

Today's Challenging Markets

Talking points from Michael Hughes

Instant Replay for Michael Hughes Video Call:

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On January 19 2021, Michael Hughes of GuardCap Asset Management Limited – who oversees the [BMO Concentrated Global Equity Fund](#) and the equity portion of [BMO Concentrated Global Balanced Fund](#) – joined BMO GAM to provide 2020 year end performance and a special feature on Personalized Medicine. Delivering top decile performance, BMO Concentrated Global Equity is available as a standalone all equity version, as part of the BMO Concentrated Global Balanced (for those that want an equity-fixed income mix), are available as a segregated funds product and are now available in hedged to CAD versions.

[For a deep dive in to the fund managers process and earn CE credits](#)

Key Takeaways from the call:

A focus on Sustainable Growth: The Fund capitalizes on the tendency of markets to be short-term focused; having the ability to project forward but only over a near-term horizon. This can lead to the under valuing of companies capable of delivering sustainable growth over a much longer time period, and it's in these companies where the Fund Managers add value. To complement this, the Fund is managed with a quality lens - as this adds downside protection - and a focus on Valuation.

Key marquee points of the Strategy include the following:

- Average holding period 9 years
- 3 companies have been in the Strategy for more than 20 years
- Concentrated portfolio of 20-25 lower risk names
- Compounded mid double-digit growth over the long-term (for the Strategy)
- Upside capture -111; downside capture ratio -70

Performance in 2020 was stellar: The Strategy outperformed the MSCI World Index in Q1 by 6%. This large differential was partly offset over the ensuing 3 quarters as a value-led rally dominated global markets, which involved a "dash for trash" – strong performances from lower quality, high beta companies that had previously struggled. The fund returned 15.5% in 2020.

Attribution in 2020: Avoiding energy exposure (a long-term aspect of the fund) and an overweight allocation to health care stocks were accretive to fund performance. Underweight positions in areas such as financials (where large banks rallied in Q4 on the prospect of higher rates) and technology (an area in which the Fund avoids the expensive 'high growth at any price' type of stocks) were detractors.

The current environment: Michael describes today's market as being typical of a value-led cyclical recovery, drawing similarities to 2007 and the end of 2016. Typically these periods last for between 6 and 18 months – presently the market is about 9 months in. While unable to predict the longevity of the current value rally, Michael illustrated that historically the Funds' best performances have started at the end of these periods.

A truly global portfolio: To achieve geographical diversification, the source of constituent companies' revenue streams are more important than where the company is listed. For instance, the portfolio's companies' weighted average sales to the U.S. are significantly less than the U.S. weighting in the Fund (by country of domicile). Paradoxically, 27% of sales are to Emerging Market (EM) countries, even though there are no EM-listed companies in the Fund. The Managers see EM as a great source of long-term growth, with exposure through names such as Colgate-Palmolive (with over 50% of their sales in EM).

DORA-day themes – Personalized Medicine: This is an emerging global theme around the individualization of medical treatments tailored for specific patients. This contrasts with the more dominant one-size-fits-all approach, which often leads to higher failure rates and higher costs. The Fund management team sees personalized medicine as a potential game-changer going forward.

Personalized Medicine – playing this theme through Illumina Inc. (NASDAQ:ILMN) investment. Biotech company Illumina is the leading producer of gene sequencing equipment, involved in activities such as developing enhanced cancer detection testing using NGS. A key catalyst for the company is the dramatically falling cost of sequencing a human genome, from as high as \$15m down to as little as \$100.

Not only does Illumina have competitive advantages, it has a 20% return on invested capital, and possesses a strong balance sheet with positive net cash.

[BMO Concentrated Global Balanced Fund](#) | [BMO Concentrated Global Equity Fund](#)

Fund Codes

BMO Concentrated Global Equity Fund	MER (%) [*]	Front End [†]	Low Load
Advisor Channel			
Advisor Series	2.09	BM099213	BM098213
Advisor Series (Hedged) [‡]	2.09	BM026213	BM025213
F Series	0.96	BM095213	-
F Series (Hedged) [‡]	0.96	BM024213	-
F6 Series	0.97	BM036774	-
T6 Series	2.09	BM034774	BM033774
Advisor US\$	n/a	BM079213	BM078213
F US\$	n/a	BM040213	-

^{*}As of September 30, 2019. As the series of funds are less than one year old, actual Management Expense Ratio costs will not be known until the fund financial statements for the current fiscal year are published. The U.S. Dollar purchase options do not have audited MERs. For an approximation, please see the Canadian dollar equivalent of this series. [†]Sales Charge. [‡]As the series of funds are less than one year old, actual Management Expense Ratio costs will not be known until the fund financial statements for the current fiscal year are published.

BMO Concentrated Global Balanced Fund	MER (%) ¹ /Adjusted MER ²	Front End [*]	Low Load [†]	DSC [‡]
Advisor Channel				
Advisor Series/ Advisor Series US\$ ³	2.35/1.97	BM087237/79237	BM086950/78237	BM085263/77237
Advisor Series (Hedged) ⁴	1.97	BM026237	BM025237	-
Series T5/ Series T5 US\$ ³	2.38/1.97	BM03022/3025	BM03024/3027	BM03023/3026
Series F (Fee Based) / Series F US\$ (Fee Based) ³	0.86	BM088237/40237	-	-
Series F6 (Fee Based)	0.95	BM036237	-	-
Series F (Hedged) ⁴	1.97	BM024237	-	-

^{*}Sales Charge [†]As of November 2020, LL no longer available for sale. [‡]As of May 4, 2018, DSC purchase option is no longer available for sale.

¹MER as of December 31, 2019 ²Adjusted MER is provided for ETFs and mutual funds with management and/or administration fee reductions. The adjusted MER represents what the reported MER would have been had the management and/or administration fee reductions been in effect throughout the fiscal year. ³The U.S. Dollar purchase options do not have audited MERs. For an approximation, please see the Canadian dollar equivalent of this series. ⁴As the series of funds are less than one year old, actual Management Expense Ratio costs will not be known until the fund financial statements for the current fiscal year are published. The estimated MER is an estimate only of expected fund costs until the completion of a full fiscal year, and is not guaranteed.



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