

The Top 10 Innovations in ETFs

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Agenda

- BMO ETFs
- Top 10 Innovations
- BMO Tactical Dividend ETF Fund

BMO ETFs Capabilities



Canada
Launched BMO
ETFs in 2009

- Over **70 listed ETFs**
- #1 in net new assets 5 years in a row
- Second largest ETF provider in Canada
- Recognized for excellence

Europe
Launched
BMO ETFs in Nov
2015

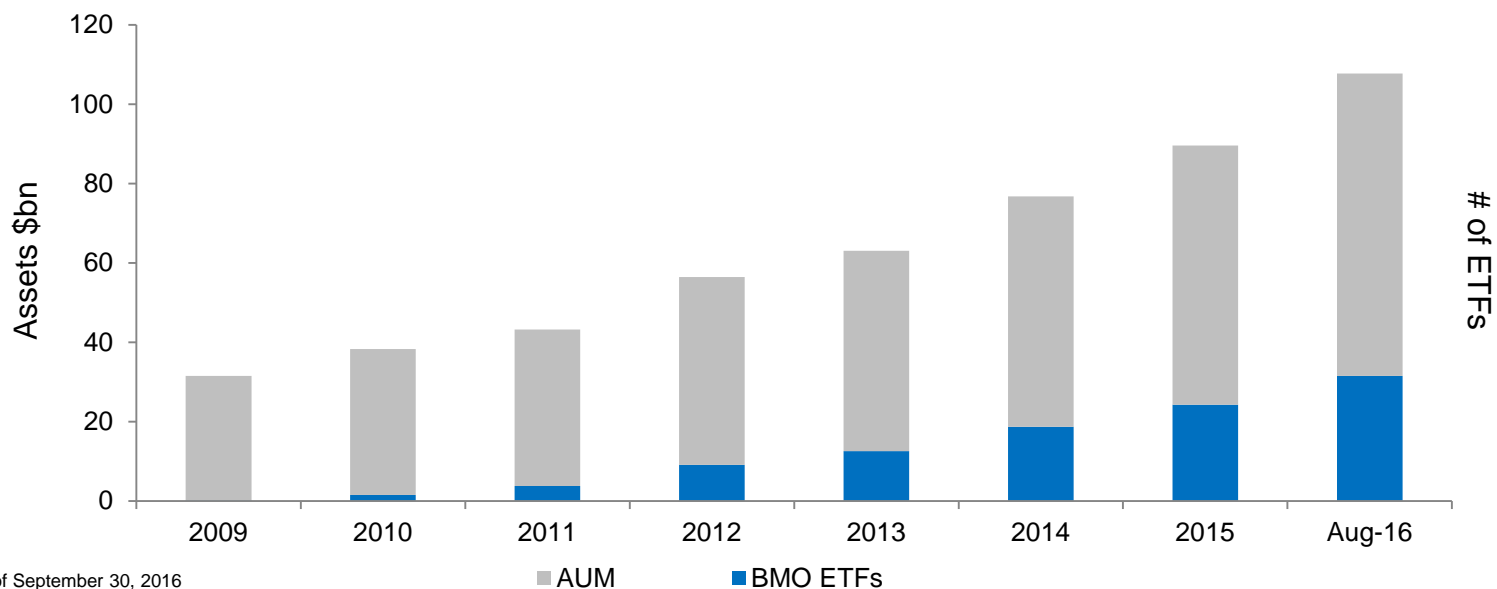
- Listed **9 UCITS ETFs**
- Innovative global corporate bond ETFs with maturity bands
- Smart beta income leaders suite
- Recognized for excellence by ETF.com

Hong Kong
Launched BMO ETFs
in Nov 2014

- Listed **7 local ETFs**
- Main gateway to China's markets
- Recognized for excellence by Asian Asset management Awards:
 - Best Thematic ETF
 - Best New ETF
 - Most Innovative ETF

BMO ETFs – Canada

- From a standing start in mid 2009, BMO ETFs have gathered AUM of >\$31 billion, representing just over 29% market share in Canada¹
- In each of the last 5 calendar years, BMO ETFs has been number 1 in net new assets²
- Offering a full suite of solutions – over 70 ETF listings*



