BMO Quality ETFs
Making Sense of Quality Investing

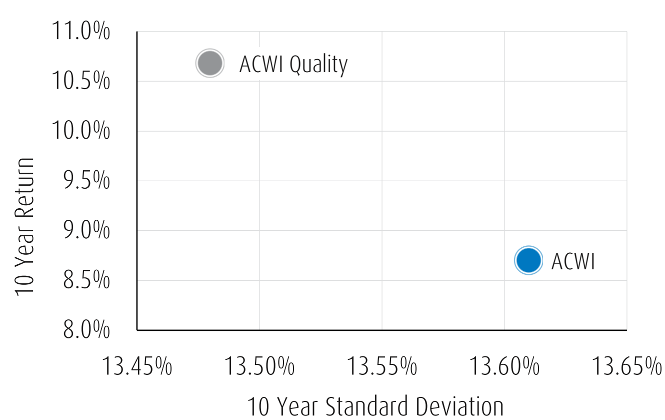
- **BMO MSCI All Country World High Quality Index ETF** (ZGQ)
- **BMO MSCI USA High Quality Index ETF** (ZUQ)
- **BMO MSCI Europe High Quality Hedged to CAD Index ETF** (ZEQ)
- **BMO MSCI USA High Quality Index ETF Hedged units** (ZUQ.F)
- **BMO MSCI USA High Quality Index ETF US Dollar Units** (ZUQ.U)

Why Quality Matters

One of the most intuitive smart beta factors is quality investing. Quality based investing is built to identify market leading companies with sustainable competitive advantages. Research has shown that equity investing with a high quality focus has earned a premium while reducing risk over longer periods of time relative to the market. Part of the value is in the meaningful difference from traditional market capitalization indices where quality provides effective exposure throughout the entire market cycle. Furthermore, quality screening avoids inexpensive stocks masquerading as bargains.

What is Quality?

Quality Investing: Superior Risk Adjusted Returns



10 year annualized return vs. the 10 year standard deviation.
All returns are in USD (NET). Source: Morningstar Direct August 31 2022.

BMO Quality ETFs invest in high quality companies that provide greater long-term growth potential with less volatility than the broad market. High quality companies are defined as **market leaders** that have **durable business models** and **sustainable competitive advantages**. Quality growth companies typically have high return on equity (ROE), stable earnings and strong balance sheets with low financial leverage. These quality leaders are positioned to respond to positive market conditions, as well as provide support in market contractions.

What is a High Quality Company?

3 Quality Variables

High Return on Equity – Indicates a business with a sustainable competitive advantage, efficient operations and profitability.

Stable Earnings Growth – Demonstrates durability and stability of a company's business model.

Low Financial Leverage – Identifies companies with low debt-to-equity ratios, providing greater stability in declining markets.

Each variable on its own is not necessarily an indicator of a quality company. For example, high ROE could be an abnormal spike at one point in time or a result of high leverage. The 3 variables in combination provide a more accurate assessment. BMO Quality ETFs consider these 3 quality variables in combination.

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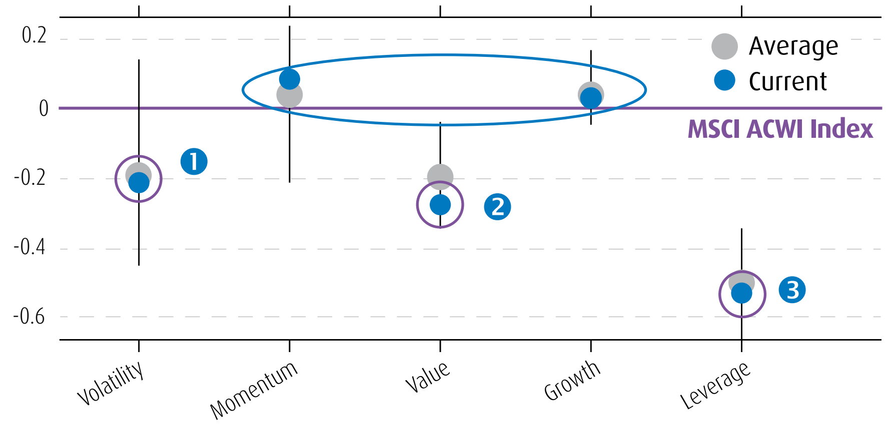
Impact of Quality Variables

