

Global Equity Market Neutral Strategy




November 2018

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Calls may be recorded.

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.

Changes in rates of exchange may also reduce the value of your investment.

The objective of delivering a positive return regardless of market conditions cannot be guaranteed over the time period.

Market backdrop

Global equities, as measured by the MSCI World in local currency terms, posted a positive return of a little over 1%, a welcome respite from the previous month's falls. This gain brought global equities back into the black for 2018, but only just. Global investment grade bonds produced a positive return which also brought this asset class back into the positive territory YTD. The same cannot be said for commodities which fell almost 5% over the month taking the year-to-date return to -6.3%. The principle driver of the poor return for commodities was the 22% fall in the price of crude oil.

Performance

	Relative to benchmark (risk-free rate)	Discrete performance	Relative to benchmark (risk-free rate)
1 month	-1.05%	2017-2018	-1.3%
3 months	1.63%	2016-2017	14.7%
Year-to-date	-1.09%	2015-2016	4.0%
1 year	-1.35%	2014-2015	19.9%
Since inception (annualised)	9.29%	2013-2014	-

All data as at 30 November 2018. Discrete performance table refers to 12-month periods ending at 30 November 2018. Returns provided gross of fees and in USD. Strategy inception 31 October 2014.

Past performance should not be seen as an indication of future performance. The performance figures are shown gross of fees. The effect of fees or costs will be to lower the figures shown.

After the strong returns of the prior month, the strategy gave back a little over 1% during the month of November. The main driver of the negative return was the True Momentum style which detracted 1.6% from the strategy returns. True Value was unable to add to its positive performance of the prior month and detracted 0.6% from returns. The strongest positive contribution came from Low Volatility and True GARP also added to aggregate strategy returns.

Style contributions

	Starting weight	Contribution	
Component contributions	Low Volatility	25%	0.97%
	True Momentum	10%	-1.59%
	True Size	0%	0.00%
	True Value	22%	-0.61%
	True GARP	42%	0.39%
Weighted sum of style components		-0.92%	
+/- Trimming effect		0.05%	
Return bottom up		-0.87%	
+/- Friction		-0.18%	
V10 Strategy Return (official)		-1.05%	

Five largest positive contributors

Company name	Weight	Stock specific return	Stock specific contribution
General Electric Company	-3.34%	-23.79%	0.86%
Deutsche Lufthansa AG	3.07%	21.21%	0.61%
Sumitomo Dainippon Pharma Co Ltd	1.03%	50.31%	0.44%
Vodafone Group Plc	2.88%	15.50%	0.43%
JGC Corp	-1.56%	-23.12%	0.41%

At the level of the individual stock, the largest positive stock specific contributions came from General Electric, and Deutsche Lufthansa. General Electric, a short, has been struggling for some time, the appointment of a new CEO brought only short-term respite. The company is facing questions over the sustainability of its debt, despite significant bank credit lines and recent asset sales. The stock has fallen some 57% since the start of the year. Lufthansa, a long, has fallen 34% year-to-date, but enjoyed a strong November rising 21% as the oil price fell and the CEO suggested the industry would see rising airfare prices in 2019.

Although Crown Holdings produced the largest negative stock specific return, there was little by way of noteworthy news for the packaging products manufacturer. Symantec has enjoyed a challenging year with its share price collapsing in the summer as it announced an internal investigation into accounting irregularities. November saw a 20% rally in the stock as 'strategic options' are being considered, with one option being the taking of the company private at a premium to its current share price. Finally, long positions in the retailers Target and Kohls

Five largest negative contributors

Company name	Weight	Stock specific return	Stock specific contribution
Crown Holdings Inc	-4.38%	13.60%	-0.58%
Symantec Corporation	-2.48%	22.55%	-0.52%
Keyence Corporation	-2.95%	17.54%	-0.49%
Target Corporation	3.19%	-13.24%	-0.43%
Kohls Corporation	4.10%	-9.57%	-0.38%

detracted from strategy returns as the former reported same-store sales growth, but slimmer margins whilst the latter reported better than expected earnings, but lowered its full financial year guidance.

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.

Source: BMO Global Asset Management, all data as at 30 November 2018. Returns provided gross of fees and in USD.

Glossary

Trimming effect – The impact on the return of removing small positions from the portfolio.

Friction – Transaction costs, fund costs (other than the management fee) and implementation costs.

Return bottom up – Returns as calculated by using individual stock positions.

Monthly Performance Breakdown

Year	January	February	March	April	May	June	July	August	September	October	November	December	Annual
2018	1.11%	-1.36%	-2.82%	2.35%	-1.83%	-1.04%	-0.27%	1.30%	-1.55%	4.33%	-1.05%	-	-1.09%
2017	1.66%	4.25%	-2.66%	-0.35%	-2.49%	0.19%	1.97%	4.86%	-2.82%	3.37%	3.81%	-0.26%	11.69%
2016	0.94%	2.80%	4.09%	-3.01%	-6.18%	-2.07%	2.21%	0.31%	0.82%	3.44%	-2.17%	2.34%	3.06%
2015	5.80%	0.57%	0.46%	-0.22%	4.04%	-2.70%	-0.13%	1.94%	3.88%	-1.97%	2.08%	3.23%	17.95%
2014	-	-	-	-	-	-	-	-	-	0.65%	1.96%	4.90%	7.64%

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