For professional investors only

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.

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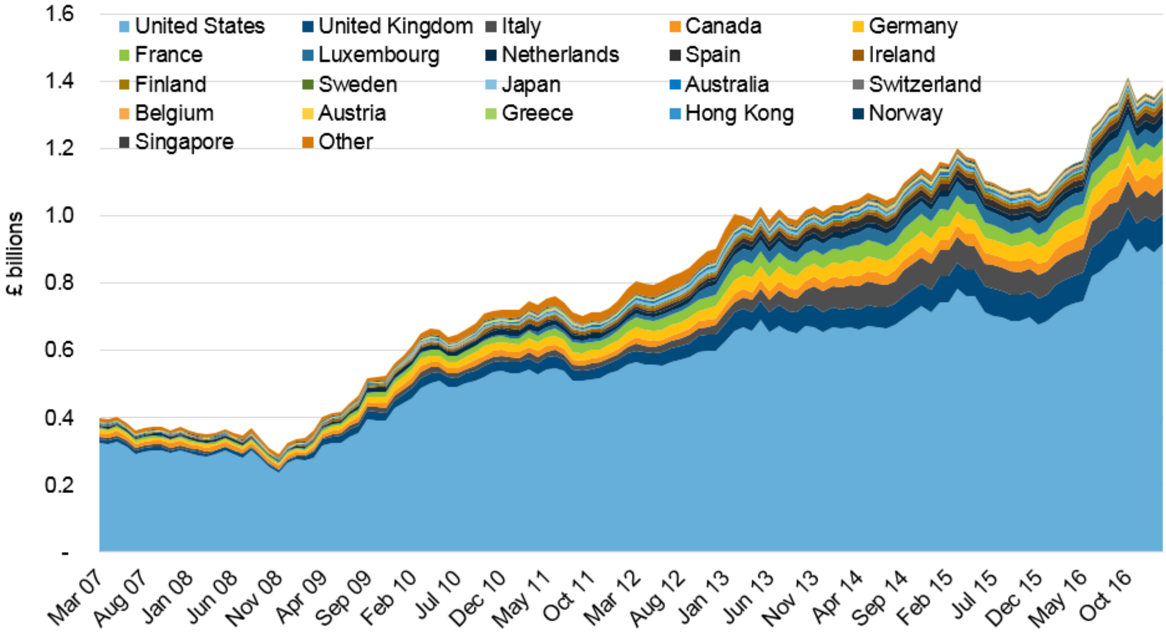
Country composition of the High Yield market



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) (April19,2017)	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

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