BMO Sustainable Global Multi-Sector Bond

Fund Code: BMO95162 / Advisor FE: BMO99162; LL: BMO98162

Current State of the Market

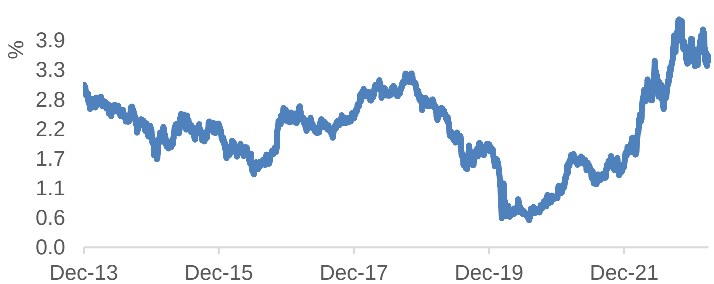
Overview

Fixed income markets rallied in March, as market participants pared back their expectations for tighter monetary policy. The ECB raised rates by 50 bps at the start of the month, pointing to underlying price pressures and a resilient labour market. Market pricing had initially reflected the prospect of further interest rate hikes in Europe and the US until news began to emerge of difficulties in the US banking sector. Silvergate Capital announced plans to close its bank, while effective bank runs at Silicon Valley Bank and Signature Bank forced the Federal Reserve to close these institutions. While the US Treasury provided protection to depositors in the failed institutions, the Federal Reserve sought to prevent isolated bank failures from transforming into a systemic banking crisis by making funding available on generous terms. From Switzerland news followed that UBS would take over troubled rival, Credit Suisse, which had failed to raise capital to shore up a weakened balance sheet. The emergence of stresses in the banking sector globally led to a significant steepening of the yield curve in the US, and to a lesser extent Europe, as investors priced in much more aggressive easing from central banks for later this year. This reflected the expected impact of tightening credit standards from banks, the cumulative impact of past interest rate rises on the real economy and subsiding inflationary pressures. Although the Federal Reserve and the Bank of England raised interest rates by 25 bps, policy makers made clear they were firmly in data dependent mode.

Performance & Positioning

Against this background, the Sustainable Global Multi Sector Bond Fund returned 0.62%. The Fund benefited from exposure to embedded interest rate risk in the underlying corporate holdings. Credit hedges were also beneficial for the strategy when concern over banking stresses reached their zenith during March. Within the Fund's holding in banks, exposure to junior subordinated debt detracted from returns. In the takeover of Credit Suisse by UBS, Swiss authorities ranked shareholders above holders of junior subordinated debt, whose bonds became worthless under Swiss law. This raised questions from investors in the wider European marketplace about the ranking of junior subordinated debt in the event of bank failure. Although banking authorities were quick to reassure investors that the ranking of instruments within a bank's capital structure would not change, investor sentiment towards junior subordinated debt remained negative, regardless of the issuing entity's strength. While the Fund had no exposure to junior subordinated debt issued by Credit Suisse, it did have exposure to subordinated debt from other banks and insurers. At the individual issuer level, performance benefited from exposure to senior Credit Suisse paper, as news of the takeover buoyed valuations. Senior Credit Suisse paper will trade in line with senior UBS paper once the takeover has been completed.

Change in US 10-year bond yields



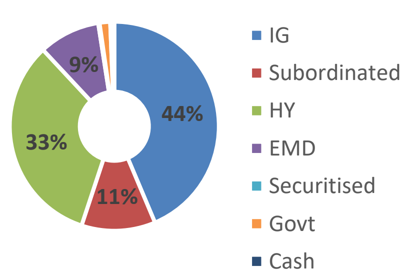
Change in global credit spreads

Source: Bloomberg 31st March 2023

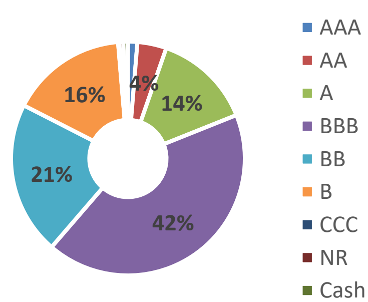
Portfolio Statistics (Series F)

