CNBC

Hartford Total Return Bond ETF yields nearly 5% and prides itself on finding value across the market

By Michelle Fox
May 6, 2024

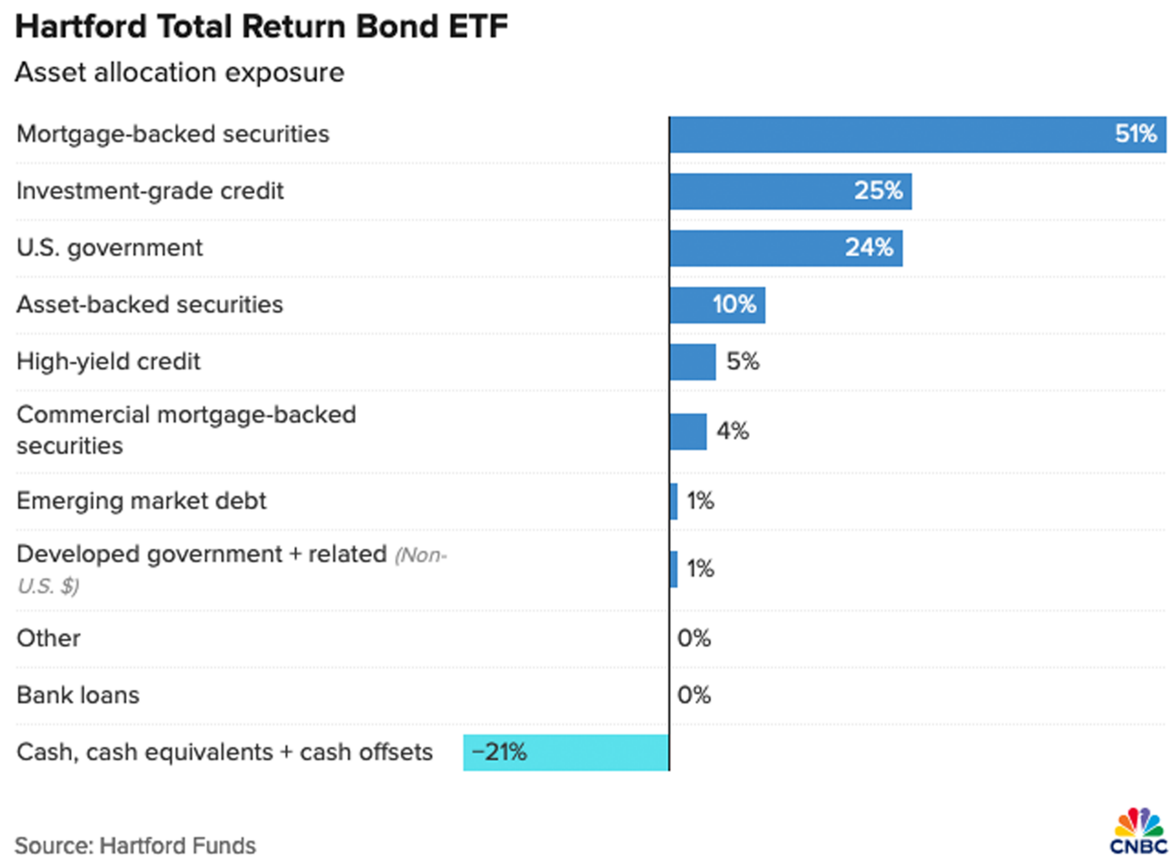
Amid a sea of bond funds, Hartford Total Return Bond ETF seeks to stand out by not only focusing on high quality but by looking for the best ideas across all different parts of the fixed income market, according to its portfolio manager, Campe Goodman.

Trading under ticker HTRB, the actively managed exchange-traded fund has a 30-day SEC yield of 4.92% and adjusted expense ratio of 0.29%, according to Morningstar.

