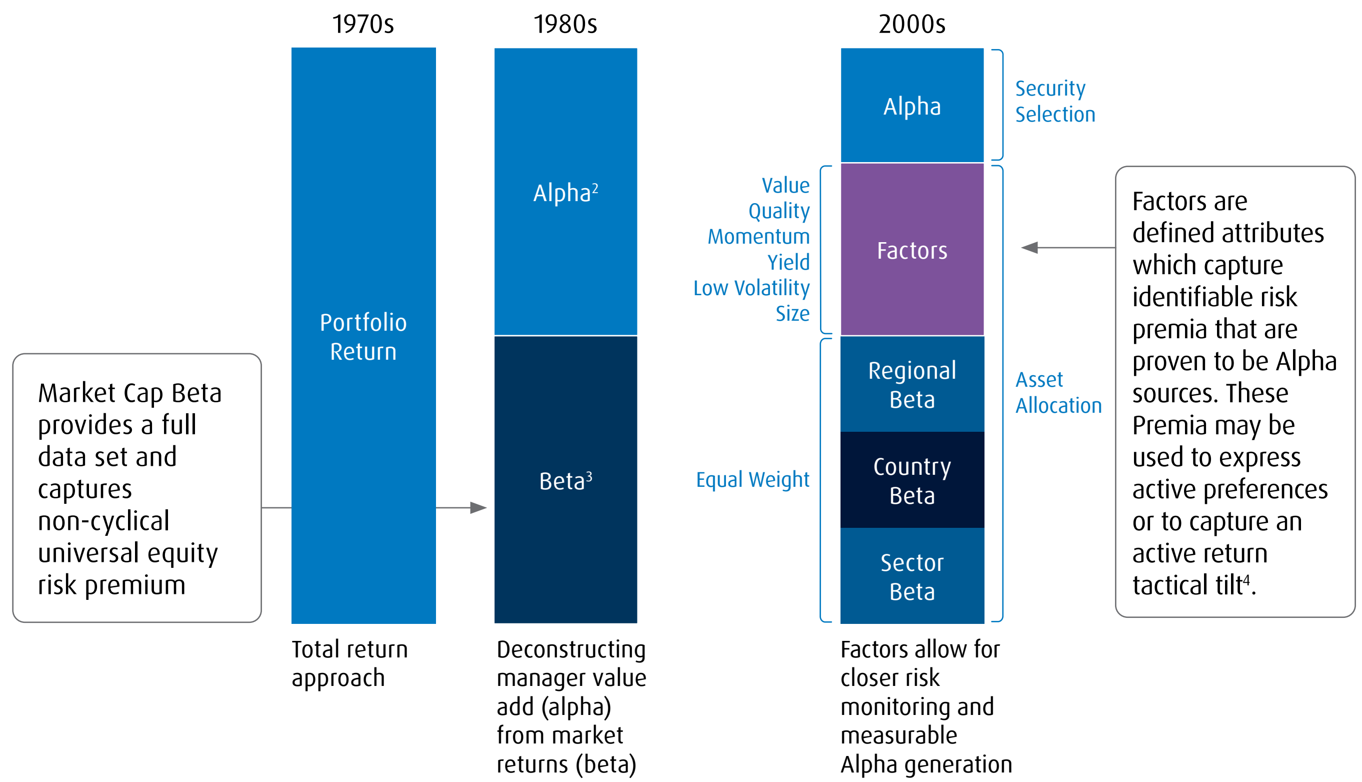
Factor Investing:

Persistent Drivers of Return[1]

What is Factor Investing?

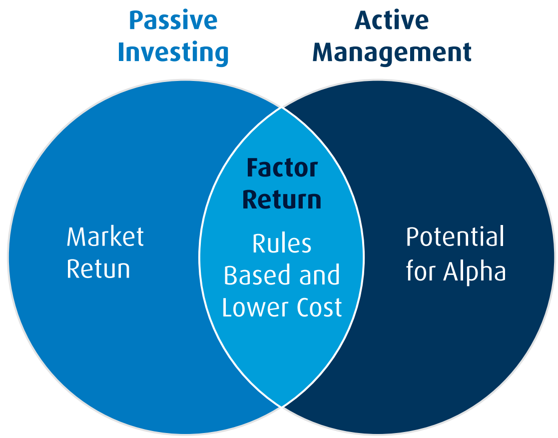
Factor based investing or "smart beta" is a powerful tool that can be used to help better control investment outcomes. It is an index construction approach that differs from traditional market capitalization weighting. With factor investing, investors can target specific factors which are based on isolated stock characteristics that capture risk premia proven to drive excess returns. Each factor has defining attributes, such as Value, Dividend, Size, Quality and Low Volatility, which help explain the long term drivers of a security's risk and return. Using factors, investors can build portfolios with more predictability in alpha generation and managing risk.

Evolution of Indexing



It is possible to consider factors as a crossover between Active management and Broad Beta indexing. Like the index, it is transparent and derives its consistency from a rules-based methodology.

