BMO Sustainable Global Multi-Sector Bond

Ticker: ZMSB, Fund Codes: F Series: BMO95162, Advisor FE: BMO99162; LL: BMO98162

Current State of the Market

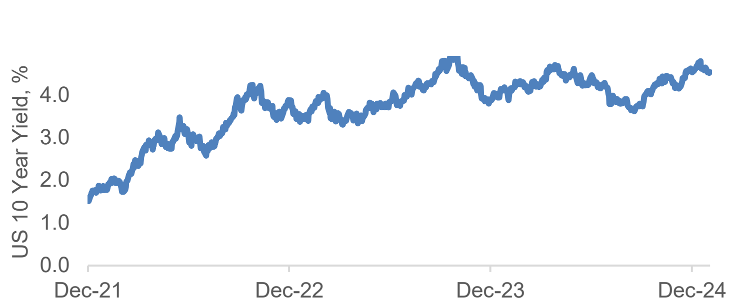
Overview

February proved a strong month for fixed income, amid signs of further softening in economic data in the US. This ranged from fading momentum in the services sector to a fall in consumer confidence. Trump's administration announced plans for tariffs on China, Canada, Mexico, and Europe creating a highly uncertain environment for trade. This fed through to a narrative in the marketplace that tariffs and retrenchment are likely to cast a mounting shadow over the US economy. The Fed continued to present a cautious front, highlighting still sticky services inflation, as well as increased policy uncertainty. Economic headwinds increased the prospect of a potential switch in focus from the Fed from inflation to a weakening growth outlook. The change in market dynamics led to the unwinding of short positions in the US Treasury market, magnifying the bond market rally. Price action in the US Treasury market set the tone for bond markets globally. Geopolitics was at the heart of the underperformance of European bonds relative to the US. The growing realisation amongst European politicians that the Transatlantic Alliance had become more brittle, and that Europe would have to pay more for its defence and for the continued support of Ukraine, increased investor concerns that the fiscal situation in Europe is set to deteriorate. In the UK, the Bank of England cut interest rates by a quarter point in response to slowing demand and further progress on domestic disinflation. While credit benefitted from the generalised fall in interest rates, investor sentiment towards the asset class ebbed, as concerns over future corporate profitability intensified.

Performance & Positioning

The BMO Sustainable Global Multi Sector Bond Fund returned 0.92% (gross of investment management fees and net of expenses) during February. This primarily reflected exposure to interest rate risk, specifically in the US. The US Treasury market was at the forefront of the rally in global bond markets, as investors increasingly questioned the outlook for domestic US growth. Although the return from spread was more muted, sector selection and security selection decisions made positive contributions to performance. The portfolio benefited from a tilt to European credit, as spreads on USD-denominated corporate bonds widened in tandem with growth concerns. Security selection within the European real estate and consumer sectors also enhanced returns. In terms of activity, we took profits on the portfolio's holding in South African sovereign debt, reallocating capital to EUR-denominated supranational debt. We also continued to make use of the primary market, allocating capital to attractively priced new issues in the healthcare, technology, and building materials sectors.

Change in US 10-year bond yields



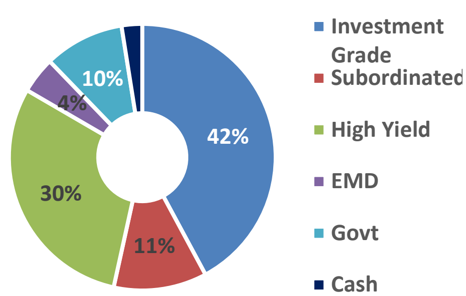
Change in global credit spreads

Source: Bloomberg 31st January 2025

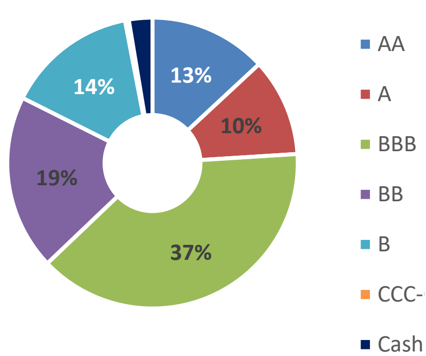
Portfolio Statistics (ETF Series)

