Monthly update

BMO Sustainable Multi-Asset Income Fund

November 2021

Simon Holmes
Director, Multi-Asset Solutions

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Market review

- Equity performance was poor over November, with the majority of regions and the broader index posting negative returns in local currency terms following the discovery of a new Covid variant, named Omicron, at the end of the month. Developed markets outperformed emerging markets in general. US Treasury yields fell, as did UK Gilt yields, to 1.44% and 0.81% respectively, whilst Bund yields also fell to -0.35%. November was a poor month for credit as spreads widened.
- What started as a solid month for equity markets ended with a rapid reversal of performance, as a new Covid variant, named Omicron, was discovered in Southern Africa. This new variant, which has since been found in countries worldwide including the UK, appears to have many mutations, raising concerns that vaccines may prove less effective against it. This resulted in a selloff in risk assets. The discovery of Omicron also caused investors to question the timeline for expected rate hikes, given the threat the virus poses to economic activity.
- Looking at the economic data over November, eurozone headline inflation rose to 4.9% year-on-year in November, up from 4.1% in the previous month and well ahead of the consensus expectation of 4.5%. Despite this, there appears little chance of significant moves from the European Central Bank (ECB) to tighten policy any time soon. Elsewhere the German IFO Business Climate index fell, likely as a result of the reintroduction of Covid restrictions even before the discovery of Omicron. The UK PMI, a measure of economic activity, fell in November whilst there was a better-than-expected reading in the eurozone.

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.

- The minutes of the most recent US Federal Reserve meeting were published in November and were perhaps slightly more hawkish in tone, offering the potential for an announcement on a pickup in the pace of tapering, however, the impact of Omicron on this remains to be seen.

Positioning and Activity

Our portfolio positioning retains its bias towards higher quality, sustainable growth companies that can prosper despite near-term economic and policy-driven volatility, giving us a bias towards Healthcare, Information Technology, and Industrials. Our integrated approach to Sustainable Investment prevents any allocation to companies that manufacture weapons or tobacco or that own fossil fuel reserves. We continue with our strategy of adding to positions where we see strong underlying quality and where the market allows us to add at more attractive levels.

Asset Class	Percentage of Portfolio
Sustainable Equities	38%
Sustainable Credit	40%
Government Bonds / Liquidity	10%
Alternatives	12%

Nominal Rates Duration: 2.4 years
Spread Duration: 1.3 years

Note: Government Bonds and Liquidity includes FX, cash and residual rounding.

During November we added to companies that suffered as a result of earnings but where, on review, we think the investment thesis and long-term opportunity remains very much intact, adding to Autodesk and Everbridge on weakness. These were funded by trims to recent outperformers such as Motorola Solutions, Verisk Analytics and Acuity Brands. We continue to see more income opportunities in sustainable equity and are adjusting accordingly, however, portfolio activity here was limited over November.

Within the credit segment of the portfolio, we invested in a number of new issues including green bonds from Kerry Group and Axa Logistics Europe.

Outlook

After several months of taking a backseat role, Covid has once again returned to the fore. Whilst data on the new variant and the efficacy of existing vaccines is currently limited, we are still in a far better place given the vaccine rollout than we were a year ago. It is likely countries and corporates will continue to face economic and virus-related challenges heading into 2022, however, we remain well placed and will continue to seek out opportunities.

Engagement, voting and SDGs[1]

We include below examples of engagement undertaken in November.

Motorola Solutions Inc

- We are a signatory to the Investor Statement on Facial Recognition. In this context, as part of a group of investors, we wrote to the company to ensure that they have established human rights policies and due diligence for all their facial recognition technology activities and use their leverage in their business relationships.
- Specifically, it encourages companies to: 1. Disclose the accuracy of their technology after measurement by a recognised and relevant scientific assessment institution. 2. Disclose the source(s) of their image databases. Demonstrate that their technology is constantly monitored to detect algorithmic biases, particularly with respect to race, gender, or age. 3. Demonstrate proper due diligence of clients before making the technology available to them. 4. Demonstrate that effective grievance mechanisms are in place to enable victims to report consequences and to access remedies.

Kerry Group

- We participated in a stakeholder consultation managed by KPMG to inform the company's materiality assessment and, in turn, its sustainability strategy and reporting.
- We encouraged Kerry to focus on engagement with its supply chain on assessments of biodiversity impacts and dependencies. We further encouraged a review of the current climate change commitments so as to align with the focus on 1.5-degree pathways. We commended the company on its progress and the recent addition of a new non-executive director, which we believe will benefit the board with new perspectives.

[1] Information on the United Nation's Sustainable Development Goals (SDGs) can be found here.

Performance

November performance was negative, with a return of -0.6%. Equities were the key detractor to performance this month with negative absolute returns, with our alternatives allocation also a small negative. Credit was a small positive over November.

Our traditional sustainable equities underperformed their benchmark over November, with negative stock selection offsetting some positives derived from asset allocation, where the underweight to Communication Services and Financials and overweight to IT aided relative returns. Stock selection was notably weak in IT, where zero weights to some strong performing benchmark names such as Apple and Nvidia hurt relative performance. Our income-focused sustainable equities outperformed, with stock selection effects, notably from Pfizer, more than offsetting negative asset allocation.

November was weak for credit in general, as risk markets sold off in response to the Omicron variant. Spreads gave up all of the tightening we had seen over the past 12 months, with Energy and Property amongst the weakest sectors. This weakness was, however, more than offset by rallying government bonds which meant total returns were positive for the month.

