Guide to Alternatives

Global Asset Management

June 2025

For advisor and accredited investor use only

This guide will answer:

- What are alternatives?
- What can alternatives do for your portfolio?

Alternatives, including private markets assets and hedge funds, have long been a meaningful component of institutional, family office and ultra-high net worth investors' portfolios. These investors allocate a significant portion of their portfolios to alternatives because they have historically improved risk-adjusted performance.

At BMO Global Asset Management, we are designing solutions that help investors achieve their investment objectives. This guide will explain what alternatives are, how they can benefit your portfolios and how to access them.

Who are we?

Your destination of choice for alternative solutions

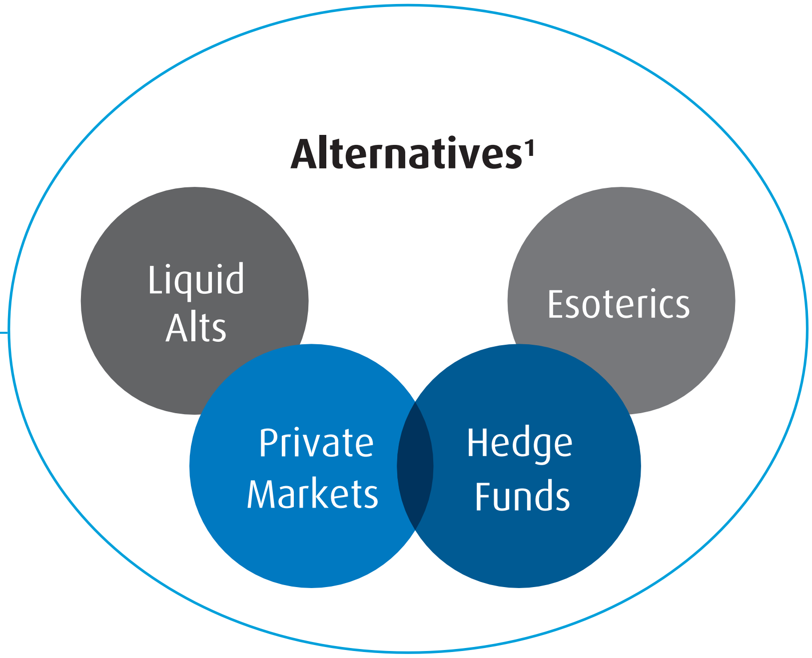
With C$193+ billion[1] in assets under management, BMO Global Asset Management has helped many Canadian investors achieve their financial goals by offering a range of solutions that suit investors' needs and preferences.

1 As at June 30, 2024.

What are alternatives?

Alternatives generally include assets that are either not traded publicly or a method of investing using non-traditional strategies. There are a broad range of asset types, even within alternatives as a category.

BMO Global Asset Management is focused on developing solutions that make alternative investments more accessible to a wider set of Canadians. BMO's focus within alternatives is **private markets** – including equity, credit, and real assets like real estate and infrastructure – and **hedge funds.**



Each asset class can play a different role within a portfolio

See page 9 for a deeper dive into private markets (i.e., private equity, private credit and real assets) and hedge funds.

Private Equity	Private Credit	Real Assets	Hedge Funds
Enhance Returns	Enhance Returns	**Enhance Returns**	Enhance Returns
Generate Cash Flow	**Generate Cash Flow**	**Generate Cash Flow**	Generate Cash Flow
Diversify Risk	**Diversify Risk**	Diversify Risk	**Diversify Risk**
Provides the 'octane'	Provides stable cash flow and downside protection	Provides contracted cash flow, upside potential and inflation protection	Reduces correlation to other public and private holdings

1 Liquid Alts are NI 81-102 "Alternative Mutual Funds" while Esoterics include assets such as crypto or wine.

Why use alternatives in your clients' portfolios?

Alternatives can play a complementary role to the stocks and bonds within a traditional portfolio. Key benefits include:

Enhance Returns

Investments like Private Equity, on average, generate higher returns than public market equivalents. These investments may also carry more risk than their public market equivalents.

