

# Advisers Big Day Out



Investment  
Manager  
Roadshow

## **Bruce Campbell** *Founder and Strategic Advisor* **Pyrford International**

**BMO**  **Global Asset Management**

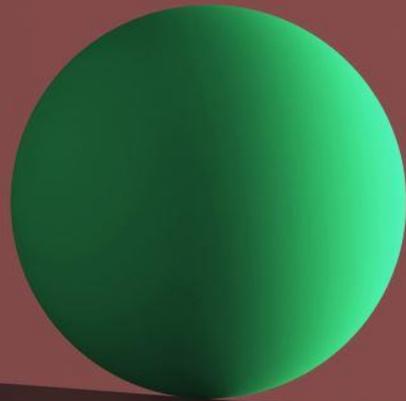
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# COVID and Beyond

In the balance

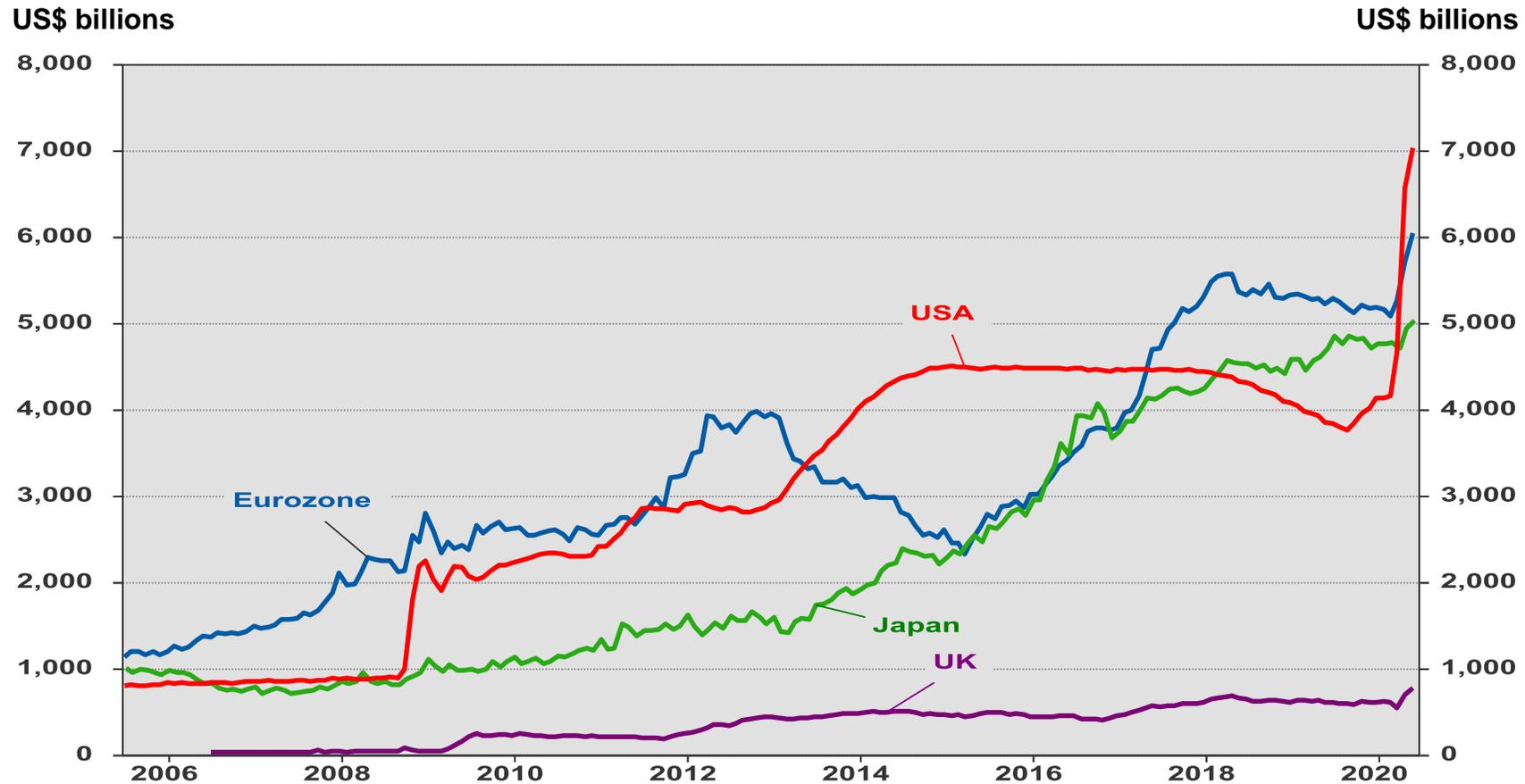


# Things were already tough – and then along came COVID-19

- The pre-COVID global economic scenario was one of a long-term trend of steadily declining growth:
  - The rate of population growth has been slowing and, with it, work-force growth. The world population is rapidly greying.
  - Leverage has done its work but the law of diminishing returns has set in. Debt accumulation is now, again, accelerating.
  - Fossil fuel exploitation, improvements in technology and deregulation have all boosted growth but their impacts are fading.
- Central banks have crashed interest rates to the floor and have now embarked on another round of massive balance sheet expansion. Early evidence suggests that ultra-low interest rates negatively impact confidence and capital investment plans.
- Productivity growth was already poor but is now diving thanks to COVID-19.
- The financial markets, once again, are the major beneficiaries of the extraordinary central bank largesse. They are out-of-step with the 'real' economy.

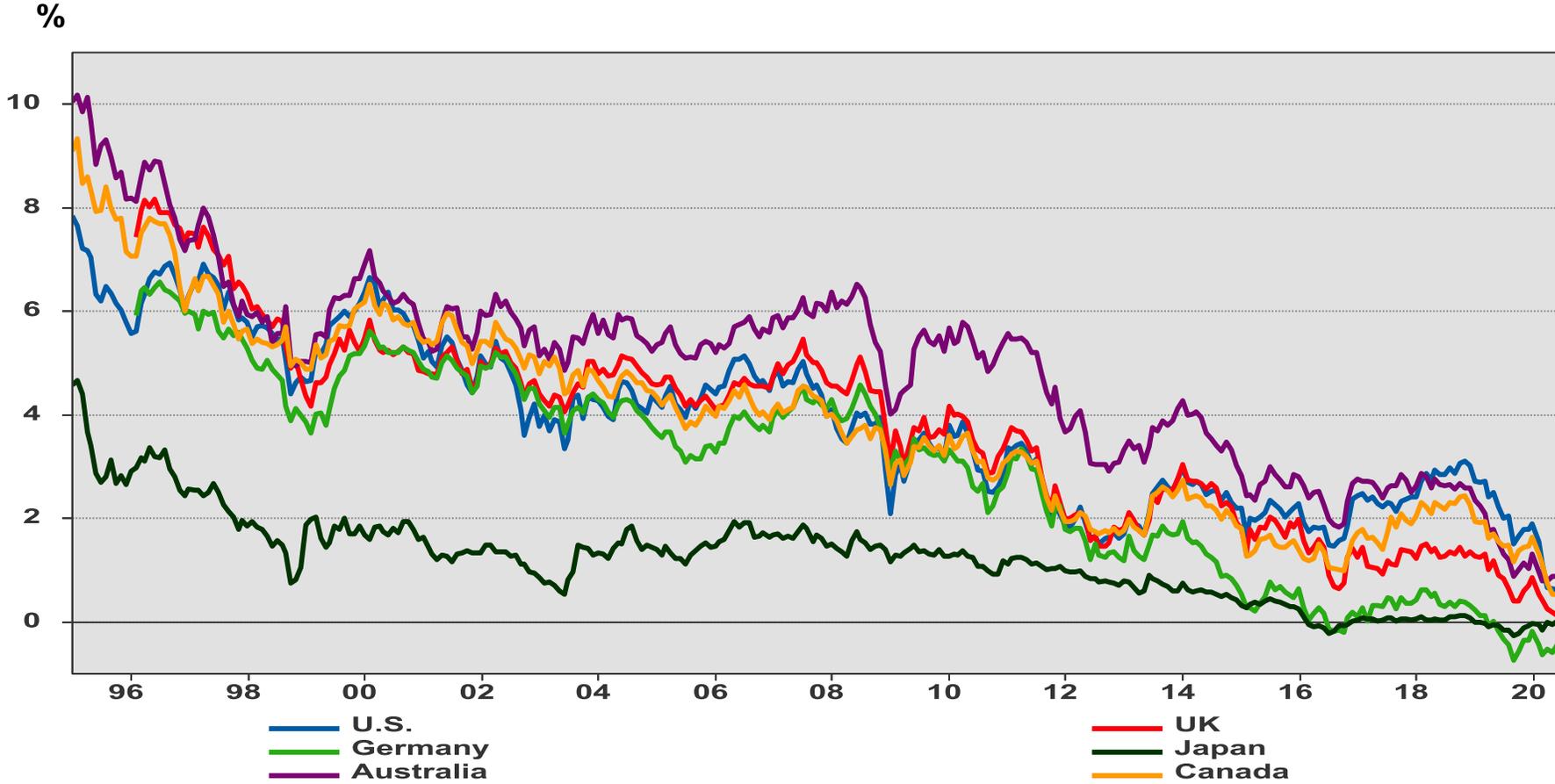
# Change in Central Banks' Balance Sheet Assets

Billions of US dollars  
(Federal Reserve, BOJ, BOE, ECB)



Source: Refinitiv Datastream

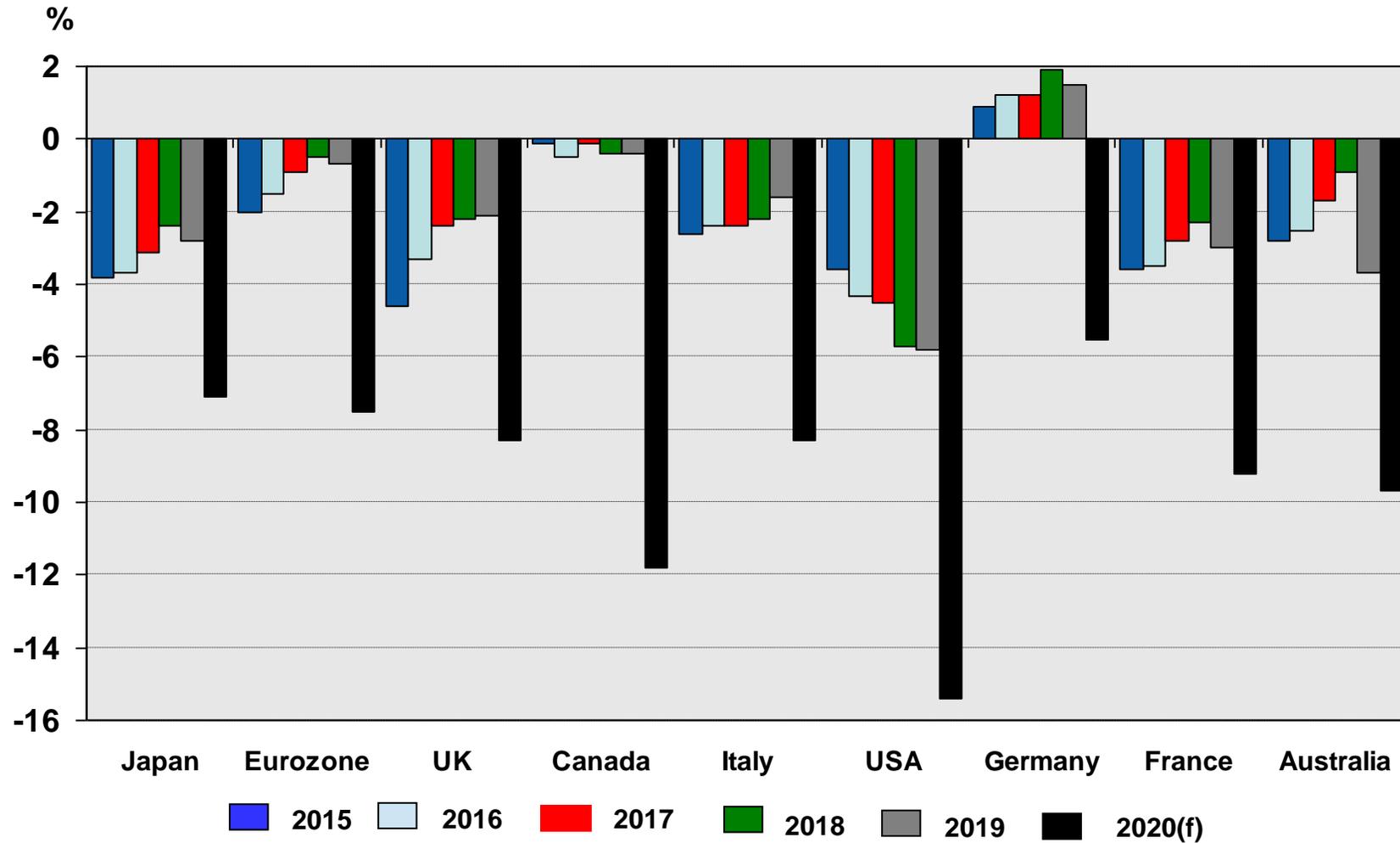
# Benchmark 10-Year Government Bond Yields