¹Data as of September 30, 2016

²BMO Global Asset Management

As of August 31, 2016

Source: BMO Global Asset Management

BMO ETF - Tools

ETF Screener | ETF Comparison
ETF Snapshot | ETF Portfolio | Performance

Screener Criteria

Select a Criteria Group to Create a Screen

ETF Snapshot | ETF Portfolio | Performance

Reset This Screen

Criteria

Holding/Weighting Your Selected Symbol: AAPL - APPLE INC - C
0.07

AUM < 10M 10 - 15M

Holding/Weighting Select A Symbol From The Dropdown To Adjust Weighting
ETF Symbol or Name

Provider A-I J-R S-Z Your Selections

- BlackRock Asset Management Canada Limited
- Blackrock Fund Advisors
- BMO Asset Management Inc.
- First Asset Investment Management Inc.
- First Trust Advisors LP

AUM < 10M 10 - 15M 15 - 100M 100 - 200M > 200M

MER (%) 0.00 3.79

Returns

1 Month	0.00	34.71
3 Months	0.00	39.57
6 Months	0.00	233.71
YTD	0.00	286.51
1 Year	0.00	288.62

Reset This Screen

Criteria

Holding/Weighting Your Selected Symbol: AAPL - APPLE INC - C
0.07

AUM < 10M 10 - 15M

Screener Results - All BMO ETFs

ETF Snapshot | ETF Portfolio | Performance

BMO ETFs (5 of 7 Results) [See all BMO](#)

Click on a symbol below to see a full ETF profile

Symbol	Fund Name
ZSP.U	BMO S&P 500 Index ETF USD
ZSP	BMO S&P 500 Index ETF
ZQQ	BMO Nasdaq 100 Equity Hedged to CAD Index ETF
ZUQ	BMO MSCI USA High Quality Index ETF
ZGQ	BMO MSCI All Country World High Quality Index ETF

All matching ETFs (5 of 35 Results) [See](#)

Click on a symbol below to see a full ETF profile

ETF Screener | ETF Comparison
Download ETF Comparison (PDF) | Download ETF Comparison (XLS)

Enter Ticker or Keyword(s) Add Fund (Up To Three ETFs)

Click on a ticker below to see a full fund profile

Fund Name/	BMO Covered Call Canadian Banks ETF	BMO Equal Weight US Banks Index ETF	BMO S&P/TSX Capped Composite Index ETF
Ticker	ZWB (remove)	ZBK (remove)	ZCN (remove)

- Price Data
- ETF Information
- Performance

Return - 1 Year

Return - YTD

BMO Covered Call Canadian Banks ETF	+10.86%
BMO Equal Weight US Banks Index ETF	-13.09%
BMO S&P/TSX Capped Composite Index ETF	+14.08%

ETF Dashboard

The BMO Canadian ETF Dashboard

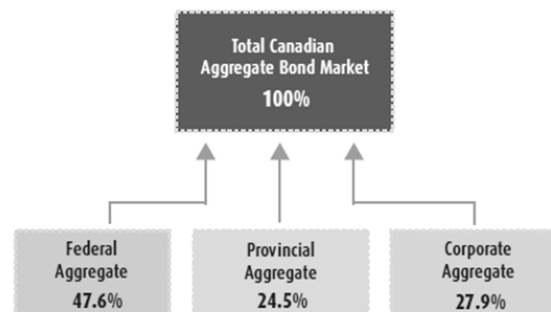
An innovative and accessible portal that delivers metrics and insights on the Canadian ETF landscape.



Top 10 Innovations in ETFs

10. Equity ETFs

- An ETF is a fund that is listed and traded on the stock exchange which holds a basket of securities that follow pre-set rules



FTSE TMX Canada Universe Bond Index

9. Fixed Income

- Bonds trade over the counter, and can be hard to source and challenging to trade, ETFs provide quick access to diversified bond portfolios
- Flexibility to gain broad market exposure or target specific credit qualities, durations, and sectors
- More precise investment tools allow for better implementation of a fixed income investment strategy

BMO Short Corporate Bond ZCS	BMO Mid Corporate Bond ZCM	BMO Long Corporate Bond ZLC
BMO Short Provincial Bond ZPS	BMO Mid Provincial Bond ZMP	BMO Long Provincial Bond ZPL
BMO Short Federal Bond ZFS	BMO Mid Federal Bond ZFM	BMO Long Federal Bond ZFL

8. Liquidity

- ETF liquidity starts with the underlying securities, and improved as an ETF matures



