

BMO Sustainable Global Multi-Sector Bond Fund

Fund Code: BM095162 / Advisor FE: BM099162; LL: BM098162

Current State of the Market

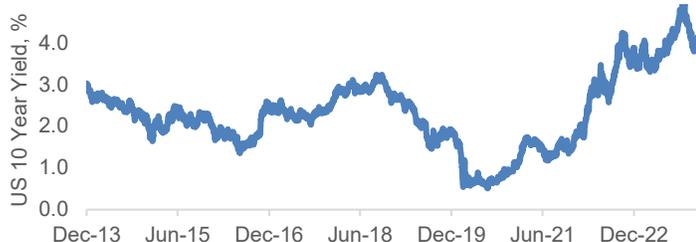
Overview

The sense of euphoria that existed in December about the path to looser monetary policy dissipated in January, translating into price weakness for government bonds. In the US, data on the economy demonstrated continued strength although inflation continued its path lower. The firmness of US economic data challenged assumptions that the Fed could cut as soon as March, with market pricing coalescing around May as the most probable date for a first rate cut. At the Fed's January rate-setting meeting, Jay Powell, Fed Chair, affirmed they were in data dependent mode and that they wanted to see further evidence of good inflation outcomes. He also added that March was an unlikely point for the first cut in interest rates. While US Treasury yields rose for much of this period, the US Treasury market rallied in the final day of January, as financial difficulties at a New York Bank raised concerns about another potential crisis in the US regional banking sector. The ECB kept rates on hold during January and delivered a similar message that they wished to see further evidence of disinflation before acting. ECB President, Christine Lagarde, also continued to push back against a March rate cut, citing the summer as a more likely date. One market to perform poorly on a cross market basis was the UK, as inflation and growth surprised to the upside, pushing back market expectations as to when the Bank of England might move. Despite the rise in interest rates, credit markets continued to benefit from positive economic growth and a beneficial earnings environment.

Performance & Positioning

The Fund returned 0.34%. The ETF benefited from exposure to credit spread risk and from carry, although exposure to interest rate risk detracted from returns. We were able to mitigate the negative impact of the rise in interest rates by dampening duration, through a continuing bias for shorter-dated corporate bonds, and through interest rate hedging strategies. Exposure to higher yielding corporate securities made a positive contribution to performance, as relatively robust economic conditions fanned investor demand for credit. Within credit a tilt to GBP-denominated corporate securities also enhanced returns. The persistence of higher spread levels in this part of the credit market drew in investors, as Euro and USD valuations continued to trade at richer levels. In terms of portfolio activity, we took partial profits on our position in UK government debt, following recent strong performance, reallocating capital to the US. In credit space, we added to holdings in the automotive, pharmaceutical, and gaming sectors.

Change in US 10-year bond yields



Change in global credit spreads

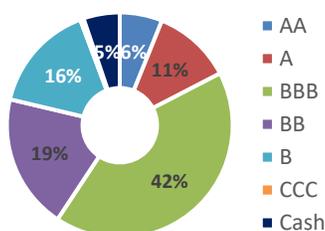


Source: Bloomberg 31st January 2024

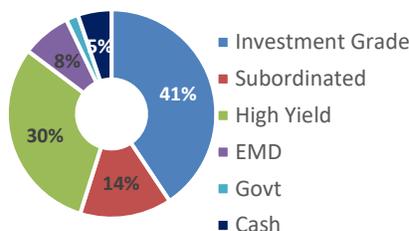
Portfolio Statistics (Series F)

Risk Rating	MER	Duration	Current Yield	Yield to Maturity
Low	0.64%	3.5	4.1%	5.4%

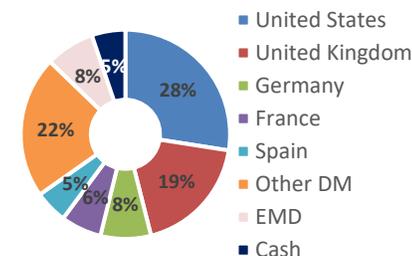
Asset Allocation



Credit Quality

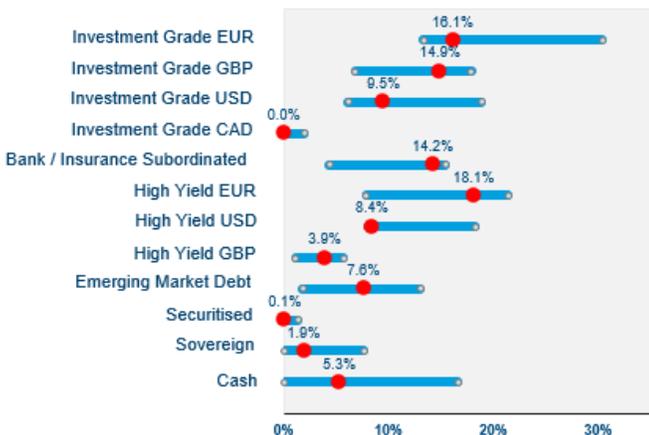


Geographic Allocation



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

Asset Allocation (September 2018 – December 2023)



Key

- = Current Exposure
- = Range

Investment Grade Credit – We lightened exposure in the food and beverage sector, whilst purchasing USD-denominated debt in US pharmaceuticals company, Amgen (BBB+). We expect the credit quality of Amgen to continue to improve, while the company also sits within a relatively defensive sector of the market.

High Yield Credit – In high yield, we topped up exposure to UK chemicals company, Ineos (BB), following a tender exercise, which had seen our exposure to the company decrease. We also purchased short-dated debt in Spanish pharmaceutical company, Grifols (B-), whose financial instruments had come under pressure following the publication of a negative short seller report on the company. Despite recent negative headlines, we expect to see further credit improvement in Grifols, while the company also has sufficient assets on its balance sheet to cover the tenor of the bond we purchased. We also allocated capital to German beauty company, Douglas (B). The company’s favourable balance of physical and online presence has helped it meet its revenue objectives, while it has also made use of media influencers to increase market share. We cut exposure to Swedish debt collection company, Intrum (BB-), amid mounting concern over transparency over the direction of the company.

Emerging Market Debt – There were no purchases or sales activity in EMD. We maintain 8% exposure split between hard currency and local currency bonds.

Securitized Debt – 0.9% exposure to securitized debt in retail and industrial sectors

Government Debt – We took partial profits on exposure to UK government bonds. We continue to run a lower level of duration at 3.5 years relative to the fund’s neutral duration of 4.5 years.

Trailing Performance (%) as of January 31st, 2024

	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	Since Inception	Inception Date
F Series	0.34	5.66	0.34	6.50	-0.28	2.60	2.35	24/05/2018

Calendar Year Performance (%)

	2019	2020	2021	2022	2023
F Series	11.27	5.30	0.49	-9.54	8.65

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Keith Patton
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