Relative to the parent index, the MSCI ACWI Quality Index:

1. Lowers Volatility
2. Avoids Value Trap
3. Reduces Leverage

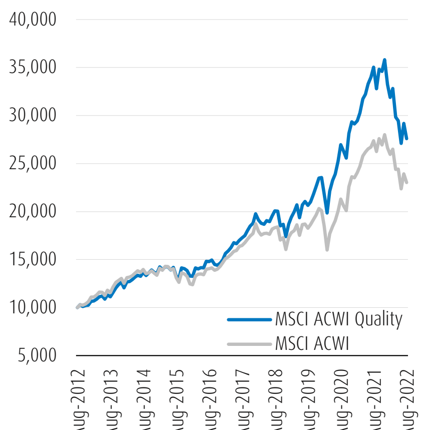
All Without Sacrificing Growth



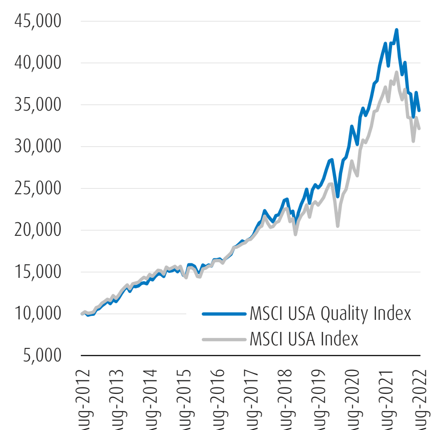
For illustrative purposes only

Quality Investing: Long-Term Outperformance

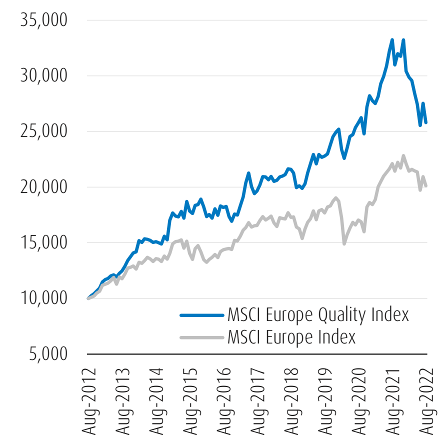
MSCI All Country World Quality Index vs. MSCI All Country World index



MSCI USA Quality Index vs. MSCI USA Index



MSCI Europe Quality Index vs. MSCI Europe Index



Source: Morningstar Direct Aug 31 2022.
Index returns do not reflect transactions costs or the deduction of other fees and expenses and it is not possible to invest directly in an Index. Past performance is not indicative of future results.
Hypothetical Growth of $10,000 chart reflects a hypothetical $10,000 investment and assumes reinvestment of dividends and capital gains.
MSCI All Country World Quality Index vs. MSCI All Country World index are both net and both in USD.
MSCI USA Quality Index vs. MSCI USA Index chart returns are both net and both in USD.
MSCI Europe Quality Index is in CAD vs. MSCI Europe Index chart is in Local currency both returns are net.

BMO Quality ETFs

BMO ETFs has created a suite of quality ETFs that captures high quality companies with a transparent, rules based portfolio methodology that aims to provide higher risk adjusted returns to investors. The BMO Quality ETF suite screens for companies with high quality scores based on 3 fundamental variables; high ROE, stable earnings growth and low financial leverage. The portfolio is built on the quality scores and the process is repeated at reweight to ensure the portfolio remains constructed with true market leaders. The methodology aims to not only capture the performance of high quality companies, but to ensure reasonably high trading liquidity and to moderate security turnover while staying cost effective. BMO Quality ETFs are designed to be core equity options.

