# LGM Asian Growth and Income Strategy

LGM Investments
BMO Global Asset Management

October 2018 — For Professional investors only

## Strategy details

| | |
|---|---|
| **Portfolio manager** | Damian Bird, CFA<br>Christopher Darling |
| **Composite assets**[1] | US$ 212.2m |

## About LGM Investments

LGM Investments is a specialist Asian, Global Emerging (GEM) and Frontier Markets equity manager. Our investment professionals are based in London and Hong Kong.

LGM Investments was established in Hong Kong in 1991 and became a wholly owned subsidiary of Bank of Montreal (BMO) in April 2011. It is part of BMO Global Asset Management.

## Investment philosophy

LGM Investments invests with a long-term perspective and applies a bottom-up, fundamental and active approach. Our investment philosophy is based on long-term analysis, quality investing and trust, together with a recognition that indices are historic and do not reflect future opportunities. Quality underpins all our investment thinking and results in non-index driven, high conviction portfolios with outperformance potential.

## Contact details

For more information about vehicles available in specific jurisdictions, please contact us.


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## Top ten holdings[2]

| Company Name | Country | % NAV |
|---|---|---|
| British American Tobacco Malaysia | Malaysia | 6.1 |
| Sands China | Hong Kong | 5.3 |
| ICICI Bank | India | 5.2 |
| ANTA Sports Products | China | 4.7 |
| Yum China Holdings | China | 4.4 |
| Bank Rakyat | Indonesia | 4.3 |
| Bank Mandiri | Indonesia | 4.2 |
| Universal Robina | Philippines | 4.2 |
| United Bank | Pakistan | 4.0 |
| HDFC Bank | India | 3.9 |
| **Total**[3] | | **46.2** |
| **No. of Holdings** | | **31** |

## Strategy characteristics[2*]

| | Strategy | Benchmark |
|---|---|---|
| ROIC (non financials) | 20.4% | 13.8% |
| ROE (financials) | 14.4% | 13.8% |
| Net debt / Equity (non financials) | -3.4% | 7.3% |
| Equity / Assets (financials) | 11.0% | 13.5% |
| Dividend Yield (FY2) | 3.1% | 3.3% |
| DPS growth | 6.1% | 44.4% |
| EV / EBIT (12 months forward) | 17.3 | 15.6 |
| P/E (12 months forward) | 19.6 | 14.4 |
| EBITDA margin (non financials) | 23.7 | 28.7 |
| Trading under USD 0.25 m / day | 0.0 | 0.0 |
| Turnover rate (12 months)[5] | 21.7% | N/A |

Data historic unless stated otherwise. Please note that dividend yield is based on portfolio holdings and does not reflect the actual yield an investor would receive.

## Risk statistics[1]

| | Since Inception |
|---|---|
| Alpha (annual basis) | 0.9% |
| Annualised volatility (Strategy) | 11.8% |
| Annualised volatility (benchmark) | 14.6% |
| Sharpe ratio[4] | 0.2 |
| Tracking error (ex-post) | 7.3% |
| Information ratio | 0.0 |
| Up market capture ratio | 76.3 |
| Down market capture ratio | 72.5 |

Based on since inception monthly gross of fees composite returns against the MSCI AC Asia ex Japan Index (NDR) unless indicated otherwise.

## Market cap (US$bn)[2]

| | Strategy | Benchmark |
|---|---|---|
| < 1 bn | 0.0% | 0.1% |
| 1-5 bn | 23.0% | 12.3% |
| > 5 bn | 77.0% | 87.6% |
| Weighted Average (US$bn) | 29.1 | 85.3 |

## Performance as at 31 October 2018 (%)[1]

| | Gross* | Net* | Benchmark |
|---|---|---|---|
| YTD | -12.9 | -13.6 | -16.4 |
| Last month | -6.7 | -6.8 | -10.8 |
| **Annualised Performance** | | | |
| 1 year | -6.5 | -7.3 | -13.6 |
| 3 years | 7.6 | 6.8 | 6.3 |
| Since Inception (1 December 2013) | 3.3 | 2.5 | 3.3 |

*Gross/Net of fees.
Benchmark: MSCI AC Asia ex Japan (NDR)

## Discrete performance as at 31.10.2018 (%)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| **Strategy** | - | -11.58 | 12.63 | 16.79 | -7.33 |
| **Benchmark** | - | -7.24 | 6.58 | 30.45 | -13.63 |

Performance data is in USD $ terms. Investors should be aware that past performance should not be considered a guide to future performance. Discrete performance data is net of management fees.

