

# **LGM Investments Limited**

## **Part 2A of Form ADV: Firm Brochure**

January 2016

LGM Investments Limited is registered in the United States as an investment adviser with the United States Securities and Exchange Commission. Registration does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of LGM Investments Limited. If you have any questions about the contents of this brochure, please contact us at +44 (0) 20 7628 8000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any United States state securities authority.**

Additional information about LGM Investments Limited is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

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**Item 2 Material Changes**

There have been no material changes since the last update in January 2015.

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#### **Item 4: Advisory business**

LGM Investments is a trading name of LGM Investments Limited and is part of the BMO Global Asset Management group of companies which are themselves part of the wider BMO Financial Group. The BMO Financial Group can trace its roots back to the foundation of the Bank of Montreal in 1817, Canada's first bank and the ultimate parent company of the BMO Financial Group, including LGM Investments Limited.

BMO Global Asset Management is a global investment organisation providing investment management, retirement and trust and custody services to institutional, retail and high net worth investors around the world, with 27 offices in 17 countries. We are a provider of market-leading investment capabilities across multiple asset classes, with a focus on innovating and delivering investment solutions for clients.

We provide our clients access to core competencies such as global and regional equities, large and small cap equities, global rates, investment grade and non-investment grade credit as well as our award-winning liability driven investment, property and Responsible Investment solutions. Our business is built around understanding our clients' objectives and providing innovative solutions to meet those objectives.

As at 31 October 2015, LGM Investments Limited managed approximately US \$1.7 billion<sup>1</sup> of assets for a range of clients. The BMO Global Asset Management group of companies, including LGM Investments Limited, had a total of approximately US \$232 billion in assets under management, and the wider BMO Financial Group, with close to 47,000 employees, and providing a broad range of retail banking, wealth management and investment banking products and services to more than 12 million customers, maintained assets of approximately Canadian \$642 billion.

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<sup>1</sup> \$1,728,578,679 discretionary and \$0 billion non-discretionary.

## Item 5: Fees and Compensation

The fees and expenses for our services will depend on the service provided and may be open to negotiation or based on existing agreements we may have entered into with you. Fees will generally be based on either:

- a basis point fee in relation to the assets under management;
- a charge associated with a particular piece of advisory work or a particular solution provided (e.g. if you ask us to structure a specific transaction we will charge you costs associated with this transaction and these will be linked to the risk of the trade and the cost of doing it); and/or
- a performance fee which will be linked to performance targets which have been set and agreed in the agreement we have entered into with you.

The fees and expenses associated with our governance and sustainable investment services are captured as part of the management fee you pay and the service is therefore part of the broader package that we offer you. We also offer a responsible engagement overlay service for our clients where we do not manage their assets and therefore where there is no associated management fee. In these instances either a fixed fee or a basis point charge will be applied to the value of assets to which the service is applied.

Fees are usually payable monthly or quarterly in arrears and are either deducted from your assets, which are held by your appointed custodian, or billed directly to you. Respectively, the fee, the method of calculation and the frequency of charging can be negotiated before we enter into any formal agreement with you to manage your money, or provide services to you.

The fees and expenses for clients with their own segregated discretionary portfolio management accounts are subject to, and will depend on, the structure of the assets, but may include:

- administration fees;
- brokerage fees; and
- other transaction costs such as the bid/offer spread on non-agency transactions.

Brokerage fees and other transaction fees are discussed in more detail in Item 12 Brokerage Practices.

We review our fee rates on an annual basis and also benchmark our fee schedules against what the market charges, using public information, industry surveys and industry press reports. We aim to ensure that our fees remain competitive whilst reflecting the high quality of our investment products and also the high level of client service that we offer.

We reserve the right to waive or impose different fees or otherwise modify the fee arrangements of an existing client with the consent of that client.

## **Item 6: Performance-Based Fees and Side-By-Side Management**

We charge some clients a performance based fee, that is, a fee based on our performance against targets which have been set and agreed in the client agreement. These will vary from client to client and will be negotiated at the time the agreement is drafted between us.