Risk Rating	MER	Duration	Current Yield	Yield to Maturity
Low	0.64%	3.96	3.37%	3.94%

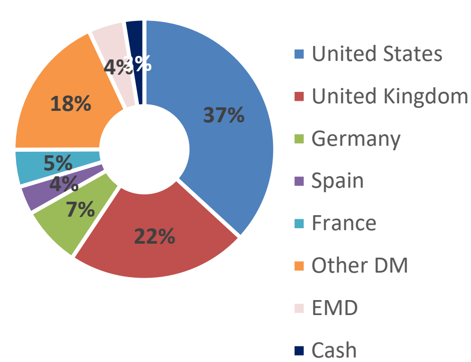
Asset Allocation



Credit Quality

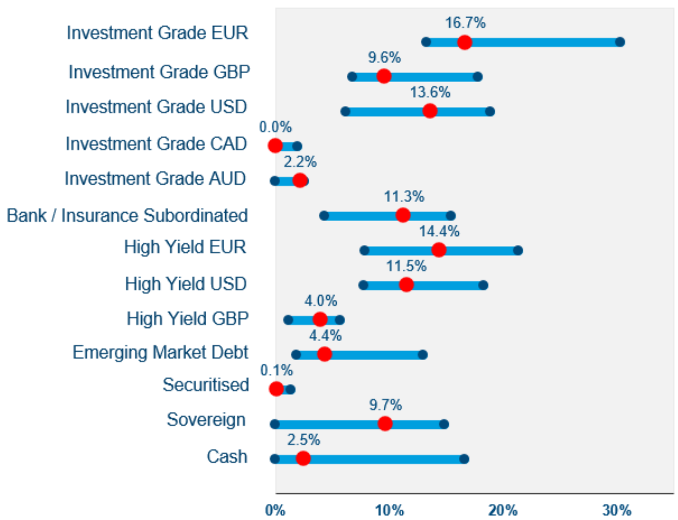


Geographic Allocation



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

Asset Allocation (September 2018 – February 2025)



Key

● = Current Exposure

■ = Range

Investment Grade Credit – We allocated capital to an attractively priced new issue from US healthcare issuer, HCA (BBB-). HCA benefits from economies of scale in its primary US market, and is strongly cash generative, enhancing its financial flexibility. We also participated in a new issue from Foundry (BBB); Foundry is the funding arm of a joint venture between Intel and infrastructure investor, Brookfield. The proceeds of the debt issue will be used for the construction of a semi-conductor manufacturing facility in Arizona. Intel's majority stake in the JV means the holding represents Intel risk. Intel's management is committed to maintaining its investment grade rating, while the JV benefits from ongoing government support for domestic manufacturing.

High Yield Credit – We decided to allocate capital to French technology company, Atos (B+). Atos has emerged from a restructuring programme, resulting in a significant reduction in its debt. The incoming CEO is well regarded as a turnaround specialist, while the company's balance sheet is in a much stronger position. We also participated in a new issue from technology company, Snap (B+), subsequently adding to the position in the secondary market. Snapchat's debt offers the prospect of spread compression, as the company benefits from continuing growth in emerging markets and from improved advertising spend.

Emerging Market Debt – We switched out of an existing holding in a 2032 USD-denominated bond in Romania (BBB-), allocating capital to a new 2037 USD-denominated bond. The Romanian bond came to market at an attractive discount, while by moving further out along the curve the portfolio could benefit from a pick-up in spread. We also made a tactical switch out of South African sovereign debt into EUR rates, buying debt in the European Union (AA+).

Securitized Debt – No changes to securitized exposure

Government Debt – – We broadly maintained the interest rate sensitivity of the fund, which at 4 years is just below that of the fund's neutral rate of 4.5 years.

Trailing Performance (%) as of February 28th, 2025

	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	Since Inception	Inception Date
ETF Series	0.71	0.61	1.13	5.99	2.65	1.85	2.87	24/05/2018
F Series	0.71	0.62	1.13	6.52	2.67	1.86	2.79	14/05/2018

Calendar Year Performance (%)

	2020	2021	2022	2023	2024
ETF Series	5.29	0.48	-9.54	8.64	4.76
F Series	5.30	0.49	-9.53	8.65	4.77

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
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