7 Fund	13/09/2012	TEAM	GBR	Active	Risk Targeted	OEIC

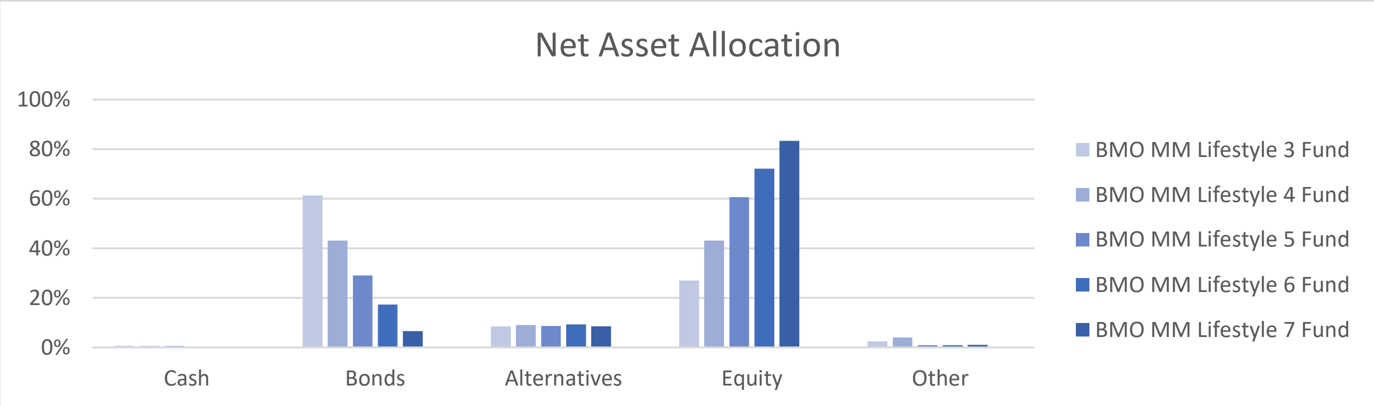
Fund classification

Fund	IA Sector	Morningstar Category*	Defaqto Diamond Rating Type	Diamond Rating
BMO MM Lifestyle 3	Volatility Managed	GBP Moderately Cautious Allocation	Not rated	Not rated
BMO MM Lifestyle 4	Volatility Managed	GBP Moderate Allocation	Not rated	Not rated
BMO MM Lifestyle 5	Volatility Managed	GBP Moderate Allocation	Not rated	Not rated
BMO MM Lifestyle 6	Volatility Managed	GBP Moderately Adventurous Allocation	Not rated	Not rated
BMO MM Lifestyle 7	Volatility Managed	GBP Adventurous Allocation	Not rated	Not rated

*Note: The Morningstar Category is used in all comparative analysis, over the following pages.

Asset allocation

Asset allocation is made with reference to the DT allocation, which itself is defined by the target risk profile for each fund. As might be expected, the higher the risk profile, the higher the exposure to equities. The manager is permitted to enact tactical tilts of up to +/-5% (e.g. as with the Alternatives exposure in the chart below) but may implement those tilts by the use of futures in order not to disturb the underlying portfolio.

