2024 Year in Review

BMO Strategic Equity Yield Fund

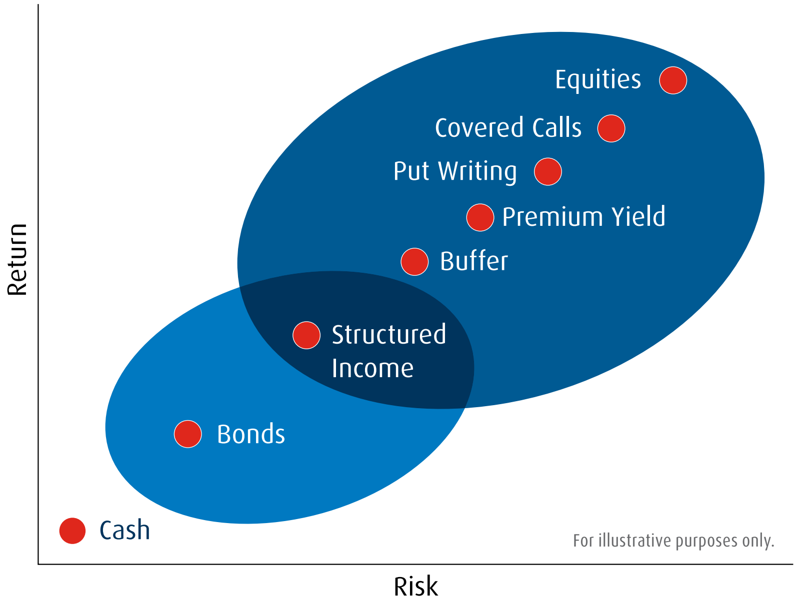
Key takeaways

- BMO Global Asset Management (GAM) has developed a wide range of income generating solutions for various risk appetites, with BMO Strategic Equity Yield Fund (SEYF) being a steady income generating and well diversified option
- Majority of 2024 was a stellar year for equities, with the tail end proving to be more challenging
- SEYF is achieving its goal of income generation as the fund is still collecting coupons of above 8%, despite 2024 year-end equity market downturns
- With a cautiously optimistic view for markets in 2025, tilting portfolios towards products that harvest income and provide some downside protection such as SEYF may be more favorable

BMO GAM has a long history of building investment offerings tailored to meeting our clients' specific needs in an ever-evolving market and economic backdrop. In particular, when it comes to delivering offerings with more structured outcomes, we were among the first asset managers to enter the covered call space over a decade ago[1] and have been growing our knowledge in increasing the stability of outcomes and delivering attractive yields in a tailored manner ever since. The evolution of these offerings has grown hand in hand with the experience on our portfolio management teams, which more recently, led us to developing Buffer ETFs and becoming pioneers in offering structured note investment solutions in a simple diversified fund offering.

Developing strategies to optimize outcomes for over a decade

This evolution allows you to customize your portfolio to align with your market views and client needs with the ability to add additional protection or generate attractive cashflow when clients need it most.



	Downside Protection	Cashflow	Growth exposure
Covered Calls	Some Cushioning by option premium	Option premiums and Dividends	Yes
Put Writing	Some via out of the money puts	Option premiums	No
Premium Yield	Lower equity beta and some cushioning by option premium	Option premiums and Dividends	Yes
Buffer ETFs	15% Buffer[2]	Dividends	Capped
Structured Income	20-25% Buffer	Yes **Target:** F-Series: 8%[3] A-series: 7%[4]	No

BMO SEYF was launched June 16, 2023, and with its first full calendar year under its belt, lets take a look at how it has done.

Total return for December 31, 2024 was 7.16% and an annualized distribution yield of 8%[8] over the period, which is in line with our stated target for the fund.

Let's break this down and dive into what impacts the performance of this type of structured offering and what clients should expect.

What is SEYF exposed to?

The fund provides exposure to a basket of structured notes through replication which are contractual in nature. Each note's performance is linked to an underlying index with unique terms stipulating index levels that must be met in order to collect a stated coupon. These notes have buffers in place which provide a level of protection on the downside, and reflect how much the underlying index can fluctuate while the fund continues to collect coupons. This is important because fluctuation in the Net Asset Value (NAV) is often a reflection of movement of the underlying indices, and not realized returns, as the primary driver of returns is the contractual coupon collection. This buffer[5] is commonly 20-25%, which allows for meaningful fluctuation in the underlying index before there is any potential realized impact to the fund. In addition to this, if the underlying index's performance drops below the coupon barrier level in between contractual coupon payment dates, but has rebounded in time for the next coupon date, you will still collect the coupon.

What actually has an impact on returns?

In a nutshell, realized returns are predominantly a reflection of coupons collected, unless we are at a call or maturity date for one of the notes that the fund is exposed to, the returns aren't realized and are simply a reflection of mark to market[6] moves in the NAV.

This truly highlights the benefit of having a professionally managed and diversified exposure to a plethora of notes with diverse exposures to sectors, geographies, timing of issuance (i.e. diversified timing of call and maturity dates), unique terms and coupon levels, as the portfolio has historically never been concentrated in a particular exposure or to a given call date.

Index level on call date	Impact on coupon collection	Impact on note	Impact on fund
Above initial level	Income collected	Called if above call level [7]	Income collected If above call level†: principal collected and available to reinvest
Between initial price at launch and buffer level	Income collected	Before maturity: can continue to collect more coupons At maturity: principal returned	Income collected with potential principal to reinvest if at maturity
Below coupon barrier level	One coupon missed	Before maturity: could still collect more coupons if market recovers If at maturity: partial loss of principal	One coupon missed ***Only if at maturity:*** realized loss of respective principal and reinvest principal

As you can see above, the majority of scenarios result in a positive impact to the fund, and it is our portfolio managers' job to actively avoid or minimize the probability of "red" scenarios while actively seeking to generate an attractive income profile.

2024 Returns Breakdown

We achieved this in 2024 with a 99.75% coupon collection rate and no principal losses within the fund. We missed two coupons that cannot be recovered, which represented 0.25% of total expected coupons in 2024. The average weighted coupon for the period was 10.92% and we successfully distributed our 8% target[8]. When you look at the 7.16% total return, this was predominantly dragged down by unrealized mark to market impacts on the NAV.

2024 Total Return

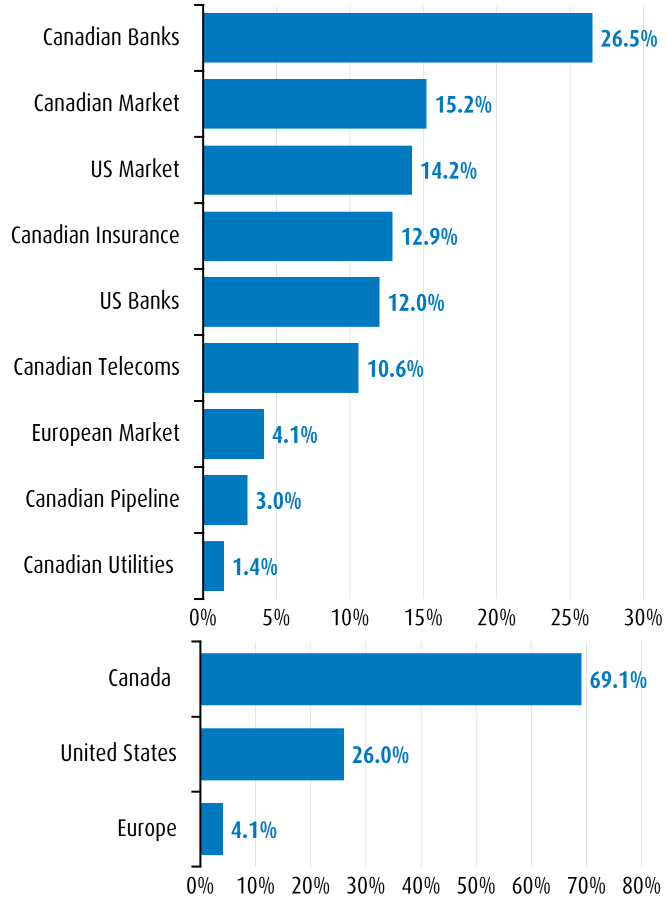
Source: Bloomberg, as of January 2025. Past Performance is not indicative of future results.

We navigated 2024 with a consistent preference for broad-based indices and financial exposures with an overweight (compared to target weight) to the U.S. given its relative resilience. The market experienced a year marked by data dependency where inflation and labor were scrutinized with a fine-tooth comb in an effort to predict monetary policy decisions. We saw Canada take the lead in cutting rates with relatively large strides given the pressure felt within the economy, and the U.S. later followed suit and began their downward trajectory as well. Overall, the first few quarters were met with mostly positive performance of the underlying indices that we were exposed to as markets were reacting well to the general economic trajectory. After the U.S. election results came out, we began to see heightened market volatility in most markets given uncertainty around the incoming U.S. administration, with Tariffs imposed by U.S. on Canada and European trading partners. In addition to this, the Fed's "higher for longer" narrative added additional fuel to volatility later in the year. It was in Q4 that the fund began to see negative unrealized losses (driven by challenging market impacts on indices) have a negative impact on the NAV.

