

Accumulating Units

Thought leadership and commitment to innovation

Investors have been searching for a stable price solution for fixed income as coupons do not accumulate in the price and as volatility in interest rates can impact bond prices. Investors may see a flat or declining price even though the total returns may be positive. With a limited opportunity for bond prices to appreciate, client concerns on fixed income pricing has become more pronounced.

BMO ETFs have listed Accumulating units (.L, .V for USD) to help simplify and solve for this issue.

BMO Ultra Short-Term Bond <u>ZST.L</u> Mgmt. Fee: 0.15% Risk Rating: Low	BMO Short Federal Bond <u>ZFS.L</u> Mgmt. Fee: 0.20% Risk Rating: Low	BMO Short Provincial Bond <u>ZPS.L</u> Mgmt. Fee: 0.25% Risk Rating: Low	BMO Short Corporate Bond <u>ZCS.L</u> Mgmt. Fee: 0.10% Risk Rating: Low	BMO Ultra Short-Term US Bond <u>ZUS.V (USD)</u> Mgmt. Fee: 0.15% Risk Rating: Low
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Accumulating units offer an effective solution to mitigate price declines by reinvesting coupons and consolidating the units. This solution is for investors that don't require cash distributions. Outside of short term periods of widening yields, the coupon should outpace price declines.

How Does it Work?

Accumulating units will distribute a quarterly reinvested and consolidated distribution which will be added back to the NAV. Investors of Accumulating units will still receive a tax slip at year end, similar to distributing ETFs. For example, in 2018, clients who bought ZCS would see a price return of -1.13% and a total return of 1.69%. If the client were to purchase ZCS.L they would see a price return and total return of 1.69% since no coupon was paid out.

	ZST	ZST.L	ZFS	ZFS.L	ZPS	ZPS.L	ZCS	ZCS.L
	Distributing Units	Accumulating Units						
Starting NAV	\$51.79	\$50.57	\$14.16	\$19.82	\$13.45	\$19.94	\$14.11	\$20.08
Year End NAV	\$51.05	\$51.58	\$14.17	\$20.16	\$13.27	\$20.28	\$13.95	\$20.42
1 Yr Performance	2.00%	2.00%	1.72%	1.72%	1.72%	1.72%	1.69%	1.69%
Price Return	-1.43%	-	0.07%	-	-1.34%	-	-1.13%	-
Coupon Paid	3.43%	-	1.65%	-	3.06%	-	2.82	-

For illustrative purposes only.

A More Stable Solution

Accumulating units are offered on short term fixed income BMO ETFs as the lower duration of the portfolios means they are less impacted by yield changes and have a greater probability of a consistent positive return. Below is an example of how regular units and accumulating units would be impacted by yield changes.*

	Duration	Coupon	YTM	Fee
ZCS	2.7	2.9%	3.00%	0.1%

Since the durations of ZCS is 2.7 years, the price decline from a parallel yield curve shift up of +25bps would be approximately 0.7% ($2.7 * 0.25 = 0.7$).

	Duration	Coupon	YTM	Fee
ZCS	2.7	2.9%	3.25%	0.1%

After one year, the portfolio would yield near 3.25% ($3.0 + 0.25 = 3.25$) to more than offset the price decline. After fees, ZCS would return 2.5% ($3.25 - 0.7 - 0.1$), all else being equal.

For the regular units:

ZCS would distribute approximately 2.8% ($2.9 - 0.1$)

Price return: -0.35% ($2.5 - 3.3$)

Total return: 2.5%

For the Accumulating units:

ZCS.L would reinvest and consolidate distributions

Price return: 2.5%

Total return: 2.5%

Breakeven (+170bp)

Price return: -4.75%

**Unitholders of Accumulating do not side step tax,
similar to other BMO ETFs they will receive a tax slip at year end.**

For more information about these products, please contact your local BMO ETF Specialist.



* Please note this example is provided for illustrative purposes and the numbers provided are not exact and only approximates.

Risk is defined as the uncertainty of a return and the potential for capital loss in your investment.

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

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