Source: Refinitiv Datastream

# General Government Fiscal Balance as a % of Nominal GDP

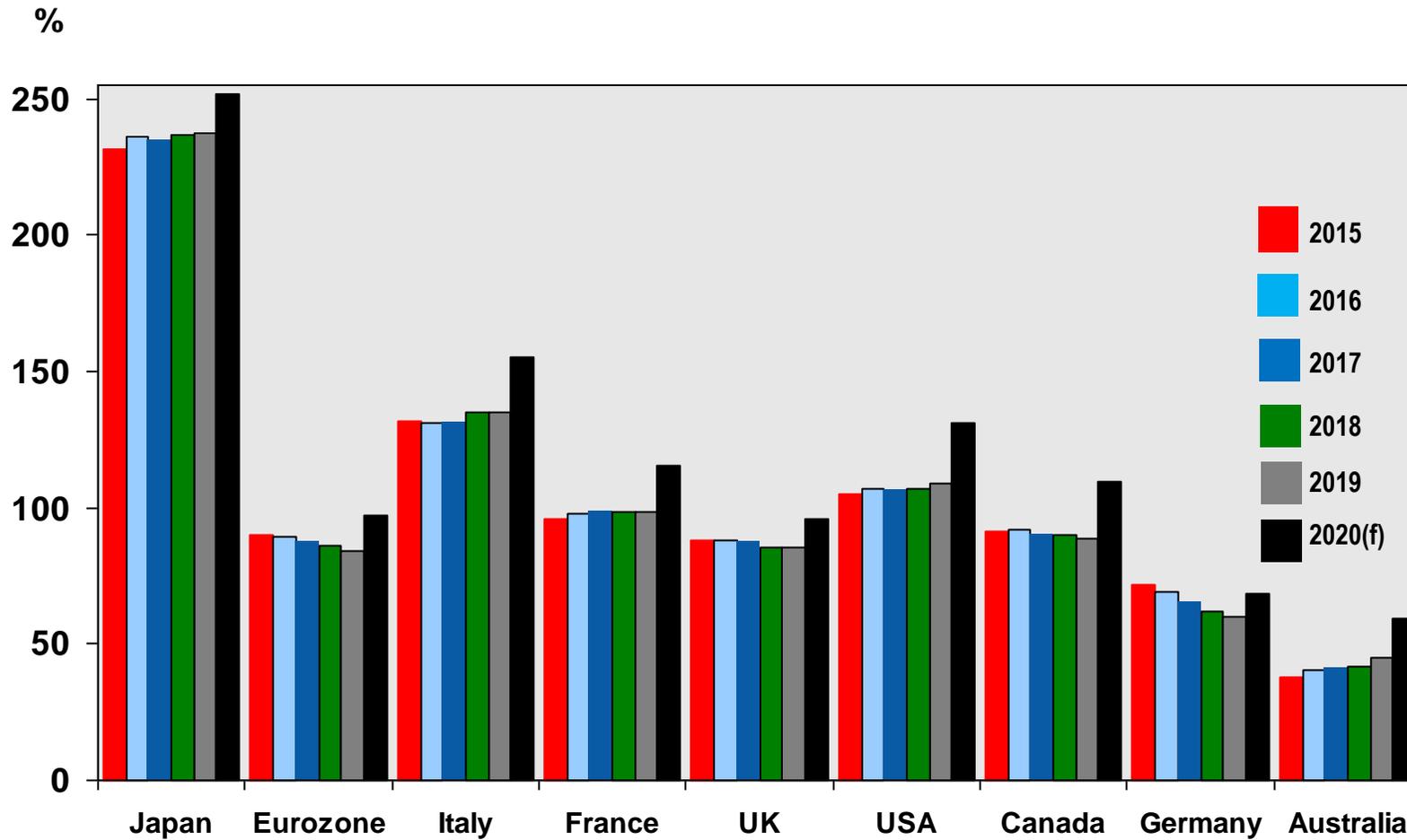
Eurozone and Major Advanced Economies



Source: IMF, April 2020

# General Government Gross Debt to Nominal GDP Ratios

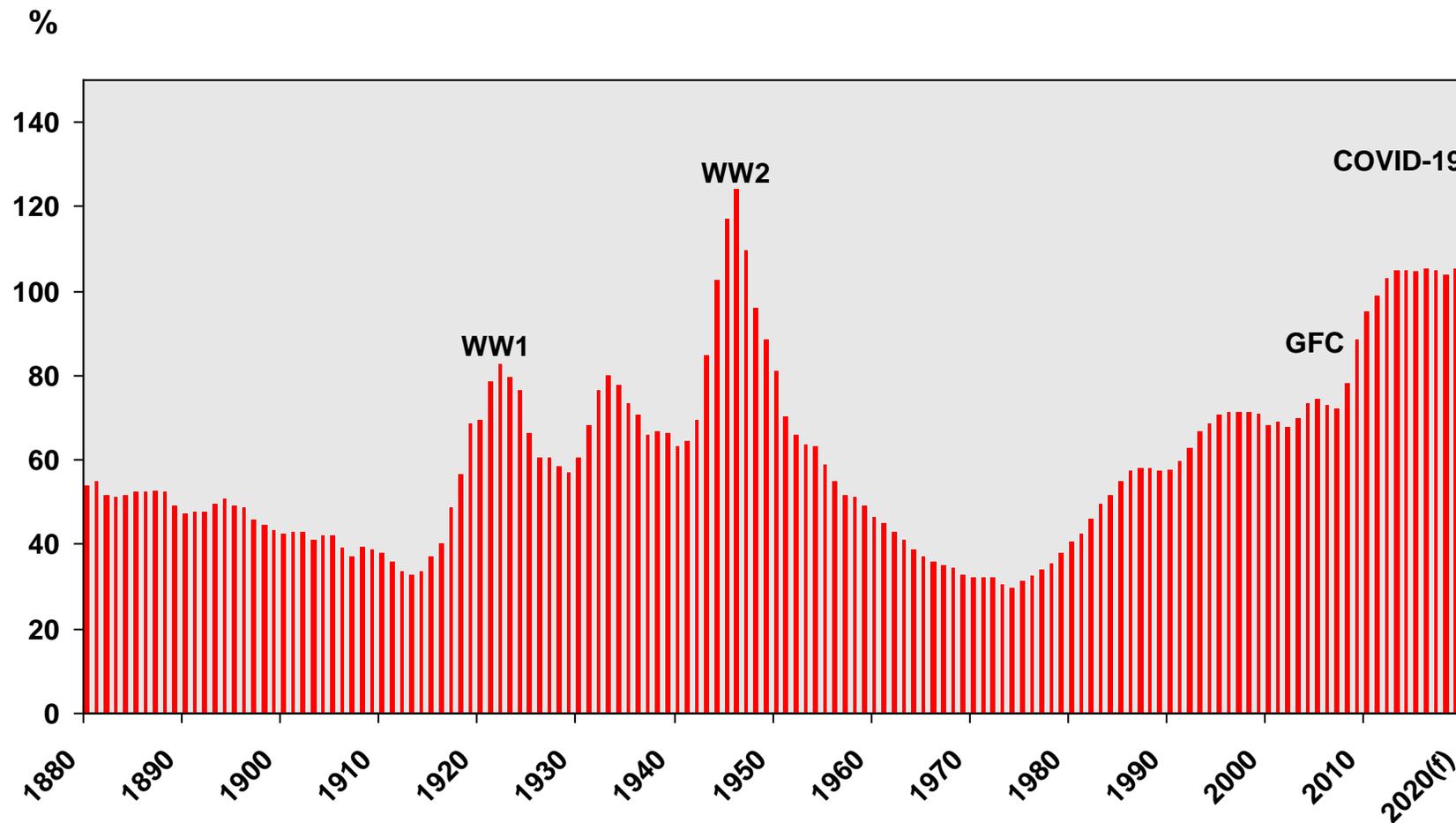
Eurozone and Major Advanced Economies



Source: IMF Fiscal Monitor, April 2020

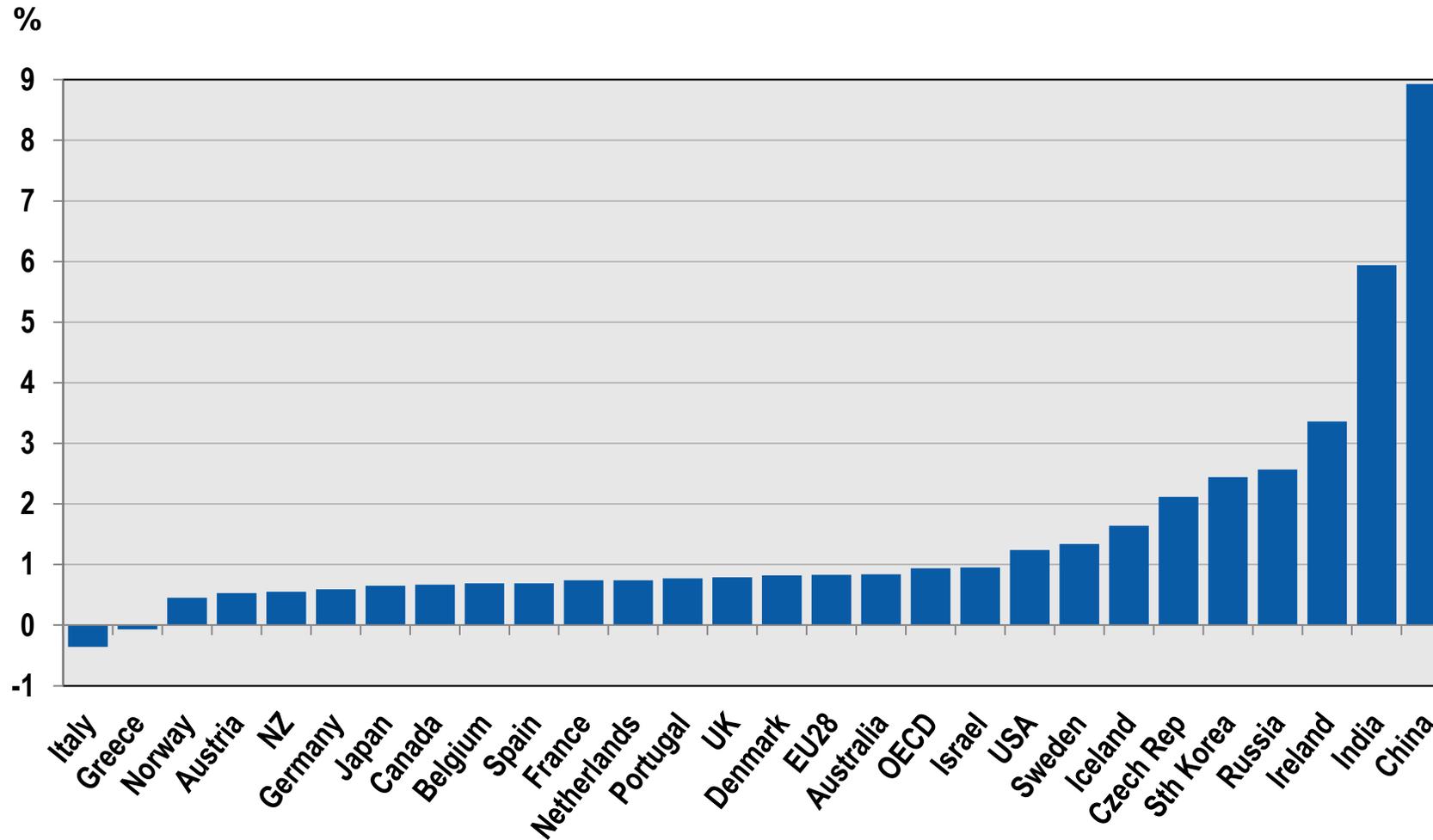
# General Government Debt as a % of GDP

Advanced Economies, 1880-2020



Source: IMF Fiscal Monitor, April 2020

# Growth in Real GDP per Person Employed (Productivity), 2001-2017

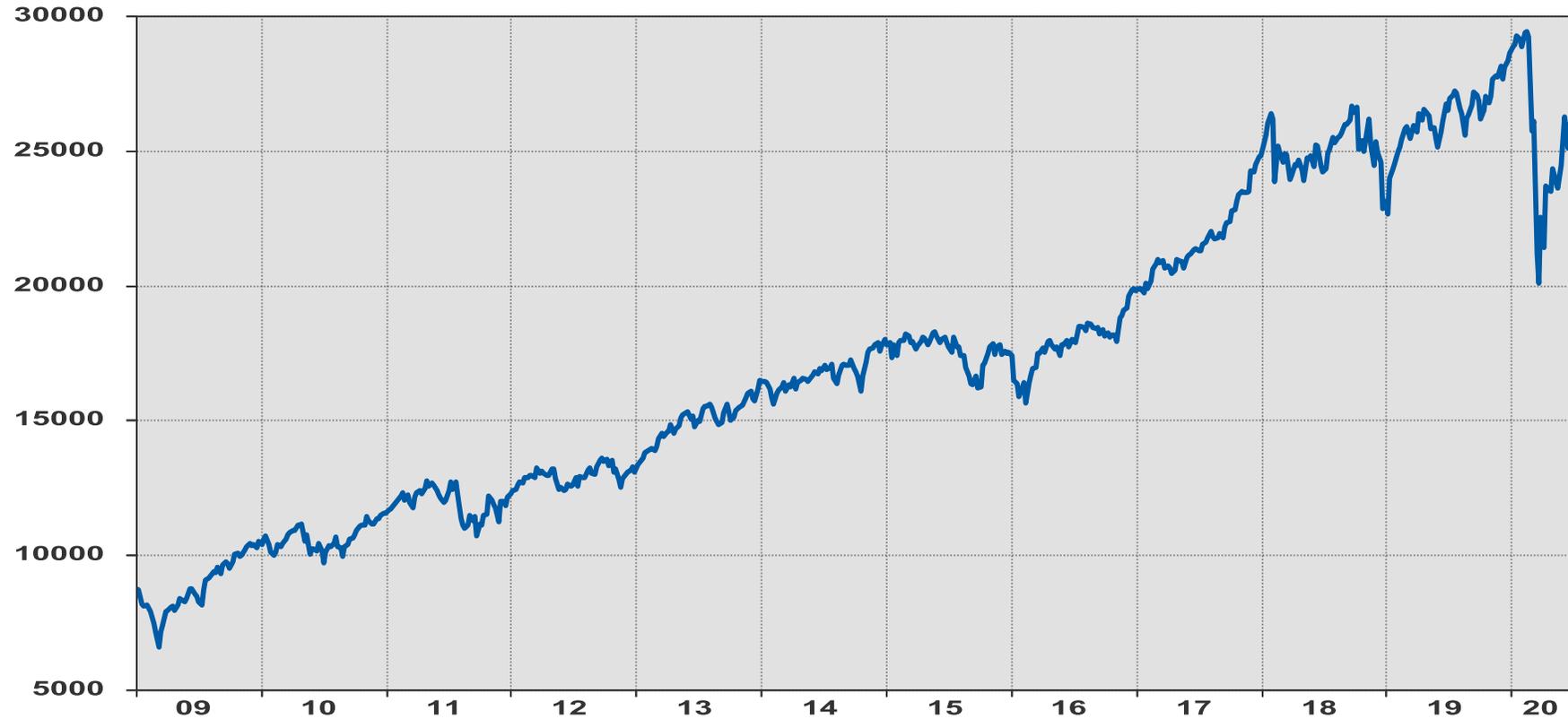


Source: OECD Compendium of Productivity Indicators, April 2019



# Dow Jones Industrials Index

Index level (weekly data)



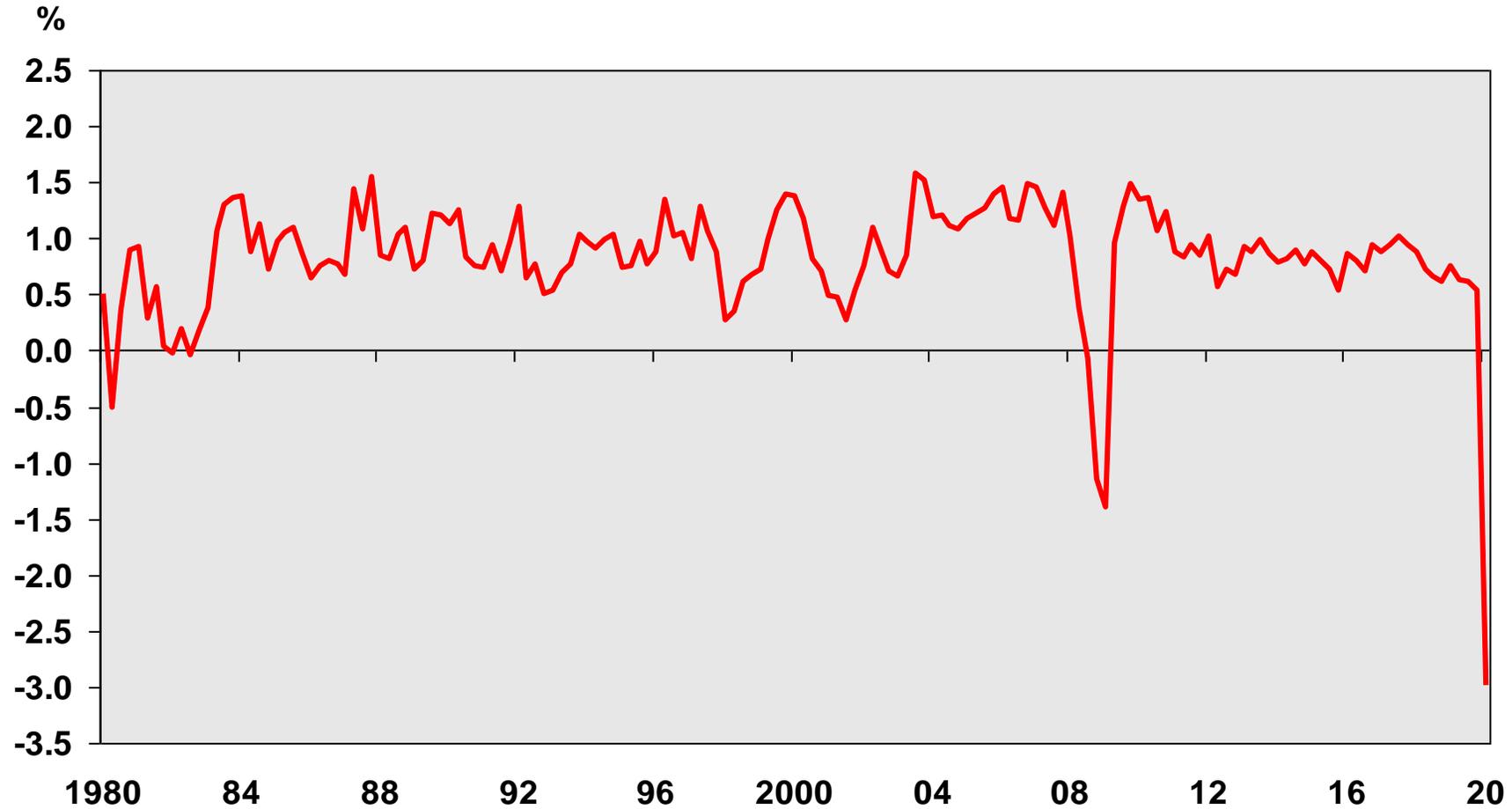
Source: Refinitiv Datastream

# Economic Disruption and Recession

- Months, or more , of output growth have been cleaved from the world economy thanks to the COVID-induced lock-down.
- Sectors such as accommodation, food services, tourism, arts, entertainment and recreation have been hit very hard. Total shut-downs of these and similar businesses have averaged around 70-80% in most countries. Many will never return.
- Capacity utilisation has dived and corporate profits have plunged.
- Savings ratios have ticked up as the world consumer hunkers down.
- The oil market has been blasted - firstly by the Russia-Saudi spat and now the collapse in consumer demand.
- The US, in particular, has experienced an extraordinary increase in unemployment.
- The latest OECD forecasts anticipate real GDP declines in calendar 2020 of between 6% and 10% in most advanced countries – assuming there is no ‘second wave’ of the virus.

# % Change in Real GDP - World

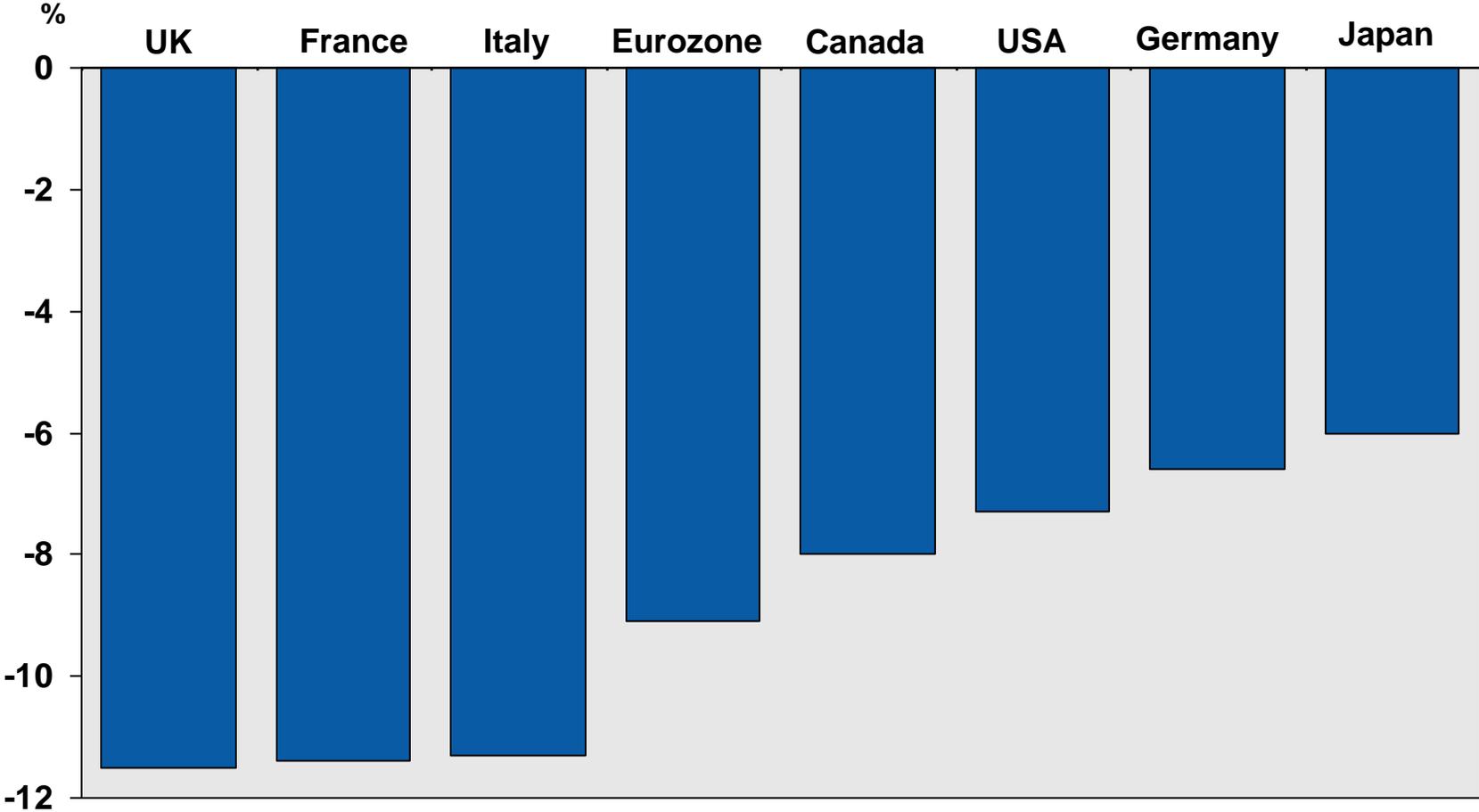
Quarter on Quarter



Source: OECD, June 2020

# Projected Change in Real GDP - 2020

G7 Countries

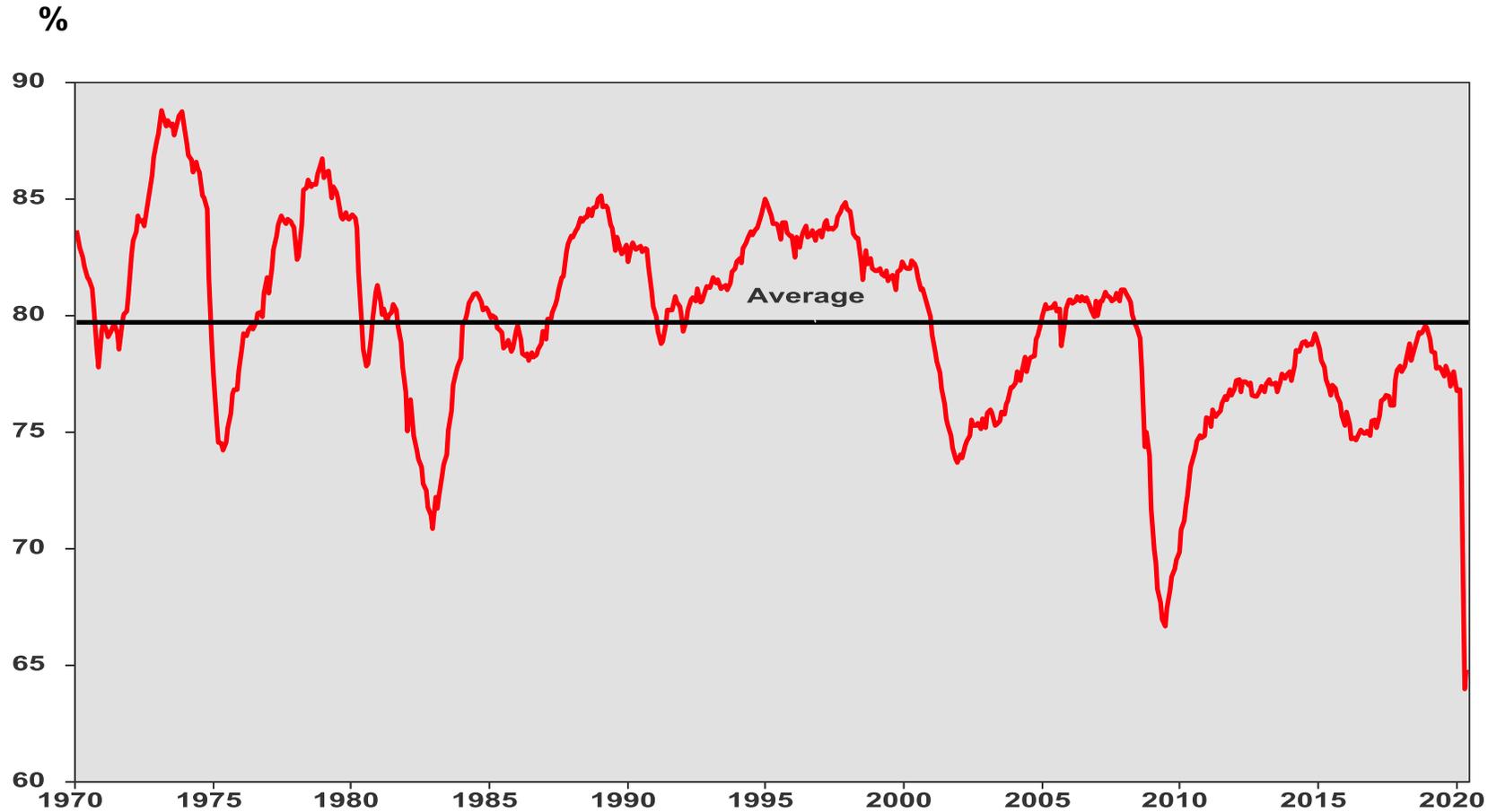


Source: OECD, June 2020



# United States: Capacity Utilisation

(All industries %)



