BMO Canadian Bank Income Index ETF (ZBI)

Access higher yield combined with the strength of Canadian bank credit

Investors are facing challenges in their fixed income allocation as they look to deal with a rising and steepening yield curve, inflation, low yields, and the equity/fixed income mix of their portfolios. The outlook for fixed income is muted, leading to a search for non-traditional investments. These shifting market conditions means that investors need to reconsider their fixed income allocations to meet their needs. Investors are looking for an alternative income solution that behaves differently from traditional fixed income.

The BMO Canadian Bank Income Index ETF (ZBI) is a higher yielding unique fixed income ETF that allows investors to conveniently access a portfolio of bank funding instruments, excluding common shares.

ZBI pairs the benefits of higher yield and lower duration, by investing in non-traditional securities while remaining anchored with traditional Canadian bank fixed income. This solution provides access to Limited Recourse Capital Notes (LRCN) and preferred shares that source capital through wholesale funding.

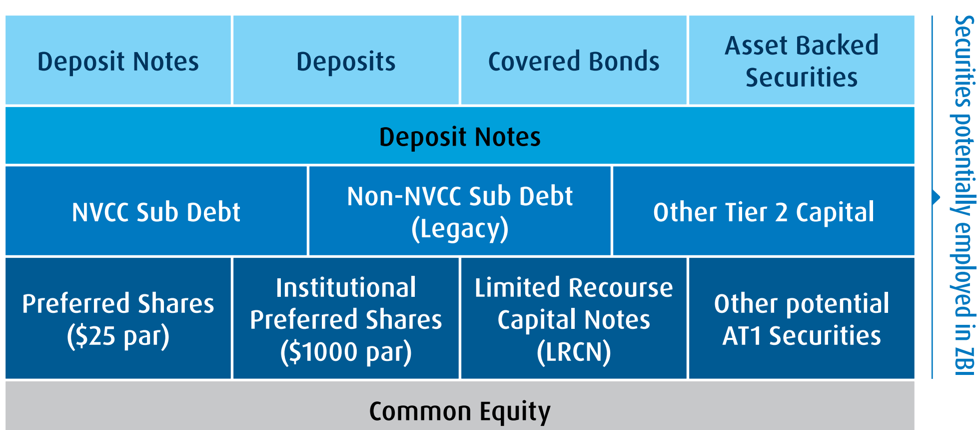
The benefits of ZBI:

- Access to non-traditional securities: preferred shares, LRCNs
- Lower duration
- Higher yield
- Low risk rating due to portfolio structure, anchored by traditional Canadian bank issued fixed income

The Canadian banking system has often been recognized as one of the most stable in the world. Collectively the banks in Canada have conservative practices, are well capitalized and adhere to strict governance. Compared to other issuers of corporate credit, banks tend to utilize a wider variety of instruments in order to source capital funding. These financial instruments include secured and unsecured borrowings and also hybrid instruments, which offer various levels of defensive and yield.

Bank Capital Structure Hierarchy ("Capital Stack")

Chart illustrates capital instruments that banks employ and their hierarchy in the "capital stack," which determines its priority in repayment, risk and thus expected return and yield.



For illustrative purposes only

Instruments Included in ZBI

- **Canadian Bank Issued Bonds:** which include secured and unsecured funding and are considered obligations and liabilities by the issuing bank. These instruments are considered lower risk as they are collateralized by designated assets and/or have the highest priority in the event of a bankruptcy, insolvency liquidation or resolution. Due to the higher quality and shorter duration of the bonds, they offer a lower yield.
- **Canadian Preferred Shares:** are lower in the capital structure relative to bonds but higher than common equity. Similar to bonds, they have par values, but maturities that are less defined as they can be called on scheduled dates. Preferred shares have priority in claims to dividends and repayment to common shares. These include traditional structures such as rate-resets preferred shares, straight perpetual preferred shares; and newly created structures like institutional preferred shares), launched in 2021
- **Canadian Limited Recourse Capital Notes (LRCNs):** are structured like bonds but are considered on "pari-passu" with preferred shares, due to many of their similar features and characteristics. The main difference being that LRCNs distribute income rather than dividends and are only available through the wholesale funding market.

Portfolio Construction

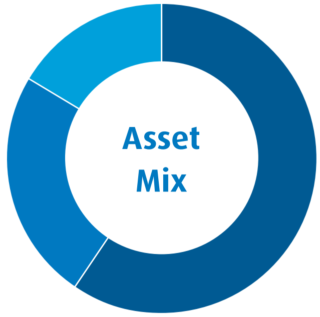
The BMO Canadian Bank Income Index ETF (ZBI) allows credit-oriented investors to get a yield pick up while anchoring to traditional fixed income from Canadian banks. The portfolio is divided into two broad components: bonds and hybrids. The ETF is reconstituted on a monthly basis in order to capture new issuance activity, while being rebalanced on a semi-annual basis back to its target allocation. There is an intra period buffer of +/- 5% where a rebalance would be triggered.

This ETF allows investors to enhance yield in the bond portion of a portfolio, while keeping duration low. The rules in the ETF also allows investors to limit risk, by investing in a combination of Canadian bonds and hybrids (non-traditional securities including but not limited to preferreds and LRCNs). This ETF gives investors access to yield enhancing segments of the bank funding market that are currently only accessible by institutional investors. Furthermore, the structure of the ETF allows investors to conveniently access the various instruments in one portfolio, with the benefits of liquidity and transparency.

Portfolio Characteristics

Current Yield:	3.40%
YTM:	5.41%
Duration:	2.58
Ave Credit Rating:	A

Source: BMO Global Asset Management, September 15th 2022



- Bonds 59.8%
- Preferred Shares 24.1%
- LRCN 16.4%

Total: 100%