Investment risks

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 get back less than the original amount invested.

Investing in emerging markets is generally considered to involve more risk than developed markets due to the possibility of low liquidity, high currency fluctuation, the adverse effect of social, political and economic security, weak supervisory structures and weak accounting standards.

Investments in smaller companies carry a higher degree of risk as their shares may be less liquid and investment values can be volatile.
Reality versus perception

Beijing – when Mr Putin is in town

Beijing – after Mr Putin has left

Source: LGM.
Developing markets in three numbers

- **85%** of the world’s population
- **60%** of global GDP
- **10%** of the world’s market cap

Source: MSCI, World Bank 31 December 2018. *based on MSCI indices including both emerging and frontier economies*
Secular growth drivers – new consumers, new profit pools
Powerful structural growth drivers

- **Urbanisation**: 
  - **3x Higher salary in cities**

- **Rising middle class**: 
  - The middle class *2x* by 2030 – 90% of this growth will be in Asia

- **Population Growth**: 
  - +353 million people in India, Pakistan and Nigeria by 2030

The middle class is expanding rapidly

2015 middle class population
3 billion

2030 middle class population
5.4 billion

Source: Brookings Institute “The Unprecedented Expansion Of The Global Middle Class: An Update” 2017. The numbers shown are in millions.
Emerging Markets – GDP in 2030

Active investment in EM
The benchmark is NOT your friend

Breakdown of the top 30 index names

- Governance issues, 17%
- Developed market exposure, 28%
- State owned, 22%
- The rest, 33%

Source: MSCI, LGM Investments. The top 30 index names account for one third of the total MSCI Emerging Markets Index. Data as at 30th September 2019. Breakdown is by market cap share of the top 30 index constituents.
Emerging Market Secular Demand Growth

**Emerging** (Index weight: 10%)
- Pakistan
- Nigeria
- Vietnam
- India

**Establishing** (Index weight: 13%)
- Indonesia
- Thailand
- South Africa
- Peru
- Egypt
- Colombia
- Philippines

**Maturing** (Index weight: 44%)
- China
- Mexico
- Malaysia
- Russia
- Brazil

**Near developed** (Index weight: 33%)
- South Korea
- Taiwan
- Chile
- Poland
- Turkey

<table>
<thead>
<tr>
<th>GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$2,500</td>
</tr>
<tr>
<td>US$5,000 to US$7,500</td>
</tr>
<tr>
<td>US$10,000</td>
</tr>
<tr>
<td>US$12,500</td>
</tr>
</tbody>
</table>

Source: LGM, MSCI as at 01-Jan-18. Qatar, United Arab Emirates, Greece, Hungary, Romania and Czech Republic are not included in the above Index Weights. GDP = Gross Domestic Product. For illustrative purposes only.
Investment philosophy

Our approach to emerging market investing

- Invest in quality companies
- Hold them for a long time
- Don’t overpay
What defines quality?

**Sustainable business model**
- High return on invested capital
- Strong brand / market leader
- Price and/or cost advantage
- Favourable industry dynamics
- Low capital intensity – asset light

**Robust balance sheet**
- Low debt
- Limited foreign exchange risk
- No hidden obligations
- Strong capital base (financials)

**Aligned with majority shareholders**
- Dividends and share buybacks
- No questionable related party transactions
- Active board maximising shareholder value

**Proven management team**
- Consistent execution at all levels
- Strong capital discipline
- Properly incentivised
- Management depth
Travel & Meetings

Idea generation and engagement

Travelling & meeting companies in emerging markets is essential to our process.

*Meetings over the period 01-Jan-18 to 31-Dec-18.*
Supply chain – factory to store

Source: LGM.
Supply chain – factory to store

Source: LGM.
Banking in the developing world

Source: LGM.
Record Keeping

[Image of a document with handwritten records]

[Image of a chart with information on branch performance]

Branch Name: N. Oo Oo Oo 2

<table>
<thead>
<tr>
<th>Sl</th>
<th>No</th>
<th>Name</th>
<th>Mon</th>
<th>Tues</th>
<th>Wed</th>
<th>Thu</th>
<th>Fri</th>
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<tbody>
<tr>
<td>1</td>
<td>AGM</td>
<td>34</td>
<td>2</td>
<td>3</td>
<td>2</td>
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<tr>
<td>2</td>
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<td>424</td>
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<td>432</td>
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<td>2</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Han Lwin</td>
<td>458</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
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<td>5</td>
<td>Aye Tha Cho</td>
<td>472</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Aye Po Min</td>
<td>403</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Total: 16

Note: The table shows performance metrics over different days of the week.
Portfolio
## Top 10 holdings

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Weighting (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Bank</td>
<td>India</td>
<td>4.8</td>
</tr>
<tr>
<td>Walmart De Mexico</td>
<td>Mexico</td>
<td>4.7</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>India</td>
<td>4.2</td>
</tr>
<tr>
<td>Bank Mandiri</td>
<td>Indonesia</td>
<td>4.1</td>
</tr>
<tr>
<td>Yum China Holdings</td>
<td>China/HK</td>
<td>4.0</td>
</tr>
<tr>
<td>Tingyi (Cayman Islands) Holding Corp</td>
<td>China/HK</td>
<td>4.0</td>
</tr>
<tr>
<td>Magnit</td>
<td>Russia</td>
<td>3.7</td>
</tr>
<tr>
<td>Universal Robina</td>
<td>Philippines</td>
<td>3.6</td>
</tr>
<tr>
<td>Sands China</td>
<td>China/HK</td>
<td>3.5</td>
</tr>
<tr>
<td>AIA Group</td>
<td>China/HK</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>40.0</strong></td>
</tr>
<tr>
<td>No. of Holdings</td>
<td></td>
<td>38</td>
</tr>
</tbody>
</table>