Perceived liquidity based on ETF volume

BMO ZCN – AUM \$1.53 billion

Avg daily \$\$ vol - \$4.71million

Benchmarked to S&P/TSX Capped Composite Index

ZCN Top Holdings – Avg daily \$\$ vol millions

Royal Bank of Canada (RY) – \$290

Toronto-Dominion Bank (TD) - \$246

Bank of Nova Scotia (BNS) - \$270

Canadian Natl Railway (CNR) - \$166

Suncor Energy (SU) – \$248

Bank of Montreal (BMO) - \$160

Enbridge (ENB) – \$198

BCE Inc (BCE) - \$120

TransCanada Corp (TRP) - \$179

Canadian Natural Resources (CNQ) - \$145

Total Index Avg Daily \$\$ Vol – \$7.8 billion



Actual hidden liquidity based on underlying asset volume

Source: Bloomberg as of September 2016

ETFs Trade at Tighter Spreads

- Fixed income ETFs can trade at even tighter spreads than its underlying bonds
- Fixed Income ETFs offer advantages over individual bonds
 - Price discovery
 - Transparency
 - Diversification
 - Improved Liquidity
 - Precision

Ticker	Maturity	Credit	Retail	Spread	ETF
ZFS	Short	Federal	1.00%	0.08%	0.07%
ZFM	Mid	Federal	1.10%	0.12%	0.12%
ZFL	Long	Federal	1.30%	0.18%	0.16%
ZPS	Short	Provincial	1.05%	0.08%	0.07%
ZMP	Mid	Provincial	1.20%	0.13%	0.06%
ZPL	Long	Provincial	1.50%	0.22%	0.18%
ZCS	Short	Corporate	0.95%	0.30%	0.07%
ZCM	Mid	Corporate	1.82%	0.63%	0.12%
ZLC	Long	Corporate	2.50%	0.62%	0.16%

For illustrative purposes only (July 2016)

7. Sector ETFs

- Using sector ETFs allows investors to target hard to access asset classes and more direct exposures

Exposure to REITs:

ZRE - BMO Equal Weight REITs Index ETF

Name	Weight (%)
Northview Apartment REIT	5.80
Boardwalk REIT	5.77
Choice Properties, REIT	5.71
Allied Properties REIT	5.70
Chartwell Retirement Res	5.66
Smart REIT	5.65
Dream Office REIT	5.64
Dream Global REIT	5.64
Cdn Apartment Prop REIT	5.62
Canadian REIT	5.55

Exposure to global Infrastructure equities:

ZGI - BMO Global Infrastructure Index ETF

Name	Weight (%)
National Grid plc ADR	9.01
American Tower Corp	8.54
Enbridge Inc.	7.29
Kinder Morgan Inc	6.87
TransCanada Corp.	6.60
Crown Castle Intl REIT	5.50
P G & E Corp	5.34
Spectra Energy Corp	5.30
Sempra Energy	4.62
Consolidated Edison Inc.	3.94

Data as of Oct 17th, 2016

6. Currency Hedged

- Currency returns are an important factor impacting any investor purchasing a non-Canadian asset
- Since the underlying investments of these assets are bought in a foreign currency, the appreciation or depreciation of the foreign currency against the Canadian dollar can either add or detract from the total return



5. U.S. Dollar Options

- Purchase options – unhedged, hedged and US Dollar
- T1135 - Canadian ETFs are not impacted
- U.S. Estate Tax – Canadian ETFs are not generally impacted

Unhedged	Hedged	USD
BMO S&P 500 Index ETF	BMO S&P 500 Hedged to CAD Index ETF	BMO S&P 500 Index ETF (US Dollar Units)
BMO Mid-Term US IG Corporate Bond Index ETF	BMO Mid-Term US IG Corporate Bond Hedged to CAD Index ETF	BMO Mid-Term US IG Corporate Bond Index ETF (US Dollar Units)
BMO Low Volatility US Equity ETF	BMO Low Volatility US Equity Hedged to CAD ETF	BMO Low Volatility US Equity ETF (US Dollar Units)