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ETF Name	Ticker	MER
BMO MSCI All Country World High Quality Index ETF	ZGQ	0.50
BMO MSCI USA High Quality Index ETF	ZUQ	0.34
BMO MSCI Europe High Quality Hedged to CAD Index ETF	ZEQ	0.45
BMO MSCI USA High Quality Index ETF Hedged units	ZUQ.F	0.34
BMO MSCI USA High Quality Index ETF US Dollar Units	ZUQ.U	0.34

Key Metrics as of August 31, 2022.

Metrics	BMO MSCI All Country World High Quality Index ETF (ZGQ)	BMO MSCI USA High Quality Index ETF (ZUQ)	BMO MSCI Europe High Quality Hedged to CAD Index ETF ZEQ
Sharpe Ratio[1]	0.76	0.88	0.53
Tracking Error (%)[2]	4.23	4.18	5.67
Price to Book	6.30	6.78	4.73
Price to Earnings	19.56	21.11	16.61
Dividend Yield (%)	1.70	1.24	2.75

Performance (%)[3]

Performance Period	BMO MSCI All Country World High Quality Index ETF (ZGQ)	BMO MSCI USA High Quality Index ETF (ZUQ)	BMO MSCI Europe High Quality Hedged to CAD Index ETF ZEQ
YTD	-20.26	-19.06	-14.88
1 Year	-18.40	-15.77	-13.18
3 Year	9.42	10.39	6.74
5 Year	10.77	13.58	7.66
Since Inception[4]	11.44	13.66	8.78

Dividend yield is the most recent regular distribution (excluding year end distributions for these investments that distribute more frequently) annualized for frequency divided by current NAV.
Source: Moringstar Direct, data as of August 31 2022

1 5-year Sharpe Ratio.
2 5-year tracking error compared to non quality equivalent parent index Aug 2017–Aug 2022.
3 Net returns as of August 31 2022.
4 Since Inception dates for ZGQ & ZUQ: November 5, 2014, ZEQ: February 10, 2014.

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Quality Portfolio Construction Methodology

BMO Quality ETFs track the performance of MSCI quality indices which are a subset of the broad market parent indices. Security selection relies on the determination of the 3 quality variables. Weighting is based on a combination of the security's quality scores and market capitalization. Quality indices are rebalanced semiannually.

Parameter	Methodology	Comments
Security Universe	• Parent Index	• BMO Asset Management Inc. has an agreement with MSCI, a leading provider of traditional market capitalization and smart beta indices • Broad indices that are recognized and used as benchmarks by many investors • Parent index provide an opportunity set with sufficient liquidity and capacity • Applicable universe includes all securities encompassed in parent indices
Quality Variables	• ROE • Earnings Stability • Debt to Equity	• 3 variables are determined for all securities and ranked • Once ranked, impact of extreme data outliers is removed for all 3 variables • 3 variables are standardized – equal weights are used to calculate a composite score • Composite scores are averaged into a quality score
Portfolio Selection and Weighting	• Fixed Number of Securities • Quality Score X Market Capitalization • 5% Cap	• Fixed number targets 30-40% coverage of parent index universe • Allows for high quality exposure while maintaining sufficient index market capitalization and diversification • 503 names for MSCI ACWI Quality Index • 125 names for MSCI USA Quality Index • 127 names for MSCI Europe Quality Index • Quality score is multiplied by the market capitalization weight in the parent index and normalized to 100% • Quality tilted market capitalization results in high capacity and liquidity • Cap reduces concentration and security specific risk
Review	• Semi-Annual Rebalancing • Buffer Zones	• Semi-annual rebalancing in May and November to coincide with semi-annual review of parent indices • Quality variable data as of the end of April and October are used • Goal is to capture timely updates to quality characteristics and is timed with the rebalancing frequency of MSCI parent indices • Buffers historically reduce turnover and improve replicability • A 20% buffer rule is applied on the fixed number of securities in the index

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For more detailed methodology information regarding the quality variables, security composite scoring, security selection, weighting and index maintenance, visit the MSCI quality indices website: https://www.msci.com/documents/1296102/8473352/Quality-brochure.pdf

BMO Exchange Traded Funds

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