

# BMO PINEBRIDGE PREFERRED SECURITIES TACTIC<sup>TM</sup> FUND

**Class A Units: JHN 10100**

**Class D Units: JHN 10101**

**Class F Units: JHN 10102**

## OVERVIEW

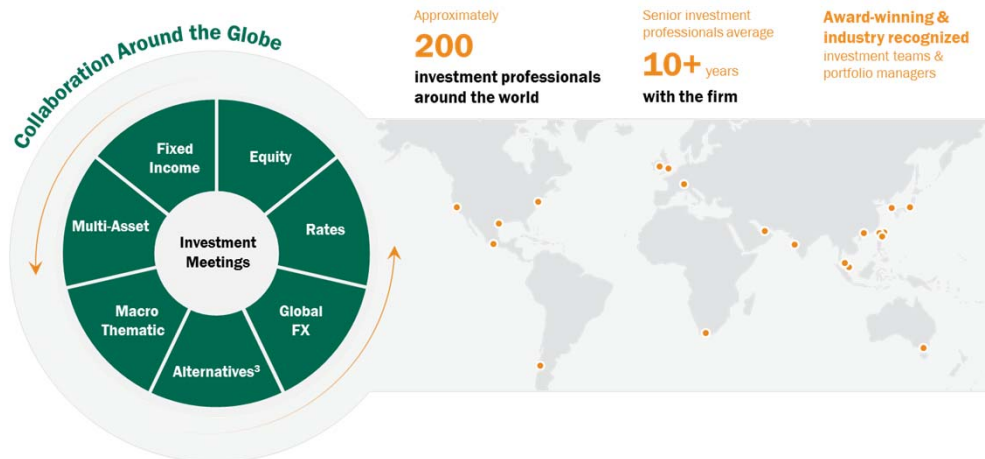
- **Actively managed, global portfolio comprised primarily of Investment Grade preferred securities**
  - Active duration management by the Portfolio Manager to reduce the risk of rising interest rates (target of weighted average Portfolio duration of less than 5.5 years)
- **Investment Objectives:** (i) preserve the net asset value per Unit, and (ii) reduce the risk of rising interest rates by managing portfolio duration
- **Portfolio Manager with Global Multi-Asset Class Expertise with Proven Performance:** PineBridge Investments LLC

## INVESTMENT HIGHLIGHTS

- **The Preferred Securities Advantage**
  - Preferred securities offer *higher yields* than investment grade corporate bonds
  - Preferred securities have experienced *lower default rates* than high yield bonds
  - Preferred securities are *priced attractively* based on longer-term historic spreads
  - Preferred securities have delivered *strong risk-adjusted returns* as compared to most asset classes
  - Preferred securities offer a *diversification benefit* due to their low correlation to most broad asset classes
- **High Quality Global Diversified Portfolio**
  - At least 80% of the Total Assets in preferred securities
  - At least 75% of the Total Assets in Investment Grade securities
  - At least 50% of the Total Assets in securities of U.S. domiciled companies

## PINEBRIDGE INVESTMENTS

- PineBridge is a U.S. registered investment advisor with approximately US\$87 billion of assets under management (as at June 30, 2018)
  - Fixed income AUM of approximately US\$54.1 billion
  - Preferred securities AUM of approximately US\$2.36 billion
- Scalable platform with capacity
- Manage custom portfolios with risk budgets, portfolio constraints, and multi-sector assets
- Stable and experienced investment management team
- PineBridge fixed income platform is comprised of 93 investment professionals located in New York, Houston, Los Angeles, London, Hong Kong and Tokyo
- Attractive, long-term performance track record and well-defined process
- Research-intensive independent credit analysis
- Nimble and flexible approach to portfolio management with low correlation to large managers



SUMMARY OF TERMS	
<b>Offering / Fundserv Codes</b>	Class A Units; Fundserv Code: JHN 10100 Class D Units; Fundserv Code: JHN 10101 Class F Units; Fundserv Code: JHN 10102
<b>Minimum Purchase</b>	\$500
<b>Daily Purchases and Redemptions</b>	All daily purchases and redemptions will be through the order entry system operated by Fundserv Inc.
<b>Upfront Sales Commission</b>	Class A Units: 0% to 2% (negotiated) Class D Units: Nil Class F Units: Nil
<b>Management Fee</b>	Class A Units: 2.10% (including an amount equal to the Service Fee) Class D Units: 1.10% Class F Units: 1.10%
<b>Service Fee</b>	Class A Units: 1% Class D Units: Nil Class F Units: Nil
<b>Conversion of Units</b>	Unitholders may convert Units of any class into Units of any other class.
<b>Short-term Redemption Fee</b>	The Fund may, at its sole discretion, charge a short-term redemption fee of up to 1% of the amount that an investor redeems if such transaction is done within 90 days of purchase.
<b>Currency Hedging</b>	Portfolio's foreign currency exposure will be substantially hedged back to the Canadian dollar.
<b>Leverage</b>	Maximum of 33 1/3% of Total Assets of the Fund.
<b>Manager</b>	BMO Nesbitt Burns Inc.
<b>Portfolio Manager</b>	PineBridge Investments LLC
<b>Eligibility</b>	Eligible for RRSPs, RRIFs, DPSPs, RDSPs, RESPs and TFSA's.