Potential conflicts of interest may arise due to the nature of performance fees. Such fees may create an incentive for us to undertake investments carrying greater risks. Another potential conflict of interest may arise because we may have an incentive to favour higher performance fee paying accounts or those that pay a performance fee over those that do not.

To manage these risks, we have Investment Risk Committees which monitor investment risk on a regular basis with a view to ensuring that portfolios are not running undue risk. Additionally, we also seek to monitor the fair participation and fair allocation of deals including new issues. Furthermore, we have a policy of requiring staff to disregard any material interest or conflict when advising or exercising investment discretion for you. That is, the policy is to always act in the best interests of the client and in the last resort we may decline to act for you where that is the only alternative.

Other potential conflicts that may arise from us managing both hedge funds with performance fees and more traditional funds with lower fees are crossing "good" assets from traditional funds to hedge funds or poorly performing assets from hedge to 'traditional' or long-only funds. Our policies on fair participation, aggregation and allocation are designed to manage these conflicts. Our senior management and our internal audit, risk and compliance teams monitor these key potential conflicts. Our controls over crossing aim to prevent conflicts arising in this area. That is, positions cannot simply be transferred from account to account. Crosses may be made between clients' accounts but these are generally traded through a broker in the market at a price that is fair to both parties.

## **Item 7: Types of Clients**

Our clients comprise a range of investors, across a number of geographies and jurisdictions. We provide discretionary investment management services to the following:

- Pension funds;
- Foundations;
- Government organisations;
- High net worth individuals;
- Third party funds; and
- LGM Investments sponsored funds.

We do not provide investment advice to private individuals based on their individual personal circumstances.

For our institutional clients wishing to have their own segregated mandate, we generally look to a minimum fund size of \$50 million; however, this may be adjusted on an individual basis. For LGM funds, the minimum subscription amounts are detailed in the applicable fund prospectus.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

We offer a broad range of investment strategies across a full range of asset classes, including:

- Global, regional and country specific fixed income (covering corporate bonds, government securities, money market and aggregate strategies across developed and emerging markets);
- Developed and emerging market equities in small, medium and large companies (including strategies focused on environmental, social and governance themes, as well as systematic equity);
- Liability Driven Investment (solutions ranging from our cost-effective Dynamic and leveraged Swap funds, simple hedging Equity Linked products, to the more tailored Bespoke and Segregated service);
- Multi-asset (balanced) and multi-manager (fund of funds) portfolios;
- Private equity fund of funds;
- Listed and direct real estate investment;
- Alternative strategies such as absolute return oriented fixed income, fund of hedge funds and derivatives-based strategies; and
- Exchange Traded Fund's (we offer a comprehensive suite of fixed income and equity solutions).

All of these approaches aim to add value through active management based on internal and external research.

We believe that individuals work best as part of a small, focused team. Our investment professionals are therefore organised into tightly knit groups, focused on specific products. Each team is provided with a high degree of autonomy over their investment approach, fostering a strong culture of enterprise and accountability for delivering performance. This approach – of being both large in terms of resource, but entrepreneurial and multi-specialist in terms of structure – is what we describe as a “multi-specialist” fund management model, with individual investment teams applying what they believe to be the most appropriate investment philosophy and process for the particular market in which they invest, based upon specific mandate objectives and guidelines.

Each strategy is designed to provide the investment exposure described in its investment guidelines which in the case of segregated mandates are contained in the Investment Management Agreement. The suitability of a strategy or fund for a particular client depends on their investment requirements and attitude to risk.

As a client you will be exposed to the risks associated with investment in stocks, shares and bonds and you should understand that the value of, and income from, investments can fall as well as rise and that you may not get back the full amount that you originally invested. You should also be aware that the strategy in which you invest will be liable to stock market movements regardless of how well the fund manager performs and should be familiar with the specific risks associated with the strategy in which you are investing and be prepared to undertake those risks. You should ensure you are aware of all the potential risks specific to your investment portfolio. These will be described, in the case of segregated mandates, in the Investment Management Agreement, however we have summarised below the key risks.



## General Risks

The following risks are general and apply to all strategies we offer:

- **Market risk:** the value of shares and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements.
- **Performance risk:** past performance is not a guide to future investment returns and when holdings are sold you may get back less than you originally invested, regardless of how well we have performed.

There will be a variation in performance between different funds with similar objectives due to the different assets selected. Portfolios will also diverge from their benchmarks depending on these selections. There is no guarantee of the performance of your investment.

- **Inflation risk:** inflation can affect the value of your investment.
- **Fees:** the impact of fees charged on the management of assets may reduce the prospects for capital growth or possibly result in capital erosion.

## Strategy Specific Risks

Our individual investment strategies have different specific areas of investment and investment objectives. These specific objectives may mean that one or more of the specific risks listed below could also apply to your investment. You should also read, in the case of segregated mandates, the Investment Management Agreement for a full description of the potential risks applicable to your investment.

- **Liquidity risk:** Generally speaking, smaller companies and shares in emerging markets are traded less frequently than larger ones. This means that there may be difficulty in both buying and selling shares and individual share prices may be subject to short-term price swings. Additionally the amount by which the strategy diverges from, or under / over performs, the Index may be higher than for other strategies.
- **Credit risk:** There is always a credit risk associated with investing in corporate bonds. With investments in lower grade corporate bonds there is a higher risk that the issuer will not meet its debt obligations. The higher the credit risk, the greater is the likelihood of a failure to pay interest or capital when due.
- **Exchange or currency risk:** Investments made overseas may not be traded in your base currency and movements in exchange rates may cause the value of your investment to rise and fall.
- **Smaller companies:** Smaller companies and businesses at an early stage of their development carry a higher degree of risk and this means that the value of such investments is usually more

sensitive to market movements, which means that the amount by which the strategy diverges from or under / over performs the Index may be higher than for other strategies.

- **Concentrated portfolio:** Where a portfolio is concentrated, short-term volatility in the price could be relatively high which means that the amount by which the portfolio diverges from or under / over performs the Index may be higher than for other funds.
- **Fixed interest securities and interest rates:** The value of portfolios that invest in fixed interest securities may increase or decrease if interest rates change. For example, if interest rates rise, the portfolio value is likely to fall.
- **Sub-Investment Grade Bonds:** Such bonds have a lower credit rating than investment grade bonds and so a higher risk of default and carry a higher degree of risk both to the income and capital value of the portfolio.
- **Ethical screening:** Certain strategies are unable to invest in certain sectors and companies due to the ethical screening that they undertake. This may mean that they are more sensitive to price swings than other strategies.
- **Zero dividend preference shares:** Zero dividend preference shares are entitled to a fixed return of capital at redemption that is set at issue and will not increase. The return is not guaranteed and may be adversely affected by investment performance, however it is protected to the extent zero dividend preference shares are paid out before other shareholders
- **Investment trusts:** Certain strategies may invest in investment trusts. These are public limited companies quoted on the Stock Exchange. The price of their shares depends on supply and demand and is not necessarily the same as the value of the underlying assets per share. It may be higher 'at a premium' or lower 'at a discount'. The discount or premium varies continuously and represent an additional measure of risk and reward. Gearing – investment trusts can borrow money, which can then be used to make further investments. In a rising market, this 'gearing' can enhance returns to shareholders. Correspondingly, if the market falls, losses will also be multiplied. Hence the level of gearing needs to be carefully judged and monitored to produce a benefit.
- **Emerging Markets:** Investments in emerging markets may be more volatile than investments in more developed markets. Many emerging markets do not have well developed regulatory systems and disclosure standards may be less stringent than those of developed markets. The risks of expropriation, nationalisation and social, political and economic instability are greater in emerging markets than in more developed markets. The accumulation and disposal of holdings may be more expensive, time consuming and generally more difficult than in more developed markets. Also, due to the lack of liquidity, volatility may be higher. Many emerging markets are small, have low trading volumes, low liquidity and significant price volatility. Significant changes in the exchange rates of currencies of the countries in which investments are made may occur following investment in these countries. It may not be possible to undertake currency hedging techniques in respect of these

currencies. Settlement and custody standards may not be as high and supervisory and regulatory authorities may not be as sophisticated. As a result there may be risks that settlement may be delayed and that cash or securities could be disadvantaged. Emerging markets may restrict the access of foreign investors to securities. As a result, certain equity securities may not be readily available because the maximum permitted number of or investment by foreign shareholders has been reached. Similarly the outward remittance by foreign investors of their share of net profits, capital and dividends may be restricted or require governmental approval. The fund manager will only invest in markets in which it believes these restrictions to be acceptable. There is however no guarantee that additional restrictions will not be imposed after an investment has been made. Settlement and custody standards may not be as high and supervisory and regulatory authorities may not be as sophisticated. As a result there may be risks that settlement may be delayed and that cash or securities could be disadvantaged.

- **Property:** Certain strategies may invest in property related securities. The value of such securities is likely to reflect valuations of property assets as determined by professional valuers. Such valuations are the opinion of the valuer at a particular time, may not be supported by recent transactions and are liable to revision, up or down.
- **Interest rates:** The return on any investment in money markets investments is related to interest rates. If interest rates rise, the return is likely to rise, and if they go down, it is likely to fall.
- **Political and / or regulatory risks:** The value of your investment may be affected by uncertainties such as changes in government policies, taxation, restrictions on foreign investment and on foreign currency repatriation, currency fluctuation and other developments in the laws and regulations of investee countries.
- **Economic risk:** Any investment made may be sensitive to any general downturn in the overall economy or in that entity's industrial sector. Although the fund manager will attempt, through careful selection of investment candidates, to limit the risk associated with general economic conditions, substantial adverse economic conditions might have an impact on the investment assets of your account.
- **Derivatives and Forward Transactions:** Investments in derivatives may increase or decrease the volatility of the value of your investment.
- **Taxation:** Levels and bases of taxation and reliefs from such taxation are subject to change and their value, in certain circumstances, depends on an investor's particular circumstances. Existing and prospective investors should consult their professional advisers regarding potential tax consequences of undertaking particular investments.

The importance of these risks may change in the future.

**Item 9: Disciplinary Information**

There is no disciplinary information that relates directly to LGM Investments Limited.

**Item 10: Other Financial Industry Activities and Affiliations**

LGM Investments is a trading name of LGM Investments Limited and is part of the BMO Global Asset Management group of companies which themselves are part of the wider BMO Financial Group. LGM Investments Limited is one of a number of investment firms in the LGM Investments' group of companies and is affiliated to each of these firms through the common ownership by LGM (Bermuda) Limited. LGM (Bermuda) Limited is a wholly owned subsidiary of the Bank of Montreal which is the parent company of the BMO Financial Group.

When appropriate, employees of LGM Investments Limited may provide information, marketing materials and disclosure documents to clients or potential clients of companies within the BMO Global Asset Management group of companies. These products or services are only offered to investors in those countries and regions in accordance with applicable laws and regulations. Alternatively, other companies within the BMO Global Asset Management group of companies may provide information, marketing materials and disclosure documents with respect to clients or potential clients of LGM Investments Limited.

In addition, LGM Investments Limited may have common management and officers with some of its affiliates, including with affiliated investment advisers. LGM Investments Limited shares facilities with some affiliates and relies on BMO Financial Group for various administrative support including information technology, human resources, legal, finance, risk management and internal audit. These facilities can create potential conflicts of interest. LGM Investments Limited seeks to mitigate these potential conflicts of interests through its governance structures and by maintaining trading policies and procedures including a Code of Ethics policy.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

We expect our employees to share the commitment to the highest level of integrity in the conduct of our business. Integrity and ethics have always been a significant part of the way we conduct business. Operating with a strong sense of integrity is critical to maintaining trust and credibility with our customers, partners, employees, shareholders and other stakeholders.

Upon joining BMO Global Asset Management, employees sign their agreement to abide by the wide-ranging policies of BMO Global Asset Management, of which the Code of Ethics is one part. Monitoring compliance with the code is considered to play a part in the employees' annual appraisal process and part of an employee's bonus is determined by this appraisal, which considers their performance and contribution to the investment team and to BMO Global Asset Management as a whole.

In accordance with our Code of Ethics, we have rules and policies regarding individual and peer responsibilities, as well as responsibilities to our employees, to our clients, suppliers, shareholders and other stakeholders. They include:

- Compliance with laws, rules and regulations (including insider trading laws);
- Fraud and malpractice;
- Protecting BMO Global Asset Management's confidential and other proprietary information and that of our customers and vendors;
- Protection and proper use of company assets;
- Treating BMO Global Asset Management employees with respect;
- Dealing with conflicts of interest;
- Political activity;
- Promoting full, fair, accurate, timely and understandable disclosure in financial reports and other public communications;
- Confidentiality of Information;
- Protecting the environment and social responsibility; and
- Encouraging the reporting of any unlawful or unethical behaviour.

Specific ethical aspects are also contained in BMO Global Asset Management's Corporate Values which we strive to reflect in how we behave day to day.

Our Corporate Values:

- Clients: we put our clients first, adding value and building relationships.
- Accountability: for performance in delivering, and indeed exceeding, all of our clients' objectives.
- Innovation: constantly challenging and improving the way we do things for the benefit of our clients and ourselves.
- Respect: integrity and trust forms the cornerstone of all our activities

The BMO Global Asset Management cultural values and all rules and policies are accessible to employees on the company Intranet - Focus. Commitment to the values is reinforced through employee surveys and individual performance management process. We are happy to supply further detail on our Code of Ethics on request.

### **Participation or Interest in Client Transactions**

We are committed to fair dealing and integrity in everything that we do. We operate on the basis that clients' interests are placed before our own and our policies, procedures and processes reflect this principle.

The above said, this is not to say that we will never have interests which conflict with our clients' interests or with our duties owed to clients and in this regard we have established policies and procedures designed to identify, mitigate and manage any such conflicts (e.g. a Conflicts of Interest Policy, Personal Account Dealing Policy, Market Abuse Policy, Restricted Dealing Policy, Gifts Benefits and Corporate Hospitality Policy). These include organisational and administrative arrangements and controls designed to safeguard the interests of clients.

### **Personal Trading**

We allow our employees to carry out personal account transactions for their own account and this could cause a conflict with our clients' interests however this is mitigated through our internal Personal Account Dealing Policy which applies to all employees, including contractors, secondees and temporary members of staff.

The overriding principle in our personal dealing policy is that our clients' interests come first. Our Personal Account Dealing policy is designed to ensure that employee dealing is undertaken in such a way that it avoids actual or potential conflicts of interest, that employees do not abuse their position of trust and responsibility and do not take inappropriate advantage of their position.

The PA Dealing Rules generally require the pre-approval of proposed trading. Black out periods before and after client trading and a ban on short-term trading and trading in derivative instruments are in place. A list of restricted investments is maintained and checked prior to any personal account trade being authorised

Any employee whose personal dealings breach the letter or spirit of these rules may, at the discretion of the Chief Compliance Officer, be prohibited from dealing on their own account and may be required to surrender any profits which resulted from the offending trading.

A copy of the rules are given to every employee on commencement of employment, or on any amendment to the rules. Compliance with these rules form part of the employee's contract of employment. To assist in the Compliance monitoring of employee transactions, employees are required to disclose personal securities holdings upon commencement of employment with the firm and annually thereafter.

## Item 12 Brokerage Practices

The committee that is responsible for counterparty approval and monitoring is the Counterparty Credit Committee (CCC). The CCC is responsible for the appointment of counterparties and, where appropriate, the subsequent monitoring and review of credit limits for all counterparties. The CCC also sets the derivatives policy for BMO Global Asset Management and monitors all appropriate risk and performance indicators of derivative activity.

All new counterparties are subject to a due diligence process in which the counterparties' legal and regulatory status, financial strength, operational capability and anti-money laundering arrangements are verified and any contractual documentation is assessed for its suitability to ensure that our clients are appropriately protected.

The assessment of creditworthiness utilises research provided, amongst others, by our credit analysts, external rating agencies such as Moody's, Fitch and S&P and data providers such as Bloomberg, Markit and Reuters and considers, but is not limited to, the following factors:

- External credit ratings from Moody's, Fitch and S&P;
- Ownership structure and potential guarantees; and
- Capital adequacy, Asset quality, Profitability, Liquidity, Operating environment.

The CCC also obtains the following documentation during the process:

- Latest audited annual reports (covering at least three financial years).
- Certificate of Incorporation or equivalent; and
- Proof of regulatory status.

Counterparties / brokers are differentiated with respect to the credit risk resulting from different instruments and as such are higher for transactions creating direct credit exposure. Along with our credit analysts' research, we use an internal rating model for approving and subsequent reviewing of our counterparties and guarantors (if applicable). They are also screened for the ability to deal and process trades efficiently.

The CCC meets formally on a monthly basis, and more frequently if required, to consider adding new counterparties / brokers, evaluate all dealing counterparties and to remove those which have undergone an adverse credit migration, or where dealing performance has been inadequate. Changes to the list of approved counterparties will occur whenever we feel a counterparty meets or ceases to meet our criteria. We formally monitor and compile a report on every transaction, evaluating, amongst other things, the dealing performance of the counterparty. This process is used to include new counterparties / exclude underperforming counterparties from future transactions.

We have both added and removed entities from our list of counterparties / brokers based on performance in execution, commitment to showing prices and trading capability. In cases where there have been serious



credit concerns, we have, in consultation with our clients, reduced exposures to individual counterparties due to credit issues, by means of novations, intermediations or close-out of positions.

### **Research and Other Soft Dollar Benefits**

We execute transactions on behalf of our clients with a number of selected counterparties. In the normal course of business we may enter into Commission Sharing Arrangements (CSAs) whereby the counterparty agrees to set aside a proportion of the commission earned on transactions and to use this to discharge the cost of certain permitted services related to the execution of transactions on behalf of our clients and the provision of investment research to us for the purpose of assisting with the provision of investment management services. The services received under such arrangements are directly relevant to and assist in the cost-effective provision of management services by us and are consistent with practices in the markets in which we do business. These arrangements apply across all of the companies in the BMO Global Asset Management group and are also based on, and comply with relevant regulatory provisions.

In accordance with the rules of the UK regulator, the Financial Conduct Authority, we will not enter into such Commission Sharing Arrangements on behalf of clients unless the types of goods and services provided are:

- Related to the execution of trades on behalf of the clients; or
- Comprise the provision of research;
- Do not constitute goods or services which the Financial Conduct Authority has specified do not satisfy the requirements of the Financial Conduct Authority rules in respect of such arrangements; and
- Will reasonably assist us in the provision of its services to clients on whose behalf orders are being executed.

Where the goods and / or services relate to the execution of trades on behalf of clients, we shall ensure that the relevant goods and / or services are:

- Linked to the arranging and conclusion of a specific investment transaction (or series of related transactions); and
- Provided between the point at which we make an investment or trading decision and the point at which the investment transaction (or series of related transactions) is concluded.

Where such goods and / or services relate to the provision of research, we shall ensure that the relevant research:

- Is capable of adding value to the investment or trading decisions by providing new insights that inform us when making investment decisions for our clients;
- (whatever form its output takes) represents original thought, in the critical and careful consideration and assessment of new and existing facts and does not merely repeat or repackage what has been presented before;

- Has intellectual rigour and does not merely state what is commonplace or self-evident; and
- Involves analysis or manipulation of data to reach meaningful conclusions.

Our Performance Review and Risk Oversight Committee monitors transactions, while our internal audit, risk and compliance teams independently monitor portfolio activity and highlight any inconsistencies.

CSAs are reviewed quarterly when fund managers vote on standard commission payments. The fund managers are encouraged to differentiate their vote to focus on those brokers who are adding significant value through their research. The votes are combined across the whole equity team and the percentage of votes then equates to the percentage of total commissions paid that will be received by each broker in the following quarter. This ensures transparency and clarity. It also means that brokers making a particular effort with us will be able to see a meaningful change in commissions received in a relatively short time frame.

We provide institutional clients with a Comparative Disclosure Report on a bi-annual basis which is an analysis of the transaction costs incurred in the management of their portfolios.

We are committed to obtaining best execution for our clients and therefore do not participate in directed commission agreements.

### Item 13 Review of Accounts

On a monthly basis our Performance Review and Risk Oversight Committees meet to formally review the performance and investment risk of investment desks including:

- Comparison of performance versus benchmark showing monthly, quarterly, year to date, one, three and five year returns;
- Comparison to peer groups where relevant showing monthly, quarterly, year to date, one, three and five year returns;
- Consistency in performance and identify of any outliers;
- Where relevant investment policy changes to previous month, outlook on the markets and expected changes;
- Ex ante risk, whereby ex ante tracking errors are reviewed against internal targets or client limits for representative portfolios; and
- Query any performance or risk data provided in order to be investigated by the product control or risk teams.

Reports reviewed in the committee meetings are provided by the following specialist teams who also ensure independent monitoring:

- The State Street Performance Analytics team: calculates portfolio returns, delivering these on a monthly basis to the BMO Global Asset Management Product Control and investment teams, and senior management. Their detailed analysis covers absolute and relative performance, dispersion, risk and peer group comparisons.
- The Investment Risk Oversight team: also produces a comprehensive report on the portfolio active risk positions. This is in addition to the daily monitoring used by the portfolio managers. This report includes detailed risk attribution.

In particular, the Investment Risk Oversight team is responsible for:

- Monitoring the active risk taken by BMO Global Asset Management portfolios;
- Analysing the sources of risk taken in each portfolio and checking they are consistent with the fund manager's investment strategy; and
- Checking that portfolios' risk is consistent with investment performance objectives;

The continuous monitoring of client portfolio active risk positions is a daily function at BMO Global Asset Management. Risk is quantified in the following ways:

- Risk statistics (portfolio volatility, ex ante tracking error, value at risk, portfolio beta)
- Deviations from benchmarks (per stock, sector, country, duration, quality, currency, etc.)
- Portfolio biases (style, market capitalisation, momentum, etc.)
- Compliance with client guidelines.

Risk statistics are reported internally by the Investment Risk Oversight team on a monthly basis. The team acts strictly independently from the Fund Managers to ensure adequate monitoring of the risk taken within portfolios.

### **Portfolio monitoring**

In addition, the Mandate Compliance team checks all client portfolios on a daily basis to ensure daily, post-trade compliance with mandate restrictions. This team uses the ThinkFolio system to ensure that all mandates are run in-line with the client's pre-agreed limits. ThinkFolio is a compliance system which monitors all the agreed limits of the mandates managed by BMO Global Asset Management. Every active or passive breach will immediately be communicated to the relevant portfolio manager or, in the event of a breach of mandate, to both the allocation team and the responsible account manager.

### **Institutional Client Reporting**

We place great importance on maintaining and developing a good relationship with our clients. As part of this, we aim to provide institutional clients with an excellent standard of service, tailored to meet their requirements. We can provide a comprehensive package of reports on your portfolio and reports are available in hard copy or email.

Typically, these will include:

- Monthly valuation of the portfolio;
- Monthly list of transactions carried out during the month;
- Monthly cash statement, showing the movements on the account during the month;
- Quarterly report on the activity and performance in the last quarter;
- Quarterly report of the voting actions taken at company meetings for your holdings;
- Quarterly report on transaction costs incurred for the portfolio;
- Quarterly investment outlook, giving our view on the global investment scene; and
- Annual audited report on our control policies and procedures ("AAF 01/06 (formerly known as "FRAG 21/94)").

We review regularly the content of our reports to ensure that they still meet high standards and are relevant to the nature of the mandate.

**Item 14: Client Referrals and Other Compensation**

This section is not applicable to us as we do not compensate client referrals.

**Item 15: Custody**

This section is not applicable to us as we do not have custody of our US advisory clients' funds or securities.

## **Item 16: Investment Discretion**

Our main business is investment management. Clients appoint us to manage their assets as described in the investment management agreement and therefore we have investment discretion over clients' assets. Before we assume this authority, however, a formal process is followed for all new clients.

Firstly, a client director is appointed to each new client. They will have responsibility for managing the client's on-going relationship with BMO Global Asset Management and for checking that all the client's requirements are met by the company.

The client management team supporting the client directors will verify that all relevant business units (including the fund management and operations teams) are informed of the details of each new client so that the accounts are set-up on the in-scope IT applications. The client management team then receives confirmation from the business units that the accounts have been set-up in time for the commencement of investment activities.

Money laundering detection and Know Your Client procedures include the requirement to verify the identity of all new clients with official documentation and obtaining an authorised signatory list. An electronic checklist is completed to verify that such documentation is obtained.

From the details received from the new client, the client director checks that a client classification is established based on the client's investment objectives and risk profile. This is documented and appears in the client's investment management agreement (IMA) so that the correct regulatory protections are afforded to the client.

Each new IMA is reviewed by the legal department and a contract sign-off form completed as evidence that the IMA is compliant with legal requirements and current regulations, before the IMA is signed by authorised signatories of both parties.

The client management team captures all the client's requirements including investment objectives, benchmarks, restrictions and guidelines in the IMA. The agreement is signed by authorised signatories of BMO Global Asset Management, as per the authorised signatory list, and the client before the commencement of investment activities.

The Client Management team completes an electronic checklist to verify that investment activity cannot commence on a new client's portfolio until:

1. the IMA has been completed and signed by both parties, or issued in line with local regulations, and
2. the commencement date of the IMA has been reached.

Communication is maintained between the client director and the new client to verify that their requirements are met. All communications (correspondence, meetings, etc.) with new, potential and existing clients are recorded by the institutional business team in a CRM system, Salesforce.

A checklist is completed by the client management team to verify that the client's account has been set-up correctly on the investment accounting systems, and the client's stock and cash holdings have been received and recorded on the client's account.

A report on the opening book values of all transferred assets is prepared by the operations team prior to being sent to the client. Any discrepancies are followed up with the client and resolved.



## **Item 17 Voting Client Securities**

LGM Investments Limited is responsible for the proxy voting of stocks held in accounts on behalf of clients where the client has delegated the authority to us and where voting services are available to us.

LGM Investments Limited has adopted and implemented proxy voting policies and procedures which it believes to be reasonably designed to ensure that proxies are voted in the best interest of its clients, and in accordance with fiduciary duties, with the Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended and with the long-standing fiduciary standards and responsibilities for ERISA accounts set out in the Department of Labor Bulletin 94-2 C.F.R. 2509.94-2 (July 29, 1994) of the United States of America, if applicable .

LGM Investments Limited will normally vote proxies in accordance with these guidelines unless it determines that it is in the best economic interests of the clients to vote contrary to the guidelines. LGM Investments Limited's voting guidelines generally address issues related to boards of directors, auditors, enquiry based compensation plans, and shareholder rights.

A conflict of interest may exist, for example, when an issuer who is soliciting proxy votes also has a client relationship with LGM Investments Limited. When a conflict of interest arises, in order to ensure that proxies are voted solely in the best interests of the clients, LGM Investments Limited will vote in accordance with LGM Investments Limited's written guidelines or seek client's instructions before voting.

You may obtain a copy of the proxy voting policy by writing to: Compliance Department, LGM Investments Limited, 95 Wigmore Street, London, W1U 1FD, United Kingdom.

There are a number of clients who do not provide LGM Investments Limited with the authority to vote client securities. In these instances, clients will receive their proxies directly from their custodian. Should clients have any questions regarding their proxies they are welcome to contact LGM Investments Limited with any queries which they have.

**Item 18: Financial Information**

This section is not applicable to us as we do not require or solicit prepayment of more than six months or more in advance.