

BMO Global Asset Management

Monthly ETF Update

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Contact us

UK Sales - ETFs



+44(0) 20 7011 5247



www.bmogam.com/etfs



christine.cantrell@bmogam.com

High Yield diversity for your portfolio

Adding high yield bonds to a fixed income allocation could reduce the overall risk of a portfolio. This is because high yield bonds have a different risk profile to investment grade corporate bonds. The key factors responsible for this difference are interest rate risk and credit risk. As far as interest rates go, high yield bonds typically have a lower term to maturity coupled with higher coupons; which together add up to lower duration. Lower duration means a lower sensitivity to interest rate changes; the bond price will not move as much if yields change.

On the other hand, higher yield bonds are generally issued by lower credit rated companies, and it is this higher credit risk that provides the extra return. The composition of return from the debt of a high yield company is more heavily weighted to credit than duration, compared with investment grade debt.

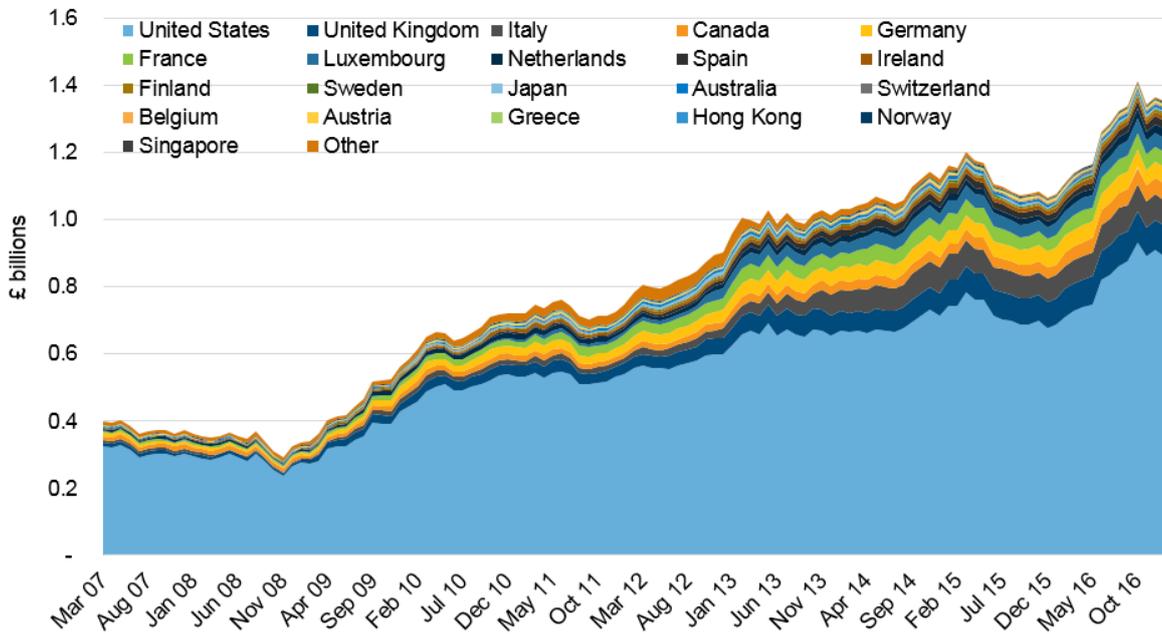
To reduce the credit risk element, diversification across the asset class is a prudent approach. Exchange traded funds investing in a high yield index can facilitate access to this potentially difficult market. In a changing interest rate environment, a lower duration area of fixed income may be the best choice for a bond allocation.

Economic data releases (including PMI - Purchasing Managers' Indexes are economic indicators derived from monthly surveys of private sector companies, employment, corporate earnings and leading economic indicators) continue to point to stronger growth globally. The increased optimism is clearly displayed in equity markets which have rallied strongly. In tandem, expectations of monetary policy tightening have caused sovereign interest rates to rise and bond yields to fall. The economic strength has positively impacted high yield bonds, with their lower sensitivity to interest rate expectations, return from improving company balance sheets has dominated performance.

Global Opportunities

The high yield market is expanding, and this expansion is increasing outside of the US. Opportunities arising in Europe and further afield have diversified the asset class. Low geographic correlations exist and improve the risk-adjusted returns available.