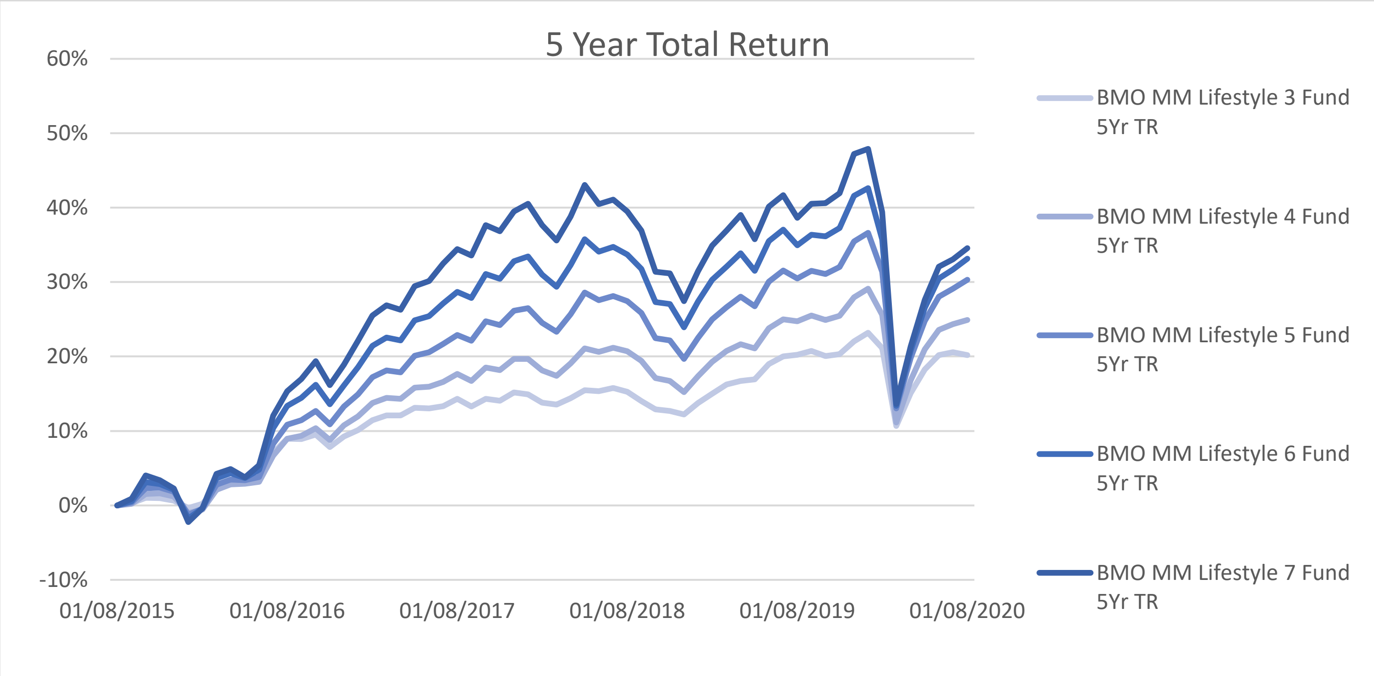


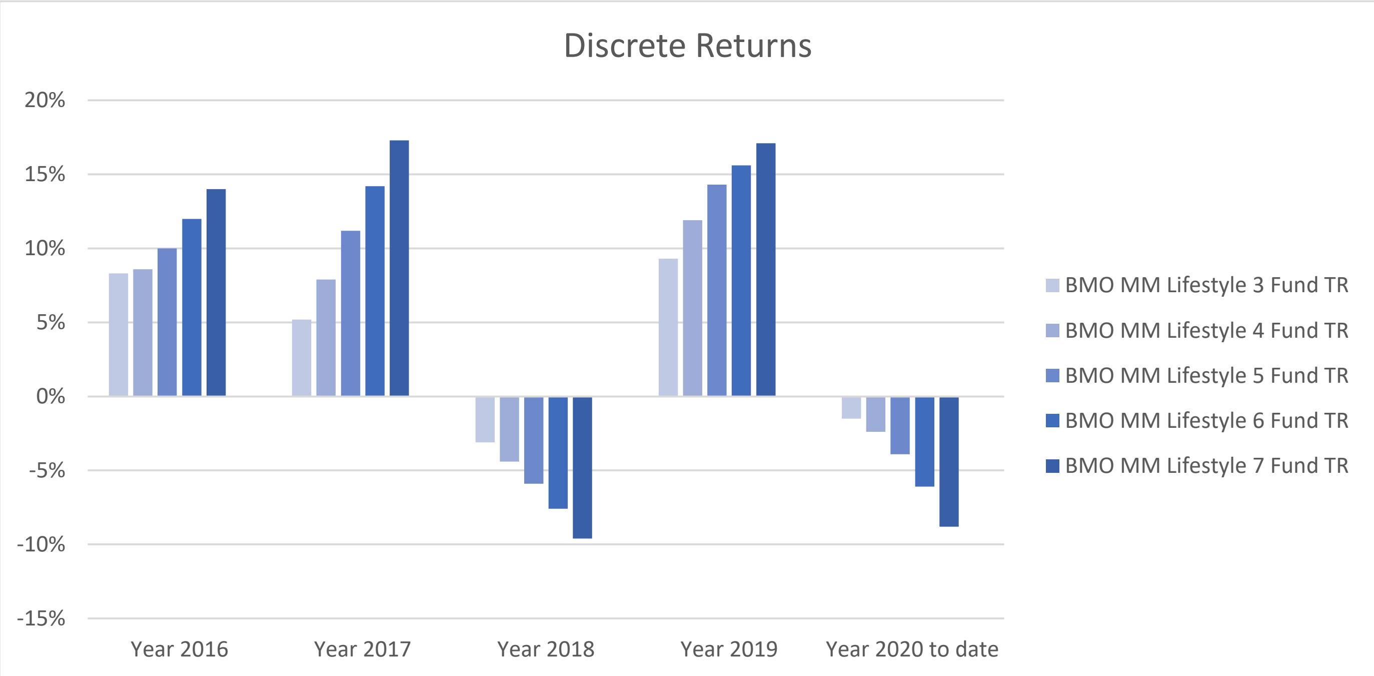
Note: This asset allocation chart is drawn using the 16 asset classes (including 'other') that we use in our modelling, rolled-up in to five high-level asset groups. This may differ slightly from the asset allocation described by the fund manager, due to various asset class roll-up and mapping variances.

