



Dan Stanley
Director,
Institutional and
Advisory,
Ontario

Fixed Income

The benefits of owning Exchange Traded Funds (ETFs) are well known: low cost, liquidity, and diversification. When applied to Fixed Income, the advantages of owning the ETF over the underlying security or Pools are magnified: bonds are difficult to trade and it's expensive to build a diversified portfolio. Bond ETFs are the opposite; you can build a low-cost portfolio of diversified bonds and trade them easily on the Exchange.

Initially, the “go-to” bond ETF was the broad benchmark FTSE UniverseXM Bond Index, an index comprising all Canadian bonds with roughly one third each in Federal, Provincial and Investment Grade corporate bonds. ZAG is the largest and the most liquid bond ETF in Canada, with a management fee of 0.08% and \$5.1bn AUM. Size bets liquidity but, importantly, also allows the largest, most representative sample, which minimizes Tracking Error.

As the ETF industry has evolved, so too has an investor's ability to access specific exposures within a broader asset class. Within the fixed income universe, you can buy long federal bonds (ZFL), short corporate bonds (ZCS), or “quality” corporate bonds (ZQB) with ratings better than BBB. You can buy the bond universe in a single exposure, or you can build the universe buy purchasing the individual components. Although some may be attracted to the simplicity an Aggregate Universe provides, managing Aggregate exposure through the components allows Portfolio Managers to control Credit, Term, Duration and, significantly, Liquidity.

BMO Exchange Traded Funds is the largest Fixed Income ETF provider in Canada, due to being the only provider to list precise exposures across points on the Yield Curve:

Fixed Income ETFs

Frequency of distribution: **M** Monthly **Q** Quarterly **A** Annually

Canada			
<p>BMO Ultra Short-Term Bond ZST distributing units Duration: 0.4 Distribution Yield: 2.6% M Yield to Maturity: 0.5% Mgmt. Fee: 0.15% Risk Rating: Low</p> <p>ZST.L accumulating units Duration: 0.4 Distribution Yield: 0.0% A Yield to Maturity: 0.5% Risk Rating: Low</p>	<p>BMO Aggregate Bond ZAG Duration: 8.3 Distribution Yield: 2.9% M Yield to Maturity: 1.3% Mgmt. Fee: 0.08% Risk Rating: Low</p>	<p>BMO Discount Bond ZDB Duration: 8.1 Distribution Yield: 2.1% M Yield to Maturity: 1.3% Mgmt. Fee: 0.09% Risk Rating: Low</p>	
<p>BMO Short-Term Bond ZSB Duration: 2.8 Distribution Yield: 2.3% Q Yield to Maturity: 0.6% Mgmt. Fee: 0.09% Risk Rating: Low</p>	<p>BMO Corporate Bond ZCB Duration: 6.7 Distribution Yield: 3.0% Q Yield to Maturity: 1.7% Mgmt. Fee: 0.15% Risk Rating: Low</p>	<p>BMO ESG Corporate Bond Index ETF ESGB Duration: 6.8 Distribution Yield: 2.9% Q Yield to Maturity: 1.7% Mgmt. Fee: 0.15% Risk Rating: Low <small>new</small></p>	<p>BMO Government Bond ZGB Duration: 8.8 Distribution Yield: 2.3% Q Yield to Maturity: 1.0% Mgmt. Fee: 0.15% Risk Rating: Low</p>
<p>BMO Canadian MBS Index ETF ZMBS Duration: 2.2 Distribution Yield: 1.6% M Yield to Maturity: 0.5% Mgmt. Fee: 0.15% Risk Rating: Low <small>new</small></p>	<p>BMO High Quality Corporate Bond Index ETF ZQB Duration: 3.6 Distribution Yield: 2.5% Q Yield to Maturity: 1.0% Mgmt. Fee: 0.10% Risk Rating: Low <small>new</small></p>	<p>BMO BBB Corporate Bond Index ETF ZBBB Duration: 4.4 Distribution Yield: 3.2% Q Yield to Maturity: 1.9% Mgmt. Fee: 0.15% Risk Rating: Low <small>new</small></p>	<p>BMO Real Return Bond ZRR Duration: 15.3 Distribution Yield: 2.2% M Yield to Maturity with Inflation Assumption: 0.8% Mgmt. Fee: 0.25% Risk Rating: Low to Medium</p>
Canadian Precise Market			
<p>BMO Short Corporate Bond ZCS distributing units Duration: 2.9 Distribution Yield: 2.9% M Yield to Maturity: 1.2% Mgmt. Fee: 0.10% Risk Rating: Low</p> <p>ZCS.L accumulating units Duration: 2.9 Distribution Yield: 0.0% A Yield to Maturity: 1.2% Risk Rating: Low</p>	<p>BMO Mid Corporate Bond ZCM Duration: 6.4 Distribution Yield: 3.2% M Yield to Maturity: 2.2% Mgmt. Fee: 0.30% Risk Rating: Low</p>	<p>BMO Long Corporate Bond ZLC Duration: 13.7 Distribution Yield: 4.0% M Yield to Maturity: 3.1% Mgmt. Fee: 0.30% Risk Rating: Low to Medium</p>	
<p>BMO Short Provincial Bond ZPS distributing units Duration: 3.0 Distribution Yield: 3.0% M Yield to Maturity: 0.5% Mgmt. Fee: 0.25% Risk Rating: Low</p> <p>ZPS.L accumulating units Duration: 3.0 Distribution Yield: 0.0% A Yield to Maturity: 0.5% Risk Rating: Low</p>	<p>BMO Mid Provincial Bond ZMP Duration: 6.9 Distribution Yield: 2.5% M Yield to Maturity: 1.2% Mgmt. Fee: 0.25% Risk Rating: Low</p>	<p>BMO Long Provincial Bond ZPL Duration: 16.4 Distribution Yield: 3.0% M Yield to Maturity: 2.1% Mgmt. Fee: 0.25% Risk Rating: Low to Medium</p>	
<p>BMO Short Federal Bond ZFS distributing units Duration: 2.8 Distribution Yield: 1.8% M Yield to Maturity: 0.3% Mgmt. Fee: 0.20% Risk Rating: Low</p> <p>ZFS.L accumulating units Duration: 2.8 Distribution Yield: 0.0% A Yield to Maturity: 0.3% Risk Rating: Low</p>	<p>BMO Mid Federal Bond ZFM Duration: 7.2 Distribution Yield: 2.1% M Yield to Maturity: 0.7% Mgmt. Fee: 0.20% Risk Rating: Low</p>	<p>BMO Long Federal Bond ZFL Duration: 17.5 Distribution Yield: 2.6% M Yield to Maturity: 1.1% Mgmt. Fee: 0.20% Risk Rating: Low to Medium</p>	
US/Global			