Generate Cash Flow

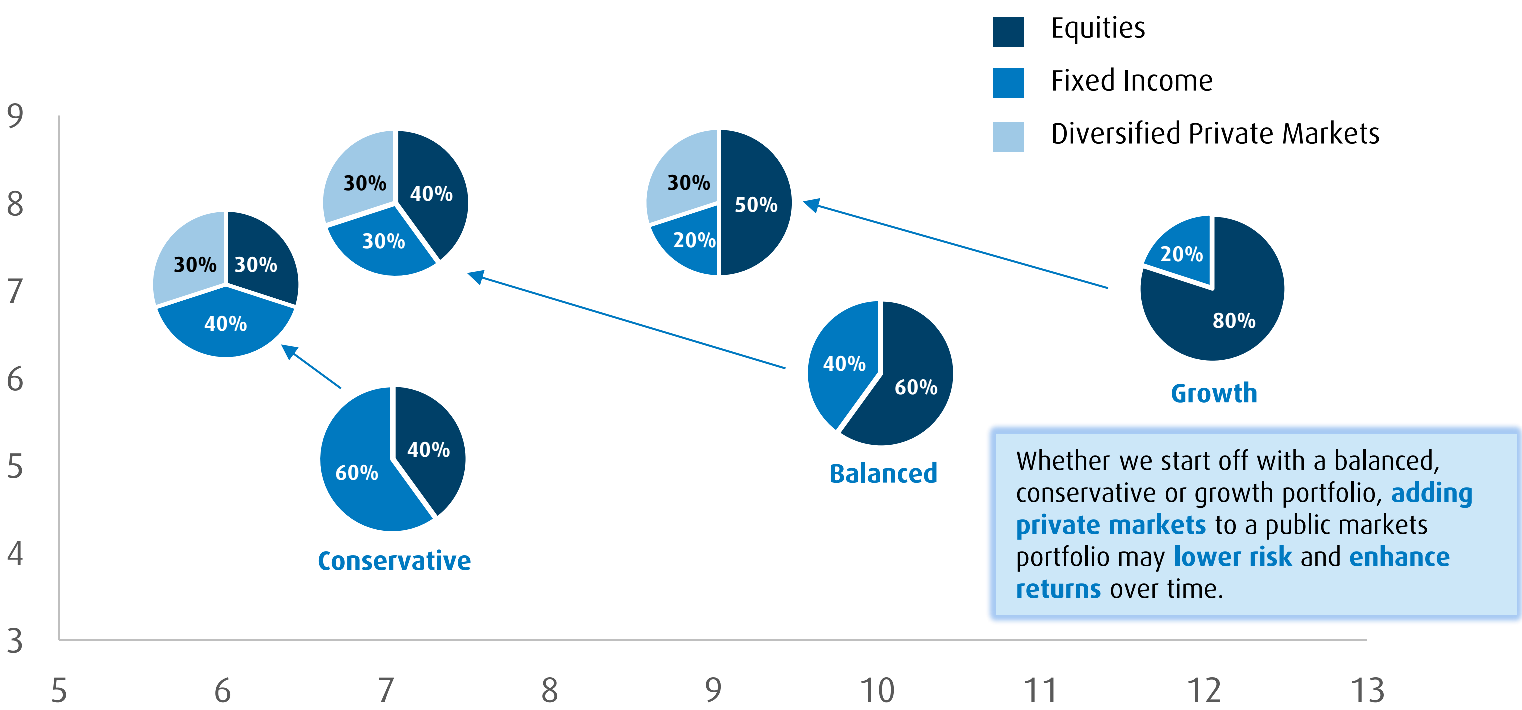
Investments like Private Credit and Real Assets can produce stable, floating rate cash flow.

Diversify Risk

Diversified Private Markets and Hedge Funds can provide outcomes with limited connection to public markets that may increase the consistency of the overall portfolio returns.

Alternatives improve risk-reward outcomes vs. traditional allocations[1]

From 2004 to 2024, a 30% allocation to diversified private markets improved the risk-reward outcomes for investors that were fully invested in public markets. This impact was realized for investors of varying risk profiles, whether the starting point is growth, balanced or conservative.



