BMO Sustainable Global Multi-Sector Bond

Ticker: ZMSB

Current State of the Market

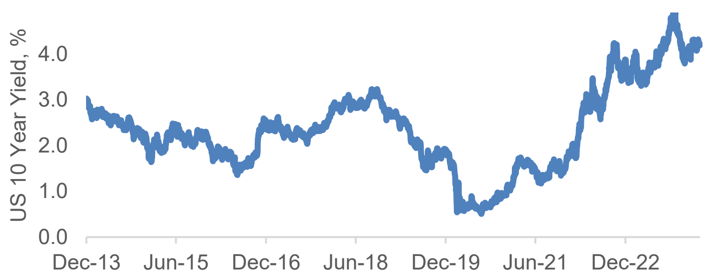
Overview

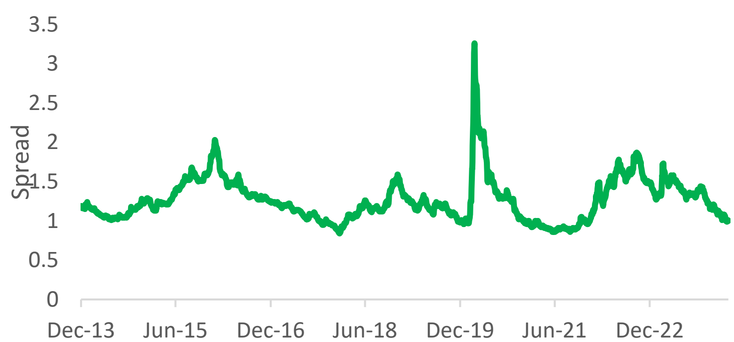
March was positive for government bond and credit markets as central banks remained on track to loosen monetary policy despite the relative strength of the global economy . Major fixed income markets saw a yield curve flattening trend, as longer-dated yields fell more than shorter-dated yields. One factor that the market had to contend with was the rekindling of inflation expectations, as US inflation data came in higher than expected. At its monthly rate setting meeting, the Fed left interest rates on hold while it also published its quarterly median projections on growth, inflation, and interest rates. These projections, which saw no change in the expected magnitude of rate cuts for this year, assuaged market fears that the Fed might adopt a more hawkish stance. Jay Powell, Fed chairman, attributed the unexpected strength of recent economic data to seasonal effects. He also reaffirmed that they were likely at peak interest rates and that it would still be appropriate for the Fed to ease monetary policy later this year. The European Central Bank and the Bank of England (BoE) kept interest rates on hold, as they awaited further evidence of disinflation. The Bank of Japan (BoJ) became the last remaining major central bank to end its negative interest rate policy, raising interest rates from -0.1% to a band of 0.0% to +0.1% in anticipation of a further strengthening in domestic inflation. Confirmation that the path to looser monetary policy from the major central banks remained intact, notwithstanding the relative resilience of the global economy, was positive for risk assets. The S&P 500 hit another new record while credit spreads ground tighter in an environment of robust consumer demand. The one exception to this was the US high yield market, as negative idiosyncratic news fed through to generalised spread weakness amongst more speculative names

Performance & Positioning

The strategy benefited from exposure to interest rate risk and credit risk, returning 0.82% (net of investment management fees and net of expenses) over the month. Our decision to increase exposure to UK Interest rate risk made a positive contribution to performance, as UK inflation surprised to the downside. Within credit we continued to benefit from exposure to higher beta debt in the banking, insurance, and consumer cyclical and non-cyclical sectors. A rise in negative idiosyncratic news flow resulted in generalised spread weakness amongst more speculative issuers dampening returns from high yield, especially in the US market. Credit hedges also dampened returns. We intend to retain these, however, amid concern over the relative expense of valuations and the potential for a reversal in credit markets. Portfolio activity saw us increase duration from 4.1 years to 4.6 years, taking advantage of temporary price weakness to rebuild interest rate risk. The current duration of the strategy is in line with its neutral duration level of 4.5 years. We continued to make selective use of the new issue market to add to credit exposure at attractive valuations, while taking the defensive measure of reducing exposure to more leveraged issuers.