“What you’ll see as really distinguishing us and, we hope, making our returns sustainable and reproducible long term really is our ability to exploit a lot of different opportunities and to rotate across different parts of the market,” said Goodman, a fixed income portfolio manager at Wellington, a sub-advisor on the fund. “There are just so many different pockets of value. There’s so many different areas to explore.”

HTRB saw a total return last year of 7.15%, and ranked in the 23rd percentile among its peers, according to Morningstar. This year, it is down about 1% so far and is in the 38th percentile. It is beating its benchmark, the Bloomberg U.S. Aggregate Bond Index, which is down about 2% year to date.

The portfolio has 51% of its assets in mortgage-backed securities and 25% in investment-grade credit, according to the fund’s website.



Compared to many of its peers in the intermediate core plus bond Morningstar category, Hartford Total Return Bond ETF leans a bit more on securitized markets rather than investment-grade corporate debt, according to Morningstar.

Goodman is one of four portfolio managers on the ETF, all of whom bring different perspectives. The managers not only work closely together, they take advantage of the resources across Wellington, Goodman said. They have daily meetings with various teams and a monthly meeting with a group of specialists, such as those in high yield or emerging markets.

“I have the ability to get … a couple of the best people in the business from each of these different areas into a room and really hash out relative value,” he said. “That’s very, very powerful.”

Morningstar senior fixed income analyst Mike Mulach, who has a silver rating on HTRB, said he’s grown “increasingly confident” in Wellington’s fixed income platform.

“We like this ETF for its solid team and well-constructed approach at a reasonable cost,” he said.

Finding opportunities

Right now, one of the areas Goodman sees value in is agency mortgage-backed securities. Spreads are currently wide by historical standards amid continued interest rate volatility, he noted.

"We are seeing an enormous amount of volatility, but actually, if we don't see a big trend in rates, then that tends to be very good for the mortgage sector," he said.

Goodman also likes structured finance right now, such as collateralized loan obligations, commercial mortgage-backed securities and nonagency residential mortgage-backed securities. In addition, subprime auto asset-backed securities look very good to him.

HARTFORD TOTAL RETURN BOND ETF'S TOP ASSETS

ISSUER	% OF PORTFOLIO
UNIFORM MORTGAGE-BACKED SECURITY	19.77
FEDERAL NATIONAL MORTGAGE ASSOCIATION	12.37
U.S. TREASURY BONDS	10.34
U.S. TREASURY NOTES	10.17
FEDERAL HOME LOAN MORTGAGE CORP	6.54
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	5.62
U.S. TREASURY INFLATION-INDEXED NOTES	2.14
BANK OF AMERICA CORP	0.91
FEDERAL NATIONAL MORTGAGE ASSOCIATION CONNECTICUT AVENUE SECURITIES	0.9
U.S. TREASURY INFLATION-INDEXED BONDS	0.74

Source: Hartford Funds, as of 3/31/24

While it is harder to find value in the below investment-grade side of the market, there are some attractive opportunities, Goodman said.

Within emerging markets, he likes Eastern Europe.

There is also good value to be found in the upper end of the high-yield segment, with BB-rated credit, he added.

“They have an enormous amount of equity value, essentially, relative to their debt structure,” Goodman said.

Bonds that are rated BBB- or higher at Standard & Poor’s and Fitch, and Baa3 or higher at Moody’s, are considered investment grade.

“The way the rating agencies look at them, they rate them double Bs, but if you think about them on a more market type of basis, they’re very high quality, and we would call them more triple Bs,” Goodman said.

“They trade expensive for double Bs, but cheaper [for] triple Bs, and so that to us is a great example of something that’s falling through the cracks,” he added.

Anticipating the Fed’s next move

If the team gets to the point where they think the Federal Reserve is closer to cutting interest rates, they would increase duration in the fund, Goodman said.

They would probably add some credit risk, as long as the central bank was decreasing rates because it has conquered inflation, he said. If the rates were eased because the economy looks to be heading into recession, that would be good for Treasurys and not credit, he noted.

