BMO Global Absolute Return Bond Fund

BMO Global Asset Management

For existing investors only

Q3 2018

Objectives and investment policy

The objective of BMO Global Absolute Return Bond Fund is to provide an absolute return through a diversified allocation towards fixed income securities consistent with the preservation of capital over the medium term. It aims to achieve this objective through investing at least two thirds of its total assets in corporate bonds. In addition thereto, the Portfolio will invest in bonds issued by other entities including sovereign and supranational issuers. Investors in BMO Global Absolute Return Bond should be willing to accept a long term investment with a low to medium volatility, credit risk, interest rate risk and currency risk which is capable of delivering the returns irrespective of whether fixed income markets go up or down.

Key facts

Inception date:	15 July 2016
Lead portfolio managers:	BMO Fixed Income Team
Benchmark reference:	3-month GBP LIBOR
Fund size:	£677.6m
Base currency:	EUR
ISIN:	LU1369591828
Share class:	F Acc GBP Hedged

Key risks

Past performance should not be seen as an indication of future performance. The value of investments and the income derived from them can go down as well as up as a result of market or currency movements and an investor may not get back the original amount invested. The income and capital due from bonds is dependent upon the issuing company's ability to pay and any default will adversely affect the value of your investment. Changes in interest rates can affect the value of fixed interest holdings and may adversely affect the value of your investment. Changes in rates of exchange may also reduce the value of your investment

Discrete performance (%) as at 28.09.18

	2017/2018	2016/2017	2015/2016	2014/2015	2013/2014
Fund	0.10	0.55	-	-	-
Benchmark	0.62	0.34	-	-	-

Source: BMO Global Asset Management, as at 28.09.18

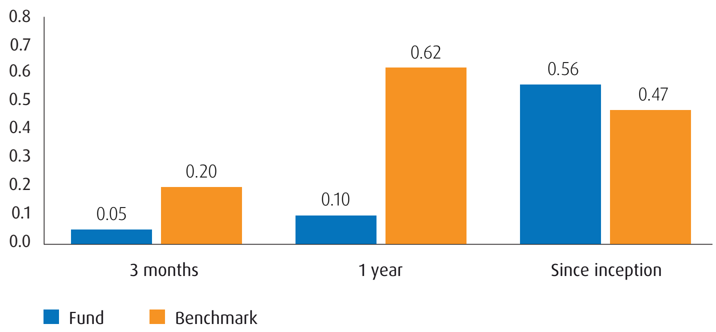
Performance as at 28.09.18 GBP (%)

	3 months	1 year	Since inception*
Fund	0.05	0.10	0.56
Benchmark	0.20	0.62	0.47

*Shareclass launched 15.07.2016.

All figures are gross of fees and net of expenses. Returns over one year are annualised.

Performance as at 28.09.18 GBP (%)



Fund manager commentary

Market overview

Major themes to affect global financial markets during the third quarter included the continuing concerns over trade tensions, expectations of tighter monetary policy and uncertainty surrounding European politics. The Federal Reserve continued its rate tightening cycle, raising rates for the third time this year, and with another increase expected in December. European Central Bank chief Mario Draghi argued that the uncertainty of the bank's inflation outlook was "receding", lifting rate expectations in the market. Uncertainty surrounded budget deficit negotiations in Italy, with members of the new eurosceptic coalition government keen to increase spending beyond EU rules. This led to widening pressure on European sovereign spreads in peripheral bond markets. Overall, global government bond markets sold off, while credit markets outperformed as investors continued to look towards the strength of the global economy.

Portfolio activity

In terms of portfolio activity, we retained a very low interest rate exposure bias alongside tilts to US inflation and developed market currencies. While we have taken relatively little peripheral eurozone credit risk, we reduced exposure to Italy at the beginning of August, as political uncertainty increased.

Performance and attribution commentary

Against this difficult background for the bond market, the portfolio delivered a broadly flat return. Our long-term strategy of reducing the fund's interest rate sensitivity, through tactical interest rate hedges, proved positive. This helped to offset the general rise in yields in the core portfolio. Other positive contributors to performance included exposure to long positions in US inflation while exposure to corporate debt was also beneficial. The return from credit was somewhat muted by the implementation of tactical credit hedges. Another negative contributor to performance was a pro-risk position in Italy, while there was a small loss from relative value FX positions.

Summary characteristics	
Yield to maturity (%)	0.72
Spread Duration (Years)	1.60
Interest Rate Duration (Years)	1.86
EUR	0.31
GBP	0.45
USD	1.25
CAD	0.02
AUD	0.00
OTHER	-0.19
Maturity Exposure (%)	
0-5 yrs	70.04
5-10yrs	13.90
10+ yrs	3.54

Note: The interest rate duration figure has been broken down by contribution from currency area.

Top 10 issuers (%)	
European Investment Bank	1.98
Santander UK	1.11
Volkswagen	0.97
ING Bank NV	0.87
Blackstone Property Partners Europe Holdings	0.86
Barclays	0.84
Banque Fed Cred Mutuel	0.84
Daimler International Finance BV	0.80
Bayer Capital Corp BV	0.79
BPCE SA	0.79

Credit rating (%)	
GOVT	2.47
AAA	4.62
AA	4.85
A	22.35
BBB	35.08
BB	12.65
B	4.28
CCC	1.01
CC-D	0.00
NR	-0.06
CASH	12.75
TOTAL	100.0

Sector allocation (%)	
Banking	22.99
Consumers Goods & Services	16.64
Non cyclical goods	11.74
Telcoms	7.44
Industrials	6.56
Supranational	4.73
Insurance	4.07
Securitized	2.86
Energy	2.72
Other	20.25
TOTAL	100.0

Active FX Exposure %	
GBP	0.71
EUR	100.61
SEK	0.00
DKK	0.00
NOK	0.00
CHF	0.00
USD	-5.14
CAD	-0.99
MXN	-0.04
AUD	0.90
NZD	0.56
JPY	-0.02
INR	3.41
KRW	0.00
SGD	0.00
TWD	0.00
OTHER	-0.01

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Calls may be recorded

All data as at 28.09.18. Source: BMO Global Asset Management.