<p>BMO Short-Term US Treasury Bond ZTS unhedged Duration: 2.7 Distribution Yield: 1.8% Q Yield to Maturity: 0.2% Mgmt. Fee: 0.20% Risk Rating: Low to Medium</p> <p>ZTS.U USD units Duration: 2.7 Distribution Yield: 1.8% Q Yield to Maturity: 0.2% Mgmt. Fee: 0.20% Risk Rating: Low to Medium</p>	<p>BMO Mid-Term US Treasury Bond ZTM unhedged Duration: 6.6 Distribution Yield: 1.9% Q Yield to Maturity: 0.6% Mgmt. Fee: 0.20% Risk Rating: Low to Medium</p> <p>ZTM.U USD units Duration: 6.6 Distribution Yield: 1.9% Q Yield to Maturity: 0.6% Mgmt. Fee: 0.20% Risk Rating: Low to Medium</p>	<p>BMO Long-Term US Treasury Bond ZTL.F hedged to CAD Duration: 18.9 Distribution Yield: 2.2% Q Yield to Maturity: 1.5% Mgmt. Fee: 0.20% Risk Rating: Medium</p> <p>ZTL unhedged Duration: 18.9 Distribution Yield: 2.2% Q Yield to Maturity: 1.5% Mgmt. Fee: 0.20% Risk Rating: Medium</p> <p>ZTL.U USD units Duration: 18.9 Distribution Yield: 2.2% Q Yield to Maturity: 1.5% Mgmt. Fee: 0.20% Risk Rating: Medium</p>	
<p>BMO Ultra Short-Term US Bond ZUS.U USD units Duration: 0.3 Distribution Yield: 2.5% M Yield to Maturity: 0.5% Mgmt. Fee: 0.15% Risk Rating: Low</p> <p>ZUS.V USD accumulating units Duration: 0.3 Distribution Yield: 0.0% A Yield to Maturity: 0.5% Risk Rating: Low</p>	<p>BMO Short-Term US IG Corporate Bond ZSU hedged to CAD Duration: 2.9 Distribution Yield: 2.8% M Yield to Maturity: 0.9% Mgmt. Fee: 0.25% Risk Rating: Low</p>	<p>BMO Mid-Term US IG Corporate Bond ZMU hedged to CAD Duration: 6.5 Distribution Yield: 2.6% M Yield to Maturity: 1.8% Mgmt. Fee: 0.25% Risk Rating: Low</p> <p>ZIC unhedged Duration: 6.5 Distribution Yield: 3.4% M Yield to Maturity: 1.8% Mgmt. Fee: 0.25% Risk Rating: Low</p> <p>ZIC.U USD units Duration: 6.5 Distribution Yield: 3.4% M Yield to Maturity: 1.8% Mgmt. Fee: 0.25% Risk Rating: Low</p>	
<p>BMO ESG US Corporate Bond Index ETF ESGF hedged to CAD Duration: 8.2 Distribution Yield: 2.9% Q Yield to Maturity: 1.8% Mgmt. Fee: 0.20% Risk Rating: Low <small>new</small></p>	<p>BMO Floating Rate High Yield ZFH Duration: 0.3 Distribution Yield: 4.8% M Yield to Maturity: 4.3% Mgmt. Fee: 0.40% Risk Rating: Low</p>	<p>BMO High Yield US Corporate Bond ZJK unhedged Duration: 3.6 Distribution Yield: 5.7% M Yield to Maturity: 5.6% Mgmt. Fee: 0.55% Risk Rating: Low to Medium</p> <p>ZHY hedged to CAD Duration: 3.6 Distribution Yield: 5.7% M Yield to Maturity: 5.6% Mgmt. Fee: 0.55% Risk Rating: Low to Medium</p>	<p>BMO Emerging Market Bond ZEF hedged to CAD Duration: 5.1 Distribution Yield: 4.3% M Yield to Maturity: 2.8% Mgmt. Fee: 0.50% Risk Rating: Low to Medium</p>

In March and April, 60% of Provincial bonds and 70% of Corporate bonds went no-bid. Investors in Aggregate Universe exposures became price takers as discounts in these components cascaded across Aggregate instruments. Investors in segmented components, however, mitigated some of these issues because Federal bonds traded without the same concerns.

By separating the Government and Corporate bonds (as opposed to owning the universe) into different allocations, you exert greater control to trade bonds when conditions dictate. Some Institutional clients have segmented Aggregate exposure two different ways:

- ZGB provides full term exposure to Canadian Federal & Provincial bonds
 - ZCB provides full term exposure to Canadian Investment Grade bonds
- Or
- ZGB provides full term exposure to Canadian Federal & Provincial bonds ;
 - ZQB provides exposure to 1-10 year Canadian Corporate bonds rated A and higher
 - ZBBB provides 1-10 year exposure to Canadian Corporate bonds with BBB ratings.

While it's often said that "the whole is greater than the sum of the parts", in the case of bond ETFs, a proper allocation to "the parts" can both enhance your asset allocation, your liquidity, and the overall investor experience.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

The viewpoints expressed by the authors represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time without any kind of notice. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. The statistics in this update are based on information believed to be reliable but not guaranteed. This communication is intended for informational purposes only.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence.