BMO Concentrated Global Equity Fund

Quarterly Commentary

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QUARTERLY REVIEW

The largest positive contributor to the returns of the portfolio during Q2 2021 with shares rising nearly 17% was Alphabet. The company's Q1 results were exceptionally strong: organic revenue growth was +32%, as all divisions experienced a strong recovery, and margins were also significantly higher than expected. Positive momentum likely continued into Q2 given the COVID-19 related weakness in the second quarter of 2020. Illumina's core markets bounced back strongly in Q1 with most customers now operating at higher than pre-COVID levels. The power of gene sequencing has never been more apparent and this bodes well for future growth across all customer types (governments, clinical and research) and market segments (oncology, reproductive, population and surveillance), and shares rose more than 21%. Shares of Novo Nordisk, the Danish drug maker, rose 22% during the quarter. The company reported 9% underlying sales growth in Q1, exceeding market expectations, as growth was driven by all therapy areas and geographical regions. A number of positive data readouts builds confidence in the sustainability of the company's dominant GLP-1 market position. The company is making progress in its ambition of broadening into cardiovascular disease. EssilorLuxottica reported a strong bounce back in Q1 sales with North America showing the strongest signs of demand recovery aided by stimulus cheques and greater mobility. A new Board of Directors ends the corporate governance stalemate. Vision correction needs will likely accelerate further in an increasingly digitised, screen-based era, helping the stock return 12% in the second quarter. Nike shares rose nearly 15% after it reported exceptional quarterly earnings and raised its long term guidance. Driven by pent-up demand and the alleviation of shipment delays, North American sales increased 141%. Management now expect EPS to grow mid to high teens per annum for the next four years composed of high single/ low double digit sales growth and margin expansion.

The largest negative contributor to returns over the quarter was Booking Holdings, with shares falling nearly 8%. The emergence of a plethora of different government approaches towards COVID–related travel restrictions encumbered the visibility of the travel industry recovery. Signs of pent-up demand are clearly visible in improved booking trends but this needs to convert to revenue before the turn can be called. Booking is well-placed to benefit once travel markets open up in a sustainable fashion. After very strong share price performance in 2020, MarketAxess shares fell 8% despite reporting +16% revenue growth in Q1 and continued market share gains across core credit products. The business is strongly positioned to benefit from increasing electronification of bond trading driven by market participants' search for efficiency and best execution. Intertek is a UK-based testing, inspection, and certification company. Shares fell 1% after the company announced its acquisition of SAI Global Assurance, an Australian company specializing in the food and agriculture industries, as well as sustainability audits. Intertek expects the acquisition to boost EPS next year. Verisk Analytics is a provider of data and analytics to customers in insurance, energy, commodities and financial services. The company reported mixed Q1 results with several transitory headwinds, but has a very resilient business model that enabled organic growth throughout 2020. Strong secular tailwinds include digitization in insurance and energy, as well increasing demand for ESG data and analytics across sectors. The company's shares finished the period 2% lower. Consumer goods maker Reckitt Benckiser's stock fell nearly 2% in the second quarter. Q1 like-for-like sales growth of 4.1%, well ahead of consensus (2.4%), likely represents the high water mark for the year due to tough Hygiene comparisons and temporary weakness in the other divisions. The Rejuvenate Sustainable Growth plan – mid-single digit like-for-like sales growth and 7-9% EPS growth by mid-2020s – remains on track.

PORTFOLIO CHANGES

There were no full entries or exits from positions during the quarter.

MARKET OUTLOOK

The portfolio invests in 20-25 high quality long term secular growth companies with a strong focus on valuation. It is managed using a bottom-up investment process and the companies invested in are exposed to secular growth drivers meaning that the strategy does not employ “top down” macro-economic analysis or forecasting as a driver of asset allocation decisions.

The portfolio contains stocks which:

• have significantly higher and more sustainable earnings and cash flow growth rates than the market average. Each company is exposed to a long term secular growth industry, has produced consistent and sustainable earnings and cash flow growth in the past and is expected to do so in the future.

• have significantly better quality characteristics than the market average, with a broad definition of quality to include better returns on invested capital, conservative balance sheet structure, well diversified stable, reliable businesses, with few structural barriers to sustainable growth; and

• are not overvalued at the time of purchase, taking into account their long term earnings and cash flow growth potential, and, good growth and quality characteristics incorporating previous valuation ranges.

The weighted average compound annual growth rate of earnings per share of the companies currently in the portfolio is expected to be in double-digit percent per annum over the long-term, but the impact of the coronavirus means that the portfolio as a whole is unlikely to achieve double-digit percentage growth from this point over the short- to medium-term. On a weighted average basis, our companies currently have net cash on their balance sheets, have significantly higher returns on invested capital (ROIC) than the index average and are well-established, well managed businesses with the highest standards of corporate governance.
Approximately 26% of the sales of the portfolio’s companies were to emerging markets in the last reporting period, although there are no emerging-market listed companies in the portfolio. The fund has higher weightings than the index in consumer and healthcare stocks, and is (on a long-term basis) zero weighted in energy, commodities and banks.