Performance

Returns on a five-year cumulative view range from around 20% for Lifestyle 3 to 35% for Lifestyle 7; in general, the higher the risk, the higher the return. Interestingly, returns from Lifestyle 6 and 7 have converged over recent months. This is due to recent market turbulence having a greater impact on funds with higher equity exposures and increasing correlations across asset classes.

The pattern of returns in discrete years has been in line with expectations; the Lifestyle funds with a higher equity content have fared better in bullish market environments, whilst the lower risk profile, more defensively-oriented funds, have proven more resilient in down markets.

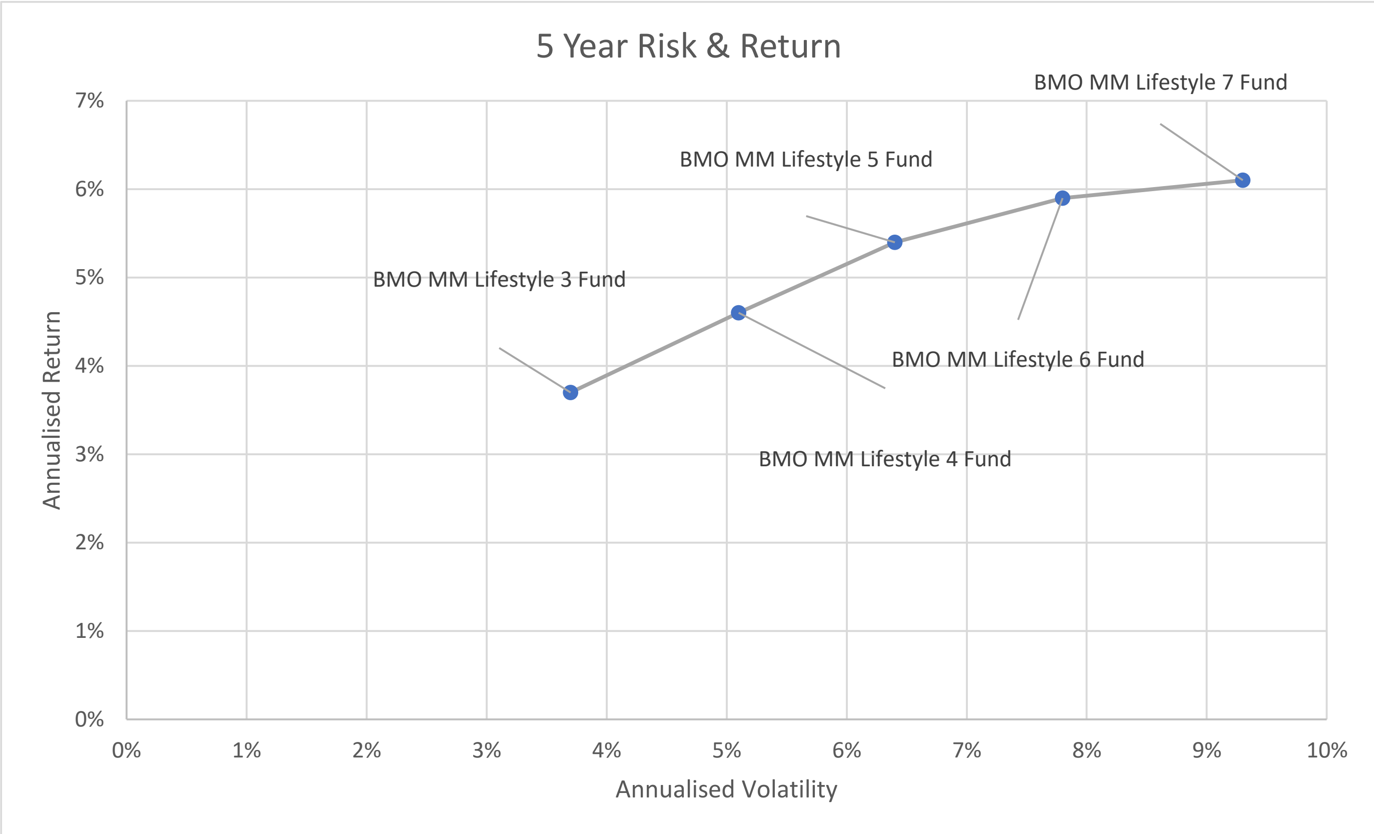




Risk

The risk/return chart below (as at 28th August 2020) shows that most of the funds are in alignment with their expected profile i.e. higher returns as you move up the risk scale. However, it is worth highlighting that the differences in annualised returns are narrower at the higher end of the risk range as recent market turbulence due to the impact of the coronavirus have had a large negative impact across all equities.

The historic volatility figures for each fund are either right at the bottom of DT 's current prescribed parameters or, in some cases, well below. However, levels of volatility over the past 5 years have been atypically low, even considering the unusually high market volatility in Q4 2018 and during 1H 2020.



Drawdown

Looking back over 60 months, drawdowns were sharper and more pronounced in the higher risk profile funds, which is not a surprise.

That said, positive months exceeded negative months across the range by a very consistent ratio of nearly 2:1.

Last 60 Months	Max Drawdown	Positive Months	Negative Months	Worst Month