Investing with Factors



Like an Active mandate, factors provide:

- ✓ Targeted risk and return exposure.
- ✓ No style drift: a consistent, rules based approach.
- ✓ Active share[5] compared to the benchmark.
- ✓ The opportunity to generate cyclical Alpha

Integrating Factors in Portfolios

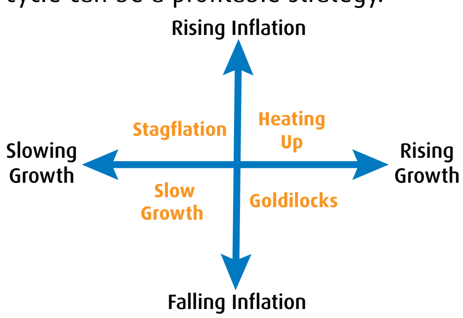
ETFs can accurately target a factor by selecting a basket of securities through the use of a unique methodology, an advanced screening process and a rules-based approach. ETFs have the ability to maintain this exposure by rebalancing frequently to ensure the securities continue to align with a given factor. Traditionally, the ability to access factor exposure was attributed to active managers in search of portfolio alpha, but with smart beta ETFs, factors are now accessible with greater transparency and at a lower cost.

When determining which factor to invest in, an investor should make several key considerations:

1) Risk appetite
2) Economic cycle
3) Correlations[6] between factors
4) Geographic exposure

Factor performance based on economic regimes

Not all factors have the same macroeconomic drivers, and therefore some factors will outperform others based on inflation, the interest rate environment, and the economic cycle. Rotating into and out of factors to align with the current economic cycle can be a profitable strategy.



Index	Heating Up	Goldilocks	Slow Growth	Stagflation
World Equal Weighted Index	0.07%	0.46%	-0.14%	-0.16%
World Dividend Index	-0.06%	-0.05%	0.19%	0.31%
World Low Volatility Index*	-0.47%	-0.52%	0.41%	0.44%
WorldQuality Index	0.01%	-0.15%	0.28%	0.30%
World Enhanced Value†	0.35%	0.71%	0.06%	-0.08%

Source: MSCI Inc.

Average Monthly Gross Active Returns relative to MSCI World from Dec 1975 to Dec 2022.

Broad Market Proxy: MSCI World Index (USD), Low Volatility Proxy: MSCI World Minimum Volatility Index, (USD) Quality Proxy: MSCI World Quality Index (USD), Dividend Proxy: MSCI World High Dividend Yield Index (USD), Value Proxy: MSCI World Enhanced Value Weighted Index (USD).

* Based on official MSCI Minimum Volatility Index Levels from May 1988; Low Volatility Tilt Index prior to that.

† Based on MSCI Enhanced Value Index methodology. Prior to 1997, cash earnings, to price is used in place of CFO/EV. Before 1994, sector definitions are extended by mapping the Barra model industry classification to the GICS sectors.

Exert more Control: Risk[7] & Return

Factors, like all investments, exist on a risk-reward spectrum. MSCI, a leading provider of factor based indices, has identified factors weighted according to risk level ranked in the chart below from high to low.. Factors such as Value or Size can provide greater potential for returns but are also characterized as having greater volatility than the broad market. Other factors such as Low Volatility can carry less market risk.

Depending on an investors financial goals and market outlook, they can use factor based strategies as a core or to complement by overweighting or underweighting risk factors to tilt their portfolios to decrease market risk, generate alpha or both:

BMO ETFs: Factor Based Suite

Factor	Overview	ETFs
Enhanced Value	BMO's value ETFs provide a pure approach to the value factor using MSCI's Enhanced Value methodology. The result is a refined strategy, identifying and avoiding potential value traps. For more information: **Value whitepaper**.	• BMO MSCI Canada Value Index ETF (ZVC) • BMO MSCI USA Value Index ETF (ZVU)
Size	The size factor represents the risk premium captured by smaller market capitalization companies. The premium is the potential for excess returns that can be earned over the long run by investing in small cap stocks compared to large cap stocks, for taking the additional risk.Equal Weight Indexes tend to overweight smaller cap companies relative to the benchmark parent index. Each security is allocated an equal weight rather than market cap weight, decreasing security specific risk and market cap concentration. BMO ETFs Equal Weight strategy can be a more efficient way to implement sector exposures and complement or replace single stock holdings.	• BMO Equal Weight Banks Index ETF (ZEB) • BMO Equal Weight Oil & Gas Index ETF (ZEO) • BMO Equal Weight Utilities Index ETF (ZUT) • BMO Equal Weight REITs Index ETF (ZRE) • BMO Equal Weight Industrials Index ETF (ZIN) • BMO Equal Weight US Health Care Hedged to CAD Index ETF (ZUH, ZHU) • BMO Equal Weight US Banks Index ETF (ZBK) • BMO Equal Weight US Banks Hedged to CAD Index ETF (ZUB) • BMO Equal Weight Global Base Metals Hedged to CAD Index ETF (ZMT) • BMO Equal Weight Global Gold Index ETF (ZGD) • BMO S&P US Small Cap Index ETF (ZSML, ZSML.U, ZSML.F) • BMO S&P US Mid Cap Index ETF (ZMID, ZMID.U, ZMID.F)
Quality	BMO ETFs quality strategy selects companies with high quality scores based on 3 variables: high return on equity, stable earnings growth, and low financial leverage ratio. For more information: **Quality whitepaper**.	• BMO MSCI All Country World High Quality Index ETF (ZGQ) • BMO MSCI Europe High Quality Hedged to CAD Index ETF (ZEQ) • BMO MSCI USA High Quality Index ETF (ZUQ, ZUQ.U, ZUQ.F) • BMO MSCI EAFE High Quality Index ETF (ZIQ)
Dividend	BMO ETFs dividend approach is a customized strategy that combines high yield with sustainable growth. Through an advanced 4 step screening process BMO ETFs analyzes each company's willingness and ability to pay dividends over time with additional forward looking considerations. For more information: **Dividend whitepaper**.	• BMO Canadian Dividend ETF (ZDV) • BMO US Dividend ETF (ZDY, ZDY.U, ZUD) • BMO International Dividend ETF (ZDI, ZDH)
Low Volatility	BMO ETFs Low Volatility Strategy focuses on the risk of securities and analyzes the beta of a stock as the primary portfolio construction tool. BMO ETFs suite of Low Volatility ETFs provide investors with long-term solutions that provide downside protection. For more information: **Low Volatility whitepaper**.	• BMO Low Volatility Canadian Equity ETF (ZLB) • BMO Low Volatility US Equity ETF (ZLU, ZLU.U, ZLH) • BMO Low Volatility International Equity ETF (ZLI, ZLD) • BMO Low Volatility Emerging Markets Equity ETF (ZLE)

Annual Returns by Factor

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Quality 6.5	Dividend 15.1	Quality 25.3	Low Volatility 0.9	Quality 38.4	Quality 22.3	Enhanced Value 28.2	Dividend -4.6	Quality 32.1	USA 35.2
Low Volatility 4.9	Enhanced Value 15.0	Enhanced Value 21.3	Quality -3.1	USA 30.9	USA 20.7	Quality 27.1	Low Volatilty -9.7	USA 22.9	Quality 34.8
USA 0.7	Equal Weight 13.6	USA 21.2	Dividend -3.2	Equal Weight 29.3	Equal Weight 14.6	USA 26.5	Enhanced Value -14.8	Equal Weight 13.9	Dividend 25.8
Dividend -0.3	USA 10.9	Equal Weight 18.6	USA -5.0	Low Volatility 27.1	Low Volatilty 5.1	Equal Weight 25.1	Equal Weight -17.4	Enhanced Value 10.4	Equal Weight 12.8
Equal Weight -3.0	Low Volatility 9.8	Dividend 18.4	Equal Weight -8.5	Enhanced Value 26.5	Dividend 0.6	Dividend 20.9	USA -19.8	Dividend 4.7	Low Volatility 21.2
Enhanced Value -7.0	Quality 7.3	Low Volatility 18.4	Enhanced Value -11.7	Dividend 21.3	Enhanced Value -1.1	Low Volatilty 20.4	Quality -23.0	Low Volatility -3.1	Enhanced Value 16.1

Source: BMO GAM, March 31, 2025. Past Performance is not indicative of future results.

BMO Exchange Traded Funds
by BMO Global Asset Management

Let's connect
1-800-361-1392
bmoetfs.com

[1] **Return (risk adjusted):** A measure of investment performance taking into consideration how much risk/volatility was assumed to generate it. Consider two investments, both of which return 10% over a given time period. The investment with the greater risk-adjusted return would be the one that experienced less price fluctuation. Two of the most commonly used measures of risk adjusted returns are Sharpe and Sortino ratios Index performance is provided as a benchmark but is not illustrative of any particular investment. You cannot invest directly in an index.
[2] **Alpha:** A measure of performance often considered the active return on an investment. It gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.
[3] **Beta:** A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.
[4] **Tactical Tilt:** A shorter term, active asset allocation decision, to take advantage of anticipating market opportunities as they arise.
[5] **Active Share:** The difference between a portfolio's holding and the benchmark index
[6] **Correlation:** A statistical measure of how two securities move in relation to one another. Positive correlation indicates similar movements, up or down together, while negative correlation indicates opposite movements (when one rises, the other falls).
[7] **Risk Level:** All investments involve risk. The value of an ETF can go down as well as up and you could lose money. The risk of an ETF is rated based on the volatility of the ETF's returns using the standardized risk classification methodology mandated by the Canadian Securities Administrators. Historical volatility doesn't tell you how volatile an ETF will be in the future. An ETF with a risk rating of "low" can still lose money. For more information about the risk rating and specific risks that can affect an ETF's returns, see the BMO ETFs' prospectus.