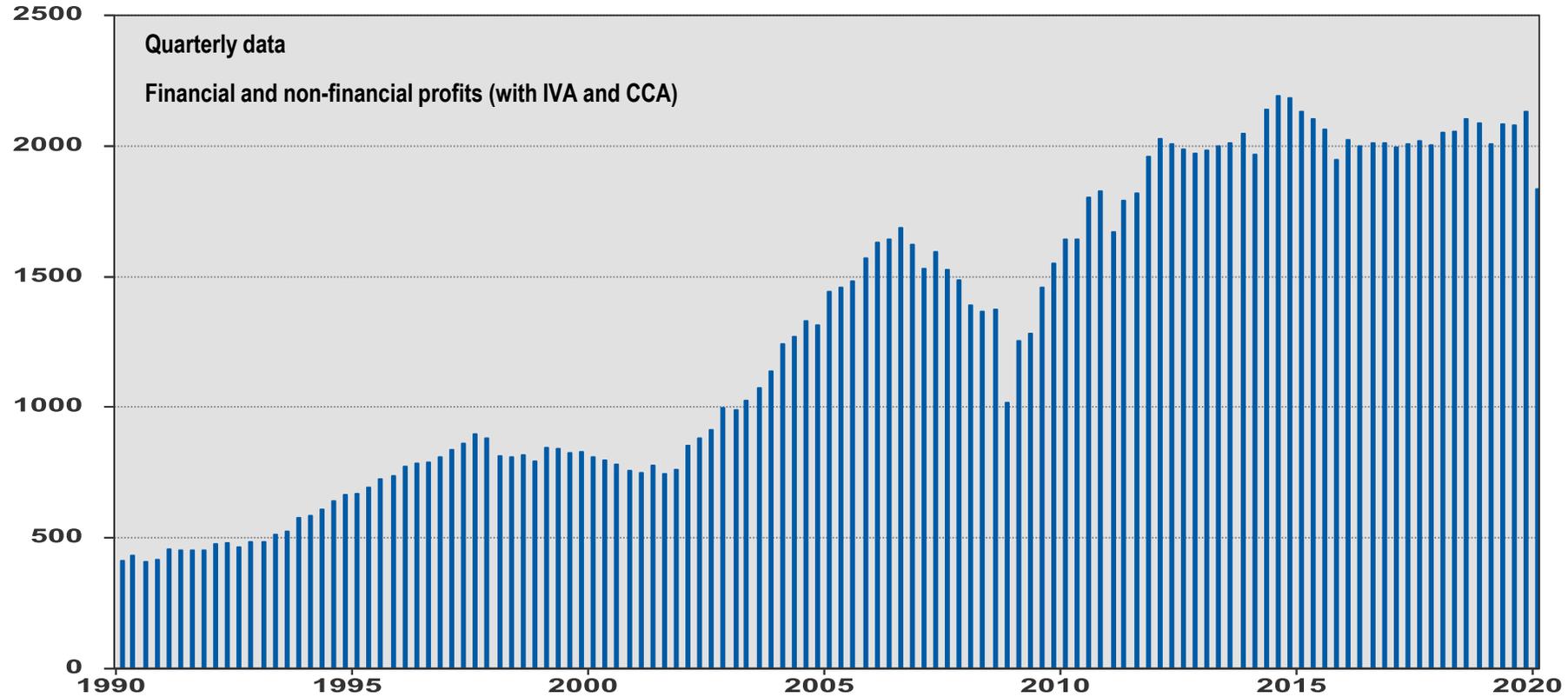
Source: Refinitiv Datastream



# United States: Pre-tax Corporate Profits

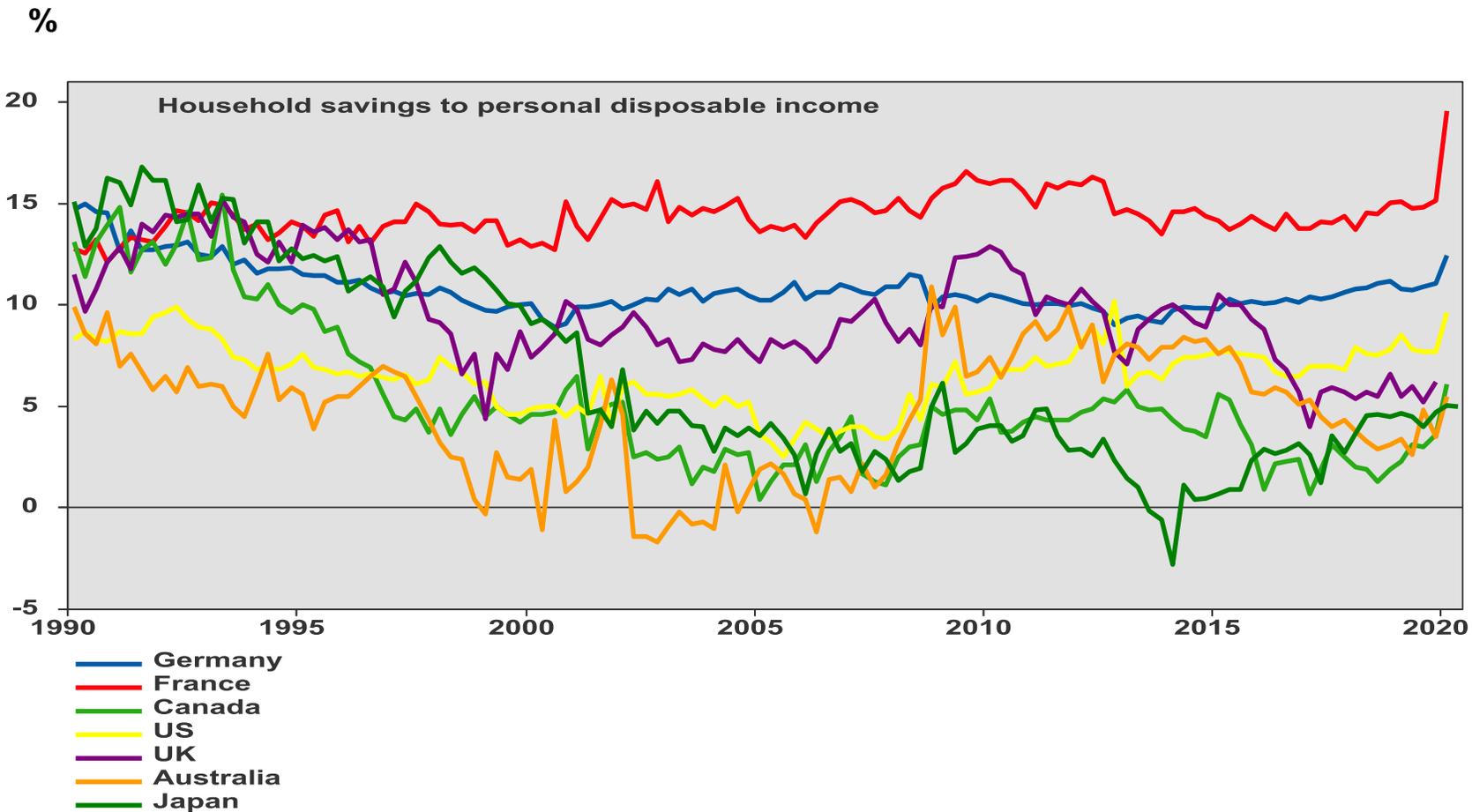
(Quarterly at annual rates – billions of dollars)

\$ billions



Source: Refinitiv Datastream

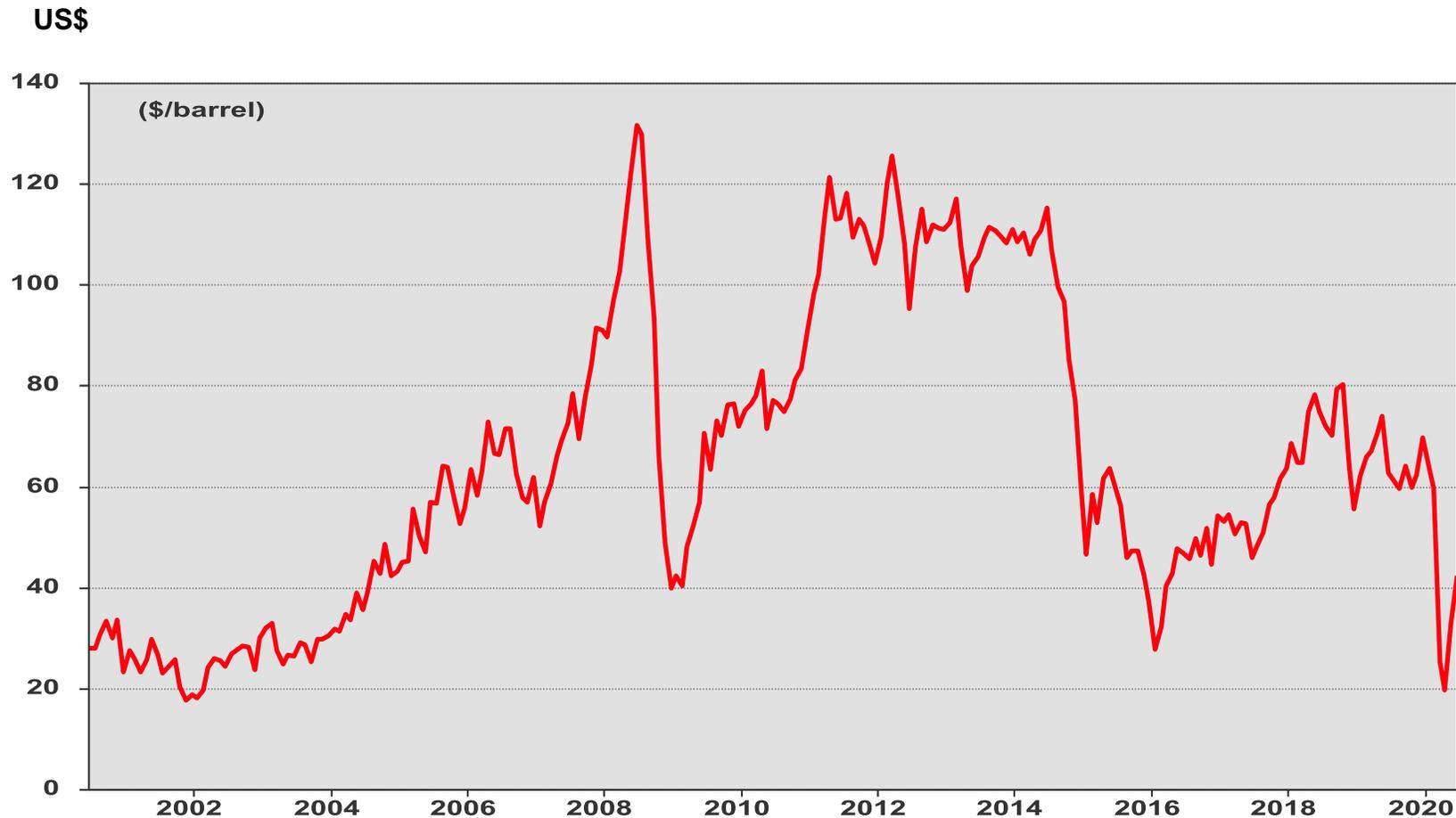
# Savings Ratios



Source: Refinitiv Datastream

# Oil Prices

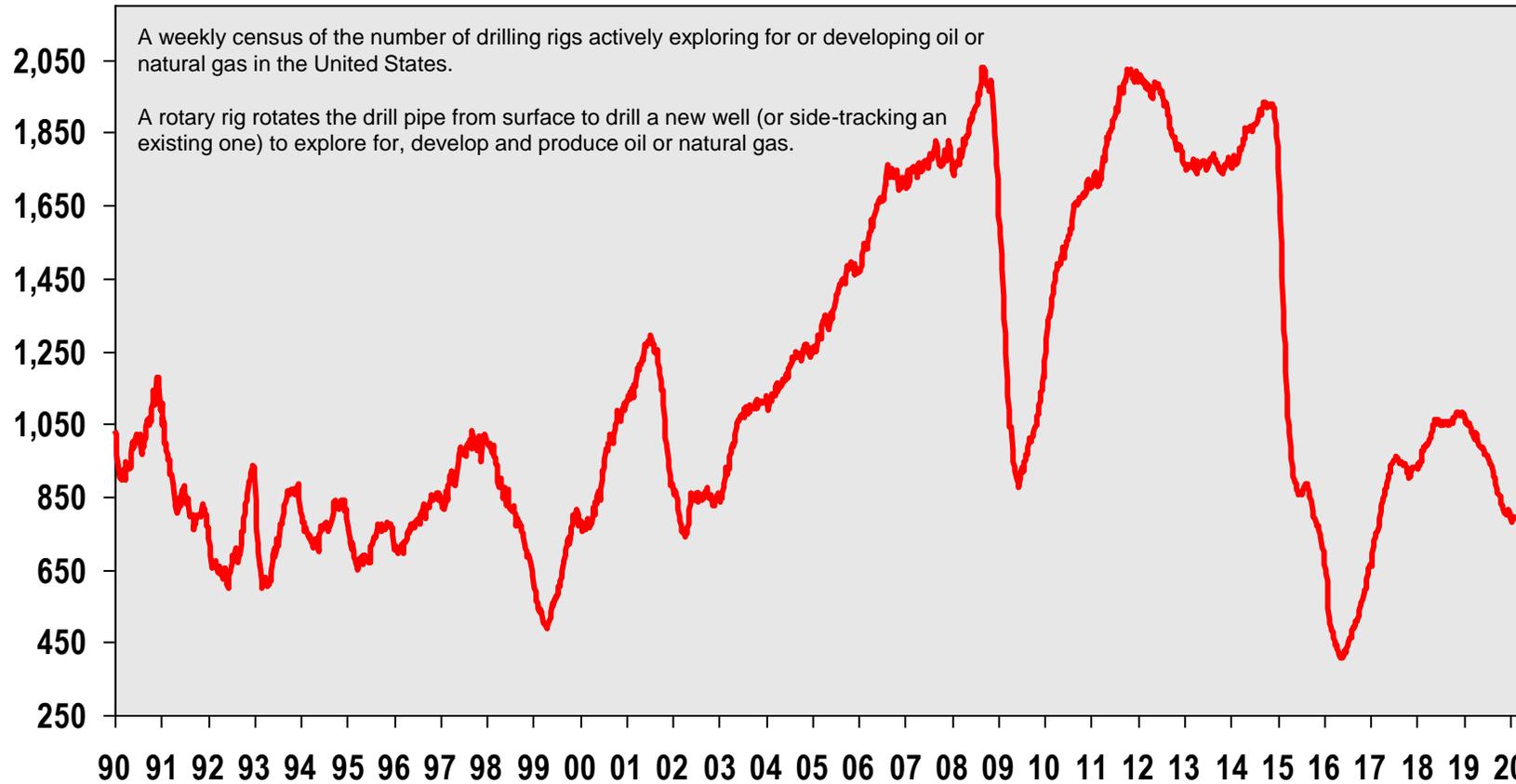
(Brent crude)



Source: Refinitiv Datastream



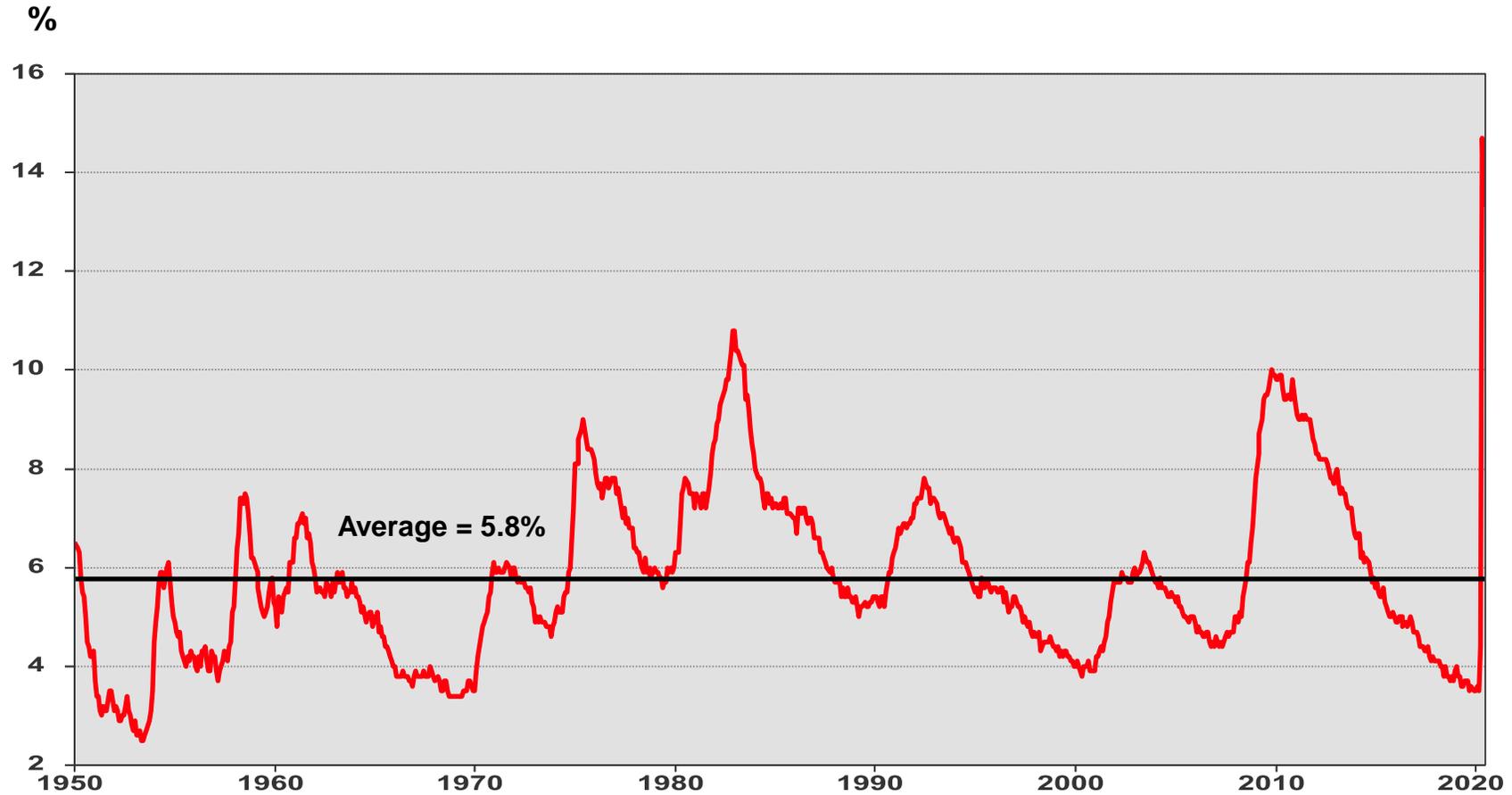
# United States: Rotary Rig Count (Oil and Gas Total)



Source: Baker Hughes Incorporated:



# United States: Unemployment %



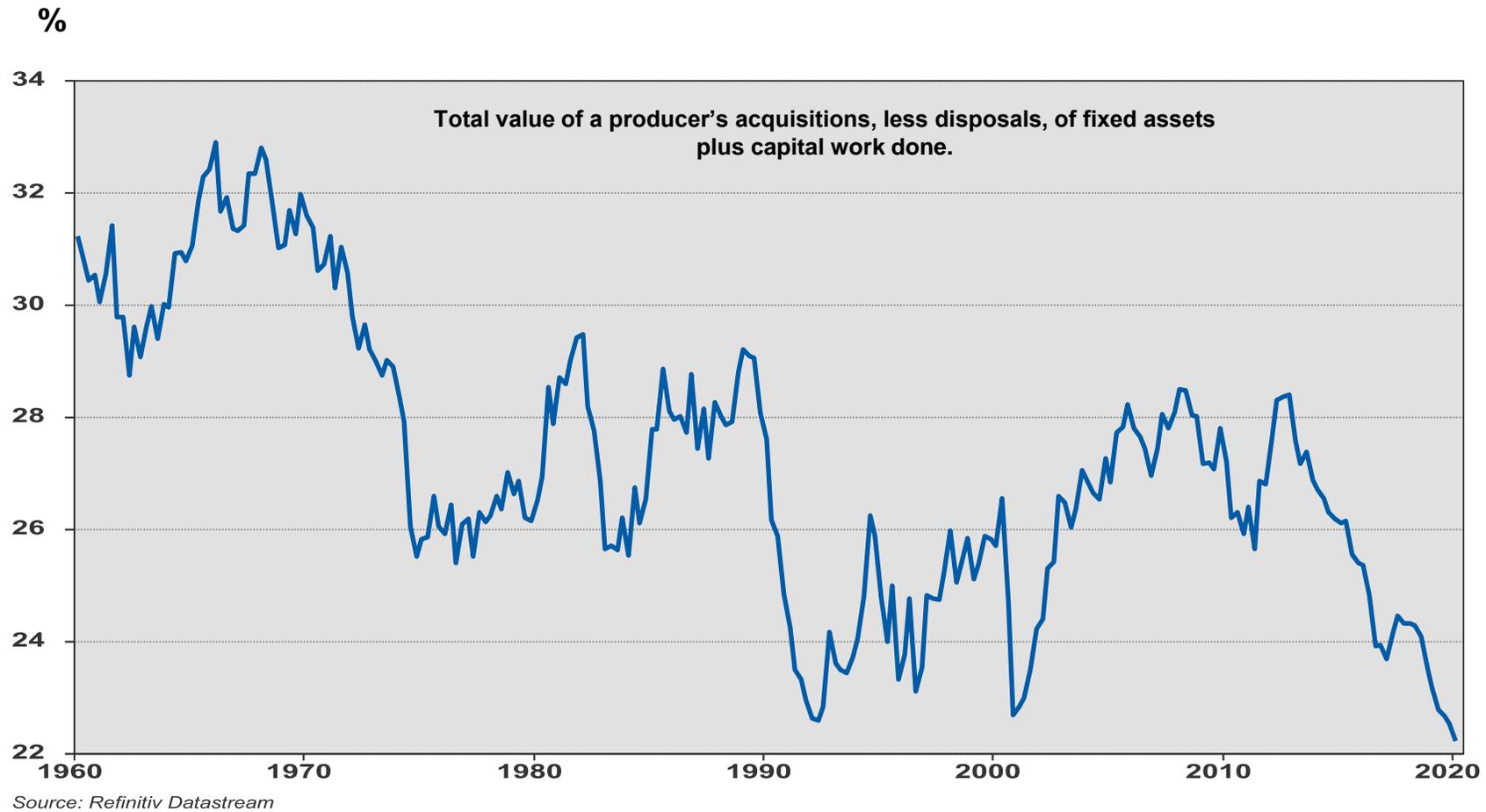
Source: Refinitiv Datastream

# Australia

- Gross fixed capital formation relative to GDP has been weak and is now getting weaker. As a consequence, Australia's rate of labour productivity growth has been poor for several years.
- Australia is massively dependent on China as a buyer for its merchandise exports – more so than any other exporting nation. The current diplomatic 'war' with China is a reason for caution and concern.
- The exchange rate is commodity-based and iron ore remains the export King.
- Demographic trends in Australia are much healthier than in many other advanced countries but the positive contribution from a rapidly growing work-force is weakening. Any post-COVID curtailment in immigration will be a negative influence.
- Relative to median incomes houses are expensive and beyond the reach of 'starters'. Governments of all political persuasions appear to have a fixation on stimulating house prices.