Discrete performance vs. benchmark – 12 month rolling (EUR, net of fees) as at 30-Nov-21

	2021	2020	2019	2018	2017
BMO Sustainable Multi-Asset Income Fund	6.60	n/a	n/a	n/a	n/a
EURIBOR 1 month	-0.56	n/a	n/a	n/a	n/a

Source: BMO Global Asset Management Limited and LIM. Share class A Inc EUR. Benchmark: EURIBOR 1 month. 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.

Top 5s

Equities

Description	%	Sustainability comments
Netapp Inc	2.1%	NetApp is a digital enabler, allowing their customers to store and manage their digital data efficiently and securely. By optimising the storage of vast quantities of data, NetApp is reducing wasted energy globally.
Pfizer Inc	1.4%	Pfizer is a leader in oncology, immunology, and rare diseases, the three therapeutic areas which we believe will see some of the highest growth rates over the next few decades due to their growing global prevalence and high unmet need. 1 in 17 people will be impacted by a rare disease in their lifetime, and 90% of known rare diseases lack treatment. Pfizer's use of novel digital and scientific technologies, such as mRNA and gene therapy, place them in good stead to hold their strong positioning here. Covid-19 has highlighted the need for greater research into virology and the importance of vaccine manufacturing, activities in which Pfizer also has expertise and a strong presence. Indeed, few pharma companies offer the same combination of diversification and growth potential that Pfizer does.
Digital Realty Trust Inc Reit	1.3%	The largest wholesale Data Centre REIT, and one of the highest quality. The company enjoys superior economics due to its scale and operational excellence and generates good risk-adjusted returns whilst maintaining a solid balance sheet. Data centres are an area of structural growth and DLR are extremely well positioned to capitalise on the opportunities in that space.
Brookfield Renewable Par Ltd	1.3%	Brookfield Renewable is a high-quality renewable company with a differentiated business model on account of their strong relationship with Brookfield which provides strong financial sponsorship. They have delivered robust returns whilst enjoying strong tailwinds, and regulatory tailwinds should continue to increase in intensity going forward.
Packaging Corp Of America	1.2%	Packaging Corp of America manufactures containerboard and corrugated packaging products, with a focus on specialty box market. The company is one of the best managed companies with a proven track record – and this is made evident through best-in-class margins and returns. The case for replacing plastic with corrugated board and carboard packaging is supported by regulation, clients and consumers and PKG are in a prime position to enable this long term trend.

Corporate Bonds		
Description	**%**	**Sustainability comments**
Asml Holding Nv 1.625% 28/05/27	0.8%	Produces semiconductor manufacturing equipment, linking to SDG 9 (Industry, Innovation, and Infrastructure), and committed to reducing carbon emissions and improving energy efficiency. Also scores highly from a corporate governance and human capital perspective and is committed to improving the energy efficiency of its products and using materials sustainably
Skandinaviska Enskilda Banken 0.05% 01/07/24	0.7%	Swedish bank with excellent green bond framework and long-standing history in sustainability-related product output; environmental and social risk management system for lending and underwriting developed and partly implemented (linking to SDG 8.10 on increasing access to finance)
Nationwide Building Society 3.25% 20/01/28	0.7%	UK Building Society (linking to SDG 8.10 on increasing access to finance) improving their approach to ESG with the mutual ethos underlying a lower conduct risk than peers
Apple Inc 1.625% 10/11/26	0.7%	Global technology company (linking to SDG 8.2 – productivity through innovation) and 9.c – affordable access to ICT)
Telenor Asa 0.25% 14/02/28	0.7%	A sustainability bond where net proceeds will help support and further the actions reflected in the Company’s 2025 Sustainability and Social Impact strategy.

Alternatives		
Description	**%**	**Sustainability comments**
HOME REIT PLC	1.6%	Real Estate Investment Trust which owns specialist homelessness accommodation in the UK which is subsequently leased to Housing Associations and Charities.
Renewables Infrastructure Group	1.6%	Renewable infrastructure linking to SDG 7.2.
Civitas Social Housing Plc Reit	1.6%	The properties in the portfolio provide homes and enable the provision of care to vulnerable individuals throughout England and Wales (linking to SDG 11.10).
Impact Healthcare REIT	1.5%	Predominantly residential and nursing care homes leased to high-quality care home operators (linking to SDG 3.8).
Downing Renewables and Infrastructure	1.5%	Invests in a range of renewable technologies and infrastructure, both operational and under construction, across the UK, Ireland, and Northern Europe.

Continued

"The world is facing a climate crisis. Waiting for action by governments is not enough – investors and corporates need to take bold and ambitious action."

Vicki Bakhshi, Director, Responsible Investment

Responsible Investment update – November 2021

- SMAIF has published its Impact Report. Find it in the BMO Global Asset Management Document Centre here.
- We reported from COP26 on the big corporate and sovereign pledges from the conference's early days, as well as the potential for a – rather sooner than later – coal-free future.
- Manuel Adamini presented on climate change at the Pensions Management Institute's ESG conference. Watch it here.
- **ESG Viewpoint**: Engaging companies on biodiversity. Find it on the website here.
- **ESG Pioneer Perspective**: COP26 – Reflections from Glasgow. Find it on the website here.
- **ESG Pioneer Perspective**: Can investors help stop the spread of AMR. Find it on the website here.
- **ESG Pioneer Perspective**: Did the biodiversity summit deliver? Assessing COP15. Find it on the website here.
- **ESG Pioneer Perspective**: The Rana Plaza legacy: eight years on, the fight for garment-worker protection continues. Find it on the website here.
- **ESG Knowledge Shared**: November 2021. Find it on the website here.
- **Methodology Paper**: Net zero investing: BMO Global Asset Management approach. Find it on the website here.

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