Whether we start off with a balanced, conservative or growth portfolio, **adding private markets** to a public markets portfolio may **lower risk** and **enhance returns** over time.

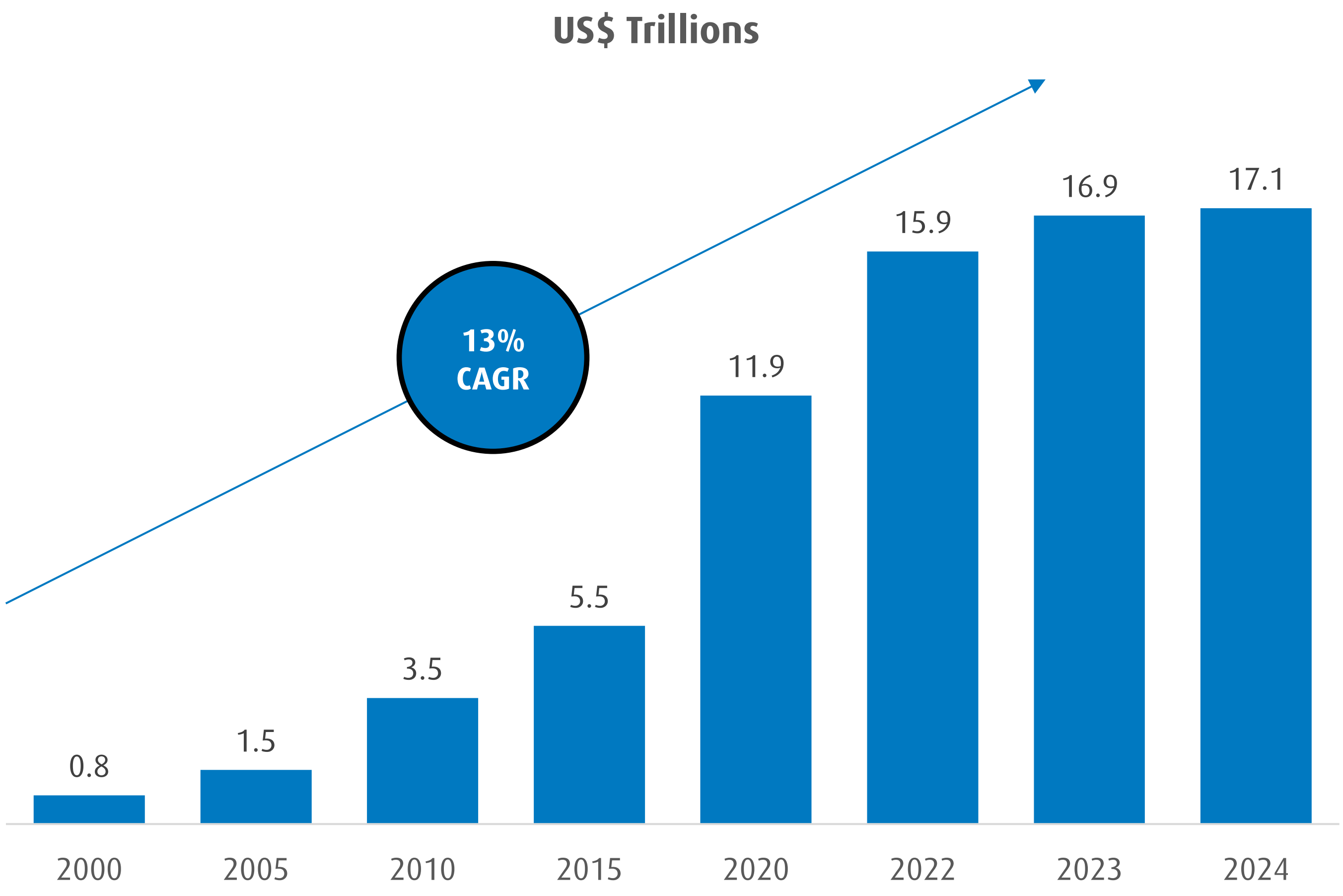
1 Portfolio breakdowns with Diversified Private Markets. Data from June 30, 2004 to September 30, 2024. Equities: S&P/TSX Composite Index (Conservative 30%, Balanced 40%, Growth 50%). Fixed Income: S&P Canada Aggregate Bond Index (Conservative 40%, Balanced 30%, Growth 20%). Diversified Private Markets: Preqin Private Capital Index (Conservative 30%, Balanced 30%, Growth 30%).