# Gross Fixed Capital Formation to GDP %

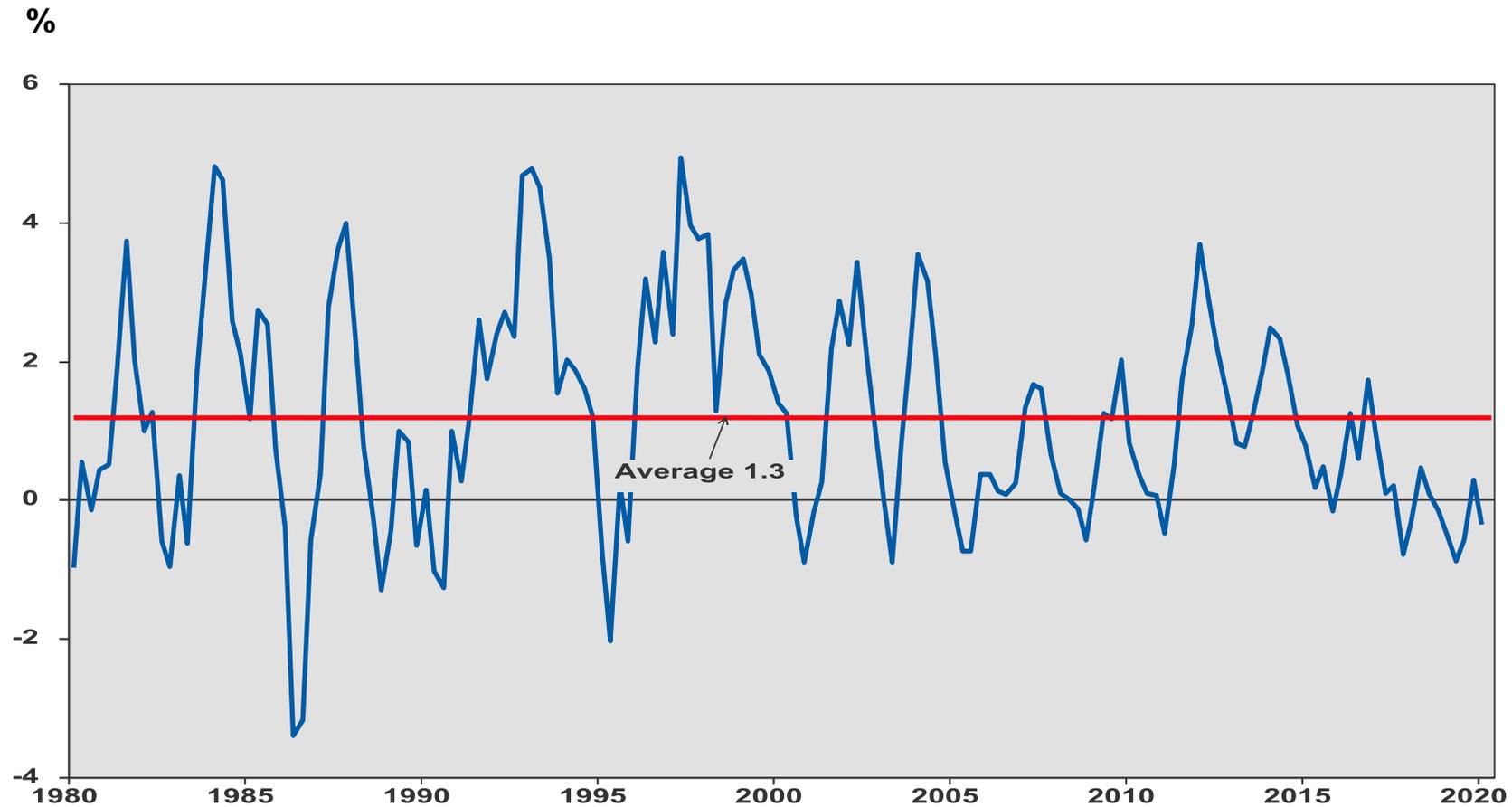




# Labour Productivity

(Real GDP over Total Employment in the Economy)

Annual % Change

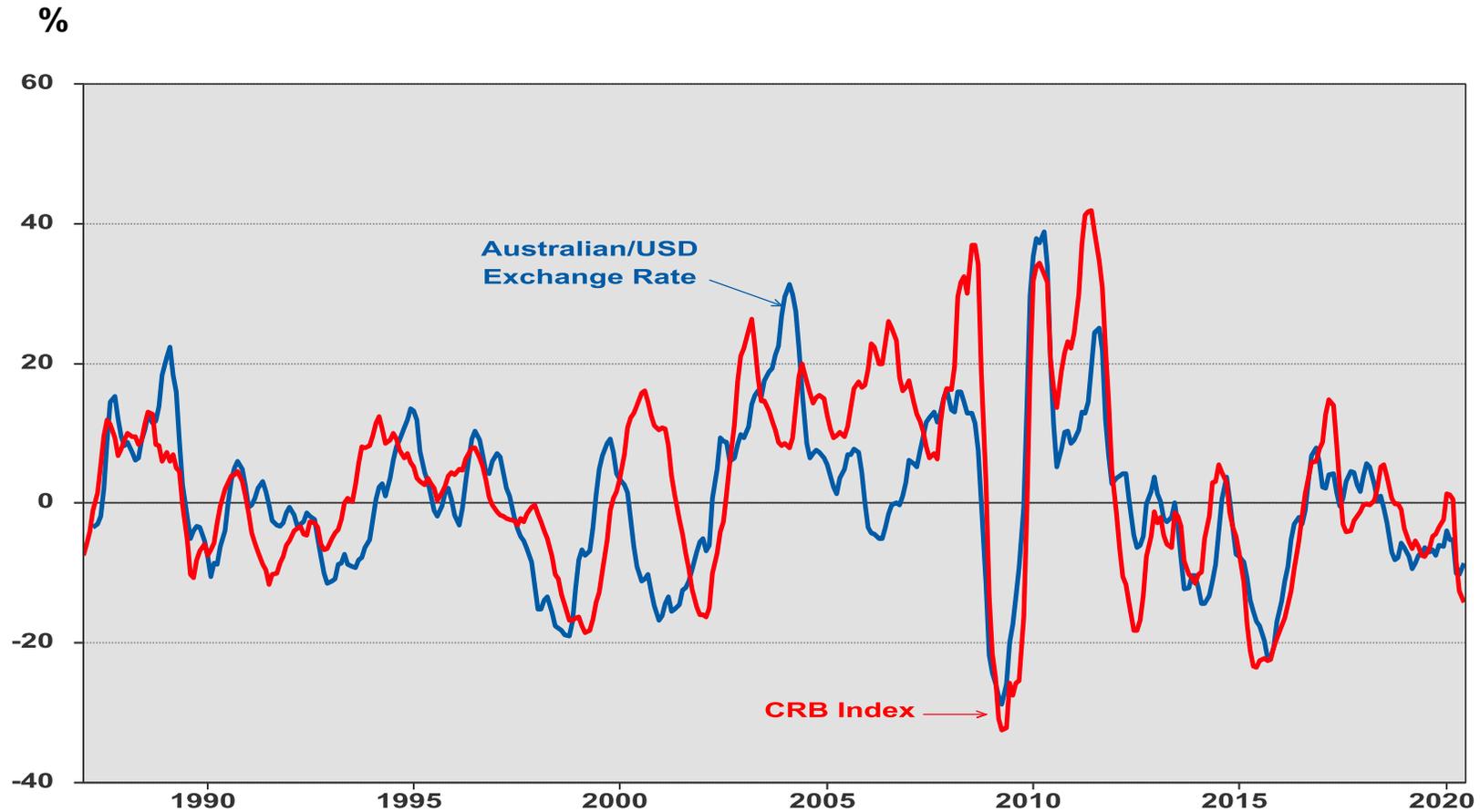


Source: Refinitiv Datastream



# Australian/USD Exchange Rate and the Commodity Research Bureau Index

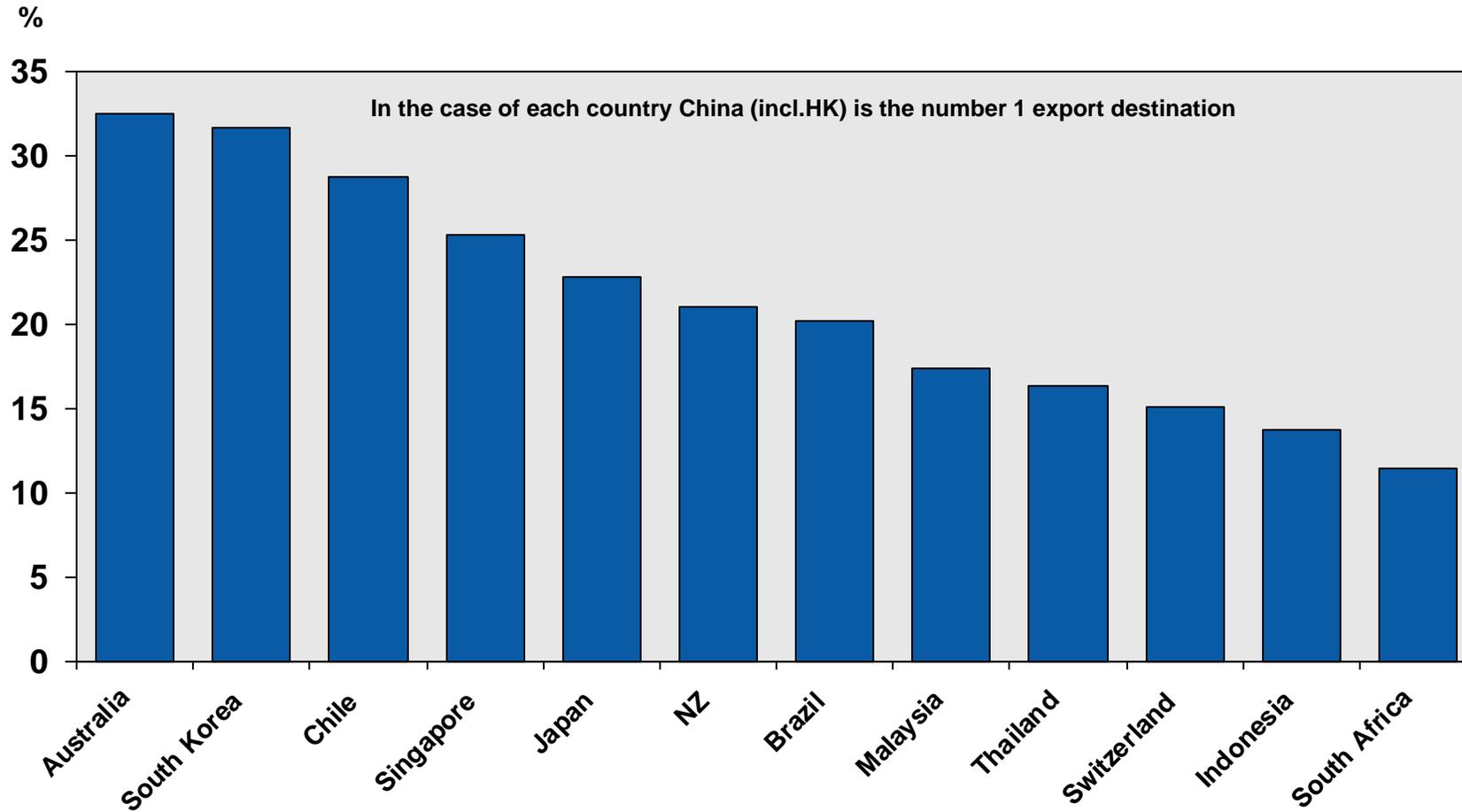
(3 month moving average of annual % change)



Source: Refinitiv Datastream

# China Export Dependency

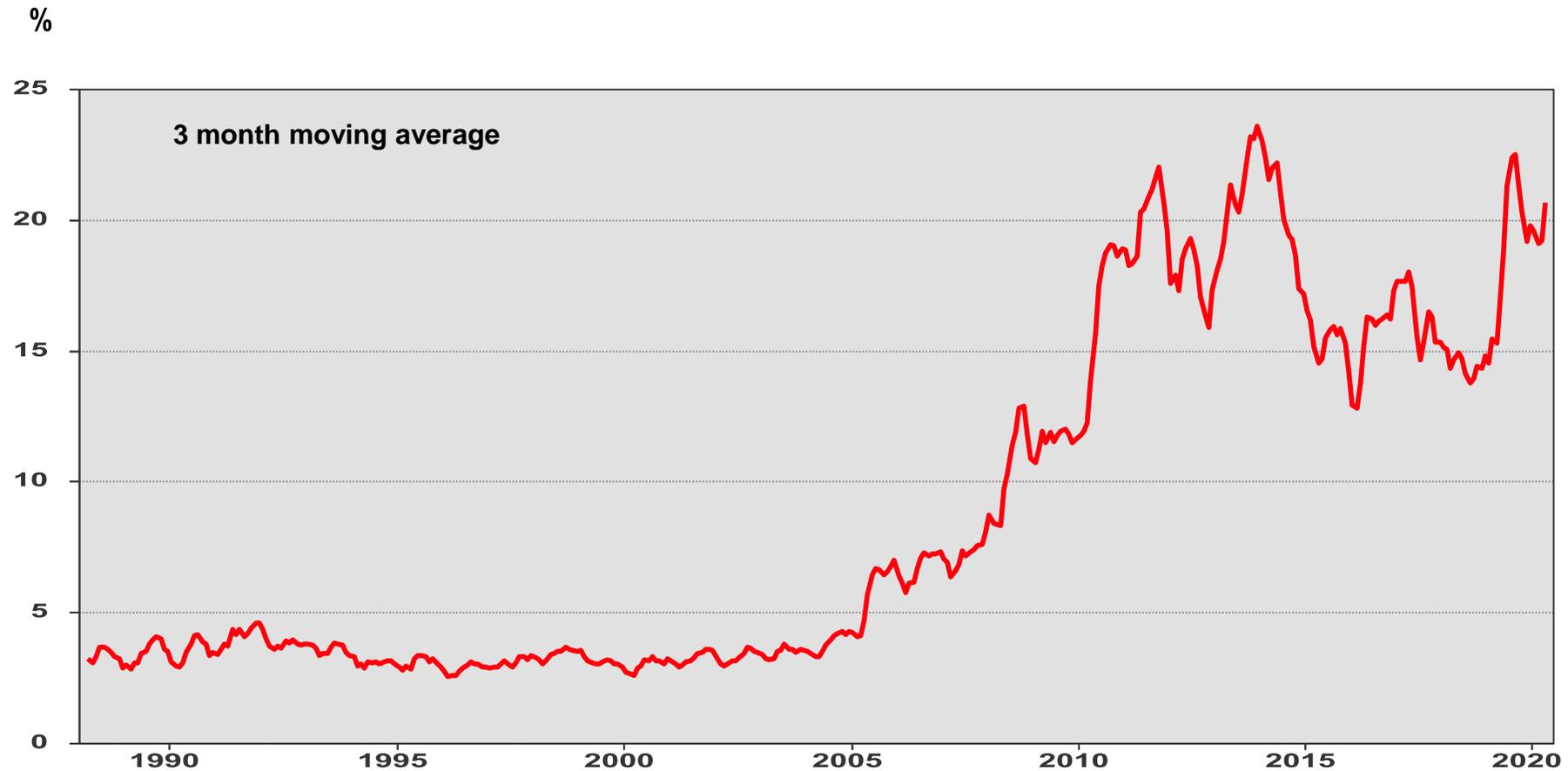
Percentage of merchandise exports going to China (incl.HK) - 2016