4. Covered Calls and Option Based Strategies

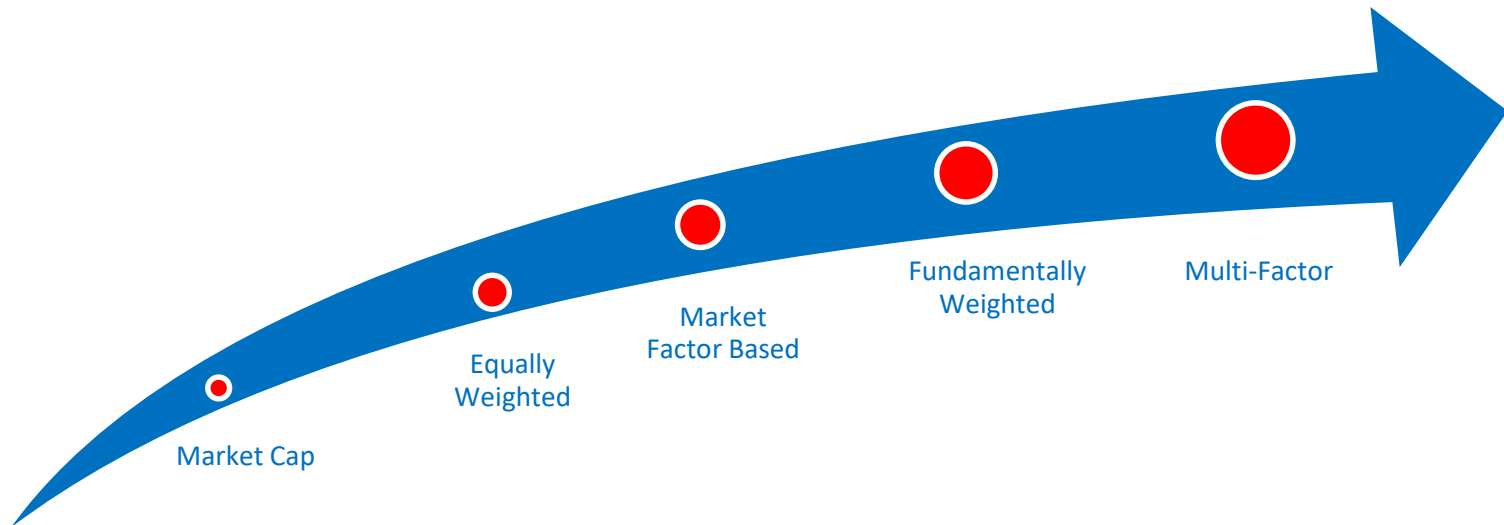
- Option based strategies typically used institutional type investors however, are difficult and time consuming to run
- Covered Call ETFs were launched providing both retail and institutional investors an efficient way to access this strategy

Covered Call				
<p>BMO Covered Call Canadian Banks</p> <p>ZWB</p> <p>Distribution Yield: 5.5% M Mgmt. Fee: 0.65% Risk Rating: Medium</p>	<p>BMO Covered Call Utilities</p> <p>ZWU</p> <p>Distribution Yield: 6.7% M Mgmt. Fee: 0.65% Risk Rating: Medium</p>	<p>BMO Covered Call DJIA</p> <p>ZWA hedged to CAD</p> <p>Distribution Yield: 5.1% M Mgmt. Fee: 0.65% Risk Rating: Medium</p>	<p>BMO US High Dividend Covered Call</p> <p>ZWH ZWH.U unhedged unhedged USD traded</p> <p>Distribution Yield: 5.8% M Mgmt. Fee: 0.65% Risk Rating: Medium</p>	<p>BMO Europe High Dividend Covered Call</p> <p>ZWE hedged to CAD</p> <p>Distribution Yield: 7.3% M Mgmt. Fee: 0.65% Risk Rating: Medium</p>