Growth in Private Markets

Assets Under Management (AUM) held in private markets, a key subset of alternatives, have been concentrated with institutional investors to date. These investors allocate a significant portion of their portfolios to alternatives because they have historically improved risk-adjusted performance.

Future growth is expected to be driven by individual investors as innovative fund formats and features improve access for a wider group of investors. Institutional investors, such as pension funds and endowments, are significant investors in alternatives. Individual investors have lagged by comparison.

Growth in Private Markets AUM[1]

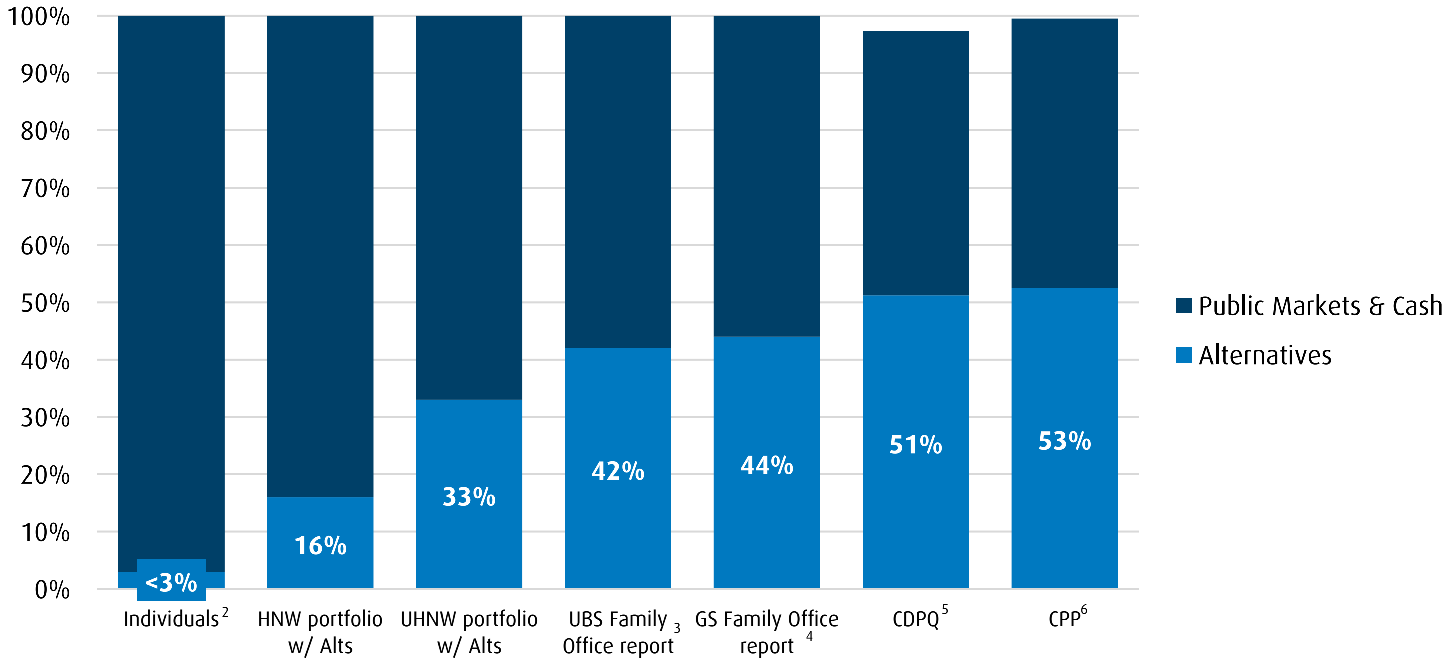


1 Source: Preqin, June 2025.

Canadian pensions have significant allocations to alternatives

In Canada, the largest public pension plans have steadily increased their allocation to alternatives over the past decade, with a specific emphasis on private markets. Adoption of Alternatives, as a share of a portfolio, is typically correlated with size of an investor's asset base.

Asset allocations by investor type[1]



CPP Investments[7]

"Our investments in **Private Equity** continued to drive growth in the Fund with additional contributions from our investments in **Real Assets** and **Credit Investments**, despite volatility in public markets which impacted our equity investments."

— John Graham, President and CEO[8]

CDPQ[7]

"Equities class also posted a negative return, but resisted better given the preponderance of quality stocks in the Equity Markets portfolio and the good operational performance of companies **held in Private Equity. Activities in Real Estate and Infrastructure performed very well against rising inflation."**

—News Release, February 23, 2023[9]

BCi[7]

"All parts of our business contributed to the strong results, however the **performance of our private market assets is notable.** We had a **banner year in private equity** delivering a total return of 29.7 per cent — well ahead of the benchmark. This success demonstrates the team's deep industry expertise and ability to identify sources of potential value and work alongside management teams to bring it to fruition."

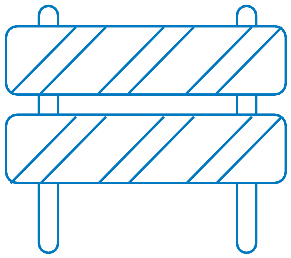
— Gordon J. Fyfe, CEO/CIO[10]

1 High Net Worth ("HNW") and Ultra High Net Worth ("UHNW") portfolios included for illustrative purposes only. Alternatives defined as Private Equity, Real Assets (i.e., Real Estate and Infrastructure) and Private Credit. **2** Bain & Company, Global Private Equity Report 2023 (published 27 February 2023). **3** UBS "Global Family Office Report 2024" (published 2024). **4** Goldman Sachs "Family Office Investment Insights" report (published 2023). **5** CDPQ Investments, Annual Reports. Asset Allocation cited in section 2023 Highlights. Private credit approximated by Level 3 debt, bonds and fixed income when not explicitly cited in summary tables, page 139. **6** CPP Investments, Annual Reports. Asset allocations cited in section Key Performance Indicators, page 31. Private Credit approximated by Level 3 debt when not explicitly cited in summary tables, page 108 and 110. **7** CPP Investments, CDPQ and BCi are the registered trademarks of Canada Pension Plan Investment Board, Caisse de dépôt et placement du Québec, and British Columbia Investment Management Corporation, respectively. All logos and trademarks of other companies are the property of those respective companies. **8** CPP Annual Report (F2022). **9** CDPQ F2022 Financial Results press release, 23 Feb 2023. **10** BCi Annual Report (2021-22)

Breaking down the barriers to alternatives

Historically, there have been barriers for Canadian investors in accessing alternative products. As a result, many investors have not been able to obtain the benefits of these types of investments.

Traditional barriers to alternatives



Due diligence on managers
Wide dispersion in outcomes between top and bottom quartile managers.

Fund structure
Funds generally designed as closed end with capital calls, limiting liquidity available to investors.

High minimums
Accessing proven managers in their top strategies could require a large minimum investment, typically >$2MM.

