Covered Call Option Strategy

Enhanced Income with Covered Calls

Lower Volatility → Higher Yield → Tax Efficiency → Lower Costs

BMO Covered Call ETF	Ticker	BMO Covered Call ETF	Ticker
BMO Canadian High Dividend Covered Call ETF	**ZWC**	BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF	**ZWA**
BMO US High Dividend Covered Call ETF	**ZWH/ZWH.U/ZWS**	BMO Covered Call Utilities ETF	**ZWU**
BMO Europe High Dividend Covered Call ETF	**ZWP/ZWE**	BMO Covered Call US Banks ETF	**ZWK**
BMO Global High Dividend Covered Call ETF	**ZWG**	BMO Covered Call Technology ETF	**ZWT**
BMO Covered Call Canadian Banks ETF	**ZWB**		

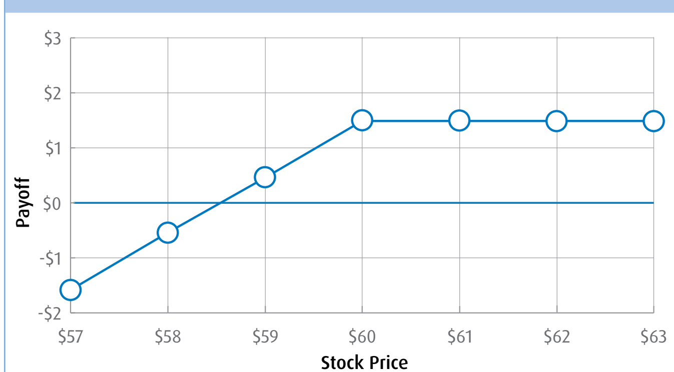
The covered call option strategy, also known as a buy–write strategy, is designed to provide an investor with a double source of cash flow: an option premium plus the dividend yield. This distribution is tax efficient. The strategy is implemented by writing (selling) a call option contract, while owning the underlying stock. It is considered an income enhancement strategy because it generates additional cash flows compared to only owning the underlying stock. It is also considered a defensive strategy as equity downside returns are reduced by the option premiums as a trade off from excess positive returns.

A call option is a contract which allows the owner the right to purchase the underlying stock at a predetermined price (the strike price) over a specific time period. Conversely, the writer (seller) of the call option is obligated to sell the stock to the buyer at the stated strike price. The buyer of the call option pays the writer a premium to access to this right. If the stock price rises above the exercise price, the owner will exercise their option, and purchase the underlying at a discount to market value. If the stock price remains below the exercise price, the option-holder will let the option expire worthless.

The price of the option will be determined based on the difference between the stock price and the exercise price, the volatility of the underlying stock (where greater volatility leads to a higher price) and the time to expiration of the option contract (where a longer time period leads to a higher price).

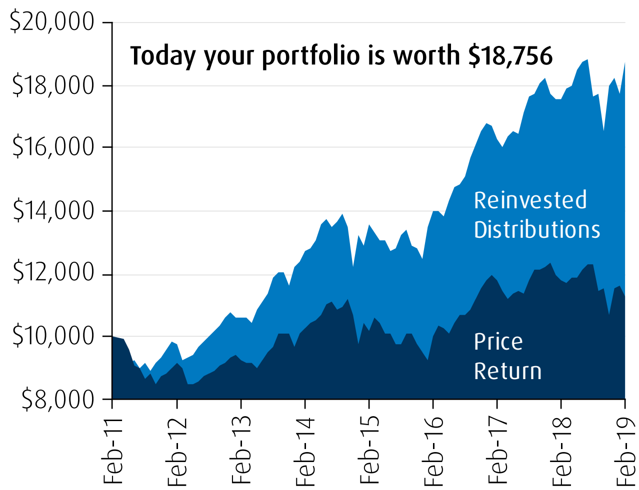
The covered call option strategy allows the portfolio to generate cash flow from the written call option premiums in addition to the dividend income from the underlying stocks. Over the long-term, covered call strategies have provided a similar overall return to the underlying portfolio with a significantly lower risk level. BMO Covered Call ETFs are income focused products, designed to provide equity exposure with a sustainable and attractive yield. This strategy appeals to investors who are looking for a high level of income, as well as the potential for capital gains.

Payoff Characteristics of Owning 100 Shares and Selling 1 ATM Call Option



Breaking down the return of a Covered Call ETF

$10,000 investment in ZWB at inception (Jan 28, 2011)
Monthly Distributions Reinvested



Mechanics of Covered Calls

The BMO ETFs sell out of the money (OTM) call options on 50% of the stocks which cap the return of the written positions at the option strike price until the option expires. For BMO ETFs, option expiries are generally 1 to 2 months.