Risk Rating	MER	Duration	Current Yield	Yield to Maturity
Low	0.60%	3.1	4.1%	6.6%

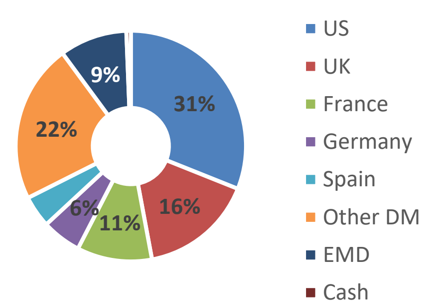
Asset Allocation



Credit Quality

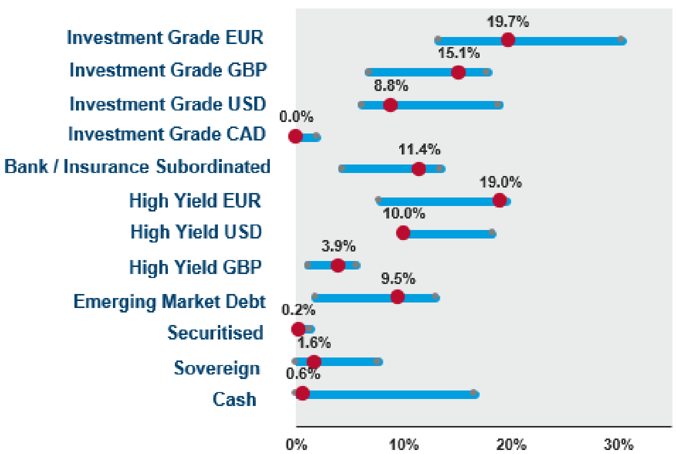


Geographic Allocation



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

Asset Allocation (September 2018 – March 2023)



Key

= Current Exposure

= Range

Investment Grade Credit – We participated in an attractively priced new senior preferred EUR-denominated deal from French bank, Credit Mutuel (AA-), which is primarily focused on domestic retail banking in France and has a strong capital position versus its peers. We also participated in a new GBP sustainability-linked bond from Wessex Water (BBB-), which scores well on measures of operational efficiency.

High Yield Credit – In high yield, we bought EUR-denominated debt at an attractive level from Swiss duty-free retailer, Dufry (B-). We expect the trend whereby consumers are more willing to prioritize travel following COVID to remain in place, benefitting travel service companies such as Dufry. We also lightened exposure to high yield credit hedges after credit spreads gapped wider at the height of the stresses in the banking sector. Our intention is to re-build credit hedges once spreads track to lower levels.

Emerging Market Debt – We maintained exposure to EMD at 9.5% of the portfolio – circa 60% of which is invested in debt with an investment grade rating. There were no purchases or sales during the month.

Securitized Debt – Exposure to securitized debt remains minimal at 0.2% of the portfolio.

Government Debt – We marginally pared back duration from 3.6 years to 3.1 years by selling bond futures in the US at the 5-year point. The trade reflected our tactical view that the market rally in US Treasuries had gone too far, providing scope for a reversal.

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

	1-Month	3-Month	YTD	1-Year	2-Year	3-Year	Since Inception	Inception Date
Series F	0.62	2.06	2.06	-3.22	-3.43	1.42	1.38	24/05/2018

Calendar Year Performance (%)

	2018	2019	2020	2021	2022
Series F	-1.01	11.23	5.28	0.47	-9.53

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.

Keith Patton
Global Head of
Unconstrained Fixed Income

Andrew Brown
Fund Manager
Fixed Income

Abigail Mardlin
Fund Manager
Fixed Income

Rebecca Seabrook
Fund Manager
Fixed Income