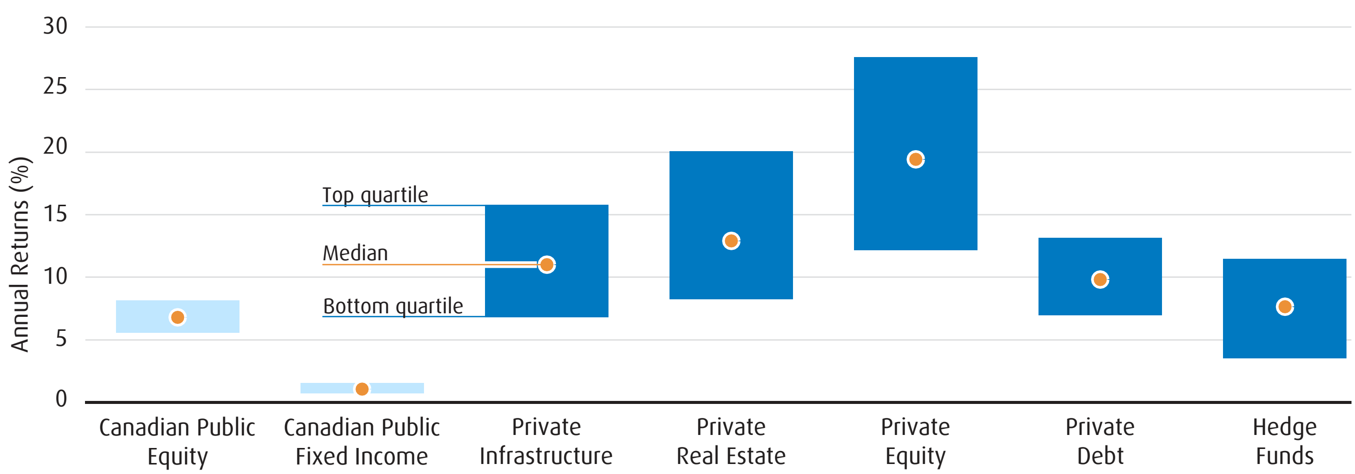
Our approach

BMO Global Asset Management uses two approaches to provide access to alternatives for Canadian accredited investors.

Create proprietary products
Where we have expertise and a demonstrated track record, we develop in-house solutions.

Find the best managers
Where we don't have proprietary products, we take a research-first approach to identify strong global managers, and partner with them to fit the needs of Canadian accredited investors. Manager selection is critical when investing in alternatives, as evidenced by the dispersion of returns cited in the chart below.

Manager dispersion over 10 years – public vs. alternative managers[1]



1 Public markets: Morningstar data; results are based on 10-year total returns as of April 30, 2023. Alternatives: Preqin data; based on IRRs from global managers from 2011-2020. Based on chart from JP Morgan.

Implementing an allocation to alternatives

The appropriate alternatives allocation will vary based on a number of factors. Key questions to consider when determining an allocation to alternatives include:

1 → 2 → 3 → 4

1 What is the main objective behind considering Alternatives – enhanced returns, stable cash flow, public markets diversification?

The answer will determine which strategies to focus on.

2 How much of the portfolio can be fully deployed for the future – up to 10 years?

This can help determine the target allocation for investments like Private Equity, that could potentially be locked in for a decade.

3 How much of their portfolio can be fully deployed for a short period of time – up to 6 months?

Can help inform the target allocation to income generating products like Private Credit to capture potential for yield enhancement.