Data as of September 30, 2016

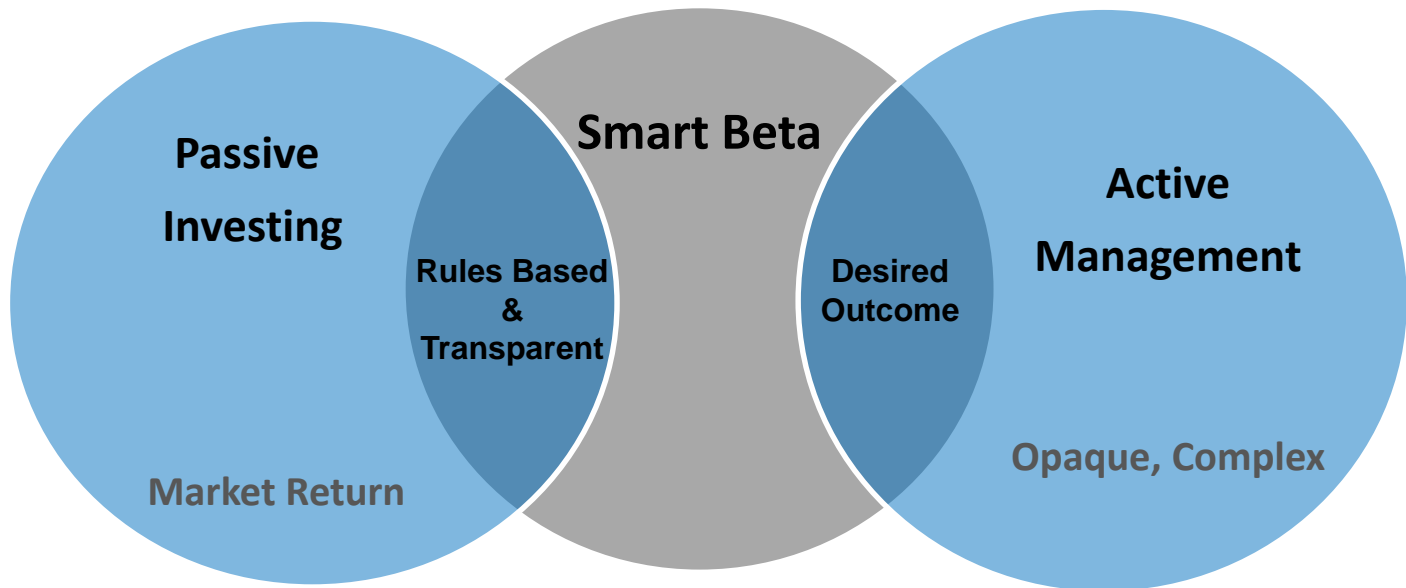
3. Emergence of Smart Beta

- ETF strategies have evolved as the industry has grown, providing investors with more options to access desired exposures



Smart Beta

- Smart beta is based on finding outcome oriented solutions that best represents the exposure investors are looking for
- Smart beta can be used as either complimentary or replacement strategies
- Standardized rules set for security selection and weighting to enhance transparency or active approach based on evolving signals



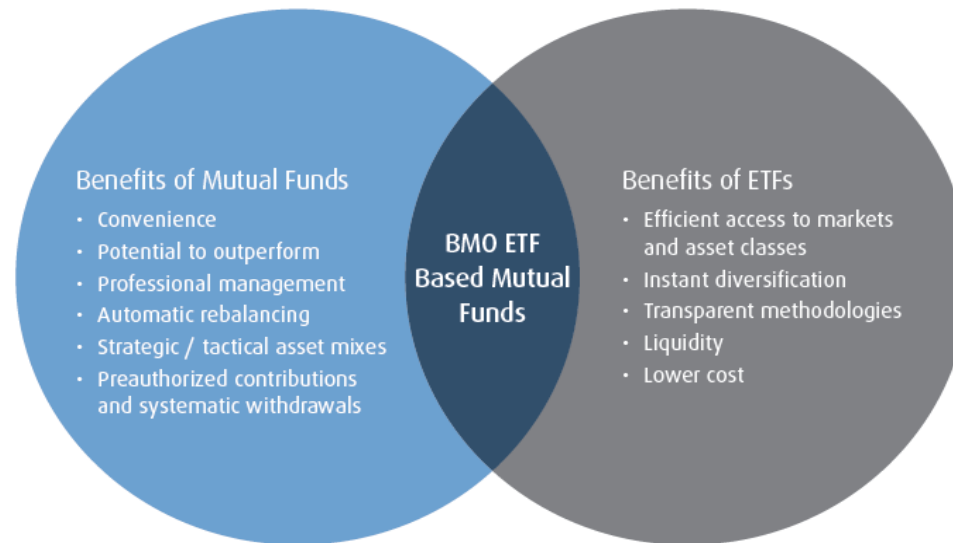
2. Tax Efficiency

- ETFs are taxed based on the underlying portfolio, similar to a mutual fund
- Tax treatment depends on how the ETF is structured and what it holds
- Two tax considerations;
 - Treatment of distributions paid by the ETF
 - Treatment of the gain or loss realized on selling the investments in the ETF

