Quarterly **investment report**

BMO Universal MAP Range – Q2 2021

Actively managed, risk controlled multi-asset solutions with a capped OCF of 0.29%: **redefining value**

BMO Global Asset Management

Market **insights**

Global equities advanced strongly over the second quarter. Overall, developed markets outperformed their emerging counterparts, with especially good performance coming from the US and Europe ex UK.

- US equities generated strongly positive returns over the quarter, outperforming the global average. US coronavirus cases fell sharply over the period as the country's vaccination campaign continued to progress. Economic indicators pointed to significant expansion for the US economy during the second quarter, with business survey data suggesting activity had reached a record high in May.

- Emerging market (EM) equities generated positive returns over the quarter, though lagged the global average. In a continuation of the trend observed in the prior quarter, commodity producers were generally supported by rising price levels. Brazil and Russia were among the best-performing emerging markets, finding support from increasing oil prices. Poland, Hungary and Czech Republic also outperformed over the quarter, buoyed by falling coronavirus cases levels and economic recovery across the EU. Indonesia, Thailand and Malaysia suffered from rising coronavirus cases.

- UK equities made gains over the quarter, though lagged the global average. UK survey data pointed to accelerating economic momentum against the UK's rapid vaccine rollout and the phased reopening of the domestic economy. In May, the Bank of England (BoE) raised its UK growth forecast for 2021 to 7.75% from its previous 5.5% estimate. However, rising coronavirus cases prompted the government to delay plans to end all social restrictions by a month.

- Global government bond yields fell modestly over the quarter. US Treasury bond yields eased, with the bulk of this coming in June when 10-year US inflation expectations declined as the market dismissed inflationary pressures as transitory. US headline inflation reached 5% in May, up from 4.2% in April, though Federal Reserve (Fed) chair Jay Powell suggested the factors behind the surge were largely temporary. The Fed, however, signalled it would likely begin hiking interest rates in 2023 rather than in 2024 as it had previously estimated. European government bond yields were little changed. The European Central Bank pledged to maintain its current pace of quantitative easing, while projecting inflationary pressures to ease next year.

Tactical Asset Allocation

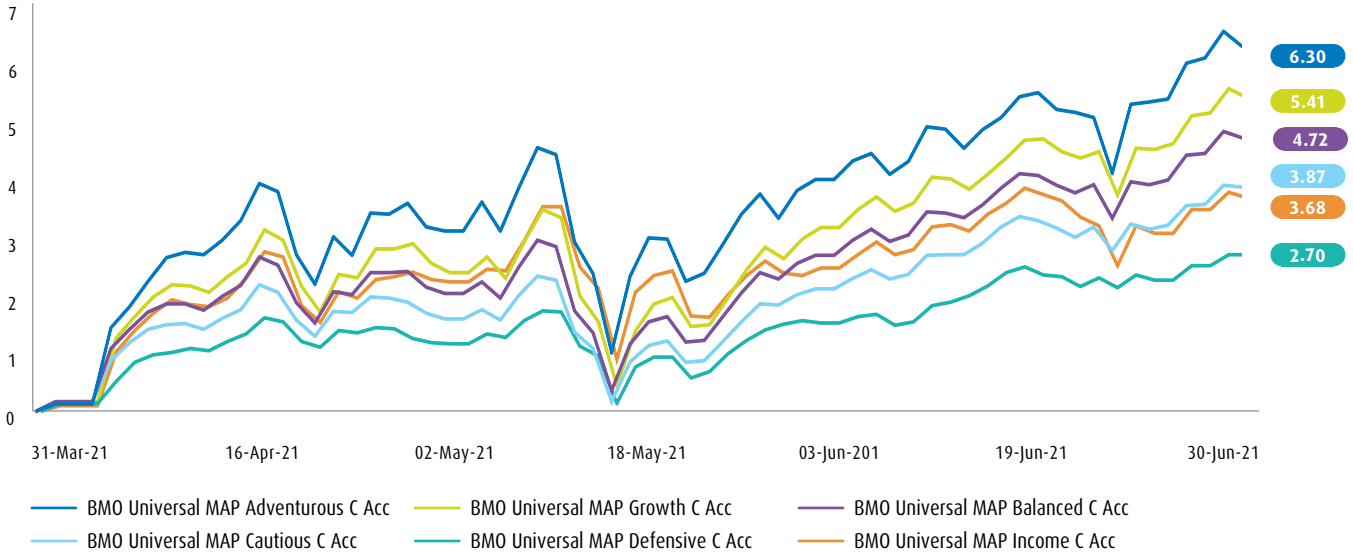
For further market insights view our most recent Tactical Asset Allocation Flashview

Find out more

Performance update

Equity markets continued their relentless march northwards over the quarter, while fixed income markets reversed some of the losses seen in the first quarter to register a healthy gain.

Three month performance (%)



Source: BMO Global Asset Management and Lipper, all figures net of fees, as at 30-Jun-21

Key risks

Past performance should not be seen as an indication of future performance.

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.

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned.

Performance update (continued)

The MSCI world equity index was positive in local currency terms every month over the quarter. Yields on UK 10-year government bonds fell from 0.84% to 0.72%. The drop in yields coupled with a tightening of spreads meant credit markets were also positive over the quarter. Sterling strengthened slightly over the period, providing one of the few small detractors to overall portfolio returns.

The tactical tilt towards higher equity allocations proved positive, albeit regional selection was not as strong as it could have been with growth outperforming value. Stock selection from the global equity team continued to be strong even with the resurgence of growth companies towards the end of the period. Companies selected within the consumer discretionary sector delivered by far the largest outperformance, with companies such as Nio and Ford the best holdings. Not holding Alibaba also proved positive, as the Chinese authorities continue to crack down on technology companies. Other positive contributors include industrials, financials and materials. Only one sector, technology, was a key detractor with companies such as Nvidia and Microsoft outperforming but not held in the portfolio. The UK equity allocation underperformed over the quarter with industrials and energy sectors the key detractors. The lack of oil majors in the portfolio combined with a significantly higher oil price was a key drag on performance.

Our decision to run low sovereign debt exposure worked well for the first half of the quarter as yields rose; however, in the second half of the quarter, bonds rallied strongly on the back of a mixture of technical and fundamental factors.

Sterling strengthened slightly over the period, providing one of the few small detractors to overall portfolio returns.

Cumulative performance as at 30-Jun-2021	3 month	1 year	3 years	Volatility*
BMO Universal MAP Adventurous Fund	6.30%	23.02%		12.3%
BMO Universal MAP Growth Fund	5.41%	19.79%	30.49%	9.5%
BMO Universal MAP Balanced Fund	4.72%	16.01%	28.10%	7.8%
BMO Universal MAP Cautious Fund	3.87%	10.99%	23.67%	6.4%
BMO Universal MAP Defensive Fund	2.70%	5.13%	–	5.5%
BMO Universal MAP Balanced Income Fund	3.68%	13.71%	–	9.2%

Discrete performance as at 30-Jun-2021	2016 – 2017	2017 – 2018	2018 – 2019	2019 – 2020	2020 – 2021
BMO Universal MAP Adventurous Fund	–	–	–	–	23.02%
BMO Universal MAP Growth Fund	–	–	7.06%	1.74%	19.79%
BMO Universal MAP Balanced Fund	–	–	6.65%	3.54%	16.01%
BMO Universal MAP Cautious Fund	–	–	5.93%	5.19%	10.99%
BMO Universal MAP Defensive Fund	–	–	–	–	5.13%
BMO Universal MAP Balanced Income Fund	–	–	–	–	13.71%

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Source: BMO Global Asset Management and Lipper, all figures net of fees. * Volatility is since inception based on monthly returns.

Activity
& positioning

Over the quarter there were not many substantial changes to the portfolio, with no changes made to the strategic asset allocation at the last quarterly review point.

In aggregate, equity exposure remained constant; however, there were changes made to the regional and factor exposures. At the start of the quarter, we increased exposure to Europe at the expense of emerging markets. We have also increased our exposure to value versus growth with the view that valuations are looking more attractive for value companies and the market conditions will also be more favourable. High yield exposure increased marginally over the period, with the underlying credit team continuing to have a preference for lower credit rated companies.

Commensurate with our views, we have positioned the portfolio for inflation to be transitionary, growth to continue apace as global economies open up, and yields on government bonds to increase. As such we prefer equities to fixed income. Within equities we favour US, Europe, small cap and value and within fixed income we prefer credit to sovereign debt.

- Within equities, we increased exposure to Europe at the expense of emerging markets.
- Within fixed income we prefer credit to sovereign debt.
- High yield exposure increased marginally over the period, with the underlying credit team continuing to have a preference for lower credit rated companies.

“”

The underlying credit team continues to have a preference for lower credit rated companies.

Our view

The team discuss the key drivers of recent market moves together with their view on where things are likely to head from here

The first half of the year has seen a vigorous global economic rebound fuelled by reopening economies on the back of positive vaccine developments. The second quarter contained some notable surprises.

With respect to equities, the biggest surprise was the exceptional earnings momentum that has continued into the second quarter. Analysts have been upgrading estimates at a record pace within the quarter. The big surprise in fixed income was the decline in bond yields in recent months despite fears of elevated inflation. From our perspective, this has been the result of an overselling of bond assets as well as a consensus view that inflationary pressures are more transitory than longer lasting.

During the second half of this year, we will be closely watching a number of developments. First, inflation data will carry a high degree of importance and investors will be searching for clues on the transitory versus durable inflation debate. With much stronger recent employment and inflation data, the US Federal Reserve may announce a plan to taper as soon as August, though they will likely remove stimulus in a very gradual fashion. This monetary policy will probably be exported to other countries and talk will quickly turn to when each central bank will start to increase interest rates, particularly in the UK. We are still too far away for this scenario to be priced into markets; however, in the second half of the year, we expect the volume to be turned up on these discussions.

The financial markets appear to have stopped trading on Covid-related news. It will be interesting to see if the increased prevalence of the Delta variant globally and the associated increase in cases and unfortunately hospitalisations will influence the markets again. In the UK, we are moving towards a restriction free world at the same time that infection rates remain elevated, effectively pursuing a herd immunity policy backed up by significant vaccination take-up. If hospitalisation levels remain muted it would be counted as a success and could become the playbook for other nations to follow. At that point, the reflation and reopening trade would be back on. If hospitalisations increase at too rapid a pace, then unfortunately we expect restrictions to come back in.

> “With much stronger recent employment and inflation data, the US Federal Reserve may announce a plan to taper as soon as August.”

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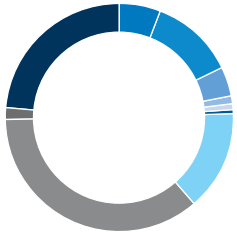
Asset allocation as at 30-Jun-2021

BMO Universal MAP Defensive Fund

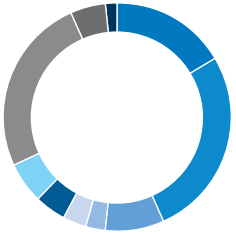


		*
UK Equity	6.1%	-1.4%
North America Equity	11.9%	-1.5%
Europe ex UK Equity	4.0%	0.7%
Japan Equity	1.3%	-0.3%
Pacific ex Japan Equity	0.7%	-0.1%
Emerging Markets Equity	0.5%	-0.7%
UK Gilts	14.4%	0.4%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	35.9%	-0.9%
High Yield	1.8%	-1.1%
Emerging Market Debt	0.0%	0.0%
Cash	23.5%	5.0%

BMO Universal MAP Cautious Fund

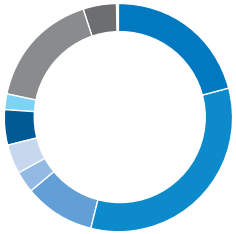
		*
UK Equity	10.0%	-2.6%
North America Equity	19.7%	-1.9%
Europe ex UK Equity	6.1%	0.6%
Japan Equity	2.1%	-0.4%
Pacific ex Japan Equity	2.5%	-0.4%
Emerging Markets Equity	3.3%	-0.1%
UK Gilts	12.9%	1.5%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	30.0%	2.0%
High Yield	3.9%	0.1%
Emerging Market Debt	0.0%	0.0%
Cash	9.4%	1.1%

BMO Universal MAP Balanced Fund



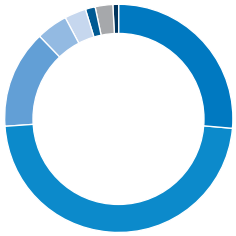
		*
UK Equity	16.4%	-0.7%
North America Equity	27.0%	-0.4%
Europe ex UK Equity	8.4%	1.4%
Japan Equity	2.7%	-0.6%
Pacific ex Japan Equity	3.5%	-0.2%
Emerging Markets Equity	4.3%	0.1%
UK Gilts	6.0%	1.9%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	25.3%	0.5%
High Yield	4.9%	1.5%
Emerging Market Debt	0.0%	0.0%
Cash	1.5%	-3.5%

BMO Universal MAP Growth Fund



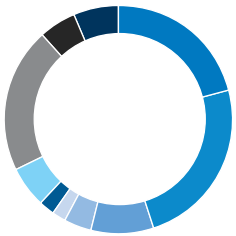
		*
UK Equity	21.3%	-0.5%
North America Equity	33.3%	0.0%
Europe ex UK Equity	10.1%	1.5%
Japan Equity	3.2%	-0.8%
Pacific ex Japan Equity	4.2%	-0.3%
Emerging Markets Equity	5.1%	0.3%
UK Gilts	2.2%	1.9%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	17.0%	-1.8%
High Yield	4.8%	2.3%
Emerging Market Debt	0.0%	0.0%
Cash	-1.3%	-2.6%

BMO Universal MAP Adventurous Fund



		*
UK Equity	26.4%	-0.7%
North America Equity	47.6%	0.9%
Europe ex UK Equity	13.8%	2.1%
Japan Equity	4.6%	-1.0%
Pacific ex Japan Equity	2.8%	-0.2%
Emerging Markets Equity	1.4%	0.3%
UK Gilts	0.0%	0.0%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	2.6%	2.6%
High Yield	0.0%	-2.7%
Emerging Market Debt	0.0%	0.0%
Cash	0.7%	-1.4%

BMO Universal MAP Balanced Income Fund



		*
UK Equity	21.1%	0.4%
North America Equity	24.1%	-1.4%
Europe ex UK Equity	8.8%	2.4%
Japan Equity	4.0%	0.3%
Pacific ex Japan Equity	1.9%	0.3%
Emerging Markets Equity	2.3%	-0.9%
UK Gilts	5.8%	1.0%
UK Index Linked	0.0%	0.0%
US Treasury	0.0%	0.0%
Global Corporate Bonds	20.4%	0.1%
High Yield	0.0%	-12.2%
Emerging Market Debt	5.3%	5.3%
Cash	6.3%	4.7%

Source: BMO Global Asset Management. *Change from 31-Mar-2021

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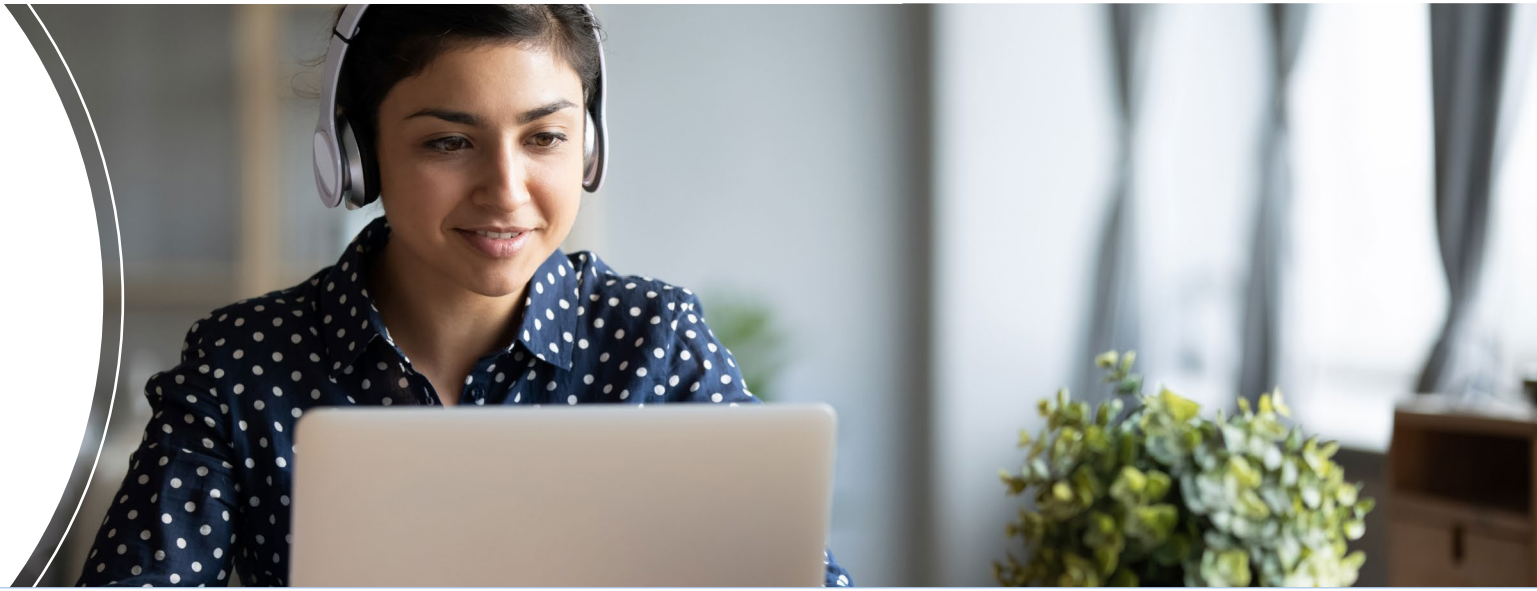
Designed to make **investing simple**