## Risk warning

Investment involves risk. Share prices may fall as well as rise. Funds invested in emerging markets and in smaller companies may involve a higher degree of risk. Investment in LGM Funds may be unlawful in some jurisdictions. This fact sheet is for general information only. Reference should be made to the Fund's offering documents for full details of the risks involved. The value of investments and 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.

[1] Performance and risk statistics shown are supplemental to the Asian Growth and Income Composite. Please see full GIPS compliant performance disclosure at the end of this document.
[2] Supplemental performance information. The above strategy characteristics are for a representative account and shown for illustrative purposes only. Each account is managed individually. Accordingly, account characteristics may vary. Portfolio composition is subject to change.
[3] Totals may not be exact due to rounding
[4] Risk Free Rate: US T-Bill 3 Month.
[5] Measured as the lesser of purchases or sales divided by the average strategy size for the rolling 12 months
*ROIC - Return on Invested Capital; ROE - Return on Equity; EV / EBIT - Enterprise Value / Earnings Before Interest and Taxes; EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization; P/E - Price to Earnings
Source throughout the document: BMO Global Asset Management and Factset. Benchmark data source: MSCI. All MSCI index data is copyright and proprietary to MSCI.

LGM

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## Portfolio manager

Damian Bird, CFA, Portfolio Manager. Damian joined LGM in 2015 as an Asian equity Portfolio Manager and became Co-Portfolio Manager for our Global Emerging Markets mandates in July 2016. Damian spent more than five years at Arisaig Partners, including two years in Singapore where he focused on Asian and Eastern European consumer equities. In January 2011 he relocated to Cape Town where he spent three and a half years as a key decision maker in the asset allocation process for the US$1 billion Arisaig Africa Consumer Fund. Prior to LGM, Damian was a Portfolio Manager at Infusive Asset Management, where he launched and managed the Infusive Consumer Alpha Global Leaders Fund, a long-only equity fund that invests globally in the consumer sector. Damian holds a BA Honours in Economics and History from Oxford University and is a CFA Charterholder.

Christopher Darling, Portfolio Manager. Christopher graduated from University College London and then took an MSc in economic history from the London School of Economics. He worked as a member of the Asian equities team at Capel Cure Myers in London, before joining Guardian Royal Exchange in 1991. At GRE, he launched and managed the GRE Japan Trust and was head of Asia Pacific equities. He spent eight years at Lombard Odier from 1995, where he managed Japanese portfolios for institutional clients, as well as the Asia Pacific component of EAFE funds. Immediately prior to joining LGM in Hong Kong in 2006, he worked in Hong Kong with the investment banking boutique, Fox-Pitt, Kelton Ltd, specialising in Asian and Japanese financials.

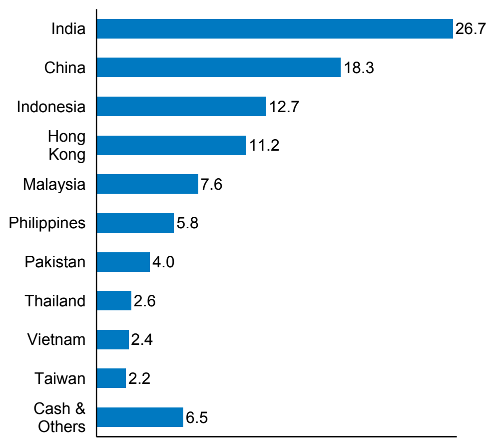
## Investment Process

Within our universe, ideas are generated through a proprietary quality ranking tool, travels and interpretation of information available in annual reports, local industry studies and other sources. LGM's investment team then analyses these ideas in depth, considering the quality of the company at the outset and thereafter valuation.