As an example, consider a portfolio that consists of 100 shares of a stock at a current price of $60, for a total value of $6,000. At the money (ATM) call options (strike price of $60) that expire in one month are valued at a premium of $1.50 per contract. To implement a covered call strategy, tthe Portfolio Manager writes call options on 100 shares and receives $150 in premium.

Payoff without exercise: Premium received adjusted for any difference in stock price. If the stock price remains at $60, the calls are not exercised, and the portfolio benefits from the premium received. The new portfolio value is $6,150.

Break even point: Stock purchase price less premium received. If the stock price drops to $58.50, the calls are not exercised, but the portfolio value drops. The new portfolio value is $6,000 ($5,850 + $150). The portfolio will devalue at any price below $58.50.

Payoff with exercise: Premium received adjusted for any difference between stock price and exercise price. If the stock price rises to $62, the calls are exercised at $60 eliminating the benefit of the rising stock price except for the premium received. The new portfolio value is $6,150.

Impact of Market Conditions

Covered call strategies tend to outperform in flat or down markets, and underperform in periods of rapid market appreciation.

The covered call option strategy is most effective when the underlying stocks are range bound, meaning that the stock's price is not overly volatile. The strategy will participate in the stock appreciation up to the strike price, with the added benefit of the sold call premium.

When the stock price rises significantly and exceeds the strike price, the call option will move into the money. This caps the gain for the call writer based on the strike price and premium received.

The strategy provides limited protection when the stock price declines significantly, as the decline of the underlying stock portfolio is partially offset by the call premium received.

In volatile markets, the covered call option strategy will provide the exposure of the underlying stock portfolio with less volatility. The covered call strategy may outperform or underperform the underlying stock portfolio under these conditions.

Call Writing Implementation

OTM call options are sold on approximately 50% of the portfolio, depending on market conditions. This gives the investor an enhanced yield and still allows for participation in rising markets. The selection of the option's strike price will depend on the available option premiums and general economic conditions. We sell further OTM when volatility rises and closer to the money when volatility drops. When volatility rises, the option increases in price.

We sell options with 1 to 2 months to expiry in order to take maximum advantage of time decay. Options experience more time decay impact, the closer they are to expiry. Writing shorter term options provides greater flexibility to adjust options strike price more frequently to capture more upside.

The BMO Covered Call Strategy strikes a balance between generating income and participating in rising markets. This approach can potentially provide exposure to the underlying portfolio with significantly less risk.

BMO's High Dividend Covered Call ETFs

We have chosen a proprietary approach to managing these ETFs. The ETFs optimize a rules-based portfolio construction strategy and will look to avoid deteriorating companies based on quality and fundamental screening.

Equity Universe > Positive/ Flat 3 Year Dividend Growth Rate > 5 Year Dividend Payout Sustainability > Total Dividends Weighted

For more information on BMO's dividend ETF strategy, please read our white paper
BMO Dividend ETFs Portfolio Construction Methodology

BMO Covered Call ETF	BMO Global High Dividend Covered Call ETF	BMO Canadian High Dividend Covered Call ETF	BMO Europe High Dividend Covered Call ETF/ BMO Europe High Dividend Covered Call Hedged to CAD ETF	BMO US High Dividend Covered Call ETF / BMO US High Dividend Covered Call Hedged to CAD ETF
Ticker	**ZWG**	**ZWC**	**ZWP (ZWE hedged)**	**ZWH (ZWH.U, ZWS Hedged)**
Exposure	Dividend paying global companies, total dividends weighted	Dividend paying Canadian companies, total dividends weighted	Dividend paying European companies, total dividends weighted	Dividend paying U.S. companies, total dividends weighted
Management Fee	0.65	0.65	0.65	0.65
Annualized Distribution Yield[1]	**Targeting 6.5%**	**7.0%**	**7.1%**	**6.2%**
Inception Date	Jan 21 2020	Feb 9 2017	Mar 7 2018	Feb 10 2014
Considerations	25% cap per sector.	40% cap per sector	25% cap per sector	25% cap per sector

[1] As of December 31 2020.

Additional Covered Call ETFs

BMO Covered Call ETF	BMO Covered Call Canadian Banks ETF	BMO Covered Call US Banks ETF	BMO Covered Call Utilities ETF	BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF	BMO Covered Call Technology ETF
Ticker	**ZWB**	**ZWK**	**ZWU**	**ZWA**	**ZWT**
Exposure	Canadian banks, equal weighted	US banks, equal weighted	Utilities, telecommunications and pipeline companies, equal weighted	Dow Jones Industrial Average companies, price weighted	North American Technology and Technology-related companies
Management Fee	0.65	0.65	0.65	0.65	0.65
Annualized Distribution Yield1	**5.5%**	**5.9%**	**6.4%**	**4.5%**	**~5.5%**
Inception Date	Jan 28 2011	Feb 15 2019	Oct 20 2011	Oct 20 2011	Jan 26 2021

[1] As of December 31 2020.