However, no one has a crystal ball to know if and when rate cuts are coming, so the portfolio managers focus on setting the fund up well, Goodman said.

“We’re trying to buy those assets that are optimized from a risk/return perspective,” he said.

Performance (%)	1 Year	3 Year	5 Year	Since Inception
Average Annual Total Returns (as of 3/31/24)				
Hartford Total Return Bond ETF (NAV)	3.67	-2.02	1.10	1.39
Hartford Total Return Bond ETF (Market Price)	3.54	-2.01	1.07	1.40
Morningstar Percentile Rank*	27	36	33	---
Funds Within Category	624	557	527	---
Bloomberg US Aggregate Bond Index	1.70	-2.46	0.36	---
Morningstar Intermediate Core-Plus Bond Category Average	2.91	-2.26	0.75	---

ETF Inception: 9/27/17. Fund Objective: Seeks a competitive total return with income as a secondary objective.

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For more current performance information to the most recent month ended, please visit hartfordfunds.com.

Expenses: 0.29%. Expenses are the total annual fund operating expenses as shown in the most recent prospectus.

30-Day SEC Yield: 4.67% (as of 3/31/24). 30-Day SEC Yield reflects the hypothetical net current income earned, after the deduction of a fund's expenses, during a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the period. Actual income distributions will usually differ.

ETF shares are bought and sold at market price, not net asset value (NAV). Total returns are calculated using the daily 4:00 p.m. Eastern Time NAV. Market price returns reflect the midpoint of the bid/ask spread as of the close of trading on the exchange where Fund shares are listed. Market price returns do not represent the returns an investor would receive if they traded shares at other times. Brokerage commissions apply and will reduce returns.

Indices are unmanaged and not available for direct investment.

*Morningstar rankings are based on average total returns of all products in their peer group and do not take into account sales charges.

Top Ten Issuers (%) (as of 3/31/24)	
Uniform Mortgage-Backed Security	19.77
Federal National Mortgage Association	12.37
US Treasury Bonds	10.34
US Treasury Notes	10.17
Federal Home Loan Mortgage Corp.	6.54
Government National Mortgage Association	5.62
US Treasury Inflation-Indexed Notes	2.14
Bank of America Corp.	0.91
Federal National Mortgage Assoc Connecticut Ave Securities	0.90
US Treasury Inflation-Indexed Bonds	0.74
Percentage Of Portfolio	69.50

Sector Exposure (%) (as of 3/31/24)	
Mortgage Backed Securities	51
Investment Grade Credit	25
US Government	24
Asset Backed Securities	10
High Yield Credit	5
Commercial Backed Securities	4
Developed Government and Related (non US$)	1
Emerging Market Debt	1
Bank Loans	0
Tax-Exempt Municipal	0
Cash, Cash Equivalents, and Cash Offsets	-21

Credit Exposure (%) (as of 3/31/24)

Aaa/AAA	12	B	1
Aa/AA	72	Caa/CCC or lower	0
A	10	Not Rated	2
Baa/BBB	18	Cash and Cash Offsets	-21
Ba/BB	6		

Credit exposure is the credit ratings for the underlying securities of the Fund as provided by Standard and Poor's (S&P), Moody's Investors Service, or Fitch and typically range from AAA/Aaa (highest) to C/D (lowest). If S&P, Moody's, and Fitch assign different ratings, the median rating is used. If only two agencies assign ratings, the lower rating is used. Securities that are not rated by any of the three agencies are listed as "Not Rated." Ratings do not apply to the Fund itself or to Fund shares. Ratings may change.

All data and information referenced within the article are as of 5/6/24, unless otherwise noted. Sector exposure may not total to 100% due to rounding. There is no guarantee that the ETF will continue to hold any security listed in the Top Ten Issuers or referenced within. Issuers are subject to change. Percentages may be rounded. For the Fund's most recent publicly available list of holdings, please visit hartfordfunds.com.

