BMO Managed Portfolios: FAQ

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1. How do the BMO Managed Portfolios differ from BMO SelectTrust/BMO ETF Portfolios (core solutions for RISR previously), apart from fees and being more active?

   Key Features and benefits/differentiators:

   - Less Canada-centric – lower allocations to Canadian equities and fixed income, with more developed market foreign equities and global credit exposure. This makes these portfolios particularly attractive for investors that may have significant exposure to other Canadian investments, for example, bank employees with employee share plans. Similarly, this reflects lower exposure to banks and natural resources.
   - Blend of Active and Passive Exposures – an attractive middle ground between the lower cost broad beta exposure of the ETF Portfolios and the inclusion of the best of BMO's actively managed mutual fund mandates.
   - Higher allocation to Alternatives – inclusion of the BMO Partners Group Private Assets Fund, allocation to BMO Georgian Access Fund, and Global REITs and Infrastructure funds.

2. Why are we recommending BMO Managed Portfolios over the Select Trust/ETF Portfolios?

   - We aren't! We are simply offering a different product that has a more even blend of active and passive underlying exposures. With the recent return of higher volatility and greater segmentation of market returns, increased active share within portfolios may be attractive to some investors seeking higher potential alpha versus the more beta-oriented exposures of the ETF Portfolios.

3. All of our MAST managed portfolios are global - what does it mean when we refer to the BMO Managed Portfolios as "more globally oriented"? Are there minimum allocations to certain countries?

   - Specifically, the equity allocations of each risk model is proportionately 10% lower in their benchmark allocations to Canada than other managed solutions. Similarly, the bond sleeves hold less core Canadian bonds, in favour of higher allocations to U.S. corporate bonds, and the inclusion of exposure to the global aggregate index.

4. Given the MAST five lens asset allocation overlay, do we anticipate lower fee portfolios will have higher performance if asset allocation is similar? What do we anticipate for short- and long-term performance for BMO Managed Portfolios vs our other managed solutions? Should we be moving clients out of higher MER products like Select Trust into lower MER solutions?

   - Higher fees are not necessarily synonymous with lower returns. In fact, active security selection should contribute additional alpha beyond that of pure asset allocation over the long term. The trade off is of course higher volatility relative to a pure beta one benchmark, and differences with respect to which solutions outperform in the shorter-term, and under what market conditions. For example:

- In the case of strong market rallies where everything is rising equally, with low differentiation of individual security or sector returns, lower fees win.
- Volatile markets, with narrow leadership or strong differentiation in security returns, active managers can more readily outperform their assigned benchmarks and outperform the added hurdle of higher MERs.

5. Will the BMO Managed Solutions use the BMO FundSelect Portfolios' historical performance? How should we speak to this when building proposals or speaking to clients?
   - Yes, the historical performance of BMO FundSelect Portfolios remains attached to the newly rebranded and repositioned BMO Managed Portfolios. The funds remain the same mutual fund trusts, and as such, must continue to report historical performance. This is not a new phenomenon….in fact, the BMO SelectTrust Portfolios were borne of repurposing existing mutual funds trusts offered in the external advisor channel.
6. Why should you be excited about BMO Managed Portfolios and not see these as just another new product we are launching?
   - It is not so much that we are offering one solution versus another, but rather, positioning the BMO Managed Solutions as a more balanced mix of active security selection and cost-efficient passive ETF exposures to reside on the continuum spanned between SelectTrust and the ETF Portfolios. Ultimately, having more tools to use to help clients match their investment portfolios to their goals, constraints, and preferences should ultimately help grow our business.
7. What are some of changes in holdings that we have made to BMO Managed Portfolio versus when they were called BMO FundSelect Portfolios? (ie. how much allocated to 3rd party investment managers vs internal, ETF vs individual stocks vs funds, % in alternatives)?
   - The BMO Managed Portfolios will incorporate the full breadth of BMO's investment capabilities, including; products that are managed internally, as well as externally managed products where applicable (i.e. alternative investments).
   - The portfolios will be constructed primarily using actively managed mandates but will also use ETFs for tactical shifts.
   - The portfolios will have about 10-15% in alternative products (to start we will use traditional alternative asset classes like Global Infrastructure and Global REITs).
   - The portfolios may include convergence products, including BMO Strategic Equity Yield Fund, where appropriate.
   - The portfolios will be more globally oriented versus equal weight between Canada/US/EAFE (this would differentiate the solutions relative to competitors), with all portfolios residing in Morningstar's Global Balanced Category.
   - The portfolios will also have global small cap exposure which will further differentiate them.
8. One of the key differentiators for BMO Ascent Portfolios vs our other managed solutions was the exposure to alternatives – how will the alternatives in BMO Managed Portfolios be similar/different to Ascent?
   - Ascent was focused on liquid alternatives, which are primarily listed assets. BMO Managed Portfolios on the other hand have already added exposures to BMO's private asset offerings, including BMO Partners Group Private Assets Fund and BMO Georgian Alignment II Access Fund. This is in addition to the allocations to listed alternatives of Global Infrastructure and Global REITs.

9. How correlated are our different managed solutions?

    - Pretty highly. BMO SelectTrust and ETF Portfolios share the same strategic asset allocations, with asset allocation shifts that are virtually identical in execution, as per our 5 lenses framework.

10. What can be held in the synthetics sleeve? What exactly are synthetics (in terms we can explain to clients/RISRs)?

    - Synthetics refers to the use of derivatives to engineer risk/return profiles distilled from underlying asset classes. Your clients already have exposure to similar constructs, through market-linked GICs, or the BMO Retirement Portfolios, where puts and calls are used to alter the risk/reward of their underlying investment baskets, providing more predictable return streams. Our newest offering, BMO Strategic Equity Yield Fund is a great example of this, providing one-stop exposure to structured notes that offer downside protection with attractive yield, complementing fixed income portfolios.

11. What are the anticipated tax implications to unitholders who held the BMO FundSelect Portfolios for a long time period? Have we considered/modeled the impact to these investors?

    - The reallocation of the BMO FundSelect Portfolios was executed at the end of June, with significant turnover in the portfolios. As some of the holdings were longstanding positions, there were indeed capital gains crystalized, and then distributed as a special distribution. Of all the clients in the funds, a large majority were in registered accounts, so the distributions remained non-taxable, however, for non-registered accounts, they will receive a T3 for the crystalized gains. This ensures that the taxes for the gains made to-date were attributed to those that owned the funds, and that no "pregnant gains" will be inherited by new unitholders of the funds.

12. What type of alternatives can the BMO Managed Portfolios hold? Anything they cannot invest in?

    - Our focus is currently on private assets, equity and credit with the inclusion of the BMO Partners fund and Georgian II Access Fund. We have also included allocations to Global REITs and Infrastructure, which although publicly listed, are widely considered alternatives due to their lower correlation to broader asset classes. We will continue to seek new allocations, and as found, ensure we have the necessary regulatory allowances to include them.

13. What will we have for support materials?

    - FactSheet (retail)
    - Monthly Commentary
    - Brochure