With five options ranging from Defensive to Adventurous you can choose the fund that is right for you.



Each portfolio invests across a range of asset classes – the type and proportion of each asset class is tailored in each fund with a view to delivering defined investment outcomes. That means target volatility bands (volatility is a commonly used measure of risk) and long-term return expectations relative to inflation.

For those comfortable with higher levels of risk, a growth portfolio with higher equity exposure may be appropriate. Why? Because equities can offer scope for higher returns, but that potential comes with greater risk of loss. More cautiously minded investors meanwhile, can select a portfolio with a higher allocation to fixed income assets. The likes of government and high-quality corporate bonds tend to be less volatile in their performance than equities.

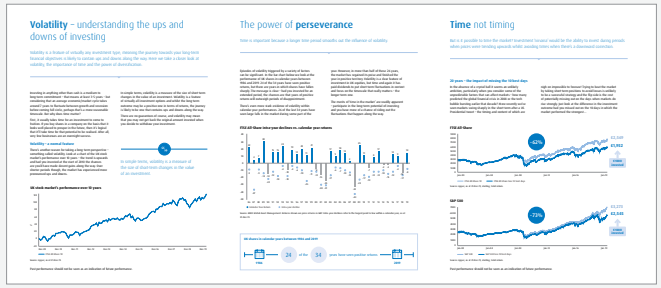
Your adviser can help you decide which portfolio is the right option for you, usually by using a 'risk profiling' questionnaire alongside consideration of your objectives.

Things to remember when considering investing

The value of investments and any income derived from them can go down as well as up as a result of market movements. You may not get back the original amount invested.

Understanding volatility

If you want to know more speak to your financial adviser. They'll be able to provide you with a copy of our guide to 'Volatility – understanding the ups and downs of investing'.



Typical portfolio asset **allocations**

Lower risk/return potential
Higher allocation to fixed income

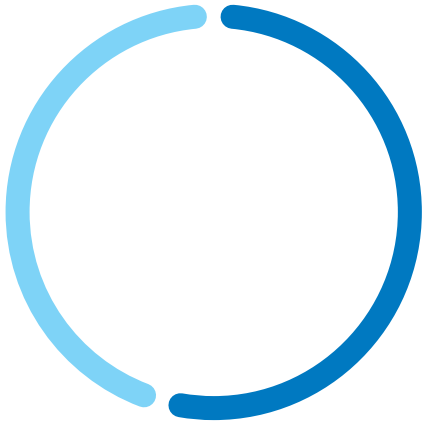
Higher risk/return potential
Greater emphasis on equities

Defensive Fund

- Equities 25%
- Fixed income 75%

Cautious Fund

- Equities 45%
- Fixed income 55%



Balanced Fund

- Equities 55%
- Fixed income 45%

Growth Fund

- Equities 75%
- Fixed income 25%

Adventurous Fund

- Equities 95%
- Fixed income 5%

Source: BMO Global Asset Management, for illustrative purposes only.

Contact us

UK intermediary sales:

0800 085 0383

sales.support@bmogam.com

bmogam.com/intermediary

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