## PREFERRED SECURITIES OVERVIEW

- Exhibit characteristics of both equity and debt
- Preferred securities are long-maturity securities with deferrable coupons
- Preferred securities will generally pay fixed-rate or adjustable-rate dividends/distributions
- Typically trade in two markets: US\$1,000 par over-the-counter "institutional" market and US\$25 par exchange traded "retail" market
- Have preference over common shares in the payment of dividends or interest and the liquidation of a company's assets
- Subordinate to debt in capital structure
- Preferred securities generally pay a higher yield than the debt of the same issuers

## MANAGING PORTFOLIO DURATION

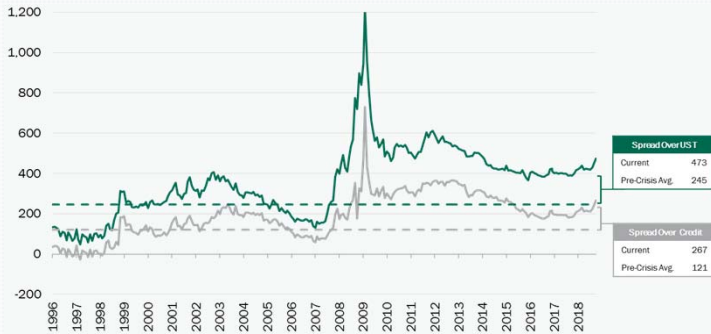
- Intended to mitigate the risk of rising interest rates
- Generally, securities with higher durations are more sensitive to interest rate (or yield) changes
- In order to maintain its target duration and reduce the interest rate risk when it believes it is warranted, PineBridge will pursue several investment strategy options including the following:
  - Target fixed-to-floating rate or floating-rate preferred securities, which tend to be less sensitive to interest rates than fixed-rate securities
  - Target other short duration assets
  - Obtain short exposure to U.S. Treasury Futures for hedging purposes
  - Employ other hedging instruments and techniques

## THE PREFERRED SECURITIES ADVANTAGE

- Because they are lower in the capital structure, preferred securities offer higher yields than investment grade corporate bonds
- However, the Portfolio Manager believes that preferred securities are also currently attractively priced versus high yield corporate bonds that have historically experienced higher default rates

### Preferred Securities Are Attractively Priced

- Current spread levels indicate that preferred securities are priced attractively versus longer-term historic norms

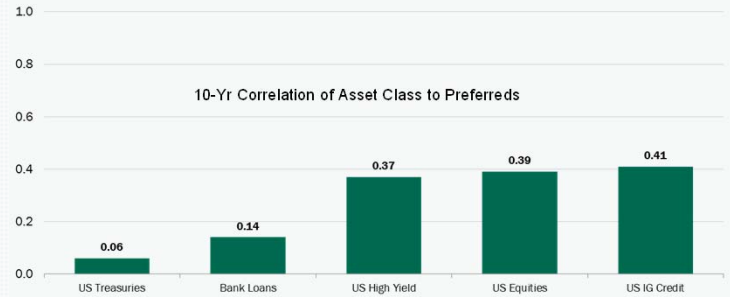


Source: Barclays, BAML and PineBridge Investments as of 30 November 2018. Fixed Rate Preferred is the Merrill Lynch Fixed Rate Preferred index, US Treasuries is the Barclays US Treasury index, US Credit is Barclays US Credit index. Spread is difference in yield to maturity. Pre-crisis average is from January 1996 through August 2008.

The yield spread between a preferred security and a corporate bond represents the premium investors demand in exchange for the risk of purchasing subordinated debt.

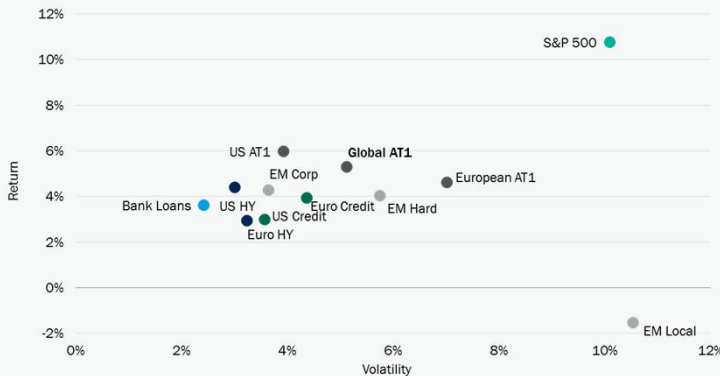
### Diversification Benefits of Preferred Securities