Change in US 10-year bond yields





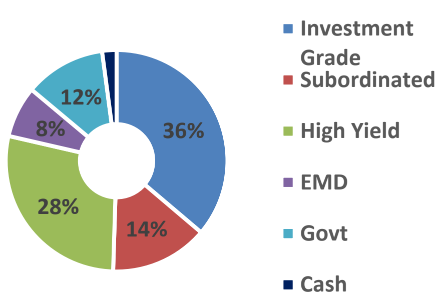
Change in global credit spreads

Source: Bloomberg 29th February 2024

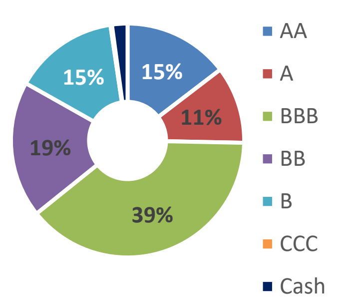
Portfolio Statistics (ETF Series)

Risk Rating	MER	Duration	Current Yield	Yield to Maturity
Low	0.67%	4.6	4.1%	5.3%

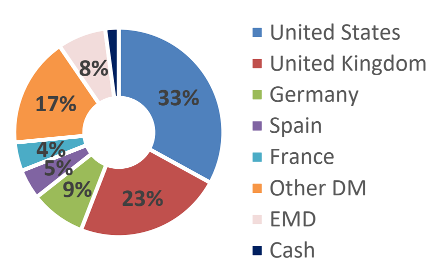
Asset Allocation



Credit Quality

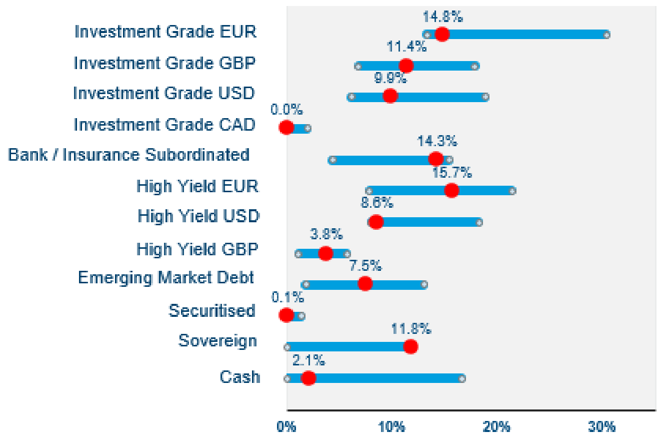


Geographic Allocation



IG = Investment Grade, HY = High Yi eld, EMD = Emerging Market Debt; NR = Non-Rated; Other DM = Other Developed Market

Asset Allocation (September 2018 – March 2024)



Key

= Current Exposure

= Range

Investment Grade Credit – We participated in an attractively priced new USD-denominated short-dated issue from Campbell Soup (BBB). The company continues to enhance its position through acquisitions in the food space. It has a good non-cyclical business and benefits from significant brand value. The rise in inflation, although set to fall, has increased the attractiveness of eating at home. The company is on deleveraging path, which should lead to a credit improvement in time. We also bought USD-denominated debt across a range of maturities at new issue in United Health (A), the largest and most diversified healthcare company in the US. The company benefits from strong cash flow and a healthy balance sheet. We also bought a new EUR-denominated 7 year green bond from government-owned Australian telecommunications company, NBN (AA-), the proceeds of which will be used to target energy efficiency and renewable energy projects.

High Yield Credit – As a risk reduction measure, we exited positions in French communications company, Altice (CCC+) and Spanish pharmaceuticals company, Grifols (CCC+). Senior executives at Altice had proposed a reduction in leverage by asking creditors to shoulder part of the burden through a haircut. The extent of creditor losses would be dependent on assets sales. Further potential losses, plus the additional legal complexity of holding the debt, prompted us to exit the positions. In the case of Grifols, accounting irregularities were the catalyst for exiting the position. We bought a new GBP-denominated 7 year issue from UK operator, Heathrow (BB-). Heathrow has a strong business profile, and we expect credit metrics to improve as passenger numbers continue to recover. We also participated in a new 5-year GBP denominated bond from UK car maker, Aston Martin (B-). Aston martin benefits from a premium brand, a diversified product range, while its current business strategy offers a path to deleveraging.

Emerging Market Debt – There were no purchases or sales activity in EMD. We maintain 7.5% exposure with an average credit rating of BBB.

Securitised Debt – 0.1% exposure to securitized debt in the rail sector.

Government Debt – We took advantage of weakness in US Treasuries to increase exposure to interest rate risk from 4.1 years to 4.6 years.

Trailing Performance (%) as of March 31st, 2023

	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	Since Inception	Inception Date
ETF Series	0.82	0.78	0.78	7.26	0.10	2.13	2.48	24/05/2018

Calendar Year Performance (%)

	2020	2021	2023	2023
ETF Series	5.28	0.47	-9.54	8.64

Draw on the fixed income expertise and capabilities of a global investment team:

The fixed income team at Columbia Threadneedle Investments is a global team with expertise in multiple credit geographies across multiple global fixed income sectors.

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