BMO MM Lifestyle 3 Fund	-13.9%	39	21	-7.9%
BMO MM Lifestyle 4 Fund	-17.9%	39	21	-10.6%
BMO MM Lifestyle 5 Fund	-21.3%	39	21	-13.0%
BMO MM Lifestyle 6 Fund	-25.1%	39	21	-15.4%
BMO MM Lifestyle 7 Fund	-28.1%	39	21	-17.6%

Fund size and fees

Four of the five funds sit well above the threshold which Defaqto finds comfortable size-wise (£50m) for its Diamond Ratings. The exception is Lifestyle 3. This is disappointing as the fund is now five years old and was specifically added onto the Lifestyle range in 2013 to complement it and add an alternative investor choice at the lower end of the risk scale.

However, we have absolutely no reason to doubt the team's commitment to the fund as an integral part of the range. As in any fund of funds, there are costs relating to rebalancing and any strategic asset allocation changes; in an actively managed fund including active vehicles, costs are likely to be higher than in a passive equivalent as a result of tactical asset allocation moves and/or changes in fund choices. That said, transaction activity across the range looks to be quite low, a reflection of BMO's longer-term investment horizon (the average holding period being four years).

Fund	AUM	OCF	OCF Actual	Transaction Fee	Performance Fee	Performance Fee
BMO MM Lifestyle 3 Fund	£45M	1.12%	1.11%	0.16%	No	n/a
BMO MM Lifestyle 4 Fund	£285M	1.12%	1.00%	0.18%	No	n/a
BMO MM Lifestyle 5 Fund	£405M	1.14%	1.02%	0.22%	No	n/a
BMO MM Lifestyle 6 Fund	£248M	1.21%	1.02%	0.26%	No	n/a
BMO MM Lifestyle 7 Fund	£98M	1.20%	1.07%	0.25%	No	n/a

Qualitative review

Philosophy

The BMO team's primary focus is on their clients' goals and needs - "real people" and their attitude to loss. The team is conscious of the need to take risk in order to outperform, but does so in a risk-aware and measured context.

The team believes that it can add greater value with fund selection rather than with asset class analysis. This is particularly apposite for this risk targeted fund of funds product, which is managed to DT risk profiles, within prescribed volatility risk bands, and with those bands defining target asset class allocations.

The resultant asset allocations are reviewed and provided by DT quarterly - changes to these long-term asset allocations have been made annually by DT since 2011. The team does not wish to take great risks in either strategic or tactical asset allocations in this fund, +/-5% deviations from target asset allocation are the maximum permitted. The fund parameters and the team skillset are well aligned.

The premise underpinning fund selection is that investment is both an art and a science, and so the process combines quantitative and qualitative elements. It is a "go anywhere" fund range in a geographical and sector sense (i.e. no formal restrictions apart from the +/- 5% asset allocation restrictions). Generally speaking, the team goes by "principles" rather than "rules" with reference to both fund selection and portfolio construction, betokening a flexible approach.

Fund selection embraces tracker, passive and active funds, with the team taking care to ensure that "active" funds are exactly that - i.e. not closet trackers. The team blends styles and managers, using different managers as appropriate for the prevailing market conditions. In terms of manager selection, the team is quite clear that there are no "right" or "wrong" ways of managing money i.e. there are no "hard lines" in terms of style or philosophy. The team prides itself on cultivating and nurturing ongoing relationships with fund managers beyond the buy/sell decision. There is a palpable quality bias in the fund selection process and, on average, the holding period is four years, underlining the team's long-term selection and investment horizon. The team prefers not to hold closed end funds, though again the possibility is not excluded; indeed, the property allocation in the Lifestyle funds is comprised in part by exposure to closed end funds.

The portfolios may include in-house funds from the wider, global BMO range. However, they have to undergo exactly the same selection process as external funds.

People

The BMO multi-manager team responsible for the Lifestyle and Navigator fund ranges is led by two hugely respected City names, Rob Burdett and Gary Potter.

Burdett and Potter began working together at Rothschild in April 1996 where they became co-heads of a newly launched fund of funds service. They have worked together ever since, at Credit Suisse and then Thames River Capital, joining the BMO group in 2007—always as co-managers and co-heads of their investment team. The current structure is that of an LLP, which means (amongst other things) that the team has charge of its own P & L. Whilst Burdett and Potter are co-team leaders, the structure is intended to be as flat as possible, with other team members able to increase and develop the scope of their roles.

At present the team numbers ten and has an average 20 years' financial industry experience. Kelly Prior and Paul Green were co-founders of the team in 1996. Other members include Wai-Ling Lam (joined in 1999, left and then re-joined in 2010), Anthony Willis (joined 2001), Catherine Sauer (2010), Scott Spencer (2014) and Adam Norris (2016). A recent recruit, desk manager Rhianna Ford, completes the team.

All team members (with the exception of Ford, Norris and Lam for the moment) have a dual analytical/managerial role. Potter covers Equity Income, USA, Asia & Emerging Markets whilst Burdett covers Europe, Absolute & Property, Japan and the UK; the rest of the team cover at least one asset class and one geographical region each, with their sectors rotated periodically (Burdett and Potter do not rotate their coverage). All are tasked with generating investment ideas. Within this, Anthony Willis specifically covers macro and chairs the Asset Allocation meeting.

The team manages £2.7bn in assets (Lifestyle range £1.1bn, Navigator range £1.6bn).

Robert Burdett

Joint Head of Multi-Manager

Rob is co-head of the 10-strong Multi-Manager team. He shares responsibility for the business unit and the performance of the team's portfolios with Gary Potter and leads research teams for UK, Japan and European equities. He is a founding A member of the BMO AM Multi Manager LLP (previously Thames River Multi-Capital LLP), which was established in 2007 when both he and Gary joined the group in 2007 (via Thames River). Prior to this he was at Credit Suisse Asset Management from 2001, being jointly responsible with Gary Potter for their multi-manager funds. Prior to that he was at Rothschild Asset Management where he was a main board director and jointly responsible for their multi-manager business. Rob began his career in stockbroking in 1985, moving into multi-manager field in 1991. He is a chartered fellow of the Chartered Institute for Securities & Investment and holds their diploma.

Gary Potter

Joint Head of Multi-Manager

Gary is co-head of the 10-strong Multi-Manager team. He shares overall responsibility for the business unit and the performance of the team's portfolios with Rob Burdett and covers a variety of sectors with an oversight responsibility and as a roving research resource. He is a founding A member of the BMO AM Multi Manager LLP (previously Thames River Multi- Capital LLP), which was established in 2007 when both he and Rob joined the group in 2007 (via Thames River). Prior to this he was at Credit Suisse Asset Management from 2001, jointly responsible with Rob Burdett for their multi-manager funds. He joined from Rothschild Asset Management Limited, where he was a main board director and was jointly responsible for their multi-manager business. Gary began his career in 1981 in private client fund management where his responsibilities extended to a specific focus on asset allocation and stock research. He moved into the multi-manager field in 1992. Gary is a chartered fellow of the Chartered Institute for Securities & Investment.

							
Kelly Prior	**Paul Green**	**Anthony Willis**	**Scott Spencer**	**Catherine Sauer**	**Wai-Ling Lam**	**Adam Norris**	**Rhianna Ford**
Investment Manager	Investment Manager	Investment Manager	Investment Manager	Assistant Investment	Investment Analyst	Investment Analyst	Team Assistant

Source: BMO March 2020

Process

The DT strategic asset allocation is the reference point for portfolio construction. Gary Potter tends to focus on macro factors, and team member Anthony Willis, who covers macro (amongst other things), chairs the weekly Monday team meeting which discusses macro issues, style factors and performance, as well as the more granular detail of fund research meetings.

Strategic asset allocation changes are made incrementally by DT who have made an adjustment to the asset allocation every year since 2011. Tactical asset allocation tilts are typically small in scope - with the maximum deviation allowed +/- 5%. The team's stance is informed by their own research but also draws on the views of the managers they visit. It is notable they do visit managers in situ (e.g. they visit Japan equity managers in Japan) in order to broaden their views and perspectives and in order to meet with all members of the investment teams, not just those who travel to the UK.

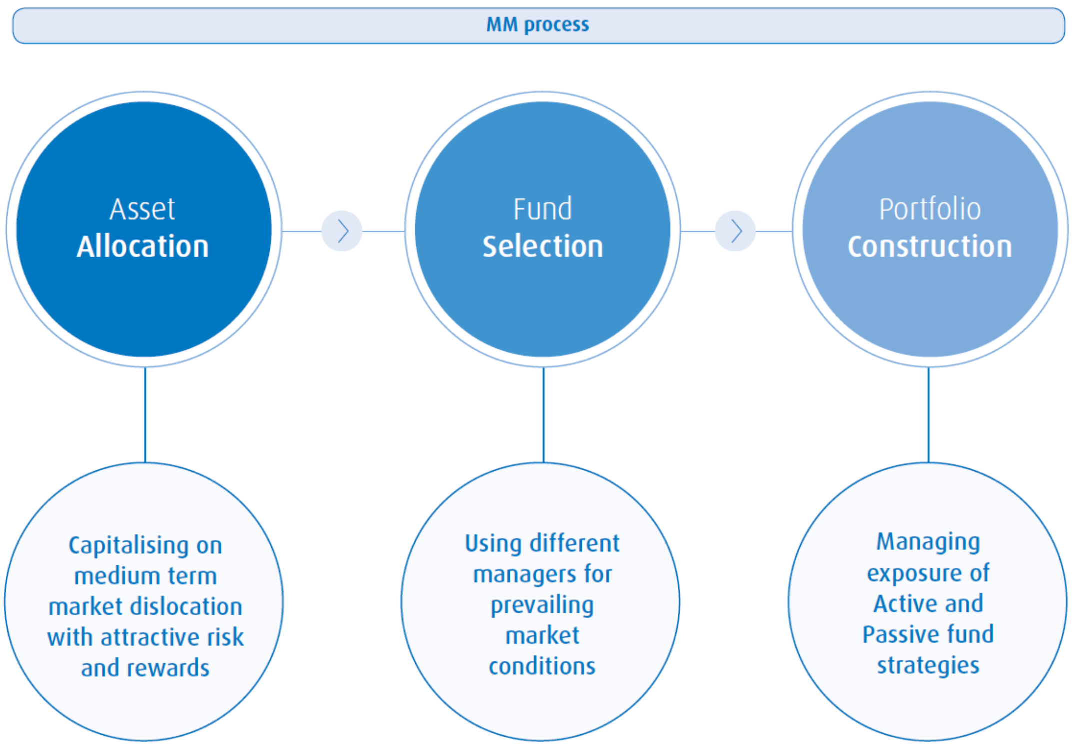
The main focus of the process is on fund selection, as the team feels that this is the area where they can add most value. Each team member is expected to cover their allocated areas and generate investment ideas; there are three people attached to each sector, promoting a collaborative approach. The underlying principles of fund selection are the fund should be aligned with investors' interests; if "active", then the funds should be demonstrably taking active risk and should not be benchmark huggers or closet trackers; finally, the fund managers should be cognisant of the capacity limits of their strategy. The team itself is alive to potential capacity constraints with strategies, and the need to monitor these to avoid problems going forward.

The team do extensive preparation and research prior to a fund visit or visits. Funds are scored, and a note written, so that conclusions and results are documented to provide an ongoing record; research notes are circulated around the team. The interviewers /scorers are rotated to avoid interviewer bias and also to ensure that all team members have a broad knowledge of the product and can contribute to the debate.

There are ongoing reviews of various aspects of the process (e.g. - at present - performance filters).

Manager meetings are reviewed in the team's weekly Monday meeting, and sectors, funds and fund scores are monitored and evaluated on an ongoing basis. A more formal review of sectors and funds occurs every six months, and this involves direct contact with the fund managers. If fund scores begin to fall between the six-monthly meetings, triggering concerns and even a sell signal, then the position may be trimmed within the formal review cycle.

Funds may be sold for a variety of reasons - including, for example, that the team wishes to change the managerial/ style blend within the portfolio, or that the fund is not behaving in line with expectations. A change of manager does not necessarily trigger a sale, but will prompt a review.



Source: BMO March 2020

Risk management

Each fund in the Lifestyle range is managed within volatility bands as prescribed by DT (the external risk profiler) as being appropriate for its risk profile. Each fund has a defined risk profile within the range, from Lifestyle 3 (lowest risk) to Lifestyle 7 (highest risk). The current ranges are: 4.2 - 6.3% (Lifestyle 3), 6.3 - 8.4% (Lifestyle 4), 8.4 - 10.5% (Lifestyle 5), 10.5 - 12.6% (Lifestyle 6) and 12.6 - 14.7% (Lifestyle 7).

DT defines the strategic asset allocation appropriate for those risk bands. The manager may enact tactical tilts, but may not deviate more than +/-5% from the stipulated allocation to each asset class.

The DT allocation is reviewed quarterly and any necessary asset allocation changes are implemented gradually.