Distribution	What is it?	Tax Treatment
Canadian Dividends	Dividend distributions occur when an ETF invests in Canadian equity securities that pay dividends	Canadian residents qualify for a dividend tax credit, if the ETF invests in Canadian securities that pays dividends
Interest and Other Income	Fixed income ETFs earn interest on their investments in bonds and other debt obligations	When an ETF pays out distributions as interest and other income are treated as ordinary income
Capital Gains	An ETF may incur capital gains if the sale of investments in the ETFs portfolio is sold for more than its purchase price	Only 50% of capital gains are subject to tax and has to be included in the investors taxable income
Foreign Income and Foreign Tax Paid	An ETF may earn dividends or interest on foreign investments and have to pay foreign withholding tax	When the ETF pays distributions out of this foreign income, an investor that pays Canadian tax may be able to claim a foreign tax credit for some of the foreign tax paid by the ETF
Return of Capital	An ETF may have a distribution that returns a portion of your initial investment.	An ETF may distribute return of capital which is non taxable to investors

1. ETF Based Mutual Funds

- Growth in the ETF market has provided active managers more opportunity when it comes to constructing portfolios
 - Precise Exposures i.e. smart beta, segmented fixed income solutions
 - Hard to access asset classes
 - Cost effective broad asset classes
 - Efficiency in moving between asset classes



BMO GAM a Leader in ETF Based Mutual Funds

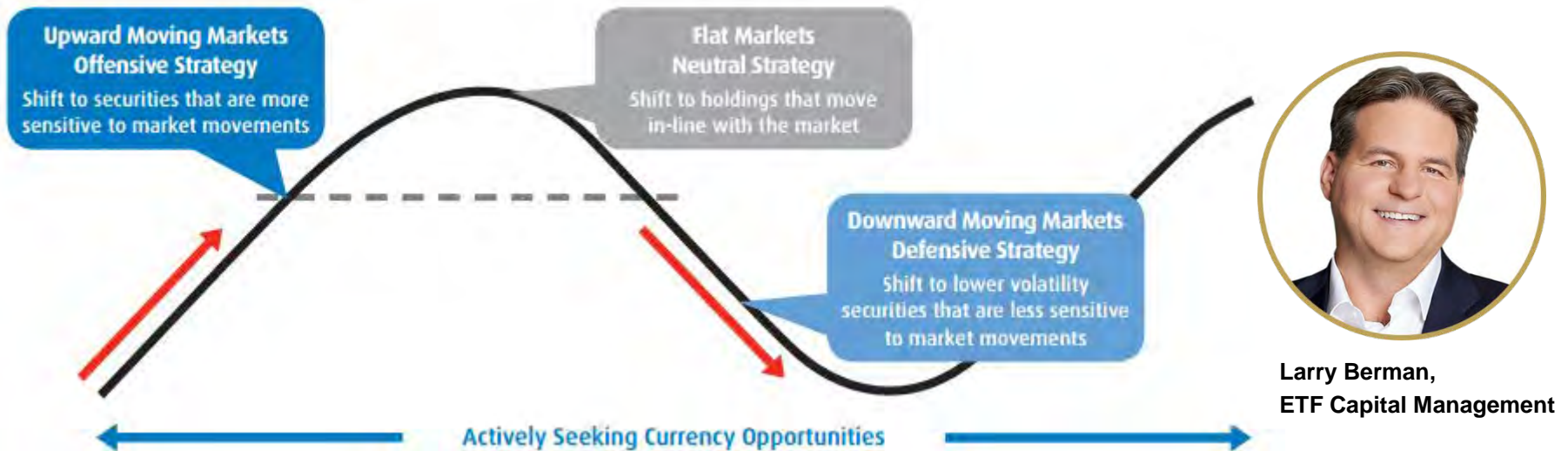
- Total AUM in ETF based mutual funds market for 2016 was \$8.3 billion, of which BMO accounts for 2/3
- ETF based mutual fund flows increased by \$900 million year-over-year
- 7 of the top 10 funds in this category are BMO ETF based mutual funds



Source: Investor Economics June 2016

BMO Tactical ETF Fund

- All-in-one, core balanced total return solution that tactically explores growth opportunities across the globe
 - Built with a strong ‘core’ composed of income focused Canadian ETFs
 - Uses satellite investments to ‘explore’ global opportunities
- Combination of technical analysis and fundamental analysis is used to build the portfolio to potentially enhance return and lower volatility



BMO Tactical Dividend ETF Fund



Tactical Core & Explore Dividend Investing

Tactical shifts around core investments

- Asset class exposure – ETFs

Equities, preferred shares, covered calls, fixed income, etc.

- Large Cap core & multi-cap explore
- Global exposure

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Visit [bmo.com/etfs](https://www.bmo.com/etfs) or contact Client Services at 1-800-361-1392

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