Looking at the composition of the fund, a main drag on performance would have been our 10% allocation to Canadian telecoms which were down 25.46% in 2024. A lot of this underperformance can be attributed to heightened competition, dividend sustainability, free-cash-flow issues, and tax-loss selling, but given falling interest rates, low relative valuation compared to historical averages, end of tax-loss selling, and tariffs favouring domestic non-exporters, things may be looking better for this industry in 2025. As these were unrealized losses, once the market rebounds, these losses should dissipate. Even if the index remains below par but is still above the buffer level at maturity, we will receive our full principal back which will have an immediate positive impact on the NAV. Essentially, we don't actually need to see markets fully rebound to see a NAV rebound for these exposures given the structured nature of this fund. To put this into perspective, these moves resulted in our only two missed coupons in 2024, which again, represented 0.25% of expected coupons for the entire fund during the year. This highlights the downside protection embedded in these note structures.

While a small portion of our portfolio experienced some challenges, we still achieved our target[8] due to strong income collection (99.75%) and a diversified note base where financials and broad-based market underliers lifted performance.

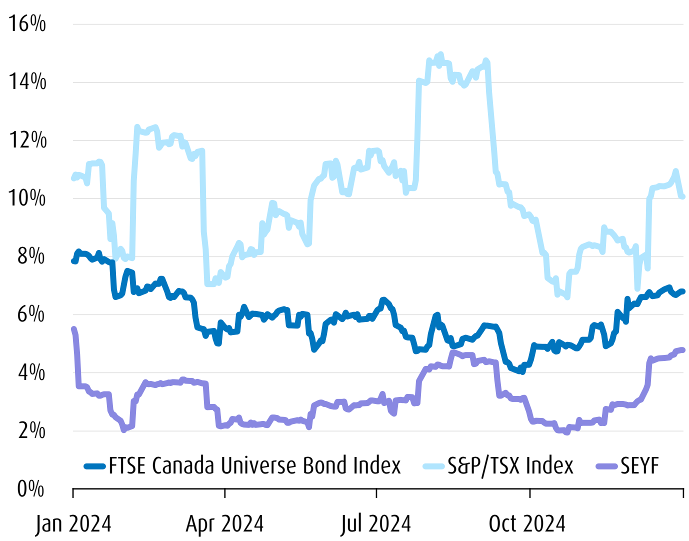
Reference Asset Exposure and Regional Exposure



Source: BMO GAM, as of December 31, 2024. Reference Asset and Regional Exposure refer to the underlying benchmark exposure from the derivatives held by the Fund.

2024 Volatility Breakdown

Volatility



Source: Bloomberg, as of January 2025. Historical volatility doesn't tell you how volatile a Mutual Fund will be in the future.

We achieved these results with a realized volatility of less than half of the index, and even in line with bonds. We are not immune to market movements; however, they will be muted from a relative perspective given the contractual nature of the underlying exposures.

We are providing the ability to experience attractive returns without stretching for yield by going out on the risk[9] spectrum, or by utilizing leverage.

Looking ahead

In his 2025 outlook, our market strategist Bipan Rai discussed re-orienting the 2025 market view to a more 'cautiously optimistic' outlook going forward. This means veering away from index plays and considering alternative investments and structured outcomes that are tailored towards harvesting income, such as this fund. Economists and strategists alike are questioning whether another year of stellar equity returns can be achieved. The amount of market uncertainty has increased going into 2025 driven by heighted economic and geopolitical risks. With a lack of confidence in significant equity market returns going into 2025, investors can consider products that generate yield and provide a bit of downside protection.

At the end of the day, uncertainty means that the range of possible outcomes for markets is quite wide and directionally unclear in 2025. We are here to give you the ability to hedge some uncertainty in your portfolio and add additional stability by providing a strategy that is structured to deliver attractive cashflow in a wide range of equity market return scenarios.

The portfolio managers are currently positioned to collect above target coupon yields with a preference for broad based indices to remain defensive via diversification. In an environment of heightened potential volatility, positioning for increased diversification, heightened downside protection (deeper buffers), and steady accretive coupons is our goal. As we actively manage throughout these uncertain times, we will continue to actively position the portfolio to generate accretive income in a stable and structured fashion.

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[1] Source: BMO GAM

[2] BMO Buffer ETFs seeks to provide income and appreciation that match the return of a Reference Index up to a cap (before fees, expenses and taxes), while providing a buffer against the first 15% (before fees, expenses and taxes) of a decrease in the Reference Index over a period of approximately one year, starting from the first business day of the stated outcome period.

[3] BMO Strategic Equity Yield Fund Performance (F-Series): -0.76% (3mo), 3.82% (6mo), 7.16% (1yr), 4.35% (Since Inception, June 16, 2023). Source: Morningstar, as of December 31, 2024.

[4] BMO Strategic Equity Yield Fund Performance (A-Series): -1.05% (3mo), 3.22% (6mo), 5.97% (1yr), 3.14% (Since Inception, June 16, 2023). Source: Morningstar, as of December 31, 2024.