Source: IMF Direction of Trade Statistics



## Iron Ore and Concentrates: Share of Total Exports (value)

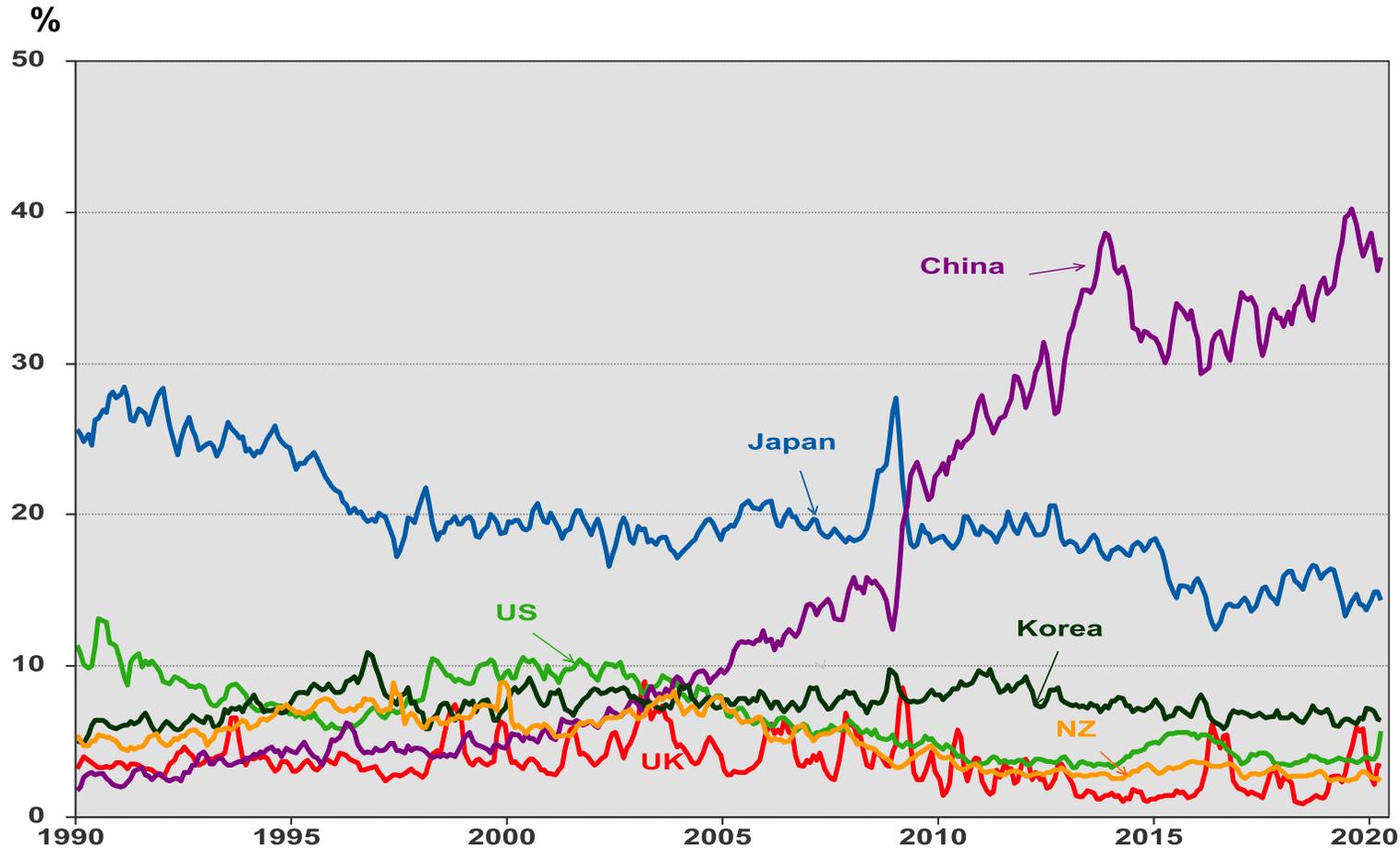


Source: Refinitiv Datastream



# Export Destinations

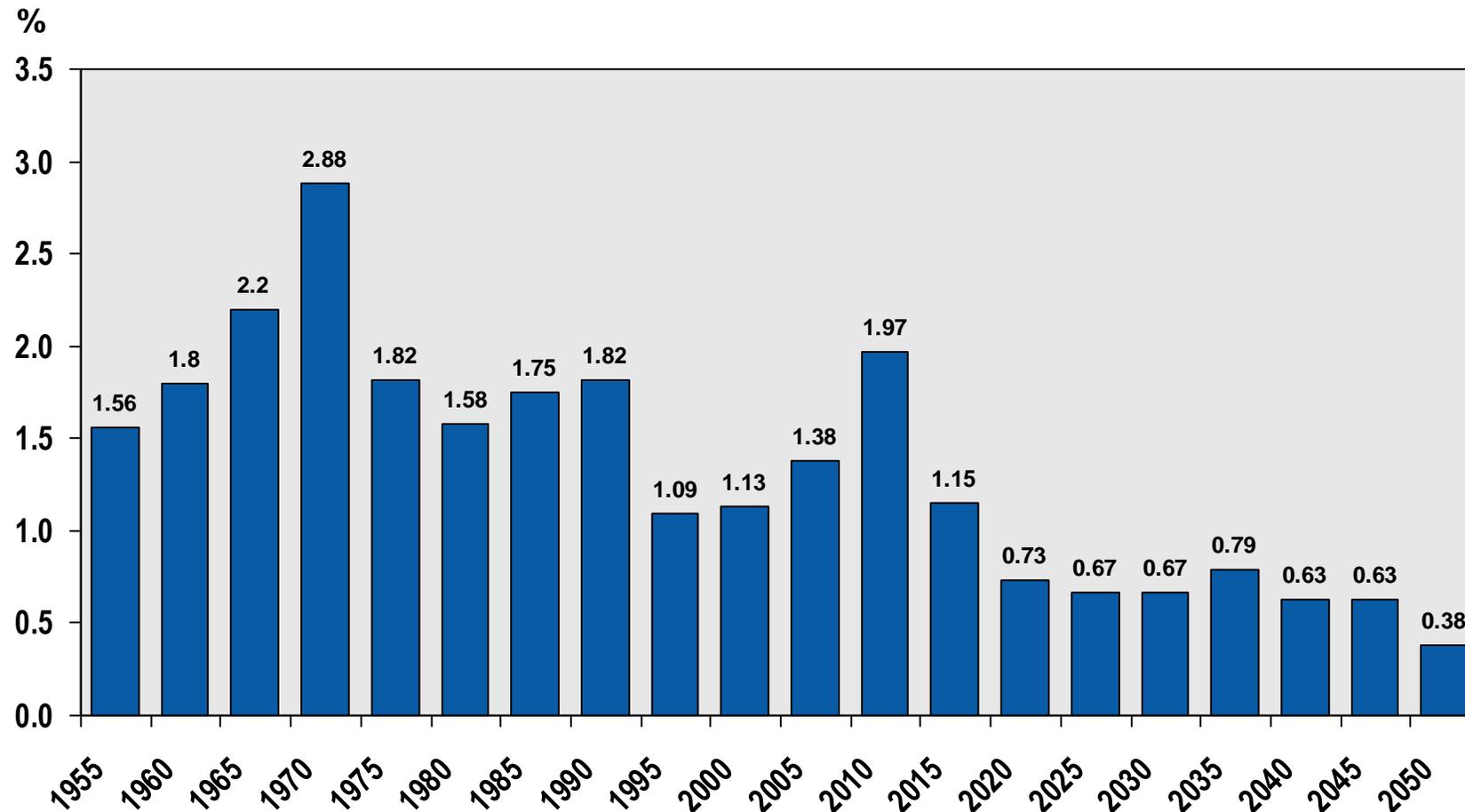
(Share of Total Value - 3 Month Moving Average)



Source: Refinitiv Datastream



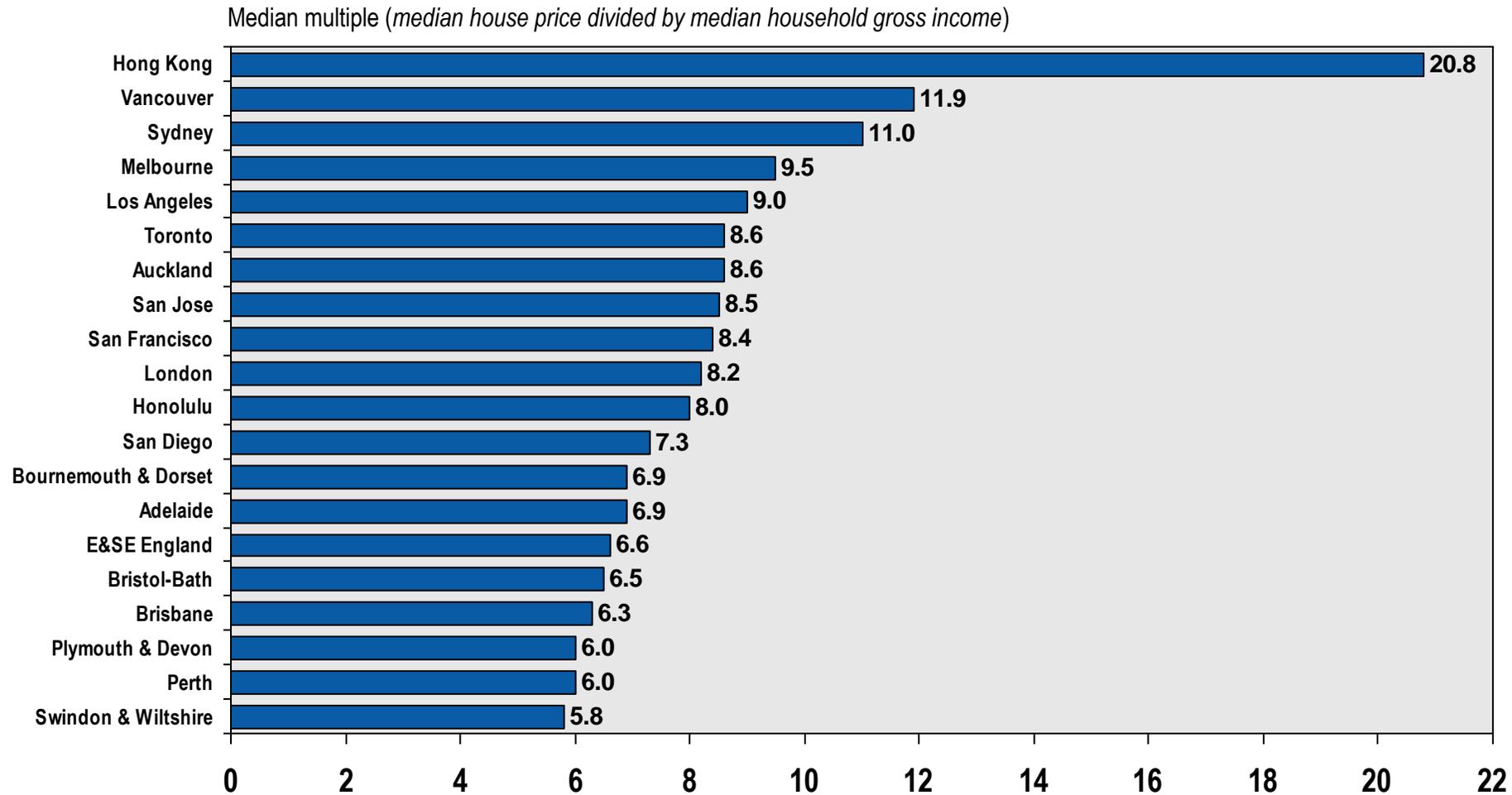
## 5 Year Compound Annualised Growth Rate – Working Age Population (Aged 15 – 64)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects: The 2019 Revision, medium variant.

# Major Housing Markets ranked by Affordability:

(covering Australia, Canada, Hong Kong, Ireland, New Zealand, Singapore, UK and USA) Data as at 3rd Quarter 2019  
Top 20 Markets ranked by median multiple



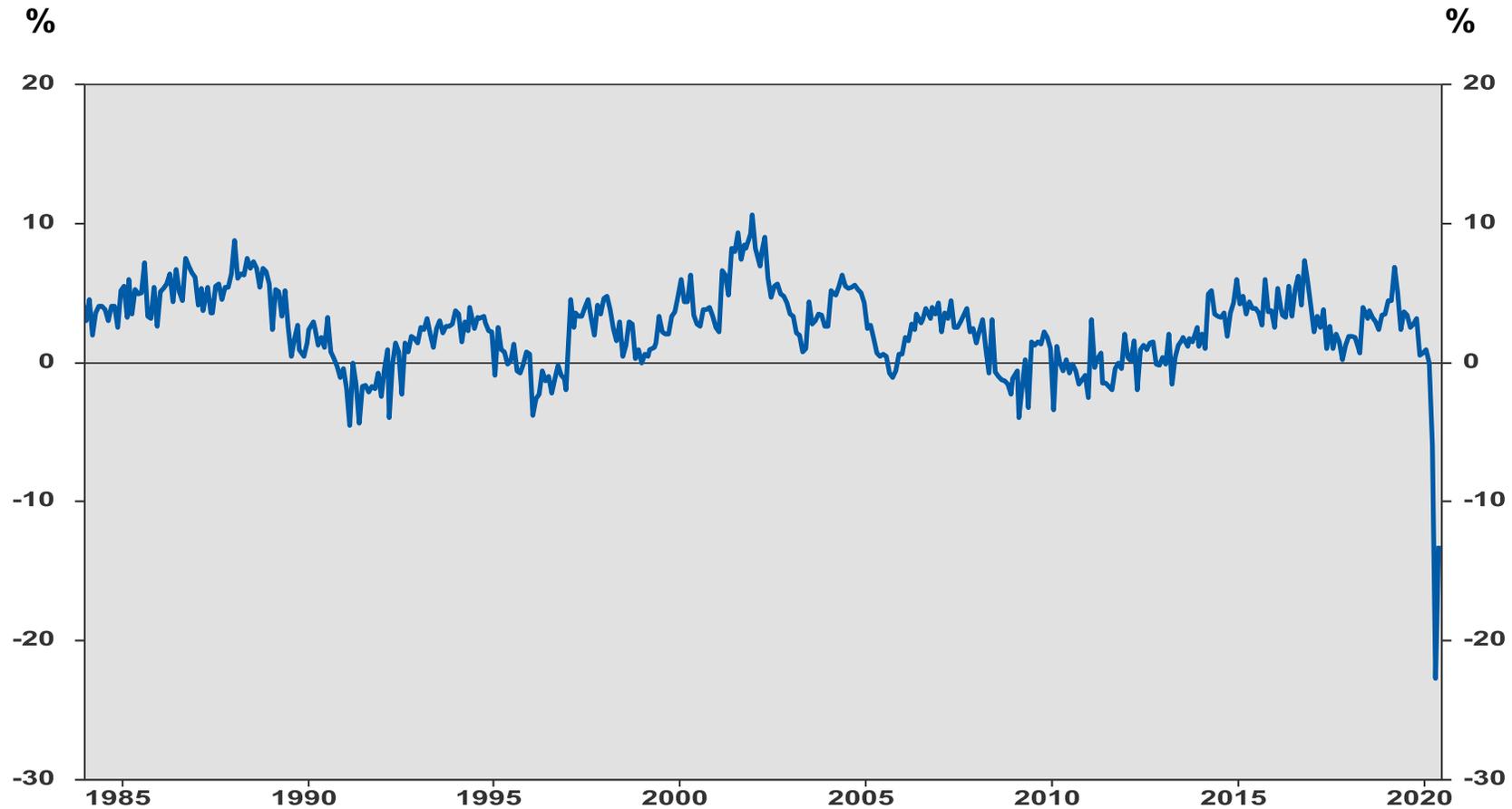
Source: Demographia International Housing Affordability Survey – 16th Annual Survey (January 2020)

# Rest-of-World

- In the **UK** retail sales have dived. If the past is a guide house prices will now follow. Steady disentanglement from the EU bureaucratic machine adds an additional challenge to the Tory government.
- In the **eurozone** public debt balances relative to GDP are of particular concern – especially in Italy, Greece and Portugal. The common currency, the limitations on fiscal flexibility and extremely poor demographics leave them in a difficult position. Productivity growth and retail sales have collapsed.
- In **Japan** real household expenditure has been falling for many years but since COVID it has dived. The BOJ now owns 50% of the issuance of JGB's. The demographic outlook remains bleak.
- **China** has experienced its first negative GDP quarter in many years. Much to the chagrin of the US the renminbi is steadily depreciating. China's demographic challenge (ageing population) is already impacting. **India** is better placed.
- In **Hong Kong** retail sales have fallen by 40% and visitor arrivals have dived from a monthly 7 million to almost zero.



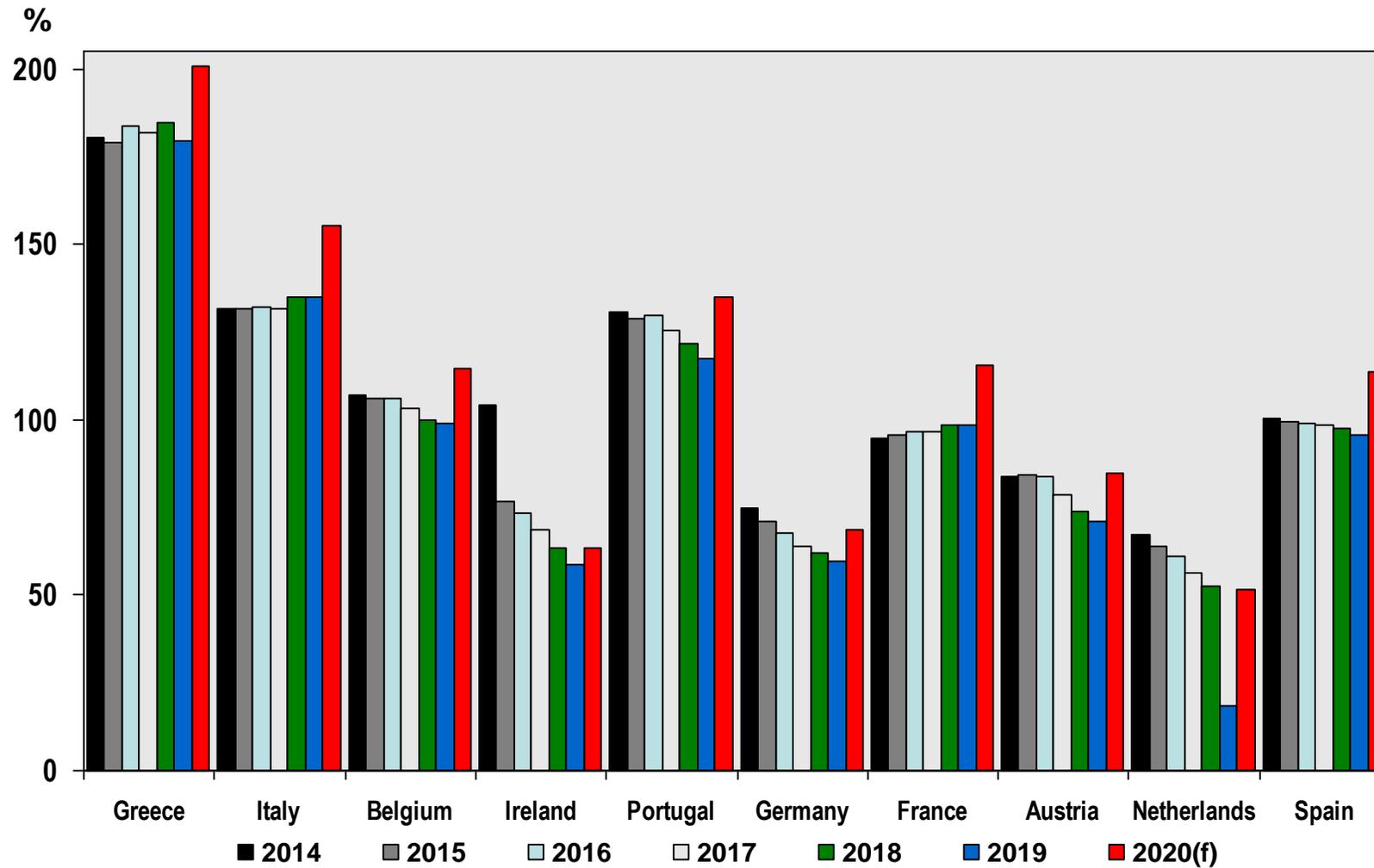
# UK: Retail Sales Volume



Source: Refinitiv Datastream



# Eurozone: General Government Gross Debt to Nominal GDP Ratios %

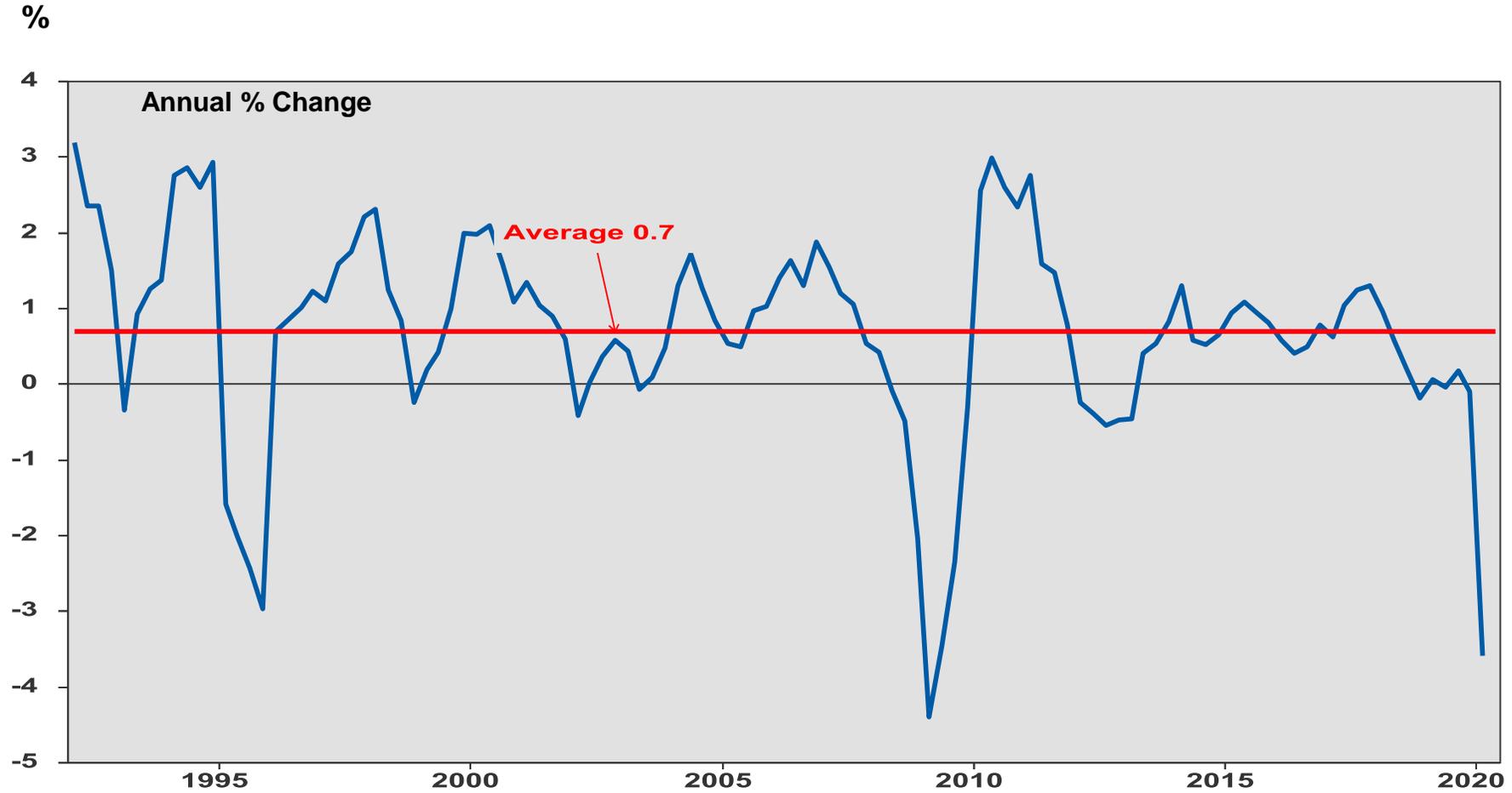


Source: IMF, April 2020



# Eurozone: Labour Productivity

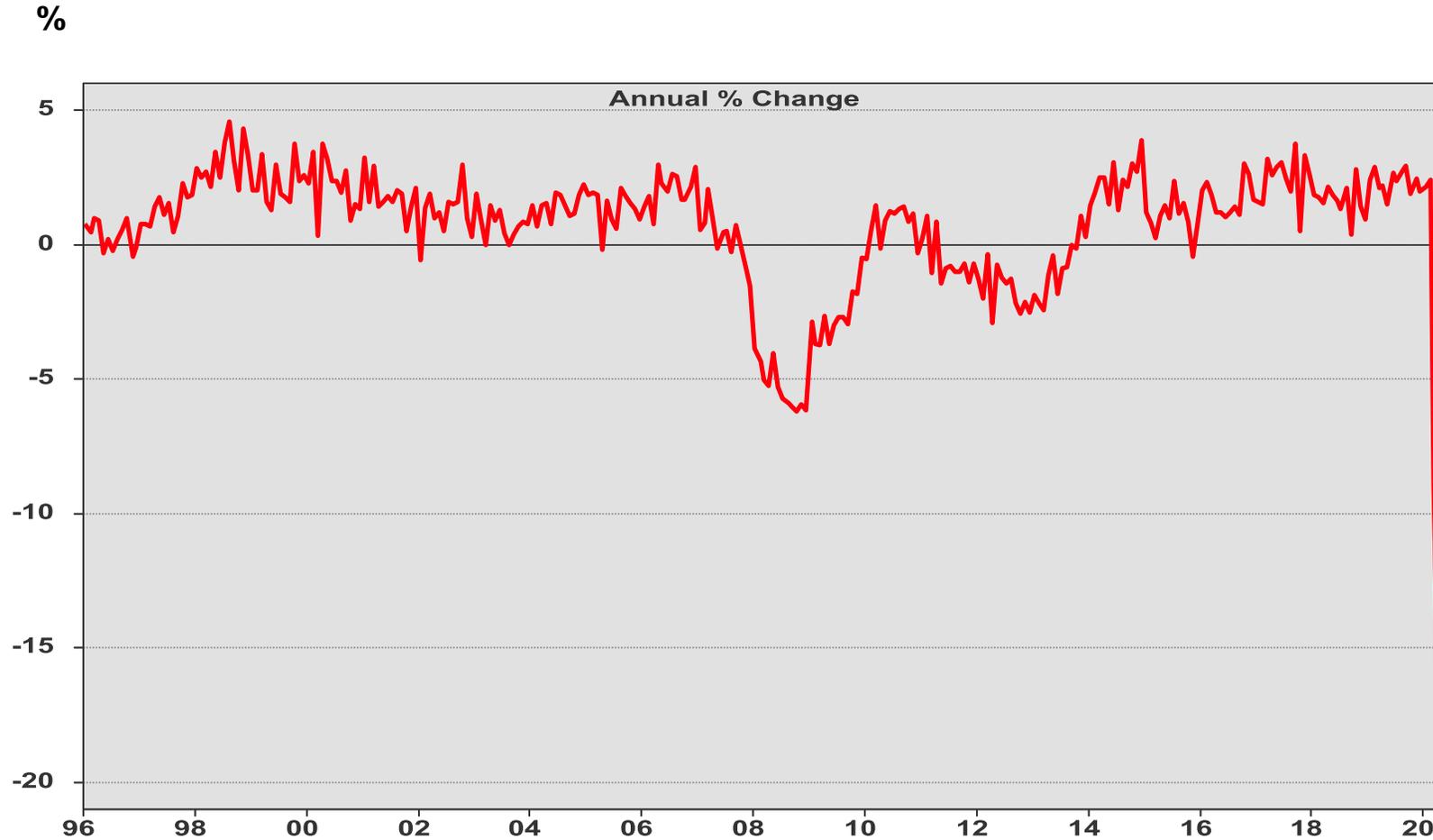
(Real GDP/ Total Employment in the Economy)



Source: Refinitiv Datastream



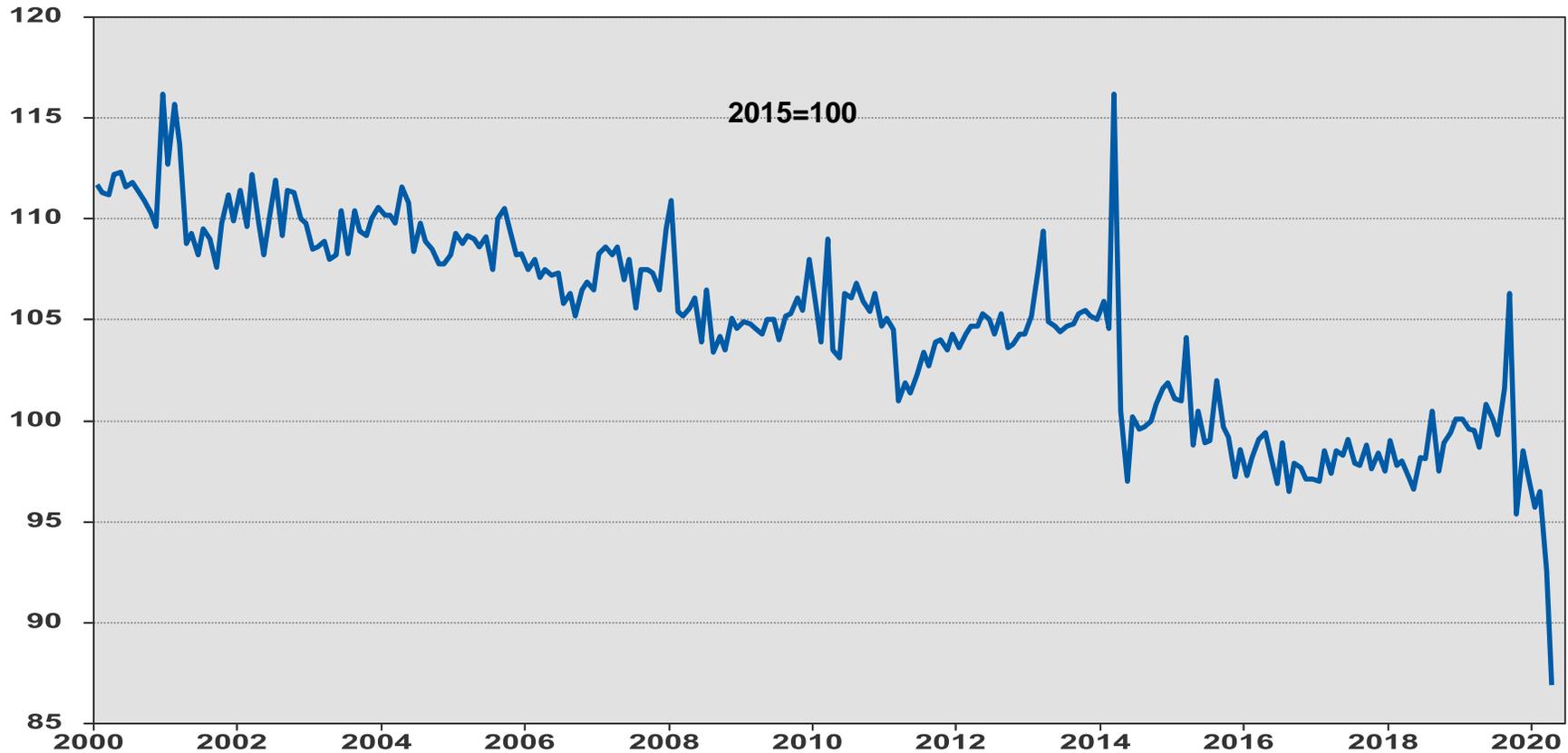
# Eurozone: Retail Sales (Volume index)



Source: Refinitiv Datastream



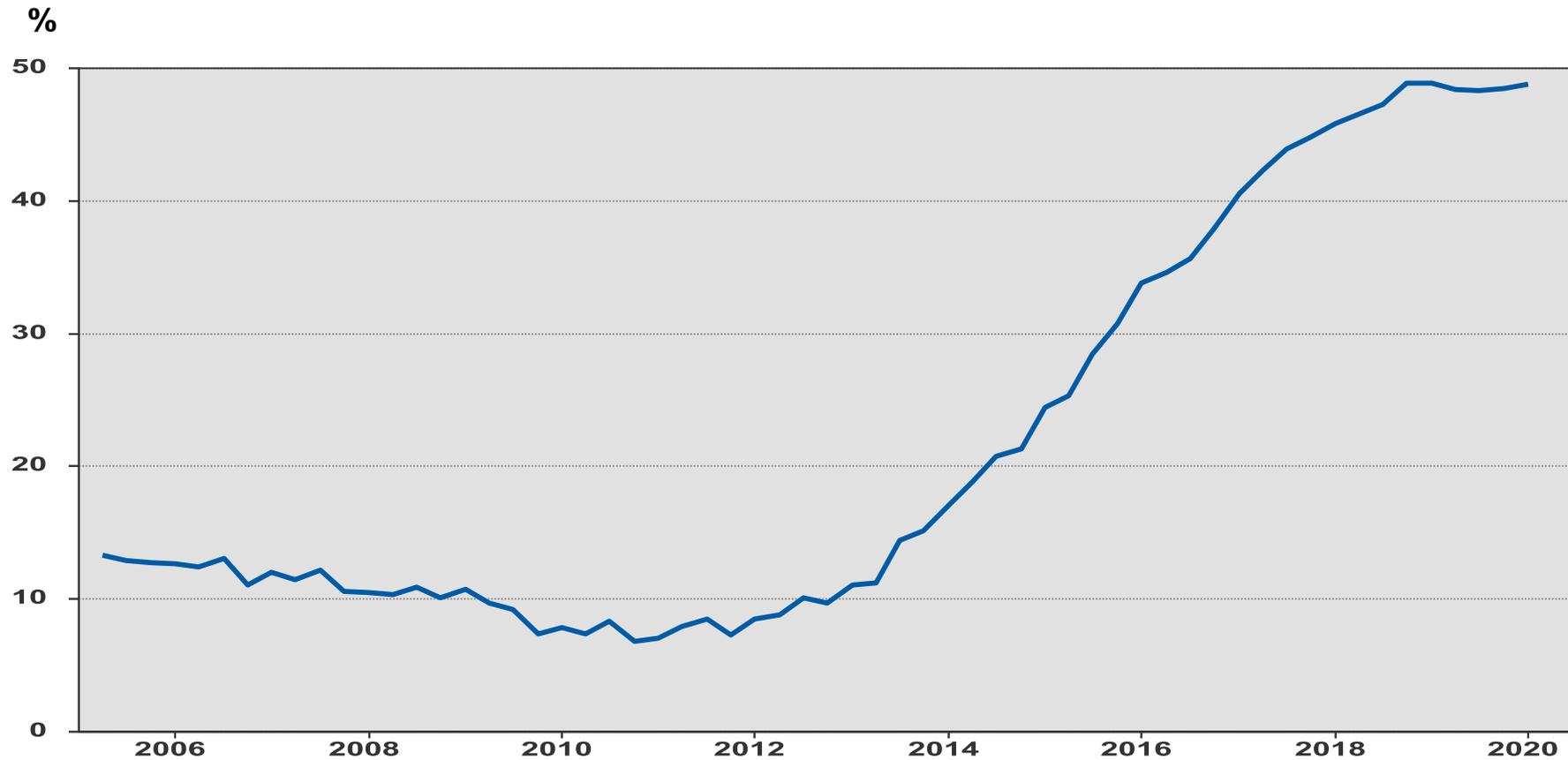
# Japan: Household Living Expenditure Index (Constant prices)



Source: Refinitiv Datastream



# Bank of Japan Holdings of JGB's as % of Total Issuance

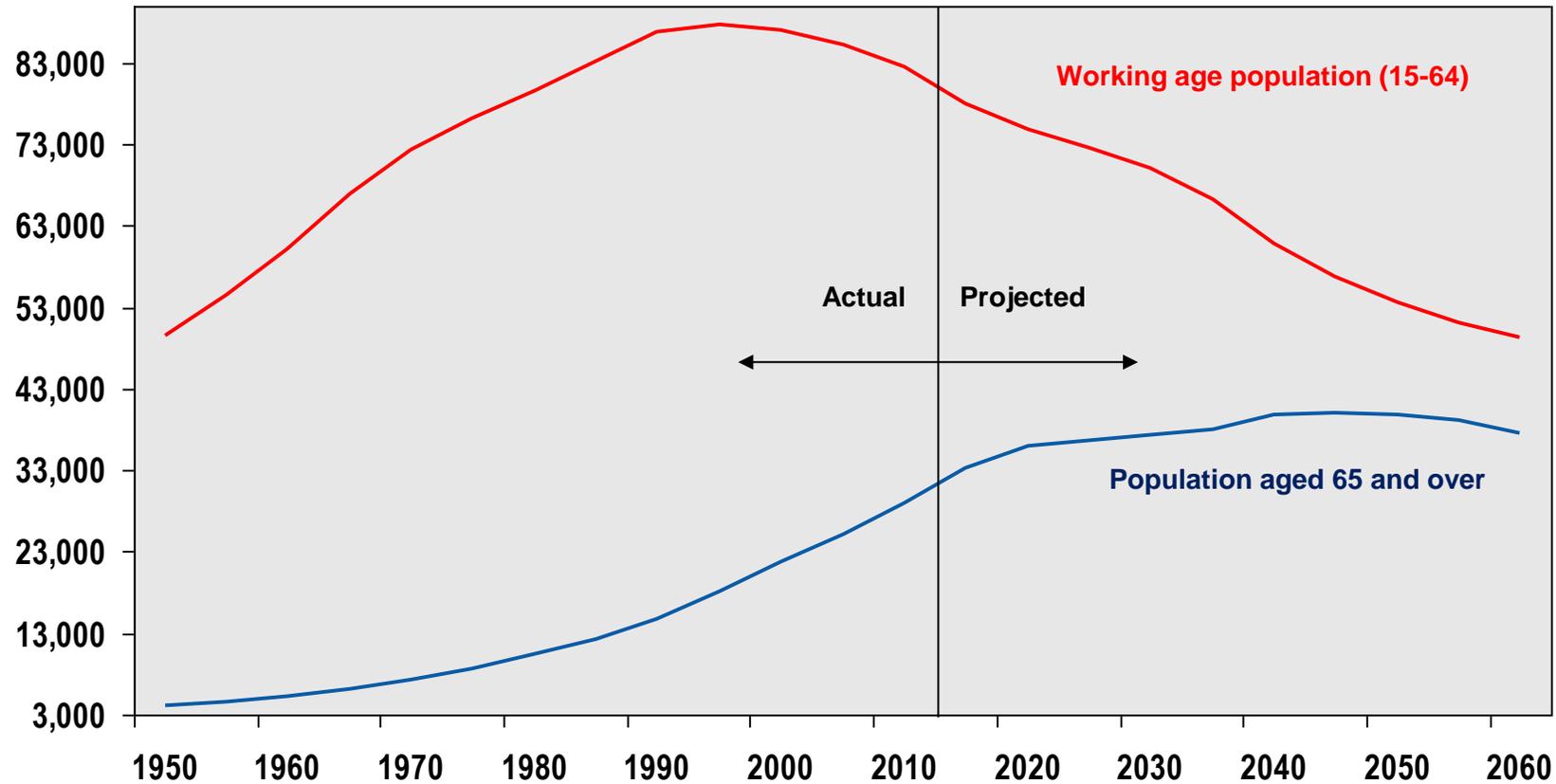


Source: Refinitiv Datastream



# Japan: Major Age Group Projections

Thousands

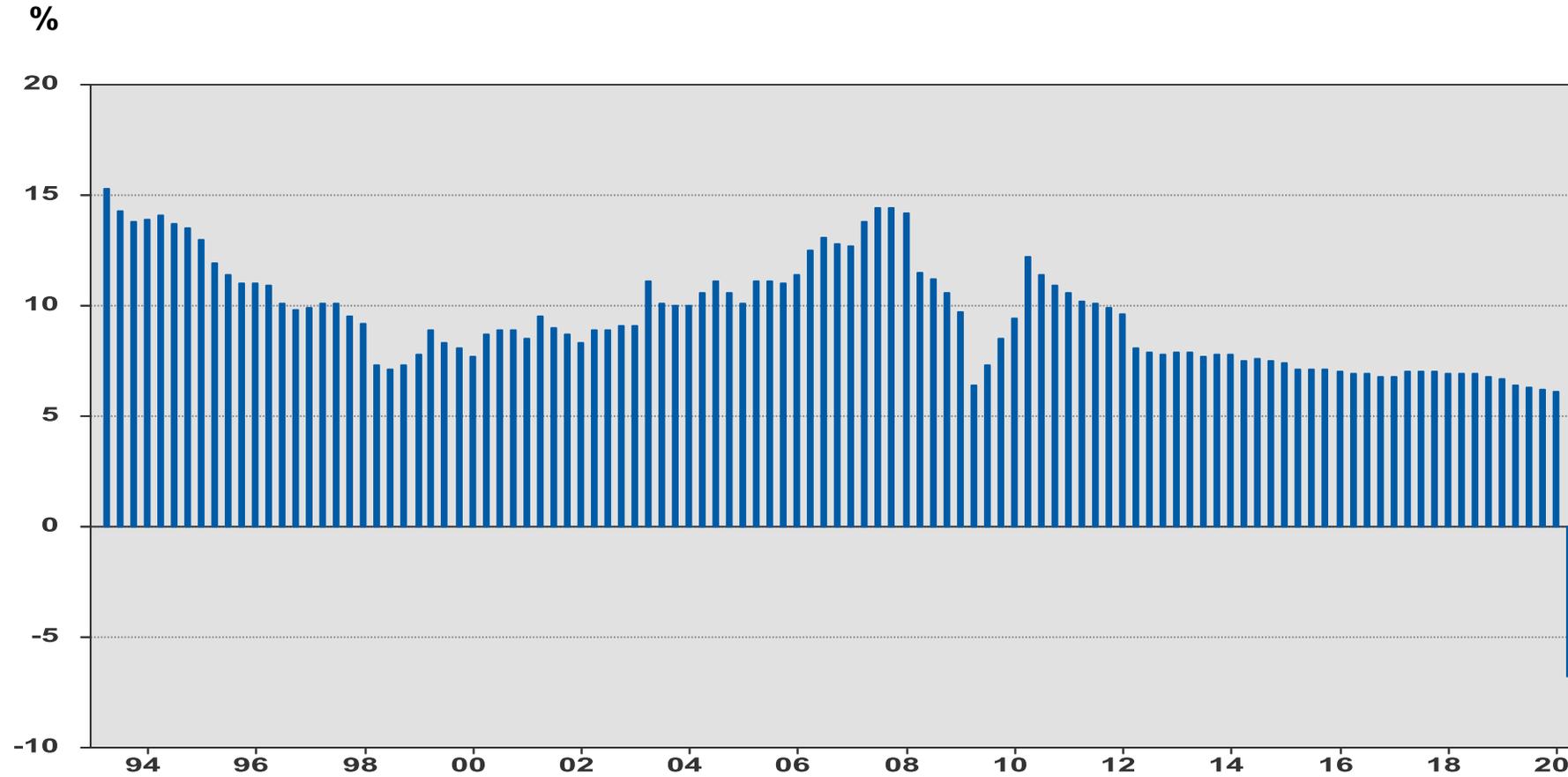


Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects: The 2019 Revision, (medium variant).



# China: Real GDP: Annual % Change

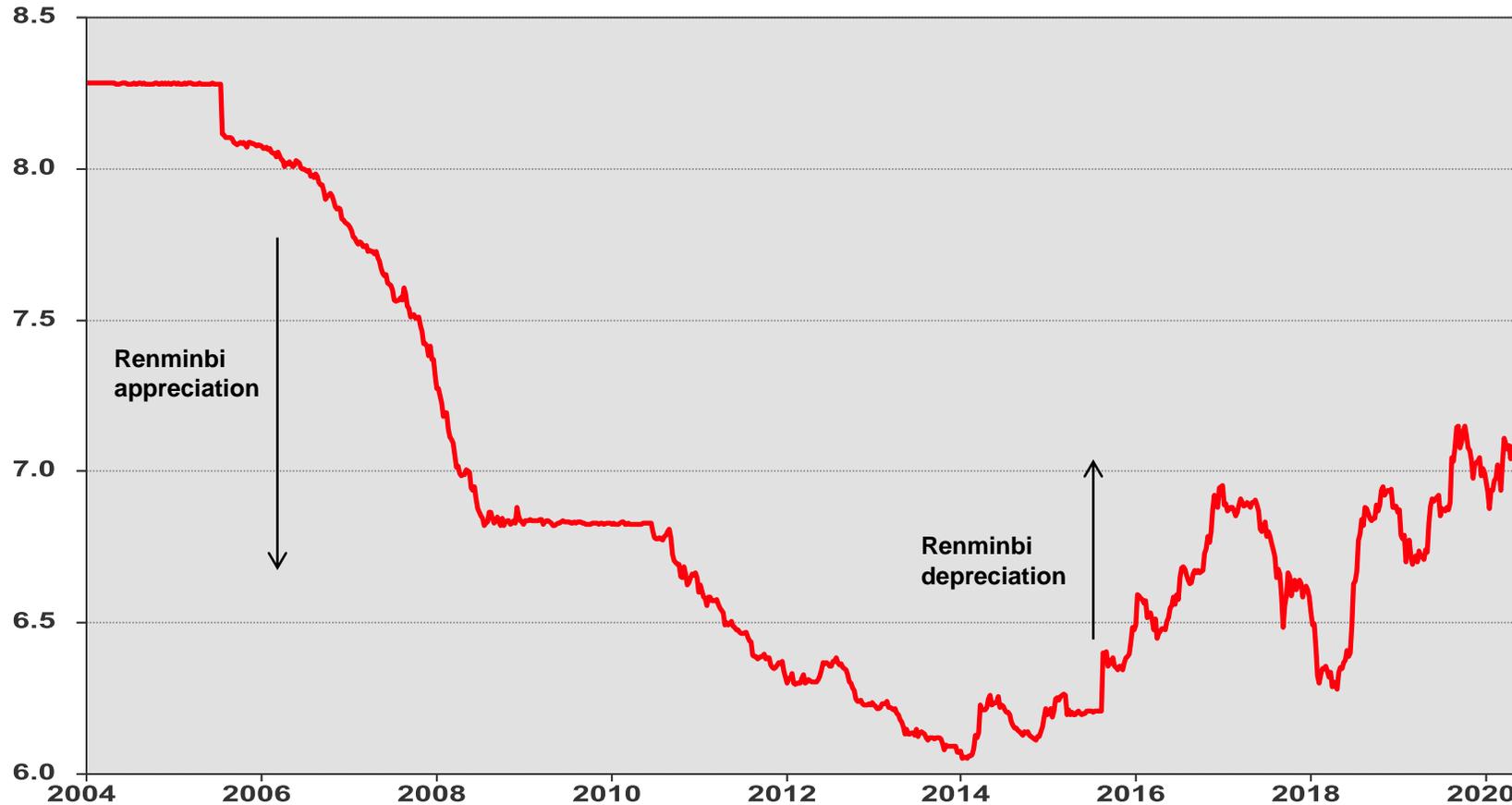
## Quarterly Data



Source: Refinitiv Datastream

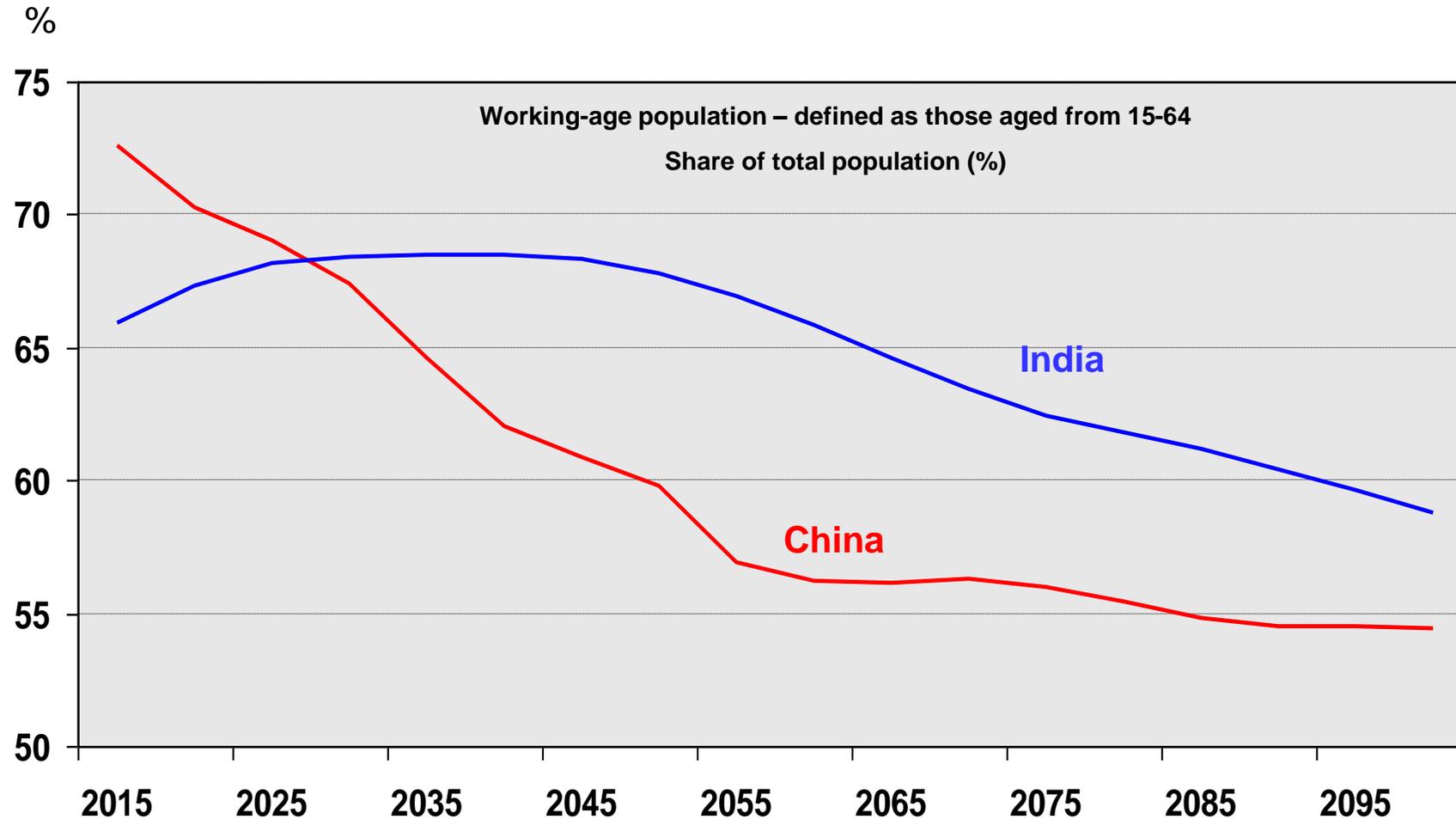


# Chinese Renminbi to US\$ Exchange Rate



Source: Refinitiv Datastream

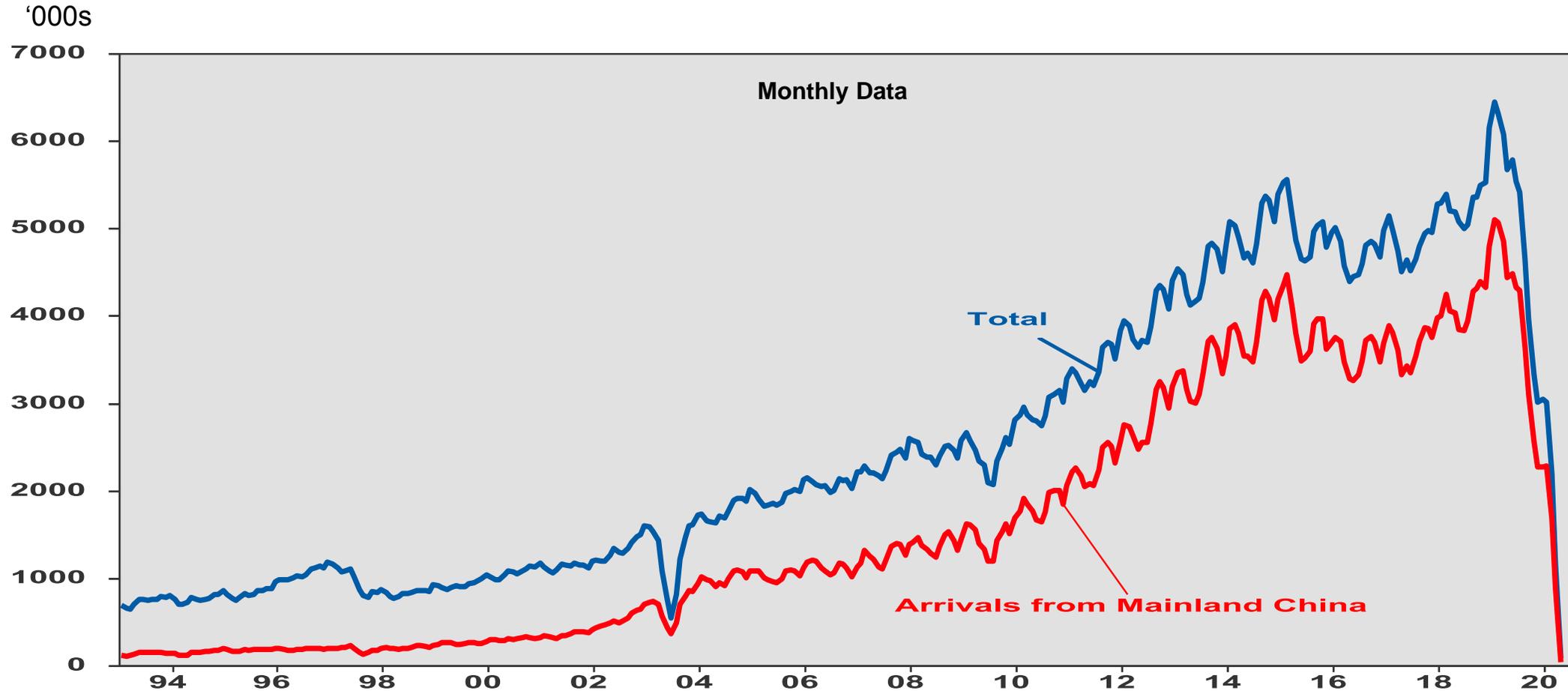
# Working-Age Population – Share of Total Population China and India



Source: United Nations, Department of Economic and Social Affairs, Population Division (2019). World Population Prospects: The 2019 Revision, (medium variant).



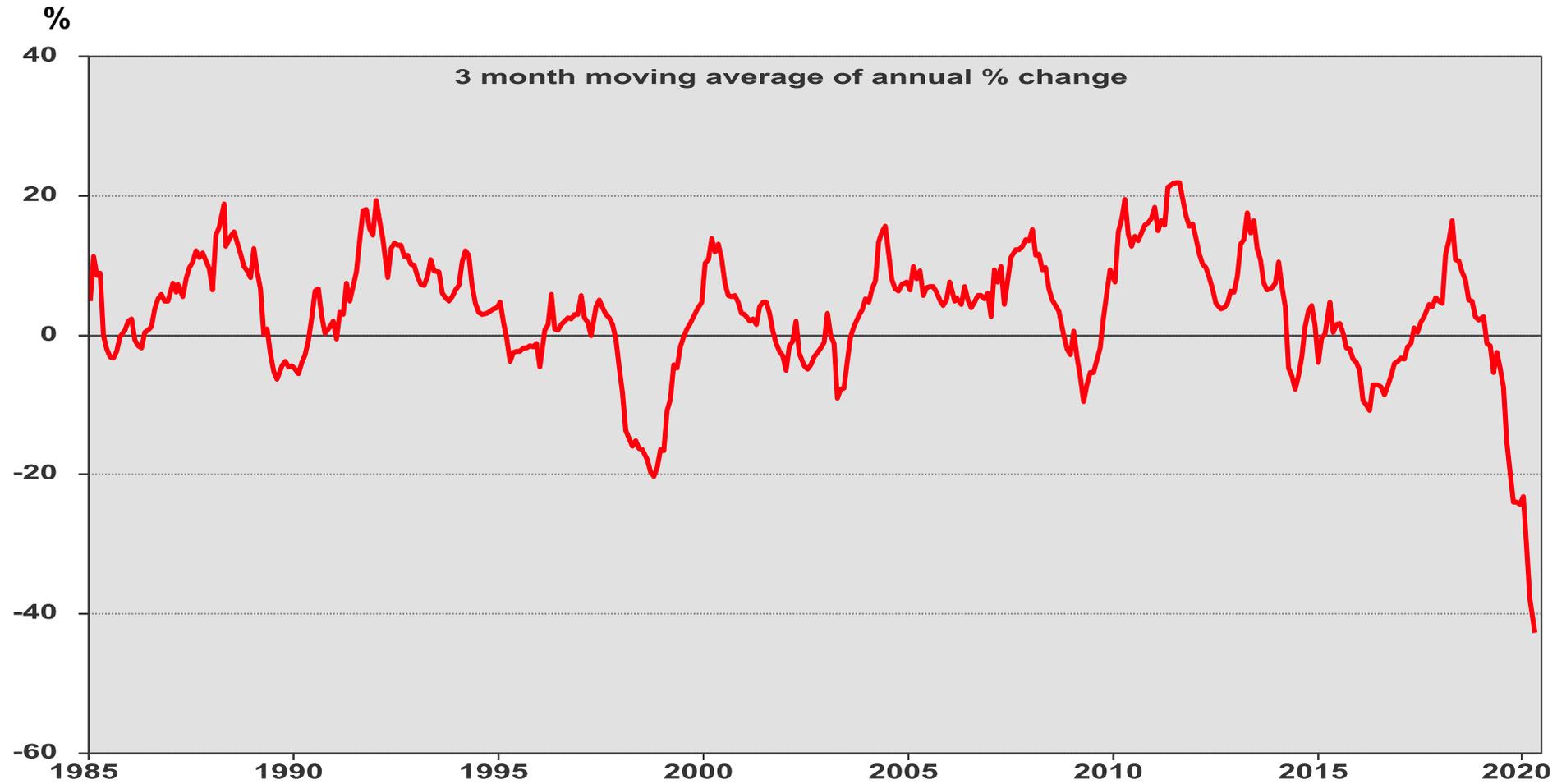
# Hong Kong: Visitor Arrivals (3 month moving average)



Source: Refinitiv Datastream



# Hong Kong: Retail Sales Value



Source: Refinitiv Datastream

# Beyond COVID-19

- The recovery will take longer than many anticipate because the damage to the global economy is massive – and, without precedence. Many things, such as office life in a city, may never return to the pre-COVID normal.
- All countries will now carefully examine their international supply-chain dependencies to ensure vulnerabilities are reduced.
- Central to the recovery is a rapid lifting of restrictions and a focus on productive long-term capital investment plans. Sadly, this is not the focus of financial markets or many corporates as, typically, they seek quick financial rewards.
- Governments have no option but to find ways to reduce the growth of public debt whilst central banks need to limit their largesse. There is no evidence that the fabrication of money by central banks (QE) actually assists the expansion of real economic activity or lifts productivity growth. The benefits tend to flow very narrowly – mainly to the financial markets and their acolytes.

# Investment Strategy

- At the beginning of 2020 equity markets were overvalued. COVID-19 has changed the valuation picture but the striking rebound in markets since the trough in March is not based on fundamentals. It has been reliant on the liquidity infusions by central banks and their ongoing purchases of government bonds, municipal debt, mortgage-backed securities, corporate bonds and, in at least two countries (Japan and Switzerland), equities.
- Government bonds offer little value. Equities are the only long-term solution from this start-point. However, volatility will continue and a second down-wave in markets is possible. A very gradual increase in equity weightings is the appropriate strategy.
- Emphasize geographies with a demographic tailwind. Seek value enhancement though carefully targeted foreign currency exposure.
- Equity selection: Higher than average dividend yields, sustainably high ROE and modest debt – the magic combination.
- Dividends, in particular, are central to satisfactory long-term equity returns:

# The Importance of Dividends

Data from 1900 – 2018 (% p.a.)

|              | Mean Dividend Yield % | Real Dividend Growth % | Change in Valuation | Total Real Return (Annualised) |
|--------------|-----------------------|------------------------|---------------------|--------------------------------|
| Australia    | 5.2                   | 1.1                    | 0.4                 | 6.6                            |
| Belgium      | 3.8                   | -1.4                   | 0.2                 | 2.6                            |
| Canada       | 4.3                   | 0.8                    | 0.4                 | 5.5                            |
| France       | 3.8                   | -0.6                   | 0.0                 | 3.3                            |
| Germany      | 3.6                   | -1.0                   | 0.6                 | 3.2                            |
| Ireland      | 4.4                   | -0.8                   | 0.6                 | 4.2                            |
| Italy        | 4.0                   | -2.1                   | 0.1                 | 2.0                            |
| Japan        | 5.0                   | -1.7                   | 0.9                 | 4.2                            |
| Netherlands  | 4.8                   | -0.4                   | 0.5                 | 5.0                            |
| New Zealand  | 5.3                   | 1.3                    | -0.4                | 6.2                            |
| Norway       | 4.0                   | 0.0                    | 0.2                 | 4.3                            |
| Portugal     | 4.0                   | -0.5                   | 0.1                 | 3.5                            |
| South Africa | 5.6                   | 1.2                    | 0.2                 | 7.0                            |
| Spain        | 4.3                   | -1.0                   | 0.3                 | 3.6                            |
| Sweden       | 3.9                   | 1.9                    | 0.0                 | 5.8                            |
| Switzerland  | 3.5                   | 0.8                    | 0.1                 | 4.4                            |
| UK           | 4.6                   | 0.8                    | 0.0                 | 5.4                            |
| USA          | 4.1                   | 1.6                    | 0.5                 | 6.2                            |
| World (USD)  | 4.0                   | 0.5                    | 0.5                 | 5.0                            |

Source: Credit Suisse Global Investment Returns Yearbook 2019; Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns*, Princeton University Press, 2002. Copyright © 2019 Elroy Dimson, Paul Marsh and Mike Staunton. Data excludes 1922-1923 for Germany

**Michael Angwin** CIMA<sup>®</sup>  
*Director, Intermediary Business*  
**BMO Global Asset Management**

**BMO**  **Global Asset Management**

# About Pyrford

- Established 1987 - managing AU\$17.03bn as at 31 December 2019 for 112 investors\* across separate and pooled accounts
- Joined BMO Financial Group in 2007
- A long history of managing this type of mandate
- 13 investment professionals with average tenure of 14 years at Pyrford
- Internal research drives a value process based on investment fundamentals
- Unconstrained, long-only investors with no attention to benchmarks, consensus or peer groups
- Signatory to the UN Principles for Responsible Investment & Tier 1 signatory to the UK Stewardship Code
- Competitive short, medium and long-term incentive schemes in place. Directly linked to success of Pyrford: Performance, AUM and Profits

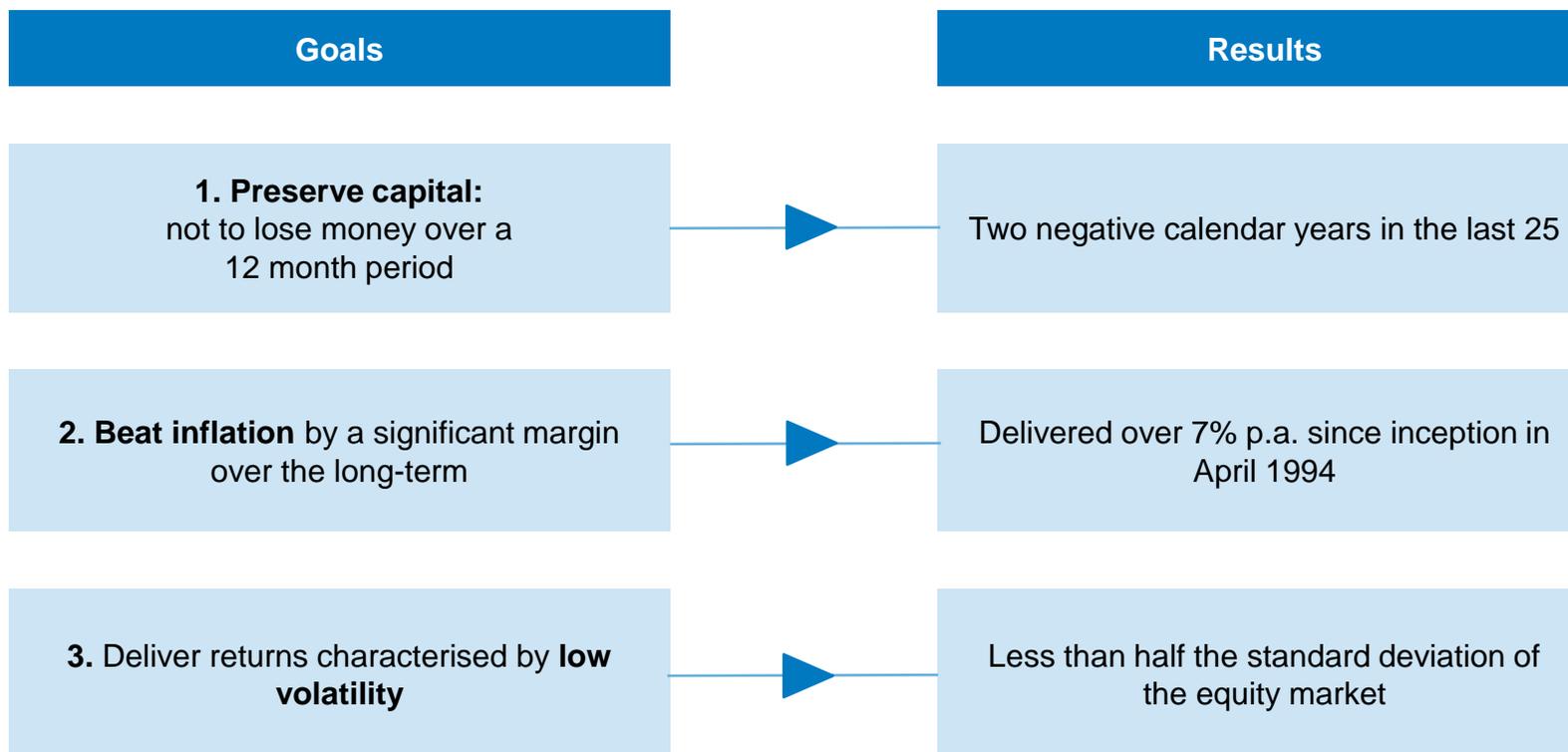
## Investment Professionals

| Name                  | Role  | Years with Pyrford | Years in Industry |
|-----------------------|---|--------------------|-------------------|
| Tony Cousins, CFA     | Chief Executive & Chief Investment Officer  | 31                 | 34                |
| Bruce Campbell        | Strategic Investment Advisor                | 33                 | 50                |
| Paul Simons, CFA      | Head of Portfolio Management, Asia-Pacific  | 23                 | 23                |
| Daniel McDonagh, CFA  | Head of Portfolio Management, Europe        | 22                 | 22                |
| Suhail Arain, CFA     | Head of Portfolio Management, North America | 11                 | 22                |
| Nabil Irfan, CFA      | Portfolio Manager                           | 14                 | 19                |
| Peter Moran, CFA      | Portfolio Manager                           | 16                 | 16                |
| Jun Yu, CFA           | Portfolio Manager                           | 11                 | 19                |
| Stefan Bain, MSc      | Portfolio Manager                           | 8                  | 18                |
| Roderick Lewis, CFA   | Portfolio Manager                           | 6                  | 18                |
| Andrew Sykes, CFA     | Portfolio Manager                           | 6                  | 12                |
| Anneka Desai, CFA     | Portfolio Manager                           | 4                  | 4                 |
| Henrietta Brooks, CFA | Investment Analyst                          | 5                  | 5                 |

\* These figures include investors in pooled investment vehicles

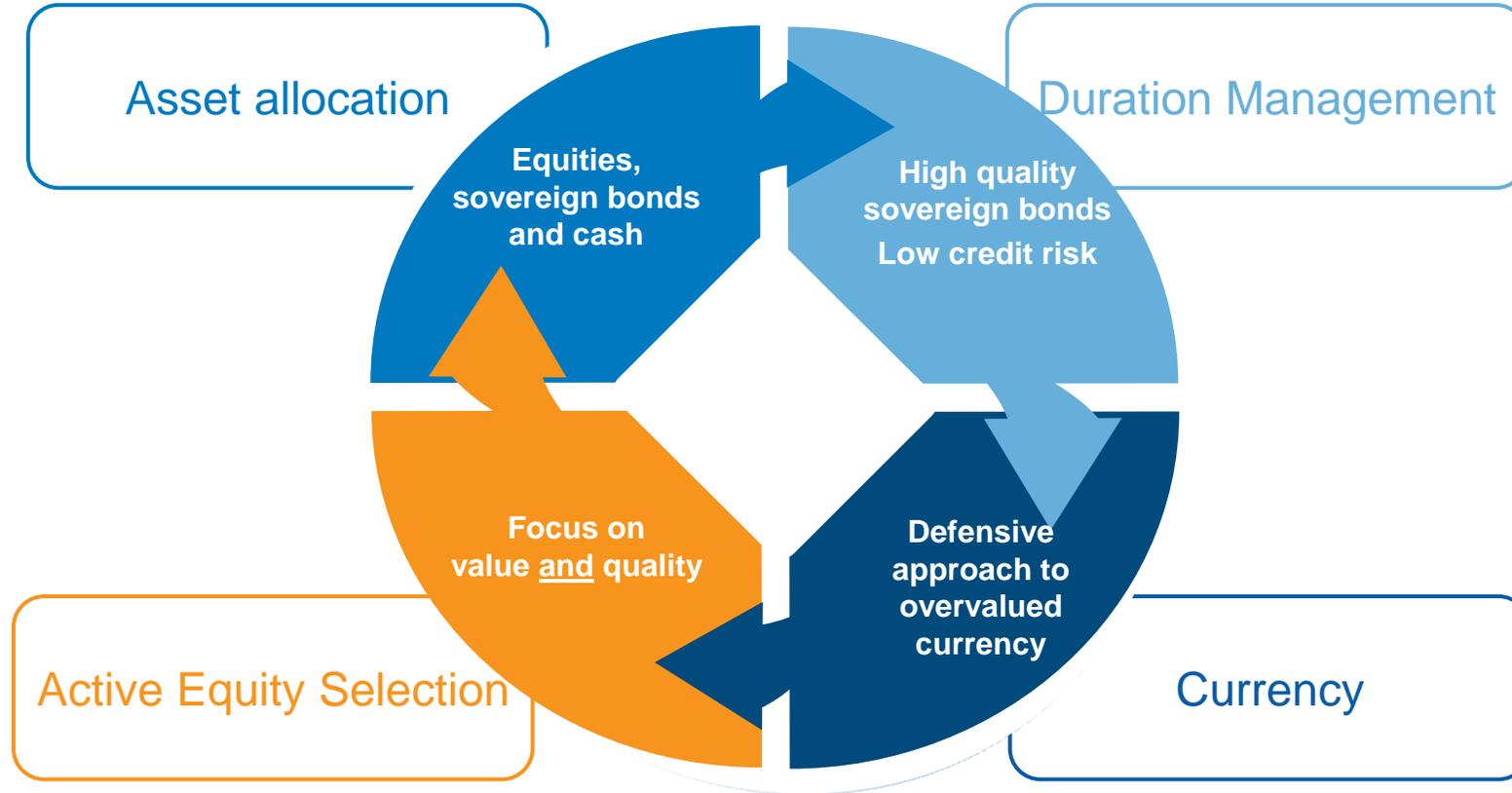
# Pyrford's Global Absolute Return Strategy

“The strategy seeks to provide a stable stream of real total returns over the long term with low absolute volatility & significant downside protection”



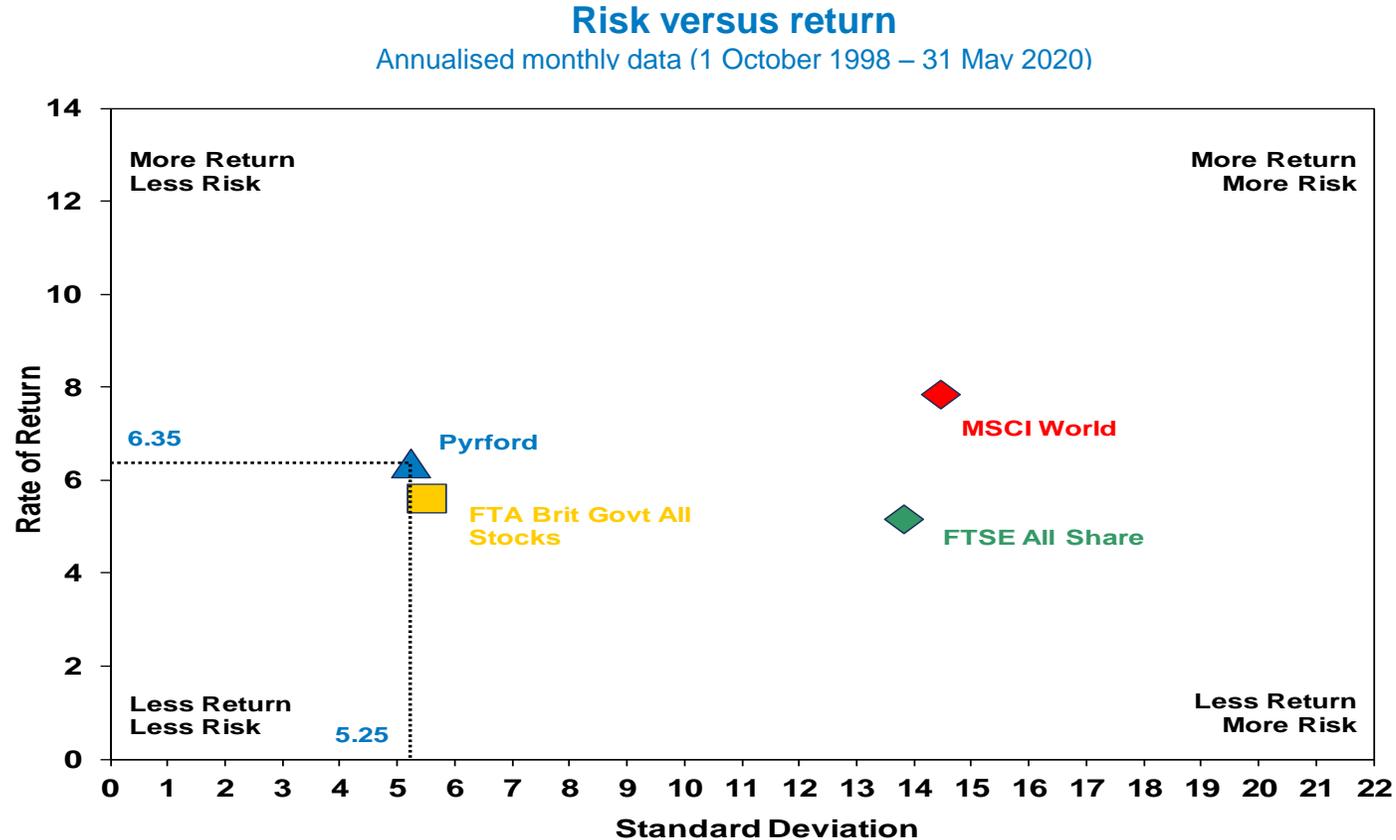
The Risks: A positive return is not guaranteed over any time period. Capital is at risk and an investor may receive back less than the original investment. Past performance is not a guarantee for future returns.

# Four key return drivers



# Goal: Low volatility returns

“Equity-like returns with bond-like volatility”



Source: Pyrford International, Office for National Statistics, FTSE and MSCI BARRA

Performance shown is for Pyrford’s Absolute Return Strategy (Base Currency £) Composite, which comprises all fully discretionary, Absolute Return Strategy accounts with a market value greater than £7.5m, a base currency of GBP and no client restrictions or guidance. Performance is shown gross of fees from the inception date of 1 April 1994 to 31 May 2020. This is supplementary information. The composite focuses on absolute returns and is benchmark-agnostic, although performance has been shown against the above indices as supplemental information and for comparison purposes only. Please see full GIPS compliant performance disclosure at the end of this document.

**Past performance does not guarantee future results. Capital is at risk and an investor may receive back less than the original investment.**

# Goal: Capital preservation

“The strategy seeks to provide a stable stream of real total returns over the long term with low absolute volatility & significant downside protection”

## Calendar year returns of Pyrford for investors, compared to seven calendar years when equity markets were negative

|                       | 2000   | 2001   | 2002   | 2008   | 2011  | 2015  | 2018  |
|-----------------------|--------|--------|--------|--------|-------|-------|-------|
| <b>Pyrford</b>        | +11.7% | +3.9%  | -2.1%  | +12.8% | +5.0% | +2.6% | -0.7% |
| <b>FTSE 100</b>       | -8.2%  | -14.1% | -22.2% | -28.3% | -2.2% | -1.3% | -8.7% |
| <b>FTSE All-Share</b> | -5.9%  | -13.3% | -22.7% | -29.9% | -3.5% | +1.0% | -9.5% |

## Percentage of rolling periods in which the composite had a positive and negative return

September 1998 to December 2019

|                 | 1 month | 3 months | 1 year | 3 years | 5 years | 10 years |
|-----------------|---------|----------|--------|---------|---------|----------|
| <b>Positive</b> | 69%     | 79%      | 93%    | 100%    | 100%    | 100%     |
| <b>Negative</b> | 31%     | 21%      | 7%     | 0%      | 0%      | 0%       |

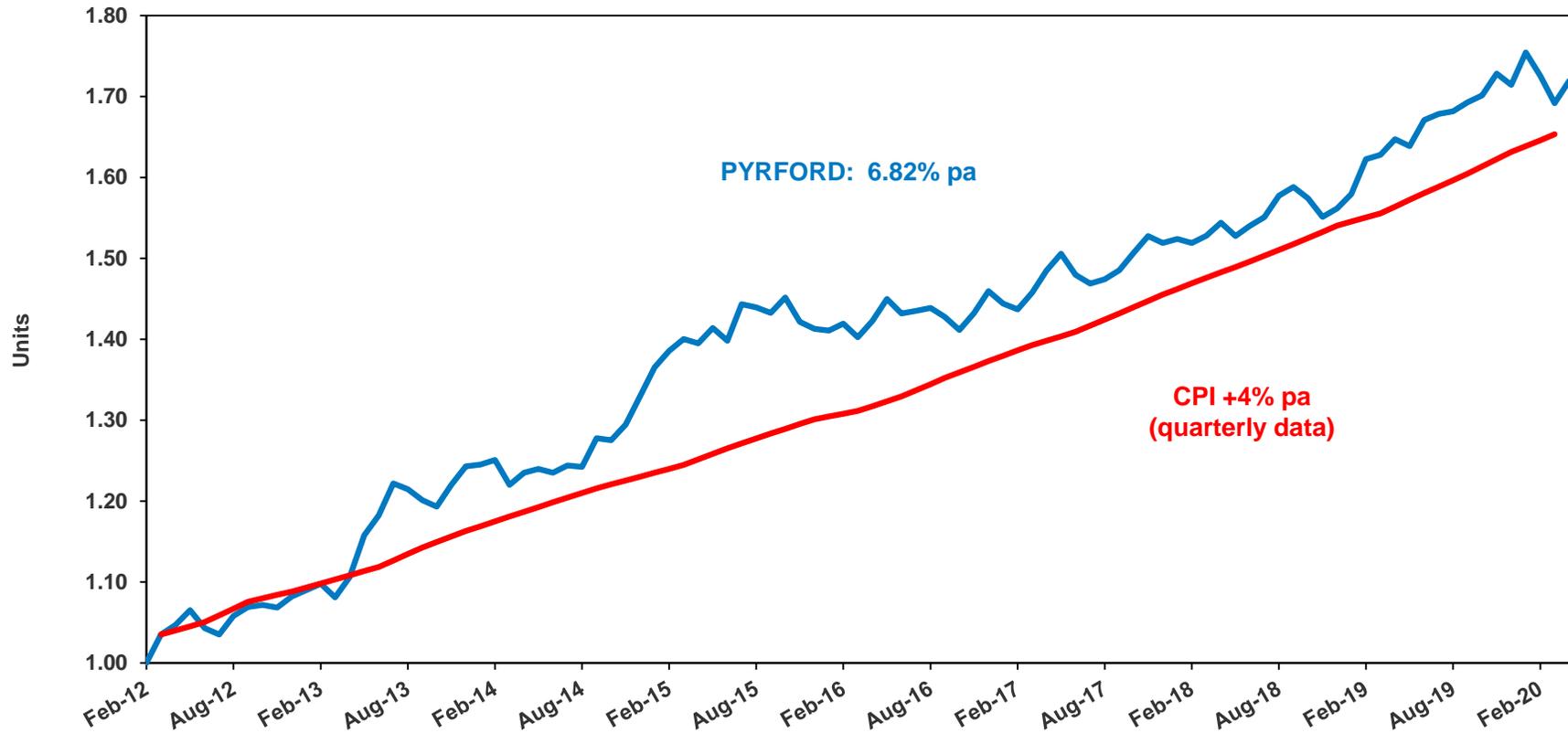
Source: Pyrford International as at 31 December 2019

Performance shown is Pyrford's Absolute Return Strategy (Base Currency £) Composite, which comprises all fully discretionary, Absolute Return Strategy accounts with a market value greater than £7.5m, a base currency of GBP and no client restrictions or guidance. Performance is shown gross of fees. This is supplementary information. The composite focuses on absolute returns and is benchmark-agnostic. Please see full GIPS compliant performance disclosure at the end of this document.

**Past performance does not guarantee future results. Capital is at risk and an investor may receive back less than the original investment.**

# Global Absolute Return Strategy (AU\$) – Gross Investment Performance

Growth of a Unit Value. Annualised returns since inception (01 March 2012 – 31 May 2020)



|                      |      |
|----------------------|------|
| Standard Deviation % | 4.81 |
| Sharpe Ratio         | 1.00 |
| Max Drawdown %       | 3.58 |

Source: Pyrford International Ltd / Thomson Reuters Datastream

Performance shown is for Pyrford's Absolute Return Strategy (Base Currency AUD) Composite which comprises all fully discretionary, Absolute Return Strategy accounts with a base currency of AUD and no client restrictions or guidance. Please see full GIPS compliant performance disclosure at the end of this document.

**Past performance does not guarantee future results. Capital is at risk and an investor may receive back less than the original investment.**

# Fund information

## Platforms

## Menu Type

|                     |                       |
|---------------------|-----------------------|
| Asgard              | IDPS / Superannuation |
| BT Wrap             | IDPS / Superannuation |
| Colonial First Wrap | IDPS / Superannuation |
| HUB24               | IDPS / Superannuation |
| Macquarie Wrap      | IDPS / Superannuation |
| Netwealth           | IDPS / Superannuation |
| Panorama            | IDPS / Superannuation |
| Praemium            | IDPS / Superannuation |
| Mason Stevens       | IDPS / Superannuation |

## Fund Ratings



Report date: 22 July 2019, please see next page for Morningstar disclaimer



Report date: 14 February 2020, please see next page for Lonsec disclaimer

# Rating Disclaimers

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# Disclaimer

**Pyrford International Ltd claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Pyrford International Ltd has been independently verified for the period January 1, 1994 to September 30, 2016 by Grant Thornton UK LLP. 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.**

## Notes to the performance presentation

Pyrford International, a wholly owned subsidiary of the Bank of Montreal, is an investment management firm based in the United Kingdom providing international asset management services for its clients. Pyrford is part of BMO's Wealth Management group which provides wealth management services in North America, Middle East, UK, Asia, Australia and Europe. As at 31 December 2019 Pyrford International Ltd had total assets under management and administration and term investments of AUD 17,049m. For the purpose of measuring and presenting investment performance, all discretionary fee paying accounts of Pyrford International Ltd are allocated to a composite and a complete list and description of the composites is available on request. Additional information regarding the firm's policies and procedures for calculating and reporting performance returns is available upon request.

The Absolute Return Strategy (Base Currency AUD) Composite comprises all fully discretionary, Absolute Return Strategy (Global Balanced) accounts with a base currency of Australian dollars and no client restrictions or guidance. The composite focuses on absolute returns, and is benchmark-agnostic. The composite was first created on March 1, 2012.

All returns are calculated in AUD terms on a time-weighted basis. Effective May 1, 2013, portfolio returns are calculated daily. Prior to this date, portfolio returns were calculated monthly using the Modified Dietz method. Monthly composite returns are calculated by weighting each account's monthly return by its relative beginning market value.

Where there are more than four accounts in the composite over a full year, dispersion is measured as the asset weighted standard deviation of asset weighted portfolio returns of all accounts in the composite for the full year.

The three-year annualised standard deviation measures the variability of the composite returns over the preceding 36-month period.

The accounts in this composite are unleveraged and any derivatives that may be employed are used solely for currency hedging purposes.

Performance results are presented gross of management and custodial fees, but net of transaction costs and before taxes (except for non-reclaimable withholding tax). The standard management fee schedule for segregated management is as follows: 0.70% per annum on the first AUD50 million; 0.50% per annum on the next AUD50 million; 0.35% on the next AUD400m and thereafter 0.30% per annum.

Net-of-fees performance has been calculated using the highest management fee of 0.70% per annum, as described in the firm's fee schedule shown above.

There have been no significant events within the firm (such as ownership or personnel changes) which have materially impacted the historical investment performance.

# Disclaimer

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Investment involves risk. Past performance should not be seen as an indication of future performance. 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. . Before investing, investors should read the offering documents for further details including product features and risk factors. You should not base on this information alone to make investment decision.

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