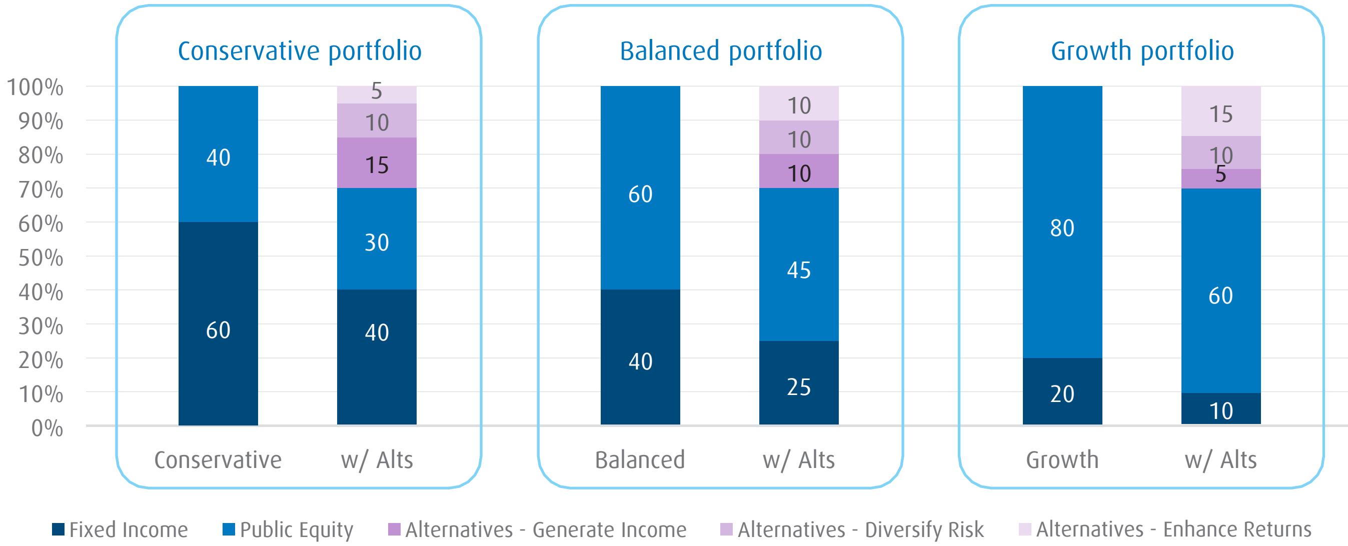
4 How much portfolio volatility is deemed acceptable?

This can inform the target allocation to alternatives strategies like diversified funds and hedge fund strategies which particularly show their value in a down market.

The answers to these questions can help define a target allocation. A simple approach to achieving that allocation would have purchases, over time, funded by assets that play a similar role in an investor's portfolio (e.g., selling return enhancers like public equity could fund a private equity allocation).

How to structure your asset allocation

The investor's investment objectives and risk appetite should be the basis of any decisions for adding alternative assets into their portfolio. Here are illustrative examples of how to add[1] a 30% alternatives allocation to a conservative, balanced or growth portfolio.



1 Assume "Alternatives – Enhance Returns" is fully funded by "Public Equity", "Alternatives - Generate Income" is fully funded by "Fixed Income" and "Alternatives - Diversify Risk" Is funded in equal parts by "Fixed Income" and "Public Equity."

Navigating the world of alternatives

The broad universe of alternatives

Within the alternative investment space, there are two main fund formats (evergreen and closed-end) and a diverse range of investment types.

Fund Format	**Evergreen** Open for continuous subscriptions and redemptions	**Closed end** Defined subscription window

Investment Type	**Direct**	**Lead** Controlled ownership	**Co-invest** Investing alongside another manager	**Indirect**	**Primary** Investing in other managers' funds	**Secondary** Buying fund investments from existing owners

Asset Classes	**Private Equity**	**Venture**	**Private Credit**	**Direct Lending**	**Real Assets**	**Credit**	**Hedge Funds**	**Relative Value**
		Growth		**Mezzanine**		**Core**		**Global Macro**
		Buyout		**Specialty**		**Value Add**		**Directional**
		Distressed		**Distressed**		**Opportunistic**		**Multi Strategy**

Portfolio Benefits	**Enhance Returns**	**Generate Cash Flow**	**Diversify Risk**

Select funds recently launched by BMO GAM

These alternative vehicles are designed to target specific investment outcomes.

Fund name	Fund format	Investment type	Asset classes	Portfolio benefits
BMO Partners Group Private Markets Fund[1]	Evergreen	Blend of Lead, Co-Invest, Primary and Secondary	Blend of Private Equity, Private Credit and Real Assets	Diversify Risk
BMO Carlyle Private Equity Strategies Fund[1]	Evergreen	Blend of Co-Invest and Secondary	Private Equity	Enhance Returns
Alpha Managers Hedge Fund[1]	Evergreen	Multi-Strategy Hedge Fund	Blend of equity long/short, tactical trading, event driven, and relative value	Diversify Risk
BMO AAA CLO ETFs[2]	Evergreen	Collateralized Loan Obligations (AAA)	Credit (Specialty)	Generate Cash Flow

1 See the Fund's specific offering memorandum for further details. **2** See the Fund's ETF Facts or prospectus for further details. AAA herein refers to the order of payments, should there be any defaults, and does not represent the ratings of the underlying loans within the CLO. If there are loan defaults or the CLO Issuer's collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches (a tranche or tranches subordinated to the senior tranche), and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. The riskiest portion is the "Equity" tranche, which bears the first losses and is expected to bear all or the bulk of defaults from the corporate loans held by the CLO Issuer serves to protect the other, more senior tranches from default.

