BMO Sustainable Global Multi-Sector Bond

Ticker: ZMSB

Current State of the Market

Overview

Sovereign bond yields edged lower during the month, amid evidence of softening US inflation. At its June rate-setting meeting, the Federal Reserve (Fed) kept interest rates on hold, calling out for further evidence that inflation was on a sustainable downward path to 2% before they could justify easing monetary policy. The Fed also released projections on growth, inflation, interest rates and the Fed Funds Rate. The projections pointed to one quarter point interest rate cut by year-end, whilst near-term inflation projections were also revised up. The market discarded the gradualism of the Fed's current communications approach, instead focusing on signs of cooling consumer demand. The gravitational pull of lower US Treasury yields exerted downward pressure on bond yields globally. The European Central Bank (ECB) cut interest rates by 0.25%. While its action had been well telegraphed in advance, there was no information on what the future sequencing of interest rate cuts might look like. Mirroring the ECB, the Swiss National Bank and the Bank of Canada cut interest rates by a quarter point. In Europe, political risk premia re-emerged as a market driver, following gains for the French far right in European Parliament elections. French president, Emmanuel Macron called a snap election, in which Marine Le Pen's National Rally party, continued to make strong gains. Investor concern about the viability and stability of a potential far right government in France had a negative impact on the pricing of French assets. There was also a harbinger of increasing volatility in the US Treasury market, following an election debate between presidential candidates, Trump and Biden, in which Biden performed poorly. In credit markets we saw some weakness in valuations. This reflected increased volatility in Europe, as well as the relative richness of corporate bond valuations.

Performance & Positioning

During June, the strategy returned 0.74%. The primary driver of performance was exposure to interest rate risk, as signs of building disinflationary pressures in the US put downward pressure on US interest rates, and by implication, interest rates globally. The strategy benefited from structural long duration positions in the core markets of the US, Europe, and the UK. A tactical position in South African interest rates also made a positive contribution to performance. Volatility in the South African interest rate market in the run-up to the South African election had caused valuations to cheapen. We sold out of the majority of this position shortly before election day, as it became increasingly likely that a relatively stable political outcome would emerge. Exposure to credit spread risk was broadly negative, amid concerns over the relative richness of valuations, and in the case of eurozone debt, increased political volatility. Higher beta, subordinated bonds in the banking sector performed poorly, but for longer maturity issues this was partially offset by gains from exposure to interest rate risk. We saw positive performance from defensive sectors of the corporate bond market, such as utilities and REITs. Credit hedges also made a positive contribution to performance in a less supportive environment for corporate debt. There were no major changes to the strategy's interest rate duration or credit sensitivity during the month.

Change in US 10-year bond yields

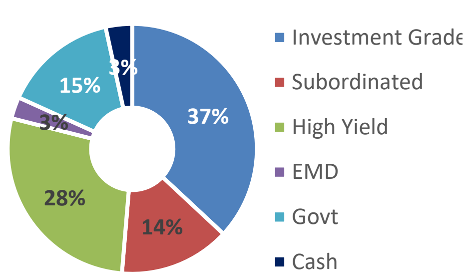
Change in global credit spreads

Source: Bloomberg 30th June 2024

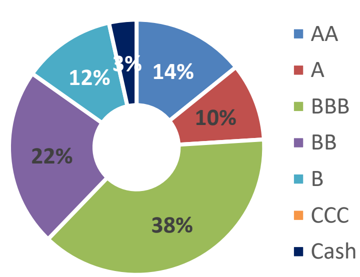
Portfolio Statistics (ETF Series)

Risk Rating	MER	Duration	Current Yield	Yield to Maturity
Low	0.67%	4.5	4.3%	4.6%

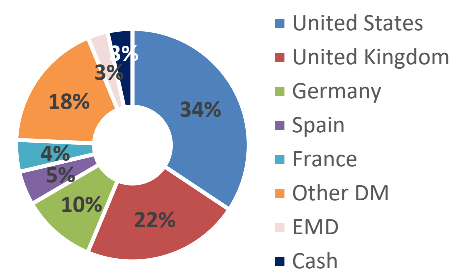
Asset Allocation



Credit Quality

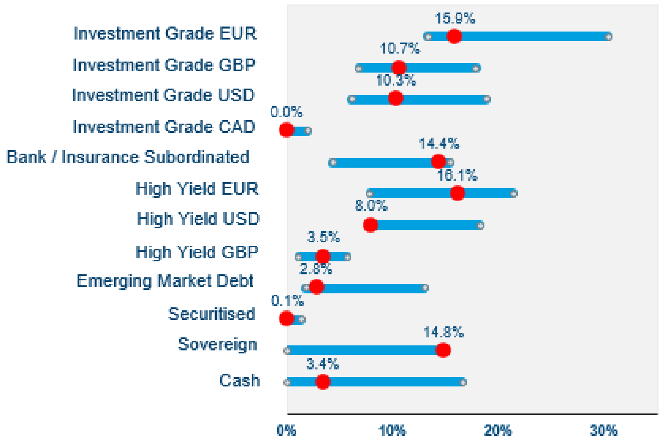


Geographic Allocation



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

Asset Allocation (September 2018 – June 2024)



Key

= Current Exposure

= Range

Investment Grade Credit – In the primary market, we bought an attractively priced GBP-denominated issue from UK financial, Coventry Building Society (BBB-) Coventry offers exposure to the UK residential market. It has a stable earnings profile, a good loan-to-value ratio and sufficient levels of liquidity. We also bought EUR-denominated debt from German financial, Commerzbank (BBB-). Commerzbank is well run, has seen profitability increase, and benefits from stable earnings. We expect to see an improvement in credit quality, providing scope for further spread compression. We also continued the process of rotating capital out of names that had performed well, paring back exposure to UK airline operator, AIG, and US energy company, Cheniere.

High Yield Credit – We bought USD-denominated debt at a discount in the primary market from US healthcare company, Concentra (B-), which is a leading provider of occupational healthcare services. Concentra has been able to push through price increases, illustrating its pricing power in the health sector. We also bought USD-denominated debt at new issue from US REIT, Ladder Capital (BB), which specialises in underwriting commercial real estate. The company has a relatively stable earnings profile and is free cash flow positive. In addition, we added to the strategy's holding in UK chemicals company, Ineos (BB-), buying GBP-denominated debt in the secondary market. This is part of a sectoral strategy, as we expect to see a broader improvement in pricing in the chemicals sector.

Emerging Market Debt – We bought local currency debt in South Africa on price weakness in the run-up to elections, paring back exposure shortly before election day, as an unstable political outcome looked an increasingly unlikely outcome.

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

Government Debt – We maintained duration at 4.5 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	0.74	0.63	1.42	8.07	-0.18	1.72	2.48	24/05/2018

Calendar Year Performance (%)

	2020	2021	2022	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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