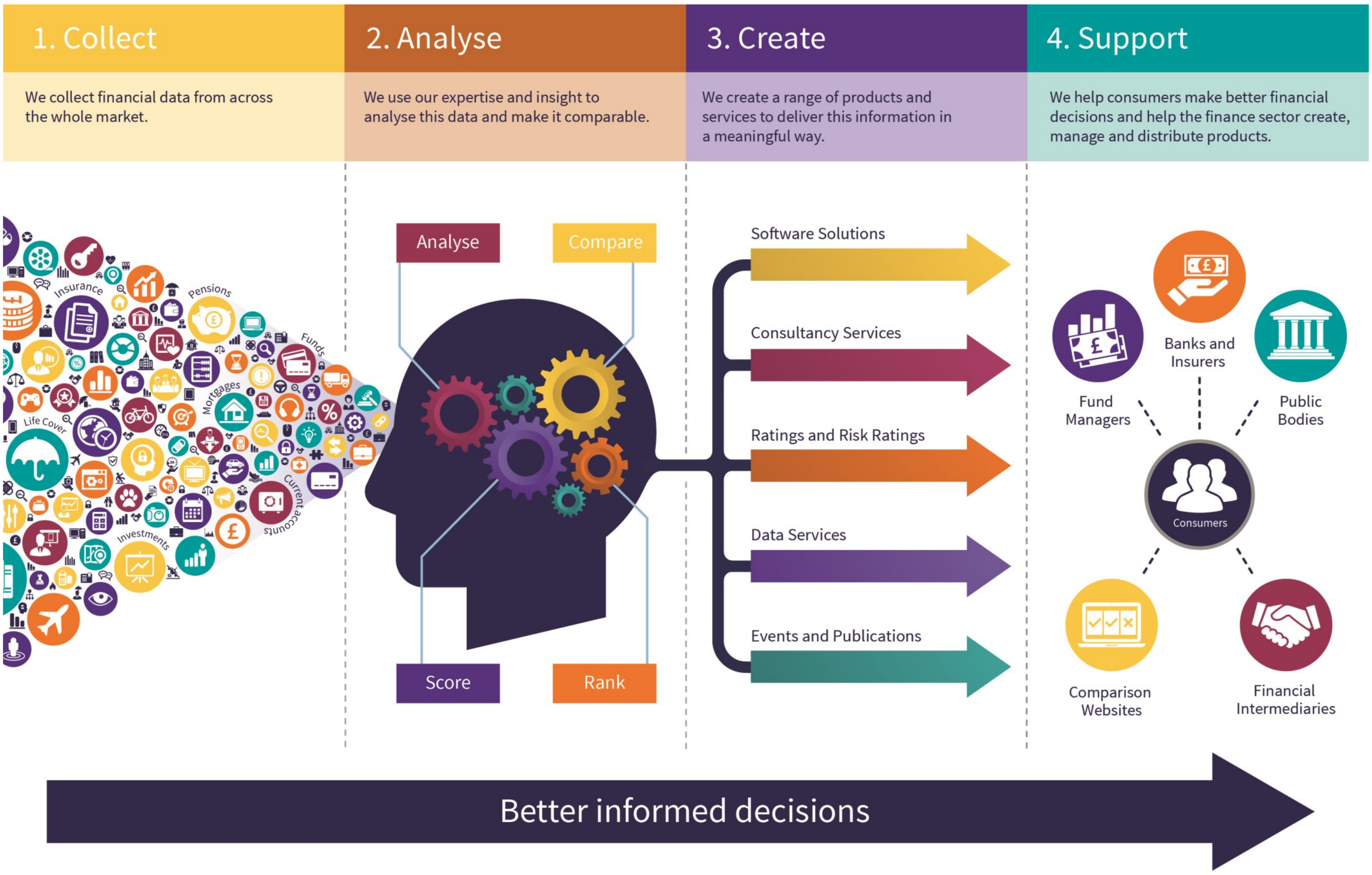
The team itself analyses portfolio liquidity using its own internal systems. On an ongoing basis, they evaluate fund exposures per portfolio as well as fund exposures on an aggregated basis across their portfolios. Internal systems will flag if their aggregate exposure to any one fund is above 10%, and if so the team needs to provide a written explanation of the reasons to an independent Risk Committee within BMO.

At review, the portfolios held positions in around 29-35 funds. They were well diversified not only at headline level but, more importantly, in its underlying sector and geographical exposures.

There is independent monitoring of risk by quarterly BMO meetings. We understand that their role is advisory i.e. they do not have investment veto power. There is no crossover in personnel between the risk management function and fund management team.

At a higher level, there is risk supervision at senior BMO level, with oversight by COO Joan Mohammed.

About Defaqto



Defaqto is a financial information business, helping financial institutions and consumers make better informed decisions.

Our independent fund and product information helps banks, insurers and fund managers with designing and promoting their propositions. We analyse more than 41,000 financial products in the UK. These products change on a daily basis, and our customers need help with keeping track of this.

We have been doing this for over 20 years, and we have 60 analysts spending 400 hours a day monitoring the market. They ensure that the information we provide is accurate and up to date. Our experts have done all the hard work so that financial institutions and consumers can make better informed decisions.

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