

# BMO Pyrford Global Absolute Return Fund (AU\$)

ARSN 168 994 205

For wholesale investors only

## Q4 2021 Commentary

**Performance** The fund returned 0.09% over the quarter. Since inception in June 2014, the fund has delivered 4.84% per annum.

The aim of the fund is to provide a stable stream of real total returns over the long term with low absolute volatility and significant downside protection.

**Market Commentary** Inflation and how central banks react is front and centre of investors' concerns as we head into 2022. Interest rates are too low, and they have been too low for too long. Have low rates resulted in a leap in underlying economic growth, a positive turn in productivity? No. Central banks have resorted to the world of zero or near zero official interest rates whilst flapping their arms and blaming everyone else for insipid economic growth.

The consequence of pricing credit at very low levels is an asset price explosion. The privileged few have benefited, and the world's wealth imbalance has widened. If money is ultra-cheap and available in vast quantities, it is inevitable that economic distortions will occur. The hurdle rate for business investment is set too low, unprofitable businesses start to dot the landscape, debt skyrockets in hands that will often struggle to pay it back, savers are disenfranchised, speculation is encouraged – and a growing list of asset prices go from absurd to simply ridiculous.

We have previously expressed optimism that the inflationary burst will fade but conceded that it will take quite some time. Our current thinking is that the word "quite" may not be strong enough.

**Key Drivers & Detractors** Strong returns were led by both our overseas equity allocations. Overseas equities contributed 0.53% though our domestic equities detracted, contributing -0.14%. Whilst the Australian bonds contribution was broadly flat, overseas bonds generated a negative contribution of -0.19%.

Overseas equities added led by GlaxoSmithKline (GSK) and Nestle. GSK, a global pharmaceutical company, benefitted from the planned demerger of the Consumer Healthcare division. The company hopes that separating

the Consumer Healthcare and Biopharma divisions will allow each to be run in a manner that fulfills their potential. The easing of lockdown restrictions also helped GSK as people were able to attend medical appointments again and access the medicines and vaccines that, in some cases, had been disrupted by the pandemic. Nestle (Switzerland) rose +14.9% over the quarter after the company announced good results in October and also increased the organic growth guidance for 2021. Furthermore, in early December they announced a reduction in their L'Oréal stake. The funds from this will be returned to shareholders by a new 20bn CHF share buyback program.

Within the domestic equity allocation Woodside Petroleum weighed on returns. Woodside Petroleum lagged following downgrade of reserve estimates for two fields at the Wheatstone project. Woodside expect revenues to remain strong as most contracts are linked to oil prices with a 3-month lag. Computershare added following a good year operationally and completed a sizeable acquisition. However, the strong performance is also due to the change in expectations for interest rate rises globally. Computershare earns "margin" income on the flow of funds between its clients and their various counterparties. This income has been suppressed in recent years but now looks set to recover.

The Australian yield curve flattened lower as did most major overseas yield curves in reaction to the prospect of central bank rate rises. The short end widened more than the long end with the Australian 5 year widening by 56bps compare to 19.5bps at the 10 year point of the curve. We are positioned at the short end, meaning the return from our domestic bond allocation was broadly flat. We are also positioned at the short end within our overseas bond allocation. Both the UK yield curve and the US yield curve flattened over the quarter, meaning our position at the short end outperformed. The British Pound, the Euro and the Canadian Dollar weakened against the Australian Dollar, generating a negative contribution from the overseas bond allocation.

Our US Dollar exposure remains hedged, meaning we benefitted from a weakening US Dollar.

## Enquiries

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**Asset Allocation & Positioning** There were no portfolio changes made over the quarter.

We remain defensively positioned. Our current allocation is 52% government bonds, 45% equities and 3% cash. The equity portfolio remains positioned in defensive sectors such as utilities and telecommunications. These sectors offer predictable revenue streams and attractive valuations. The focus of the portfolio is on balance sheet strength, profitability, earnings visibility and value. In Asia, we prefer the Southeast Asian markets over Japan as the economies in Southeast Asia offer sustainable economic growth supported by increased labour output or productivity growth and trade at more reasonable valuations.

In bonds, Pyrford continues to adopt a defensive stance by owning short duration securities in order to protect the capital value of the portfolio from expected rises in yields. At the end of the period, the modified duration of the fixed income portfolio stood at around 1 year.

The US Dollar remains hedged to meet the portfolio target exposure of no more than 45% in non-AUD, unhedged currencies. Our hedging rule is to hedge currencies that are more than 25% overvalued relative to the base currency. Whilst the US Dollar is not more than 25% overvalued as per our hedging rule it is the most expensive currency relative to the Australian Dollar.

**Quarterly ESG & Voting Summary** As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try and influence the business practices of companies.

Pyrford voted 285 ballots in 10 company meetings in the quarter. We voted against management in over 10% of meetings. We also engaged with 61 companies worldwide and ESG issues are a standing agenda item in every meeting we conduct.

For a detailed overview of ESG activity, please visit our website for all voting records and our latest annual ESG report.

*N.B. Returns are quoted in AU\$ unless otherwise stated.*

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You should consider the Product Disclosure Statement (PDS) before deciding whether to acquire or, to continue to hold, units in the fund. Copies of the PDS for the fund dated 15 October 2020 are available from Perpetual Trust Services Limited ABN 48 000 142 049, AFSL 236648 as the issuer of the PDS.

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