BMO Tactical ETF Funds, Managed by Larry Berman

ETF Capital Management – Third Quarter Commentary to September 30, 2018

Helping clients sleep at night is top priority for the BMO Tactical ETF Funds. This means actively positioning for growth when the time is right and automatically moving to defense when it's time to protect. With three different risk profiles to choose from, the sleep-at-night funds are a perfect complement to any portfolio.

The BMO Tactical Dividend ETF Fund (the "Fund") is ideal for "growth and income" investors with medium risk tolerance.

Defense: The Fund was up 0.73% in the third quarter, reflecting our increasingly defensive stance in the face of heightened late-cycle portfolio risk. Average beta was 42%, compared to 48.6% for the previous quarter. (Beta is a measure of expected volatility relative to the equity market, which has a beta of 100%).

We took profits and reduced our sector-specific exposure in consumer staples. We added again to our gold holdings on weakness, a position we have been building as a late-cycle inflation hedge and portfolio diversification tool. We continue to emphasize diversified yield sources with low correlation to market risk and relative value. These included a new position in emerging market dividends and ultra short-term bonds. The Fund maintains its 4.1% yield.

Currency comprised the largest part of our active decision-making late in the quarter as NAFTA headlines rocked the Canadian dollar which ultimately spiked on September 30 with a last-minute deal. After riding USD strength most of the year, we reduced our exposure from 47.9% going in to 24.7% USD by quarter-end – a relatively neutral position for the portfolio.

The BMO Tactical Global Growth ETF Fund has a slightly higher risk profile ideal for investors with medium to high risk tolerance and a longer time-horizon of at least 5 years.

Defense: We maintained our defensive stance in the third quarter and further lowered the portfolio's risk relative to the market, with average beta of 37.6%. This accounted for the Fund's relatively flat return for the quarter (up 0.1%) while equity markets, most notably the US, continued their upward trend. At this point in the cycle many of the risks inherent in portfolio management are heightened – market risk, interest rate risk, credit risk, geo-political risk, and currency risk, to name a few. The prudent course is to focus on assets that minimize these risks while still providing some participation in the late-cycle returns.

We are invested in the US equity market, but underweight, and in defensive sectors with less volatility. We are focused on yield, through a variety of diversified sources. We actively manage currency to take advantage of price fluctuations. We tactically seek value in all regions and sectors of the world market on an ongoing basis. Our gold position, to which we've been adding on weakness, did well in September. We've added exposure to Chinese equities as they exhibit the lower risk and high return potential we seek in our growth strategy. We added a new position in ultra-short-term bonds, to generate a higher yield than cash or T-bills with minimal credit risk. We reduced, but then increased our USD exposure on uncertainty surrounding the NAFTA negotiations, ending the quarter at 24.7%, with plans to reduce USD exposure fully in Q4.

The BMO Tactical Balanced ETF Fund, our most conservative fund, is ideal for investors with low to medium risk tolerance, who want a balanced asset mix and want their asset allocation to be actively managed based on the manager's market outlook and assessment of where we are in the market cycle. In defense mode, this fund will be significantly underweight equities (minimum 20%) but will shift to a maximum of 80% equity exposure when markets present better value and opportunity.

Defense: The Fund's average beta in Q3 was -1.5%, down from 21.8% in the second quarter, and significantly lower than the 60/40 benchmark beta of 56.6%. Negative beta at quarter-end implies the Fund was positioned not only to protect, but to benefit from anticipate market volatility in Q4. We've become increasingly defensive in the face of heightened equity, credit and interest rate risk at this point in the cycle. At quarter-end we were underweight equities globally while neutralizing fixed income interest rate and credit risk through floating rate securities and by avoiding the credit markets. We invested most of our short-term cash in ultra short-term money market securities for better yields while we wait and have let cash build to 15% to take advantage of tactical opportunities when they arise. US dollar exposure was 22.6% at quarter-end, with plans to fully hedge after quarter-end.

Disclaimer

Risk is defined as the uncertainty of a return and the potential for capital loss in your investment. The opinions expressed here reflect the views of ETF Capital Management at the above date and are subject to change without notice as markets change over time. This commentary is prepared for general information related to investment alternatives and strategies. The information contained herein is not, and should not be construed as, investment, legal or tax advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance. Past performance is not necessarily a guide to future performance. For more complete information about these separately managed portfolios, please contact your financial advisor.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc., BMO Investments Inc., BMO Asset Management Corp. and BMO's specialized investment management firms. BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate legal entity from the Bank of Montreal.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the fund facts or prospectus before investing. The indicated rates of return are the historical annual compounded total returns for the period indicated including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Ratings are subject to change monthly. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three- year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. For more details on the calculation of Morningstar star ratings or quartile rankings, please see www.morningstar.ca.

The star rating and number of funds in the peer group for Series F of the BMO Tactical Dividend Fund in the Tactical Balanced category is five stars over three years (227 funds in the category) as of June 29, 2018. Ratings change monthly.

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