- Preferred securities offer a diversification benefit to a typical portfolio due to their low to modest correlation to most broad asset classes



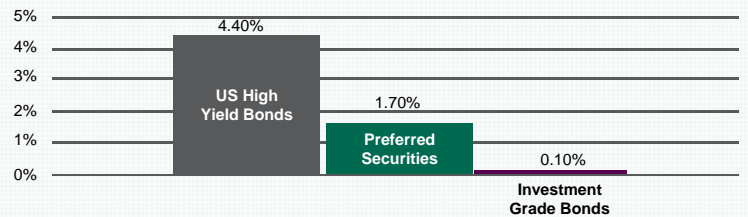
Source: BAML, Barclays, S&P, Bloomberg and PineBridge Investments as of 30 November 2017. Preferred Securities are represented by the BofA Merrill Lynch Preferred and Hybrid Securities Index, US Treasuries is Barclays US Treasury Index, US IG Credit is Barclays US Credit Index, US High Yield is Barclays US High Yield Index, Bank Loans is S&P LSTA Leveraged Loan Index, US Equities is S&P 500 Index.

### Preferred Securities Have Delivered Strong Risk-Adjusted Returns



Source: Barclays, BAML, JPMorgan, S&P LSTA and PineBridge Investments as of 30 November 2018. US AT1 is PineBridge US AT1 Index, European AT1 is ML CoCo Index, Global AT1 is 50% US AT1/European AT1, Euro Credit is Barclays Pan Euro Credit Index, Euro HY is Barclays Pan Euro High Yield Index, EM Corp is JPMorgan CEMBI Broad Diversified Index, US Credit is Barclays US Credit Index, EM Hard Ccy is JPMorgan EMBI Global Index, S&P 500 is S&P 500 Total Return Index, Bank Loans is S&P LSTA Leveraged Loan Index, US HY is Barclays US HY Index, EM Local is JPMorgan GBI-EM Global Diversified Index.

### Preferred Securities have Low Default Rates

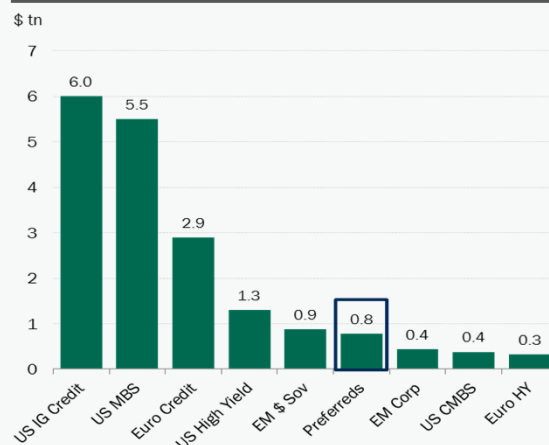


Source: Moody's Investors Service. US High Yield Bonds is represented by Annual Issuer-Weighted Corporate Default Rates for Speculative Grade Issuers (1980-2013). Investment Grade Bonds is represented by Annual Issuer-Weighted Corporate Default Rates for Investment Grade Issuers (1980-2013). Preferred Securities is represented by Annual Initial Impairment Events for Issuers of Non-Trust Preferred Stock as well as Trust Preferred Stock (1980-2012).

### Preferred Securities Offer Significant Income Advantage

Sector	Yield to Maturity
US High Yield	7.92%
EM Hard Currency	6.93%
EURAT1 Preferreds	6.81%
Bank Loans	6.73%
EM Local Currency	6.54%
US AT1 Preferreds	6.53%
Legacy Preferreds	6.32%
Preferred REIT	6.20%
EM Corporate	5.32%
Euro High Yield	5.26%
US IG Credit	4.14%
10 Year US Treasury	2.81%
Euro IG Credit	1.58%

### Size of Preferred and Hybrid Securities Market



Source: Barclays, BAML, JPMorgan, Credit Suisse and PineBridge Investments as of 20 December 2018. US AT1 is PineBridge US AT1 Index, CoCo is ML CoCo Index, Preferreds is Merrill Lynch Hybrid Preferred Securities Index, Preferred REIT is Merrill Lynch REIT Preferred Securities Index, Euro Credit is Barclays Pan Euro Credit Index, Euro HY is Barclays Pan Euro High Yield Index, EM Corporate is JPMorgan CEMBI Broad Diversified Index, US Credit is Barclays US Credit Index, EM Hard Ccy is JPMorgan EMBI Global Index, Bank Loans is S&P LSTA Leveraged Loan Index, US HY is Barclays US HY Index, EM Local is JPMorgan GBI-EM Global Diversified Index.



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