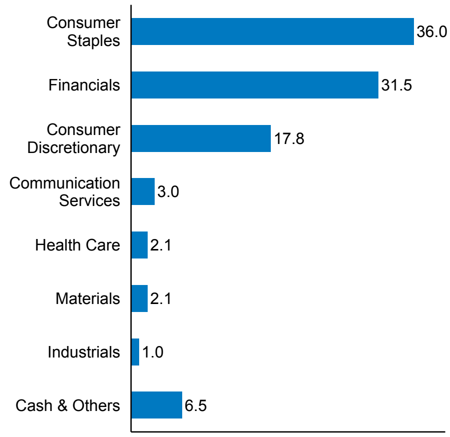
Primary research is the cornerstone of our investment process. We research companies with a long-term view and wait for the opportunity to buy high quality companies without overpaying for their inherent quality. Our focus on quality companies with sustainable business models generating substantial excess returns over their cost of capital through the cycle leads us towards asset light business models with modest capital needs; robust balance sheets; and proven management teams with disciplined capital management. We seek clear and fair alignment between majority and minority shareholders. LGM invest in companies generating high free cash flows to support a dividend stream, which is also reflective of a quality factor. Before a company can enter an LGM portfolio it needs to be both high quality and not overvalued at the time of purchase.

The investment team implements long-term investment decisions to build conviction portfolios with a high active share. Final weightings in the portfolios are determined by reference to the strength of the investment case and the upside anticipated. Typically, the portfolios hold 30 - 60 stocks which LGM aims to hold for the long term, typically over a business cycle.

## Geographic breakdown[2,3] (%)




## Sector breakdown[2,3] (%)




## Commentary*

October was a tough month for real money, but our conservative stock selection provided some measure of downside protection and we outperformed the benchmark by a decent margin.

The regional benchmark suffered its worst month since late 2011 as lingering concerns over rising global interest rates, weaker currencies, higher commodity prices and geopolitical tensions surrounding the Sino-US trade dispute continued to weigh heavily on investor sentiment. The North Asian markets – China, Hong Kong, Taiwan and Korea – were the weakest in October, while South East Asia and India proved relatively resilient.

Portfolio performance was supported by an eclectic range of names over the month, including ICICI Bank in India, Yum China (which operates the KFC franchise in China), BAT in Malaysia (cigarettes) and Bank Mandiri in Indonesia. It was also encouraging to see Yes Bank stabilise after its troubling performance last month (see September's comment for detail).

Bank Mandiri announced a very decent set of third-quarter results in October. Double-digit loans growth, stable interest margins and falling provisions all helped drive a 20% rise in net profits for the first nine months of 2018. The bank's return on equity (RoE) is now 14.2%, which marks a significant improvement when compared with the low of 10% generated in 2016. With the investment cycle likely to drive a stronger recovery in loans growth and rising interest rates supporting stable or even wider margins, we are hopeful that Mandiri's RoE will rise further over the next few years. This would help drive a meaningful uplift in the bank's share price.

We added the Philippines-listed D&L Industries to the portfolio in October. Founded by the highly respected Lao family in 1963, D&L primarily makes food ingredients. It's an unusual and very specialised business, characterised by its stable, long-standing customer relationships. This is the company's chief economic moat, which helps protect a very healthy 20% return on invested capital. Attractive internal rates of return allow D&L to invest in supporting compound growth rates of 15%, while still paying out a healthy 55% of earnings to shareholders. We have followed this company for some years now, but valuation has always been the main stumbling block for us. However, share price weakness year to date – in line with the broader Philippines market – finally provided an opportunity to build a position in this excellent franchise.

Malaysia's new government presented its first budget towards the end of the month, billed as a key event in terms of setting the long-term direction for government policy. One of the central issues was how to fill the hole created by the 1MDB scandal and the abolition of the Goods and Services Tax, while at the same time finding the money for populist handouts and to support infrastructure development. Finance Minister Lim Guan Eng seems to have done a pretty good job balancing these various claims, helped by a 35% jump in the average price of oil year to date, as well as by taking a much bigger dividend from Petronas, the state-owned oil and gas monopoly.

The plan to beef up tax enforcement was the most relevant part of the budget for us. Specifically, the government wants to clamp down on illegal cigarette imports, with the intention of gathering up to RM1bn in lost excise duties. This is good news for BAT Malaysia, which we hold in the portfolio, but implementation will be challenging. The illegal cigarette trade in Malaysia only grew to become a world-beating 64% of the entire domestic market because of endemic institutionalised corruption. The operational canniness of the syndicates that run the illegal trade was a big factor as well. We expect it will take the government many years to unravel this, but at least they now seem fully determined to make a start.

As at 31 October 2018

*A representative account has been used throughout this commentary

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| GIPS Composite statistics and performance | | | | | |
|---|---|---|---|---|---|
| Calendar year ended | 2017 | 2016 | 2015 | 2014 | 2013[6] |
| Gross annual returns (%) | 39.6 | 6.2 | -11.6 | 3.6 | -0.5 |
| Net annual return (%) | 38.7 | 5.5 | -12.3 | 2.6 | -0.6 |
| 3-year composite deviation (%) (gross) | 12.5 | 12.1 | N/A | N/A | N/A |
| 3-year composite deviation (%) (net) | 12.5 | 12.1 | N/A | N/A | N/A |
| Benchmark return (%) | 41.7 | 5.4 | -9.2 | 4.8 | -1.1 |
| 3-year index deviation (%) | 15.1 | 15.1 | N/A | N/A | N/A |
| Composite dispersion (%) (gross) | N/A | N/A | N/A | N/A | N/A |
| Composite dispersion (%) (net) | N/A | N/A | N/A | N/A | N/A |
| Composite assets ($mm) | 186.1 | 138.8 | 96.0 | 9.1 | 5.0 |
| Number of accounts in composite | ≤5 | ≤5 | ≤5 | ≤5 | ≤5 |
| % of firm assets | NA | 4.0 | 2.9 | 0.3 | 0.2 |

LGM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. LGM has been independently verified for the period from 1 January 2007 to 31 December 2017. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
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LGM has been independently verified for the period from 1 January 2007 to 31 December 2017.
This composite was created on 1 December 13. A complete list and description of firm composites is available on request.
The Asian Growth & Income Composite includes all funds that are managed in accordance with the investment principles of the LGM Asian Growth & Income strategy. This strategy aims to achieve capital appreciation by investing in high quality, cash generating companies that offer strong business models, proven management teams and superior corporate governance. The cash generated by these companies is used for reinvestment to support future growth and to reward shareholders with a rising dividend income. The benchmark is the MSCI AC Asia ex-Japan (net dividends reinvested) Index. MSCI AC Asia ex Japan Index is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of Asia, excluding Japan. Investments cannot be made in an index.

Gross of fees performance is calculated gross of investment management fees and where available, administrative fees. Gross of fees performance is net of all trading expenses. Net of fees performance is presented net of all investment management, administrative fees and trading expenses. This composite uses actual fees. A full breakdown of fees for this composite is available on request.
The standard investment management fee scale per annum is as follows: Initial US$100m: 0.75%; Next US$50m: 0.70%; Next US$50m: 0.65%; Over US$200m: 0.60%.
Sources of exchange rates and share prices may differ between the benchmark and the individual portfolios contained within the composite.
Weighted dispersion is calculated using the asset-weighted standard deviation of all portfolios that were included in the composite for the entire year. Composite dispersion is only calculated if there are more than five accounts included in the composite for the full year.
Additional information regarding the firm's policies and procedures for the valuation, calculation and reporting of performance returns is available on request.
As of 1 July 2015 LGM amended its GIPS policies in three areas: 1) for Non-UK domiciled funds, LGM now recognises each share class as a separate portfolio (previously only one share class was recognised as a portfolio for each vehicle); 2) three-year standard deviation is now calculated using sample standard deviation (previously population standard deviation); and 3) net-of-fees performance is now calculated using a weighted average of the underlying portfolios' net returns (previously the highest fee in the composite was applied). As a result of these amendments to the firm's policy, the standard deviation, net-of-fees returns, number of portfolios in a composite, and internal dispersion may have changed from those presented historically on compliant presentations.

**Past performance does not guarantee future results.**

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