[5] At maturity, the note provides principal protection at or above the principal protection level. Below the principal protection level, the note begins experiencing a loss. The loss profile is always less than the underlying's loss.

[6] Mark to market is an accounting practice that involves adjusting the value of an asset to reflect its value as determined by current market conditions. The market value is determined based on what a company would get for the asset if it was sold at that point in time.

[7] Notes can be called by the issuer on call dates. Generally at 100% or 105% of initial principal value, depending on the respective note terms.

[8] The target annualized F-Series distribution yield for the BMO Strategic Equity Yield Fund is 8%.

[9] All investments involve risk. The value of a Mutual Fund can go down as well as up and you could lose money. The risk of a Mutual Fund is rated based on the volatility of the Mutual Fund's returns using the standardized risk classification methodology mandated by the Canadian Securities Administrators. Historical volatility doesn't tell you how volatile a Mutual Fund will be in the future. A Mutual Fund with a risk rating of "low" can still lose money. For more information about the risk rating and specific risks that can affect a Mutual Fund's returns, see the BMO Mutual Fund's simplified prospectus.

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1-800-668-7327 bmogam.com

In any areas where the word income is used in the document is for the purposes of describing the coupons from BMO SEYF. This in no way provides any confirmation that the final distribution breakdown of BMO SEYF, from a tax perspective, is 100% income. Please speak to a tax expert for more information.

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An investor that purchases Units of a Structured Outcome ETF other than on the first day of a Target Outcome Period and/or sells Units of a Structured Outcome ETF prior to the end of a Target Outcome Period may experience results that are very different from the target outcomes sought by the Structured Outcome ETF for that Target Outcome Period. Both the cap and, where applicable, the buffer are fixed levels that are calculated in relation to the market price of the applicable Reference ETF and a Structured Outcome ETF's NAV (as Structured herein) at the start of each Target Outcome Period. As the market price of the applicable Reference ETF and the Structured Outcome ETF's NAV will change over the Target Outcome Period, an investor acquiring Units of a Structured Outcome ETF after the start of a Target Outcome Period will likely have a different return potential than an investor who purchased Units of a Structured Outcome ETF at the start of the Target Outcome Period. This is because while the cap and, as applicable, the buffer for the Target Outcome Period are fixed levels that remain constant throughout the Target Outcome Period, an investor purchasing Units of a Structured Outcome ETF at market value during the Target Outcome Period likely purchase Units of a Structured Outcome ETF at a market price that is different from the Structured Outcome ETF's NAV at the start of the Target Outcome Period (i.e., the NAV that the cap and, as applicable, the buffer reference). In addition, the market price of the applicable Reference ETF is likely to be different from the price of that Reference ETF at the start of the Target Outcome Period. To achieve the intended target outcomes sought by a Structured Outcome ETF for a Target Outcome Period, an investor must hold Units of the Structured Outcome ETF for that entire Target Outcome Period.

Distribution yields are calculated by using the most recent regular distribution, or expected distribution, (which may be based on income, dividends, return of capital, and option premiums, as applicable) and excluding additional year end distributions, and special reinvested distributions annualized for frequency, divided by month end net asset value (NAV). **Distributions are not guaranteed, may fluctuate and are subject to change and/or elimination. Distribution rates may change without notice (up or down) depending on market conditions and NAV fluctuations.** The payment of distributions should not be confused with a BMO Mutual Fund's performance, rate of return or yield. If distributions paid by a BMO Mutual Fund are greater than the performance of the investment fund, your original investment will shrink. Distributions paid as a result of capital gains realized by a BMO Mutual Fund, and income and dividends earned by a BMO Mutual Fund, are taxable in your hands in the year they are paid. **Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, you will have to pay capital gains tax on the amount below zero.**

Distributions, if any, for all series of securities of a BMO Mutual Fund (other than ETF Series) are automatically reinvested in additional securities of the same series of the applicable BMO Mutual Fund, unless the securityholder elects in writing that that they prefer to receive cash distributions. For ETF Series securities of a BMO Mutual Fund, distributions, if any, may be paid in cash or reinvested automatically in additional ETF Series securities of the applicable BMO Mutual Fund and the ETF Series securities will be immediately consolidated such that the number of outstanding ETF Series securities following the distribution will equal the number of ETF Series securities outstanding prior to the distribution. If a securityholder is enrolled in a distribution reinvestment plan, distributions, if any, will be automatically reinvested in additional ETF Series securities of the applicable BMO Mutual Fund pursuant to the distribution reinvestment plan. For further information, see the distribution policy for the applicable BMO Mutual Fund in the simplified prospectus.

The portfolio holdings are subject to change without notice and only represent a small percentage of portfolio holdings. They are not recommendations to buy or sell any particular security.

Series F units are only available to investors who participate in eligible wrap programs or flat fee accounts with their registered dealers that have entered into a Series F Agreement with BMO Investment Inc.

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