Country composition of the High Yield market



Source: Bloomberg Barclays. Data as at 31 March 2017

As we have discussed, relative to other fixed income sectors, such as Treasury's and Investment Grade Corporate bonds, the High Yield universe offers lower duration risk (see table below) while providing a higher yield. If it is believed that bond yields have bottomed and global growth will continue, the shorter duration exposure of global high-yield bonds makes sense.

	Global Corporate HY	Global Corporate	US Corporate	Pan-Euro Corporate	Global Aggregate	Global Treasury
YTM (%)	5.33	3.22	3.33	1.18	1.64	1.06
OAS (%)	3.79	1.67	1.18	1.22	0.45	0.18
Coupon (%)	6.22	4.13	4.04	2.83	2.72	2.23
Maturity (Years)	5.87	8.46	10.7	6.98	8.76	9.47
Duration (years)	3.87	6.11	7.33	5.89	6.97	7.89

YTM - Yield to Maturity; OAS – Option Adjusted Spread; HY – High Yield
Data as of March 31, 2017 Source: Barclays Capital (Bloomberg Index Services Limited)

Access to the global high yield market via a diverse, currency neutral product is provided by the BMO Barclays Global High Yield Bond (GBP Hedged) UCITS ETF. The exchange-traded nature of ETFs ensures a second layer of liquidity for investors, helping to address challenges with investing in high yield and fixed income in general. In addition, the index is constructed using 'Very Liquid Index' filters which aim to reduce inefficiencies when trading the underlying bonds, at the same time delivering returns consistent with the broad asset class. The ETF is hedged to GBP to remove currency volatility and is based on the Barclays Global High Yield Bond Corporate Very Liquid ex-144A Hedged to GBP Index. Click [here](#) to access the fact sheet and find out more.

BMO Barclays Global High Yield Bond (GBP Hedged) UCITS ETF – Key Facts

Fund Ticker	Net Assets (MM) (April 19, 2017)	Base Currency & Trading Currency	Performance since Inception	Annualised Performance	OCF**	Inception Date	ISIN
ZHYG	£69.82	GBP	7.54%	12.52%	0.35%	5 Nov 2015	IE00BZ053R76

*Source: BMO Global Asset Management. Information as at 31 March 2017. **OCF – Ongoing charges figure

Regulatory Disclosure

F&C Management Limited is the investment manager of BMO UCITS ETF ICAV which is authorised by the Central Bank of Ireland as a UCITS. BMO ETFs are registered for distribution in the UK, Germany, Italy (for institutional investors only), Netherlands and Spain. Shares are listed on the London Stock Exchange and may be purchased and sold on the exchange through a broker-dealer. Purchasing and selling shares may result in brokerage commissions. Applications for subscriptions directly to the funds may only be made by authorised participants. Shares purchased on the secondary market cannot usually be sold directly back to the Fund. Secondary market investors must buy and sell ETF Shares with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current Net Asset Value per Share when buying ETF Shares and may receive less than the current Net Asset Value per Share when selling them. Commissions, fees, costs and expenses all may be associated with investments in exchange traded funds. Please read the prospectus and key investor information document (KIID) before investing. Investment objectives, risk information, fees and expenses and other important information about the funds can be found in the prospectus. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. This document is provided for information purposes only and is not to be construed as investment advice to a recipient on the merits of any investment. This document does not constitute, or form part of, any solicitation of any offer to deal in any type of investment. This document is provided only to assist financially sophisticated investors in their independent review of particular investments and is not intended to be, and must not be relied upon, as the sole basis for any investment decision. This document must not be acted on or relied on by persons who are not relevant persons and who are not the intended recipients of this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of any investment, and should consult its own legal counsel and financial, actuarial, accounting, regulatory and tax advisers to evaluate any such investment.

Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Investing in ETFs involves risk, including risks associated with market volatility, currency rate fluctuations, replication strategies, and changes in composition of the underlying index and assets. Diversification and asset class allocation do not guarantee profit or protect against loss. Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned. The funds or securities referred to herein are not sponsored, endorsed, issued, sold or promoted by MSCI, and MSCI bears no liability with respect to any funds or securities or any index on which such funds or securities are based. The prospectus contains a more detailed description of the limited relationship MSCI has with F&C Management Limited and any related funds.

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