A deeper dive into private markets and hedge funds

Private equity involves buying or selling shares of private companies.

Private equity	
Venture	Investing in early-stage companies that have high potential but also high risk.
Growth	Investing in companies that need more capital to expand their business.
Buyouts	Buying companies to improve their performance and sell them for a profit.
Distressed	Buying shares of struggling companies at a discount and helping them recover.

Private credit involves directly lending to companies where the debt is not issued or traded on the public markets.

Private credit	
Direct lending	Providing loans to companies that need funding for various purposes.
Mezzanine	Providing higher risk loans (e.g., subordinated to senior lenders) to companies that in ways that may include the option for equity.
Specialty	Niche credit strategies, including risk transfer from credit holders and structured credit.
Distressed	Purchasing debt of under-performing companies to improve performance or gain an equity position in the event of default.

Real assets involve investing in physical assets (e.g., real estate, infrastructure) that can generate income, appreciate in value, or both.

Real assets	
Credit	Investing in debt that finances the purchase or capital improvement of real asset investments.
Core	Investing in well-maintained properties with high occupancy levels that provide steady income from rents.
Value add	Purchasing assets with existing cash flows, but where there is room for additional improvement.
Opportunistic	Investing in significant development or renovation projects that aim to increase their value.

Hedge funds are investment partnerships that use complex trading strategies to earn active risk-adjusted returns on public securities.

Hedge funds	
Relative value	Aims to realize a valuation discrepancy and pricing differentials by buying and selling different securities.
Global Macro	Take positions and risk across geographies and products while employing a wide range of trading styles, based on top-down views of the world.
Directional	Investing on the moves of the market (short or long) as they expect a trend to continue or reverse.
Multi strategy	Combines different hedge fund strategies into one portfolio.

Your BMO GAM Alternatives team

The team brings together significant industry and investing experience to help Canadians with solutions to meet their diverse investment needs.

Guillaume Lagourgue
Head, Alternatives Distribution

Lillian Ferndriger
Director, Alternatives Distribution

Adam Abitbol
Vice President, Alternatives Distribution

Duran Guest
Vice President, Alternatives Distribution

Alex Singh
Head, Alternatives Partnerships

Mark Jarosz
Head, Credit Alternatives

Iain Munro
Head, Private Equity

Kylie Fung
Head, Distribution Strategy

Graham Partner
Head, Alternatives, Strategic Initiatives

Terry Chung
Vice President, Alternatives, Product Management

Connect with us at **bmogamalts@bmo.com**

Connect with us to learn more about alternatives.

bmogamalts@bmo.com

BMO | Global Asset Management

CLOs are floating- or fixed-rate debt securities issued in different tranches, with varying degrees of risk, by trusts or other special purpose vehicles ("CLO Issuers") and backed by an underlying portfolio consisting primarily of below investment grade corporate loans. The BMO ETF pursues its investment objective by investing, under normal circumstances, at least 85% of its net assets in CLOs that, at the time of purchase, are rated AAA or the equivalent by a nationally recognized statistical rating organization. Details relating to CLOs and the underlying loans within CLOs are contained in the applicable offering documents for the BMO AAA CLO ETFs.

AAA herein refers to the order of payments, should there be any defaults, and does not represent the ratings of the underlying loans within the CLO. If there are loan defaults or the CLO Issuer's collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches (a tranche or tranches subordinated to the senior tranche), and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. The riskiest portion is the "Equity" tranche, which bears the first losses and is expected to bear all or the bulk of defaults from the corporate loans held by the CLO Issuer serves to protect the other, more senior tranches from default.