Source: BMO Global Asset Management, Factset as at 30-Aug-19. The data shown is of a representative account, is for informational purposes only and is not indicative of future characteristics. Actual results may vary due to specific client guidelines and other factors. Figures subject to rounding.
Country weightings

Source: BMO Global Asset Management, Factset, MSCI as at 30-Aug-19. The data shown is of a representative account, is for informational purposes only and is not indicative of future characteristics. Actual results may vary due to specific client guidelines and other factors. Figures subject to rounding.
Sector weightings

Source: BMO Global Asset Management, Factset, MSCI as at 30-Aug-19. The data shown is of a representative account, is for informational purposes only and is not indicative of future characteristics. Actual results may vary due to specific client guidelines and other factors. Figures subject to rounding.
LGM Global Emerging Markets Strategy

Performance vs. benchmark (US$, gross of fees)

Upside capture ratio: 87%
Downside capture ratio: 74%

Composite assets: **US$1871.4m**
Number of Portfolios in the Composite: 19

Past performance is not indicative of future performance. The performance figures are shown gross of fees. The effect of fees or costs will be to lower the figures shown. Changes in rates of exchange may also reduce the value of your investment.

Source: BMO Global Asset Management, MSCI as at 30-Aug-19. Index data is MSCI Emerging Markets Index (net dividends reinvested) in US$. Returns over 1 year are annualised. Figures subject to rounding. Please see full GIPS compliant performance disclosure at the end of this document.
# LGM Global Emerging Markets Strategy

## Discrete performance vs. benchmark (US$, gross of fees)

<table>
<thead>
<tr>
<th>Performance</th>
<th>LGM Global Emerging Markets Strategy (%)</th>
<th>MSCI Emerging Markets Index (%)</th>
<th>Relative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug 2018 – Aug 2019</td>
<td>-1.8</td>
<td>-4.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Aug 2017 – Aug 2018</td>
<td>0.5</td>
<td>-0.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Aug 2016 – Aug 2017</td>
<td>15.4</td>
<td>24.5</td>
<td>-9.1</td>
</tr>
<tr>
<td>Aug 2015 – Aug 2016</td>
<td>18.6</td>
<td>11.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Aug 2014 – Aug 2015</td>
<td>-15.1</td>
<td>-22.9</td>
<td>7.8</td>
</tr>
</tbody>
</table>

**Composite assets:** **US$1871.4m**  
**Number of Portfolios in the Composite:** 19

**Past performance is not indicative of future performance.** The performance figures are shown gross of fees. The effect of fees or costs will be to lower the figures shown. Changes in rates of exchange may also reduce the value of your investment.

Source: BMO Global Asset Management, MSCI as at 30-Aug-19. Relative returns are arithmetic. Index data is MSCI Emerging Markets Index (net dividends reinvested) in US$. Figures subject to rounding. This is supplementary information. Please see full GIPS compliant performance disclosure at the end of this document.
As investors we are:

**Quality**
- Higher returns
  - RoIC 23.5% (vs BM 13.5%)

**Long-term**
- Twelve month turnover
  - 18.0%

**Bottom-up**
- Active share*
  - 90.1%

Source: BMO Global Asset Management, Factset, MSCI as at 30-Aug-19. ROIC = Return on Invested Capital. ROE = Return on Equity. *Sum of the absolute value of the active weight of individual assets/ 2. All numbers are based on trailing 12-mth financial data.
We act as responsible business owners.

Companies owned and run by the **right people** demonstrate a long term approach to decision making.

It is our responsibility to **consider all relevant factors** that could materially impact a company. Therefore the evaluation of Environmental, Social and Governance (ESG) opportunities and risks are integral to our process.

Our obligations don’t end at the point where an investment decision is made. We **use our vote**, combined with **engagement**, to encourage companies to achieve good ESG practices and reward creation of long-term shareholder value.
Engagement case study
Universal Robina Corporation

**ID issues**
- CEO overcommitted
- Lack of sustainability strategy
- Board balance concerns

**Engagement**
- Multi-year process
- Meetings with management, directors, operational specialists and external consultants

**Outcomes**
- Appointed new CEO
- Developed group-wide sustainability strategy
- Appointed experienced independent directors

**Leading to...**
- Stronger ESG risk and operations management
- Institutionalized decision-making
- Better positioned for the long-term

Leading to...
Active ownership: proxy voting

What is proxy voting?
• Exercising the right to vote on resolutions at company shareholder meetings

How do we conduct it?
• Led by the Responsible Investment team
• Follow standard policy framework: publicly disclosed through our Corporate Governance Guidelines
• Portfolio managers retain the ability to override if they deem any vote not to be in their specific clients best interest
• Transparent reporting on how we vote all resolutions

What do we expect?
• An empowered and effective board and management structures
• Effective systems of internal control and risk management covering all significant risks
• A commitment to promote a culture of transparency and accountability
• Remuneration policies that reward the long term creation of long-term shareholder value

Concluding remarks

- Emerging markets continue to have huge growth potential
- Beware of the risks: fantastic opportunities for “genuinely active” stock pickers
- Quality businesses generate consistent cash flows: greater visibility; higher conviction; better performance
- Active ownership is critical
Contact us

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Extensive worldwide investment capabilities

• Total focus on clients
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• Defined expertise – including a suite of specialist investment boutiques

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