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Our benchmark is the investor.®

Morningstar awarded HTRB a Silver rating on 1/4/24. Analyst-Driven %: 100; Data Coverage %100. The Morningstar Medalist Rating™ is the summary expression of Morningstar's forward-looking analysis using a rating scale of Gold, Silver, Bronze, Neutral, and Negative. The Medalist Ratings indicate which funds Morningstar believes are likely to outperform a relevant index or peer group average on a risk-adjusted basis over time. Funds are evaluated on three key pillars (People, Parent, and Process) which, when coupled with a fee assessment, forms the basis for the Medalist Rating they're assigned. Pillar ratings (Low, Below Average, Average, Above Average, and High) may be evaluated via an analyst's qualitative assessment (Analyst-Driven %) or using algorithmic techniques (Data Coverage %). Funds are sorted by their expected performance into rating groups defined by their Morningstar Category and their active or passive status. When analysts directly cover a fund, the rating is monitored and reevaluated at least every 14 months. When a fund is covered either indirectly by analysts or by algorithm, the rating is assigned monthly. For more detailed information, including their methodology, please go to global.morningstar.com/managerdisclosures/. Morningstar Medalist Ratings are not statements of fact, nor are they credit or risk ratings. They (i) should not be used as the sole basis in evaluating a fund, (ii) involve unknown risks and uncertainties which may cause expectations not to occur or to differ significantly from what was expected, (iii) are not guaranteed to be based on complete or accurate assumptions or models when determined algorithmically, (iv) involve the risk that the return target will not be met due to such things as unforeseen changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, tax rates, exchange rate changes, and/or changes in political and social conditions, and (v) should not be considered an offer or solicitation to buy or sell a fund. A change in the fundamental factors underlying the Morningstar Medalist Rating can mean that the rating is subsequently no longer accurate. Indices are unmanaged and not available for direct investment.

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Duration is a measure of the sensitivity of an investment's price to nominal interest-rate movement.

Important Risks: Investing involves risk, including the possible loss of principal. The net asset value (NAV) of the Fund's shares may fluctuate due to changes in the market value of the Fund's holdings which may in-turn fluctuate due to market and economic conditions. The Fund's share price may fluctuate due to changes in the relative supply of and demand for the shares on an exchange. The Fund is actively managed and does not seek to replicate the performance of a specified index. The Fund may allocate a portion of its assets to specialist portfolio managers, which may not work as intended. • Fixed income security risks include credit, liquidity, call, duration, event, and interest-rate risk. As interest rates rise, bond prices generally fall. • The risks associated with mortgage-related and asset-backed securities as well as collateralized loan obligations (CLOs) include credit, interest-rate, prepayment, liquidity, default and extension risk. • The purchase of securities in the To-Be-Announced (TBA) market can result in higher portfolio turnover and related expenses as well as price and counterparty risk. • Derivatives are generally more volatile and sensitive to changes in market or economic conditions than other securities; their risks include currency, leverage, liquidity, index, pricing, regulatory, and counterparty risk. • Foreign investments may be more volatile and less liquid than U.S. investments and are subject to the risk of currency fluctuations and adverse political, economic and regulatory developments. These risks may be greater for investments in emerging markets. • Investments in high-yield ("junk") bonds involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. • Obligations of U.S. Government agencies are supported by varying degrees of credit but are generally not backed by the full faith and credit of the U.S. Government. • Restricted securities may be more difficult to sell and price than other securities. • The Fund may have high portfolio turnover, which could increase its transaction costs and an investor's tax liability. • In certain instances, unlike other ETFs, the Fund may effect creations and redemptions partly or wholly for cash, rather than in-kind, which may make the Fund less tax-efficient and incur more fees than an ETF that primarily or wholly effects creations and redemptions in-kind.

Investors should carefully consider a fund's investment objectives, risks, charges and expenses. This and other important information is contained in the fund's prospectus and summary prospectus, which can be obtained by visiting hartfordfunds.com. Please read it carefully before investing.

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