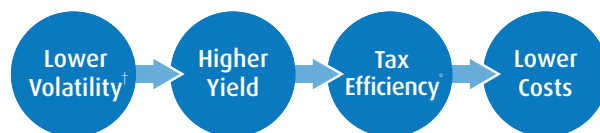


# Covered Call ETF Methodology Enhanced Cashflow with Covered Calls



BMO's Covered Call ETFs	Ticker
BMO Covered Call Canadian Banks Fund	<a href="#">ZWB / ZWB.U</a>
BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF	<a href="#">ZWA</a>
BMO Covered Call Utilities Fund	<a href="#">ZWU</a>
BMO Covered Call US Banks Fund	<a href="#">ZWK</a>
BMO Covered Call Technology Fund	<a href="#">ZWT</a>
BMO Covered Call Energy Fund	<a href="#">ZWEN</a>
BMO Covered Call Health Care ETF	<a href="#">ZWHC</a>

BMO's High Dividend Covered Call ETFs	Ticker
BMO Canadian High Dividend Covered Call Fund	<a href="#">ZWC</a>
BMO US High Dividend Covered Call Fund	<a href="#">ZWH/ZWH.U/ZWS</a>
BMO Europe High Dividend Covered Call Fund	<a href="#">ZWP/ZWE</a>
BMO Global High Dividend Covered Call ETF	<a href="#">ZWG</a>
BMO Global Enhanced Income Fund ETF Series	<a href="#">ZWTI</a>

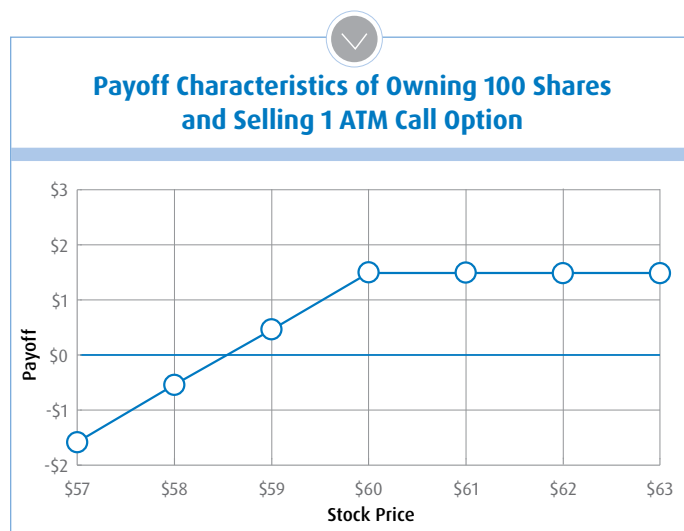
The covered call option strategy, also known as a buy-write strategy, is designed to provide an investor with a double source of cash flow: an option premium plus the dividend yield. This distribution is generally tax efficient.\* The strategy is implemented by writing (selling) a call option contract, 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

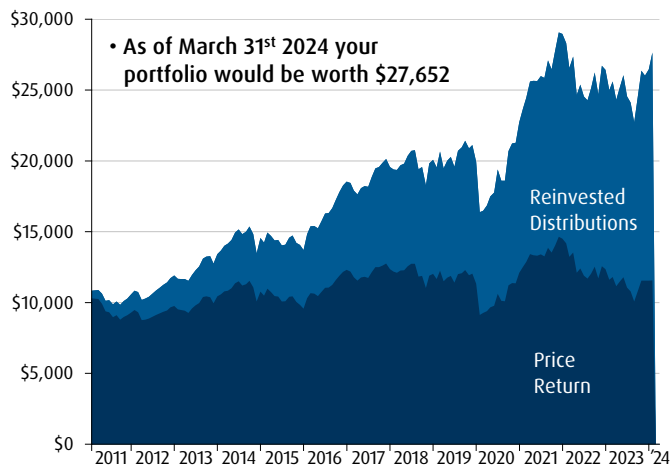
the underlying portfolio with a lower risk level. BMO Covered Call ETFs are income focused products, designed to provide equity exposure with a sustainable and attractive yield. This strategy appeals to investors who are looking for a higher levels of cashflow, as well as the potential for some capital gains.



\* As compared to an investment that generates an equivalent amount of interest income.

† Volatility: Measures how much the price of a security, derivative, or index fluctuates.

### Breaking down the return of a Covered Call ETF Example of Monthly Distributions Reinvested (for illustrative purposes)



Portfolio Value as of March 31, 2024.

The chart illustrates the impact to an initial investment of \$10,000 dollars from Feb 1, 2011 to March 31, 2024 in BMO Covered Call Canadian Banks Fund (ZWB). It is not intended to reflect future returns on investments in ZWB.

ZWB performance: 1 yr 10.64%, 3 yr 5.26%, 5 yr 7.21%, Since Inception 8.03%.  
Source: BMO GAM Bloomberg as of March 28, 2024.

### 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, the 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 can act as a cushion in down markets and may outperform in flat markets when distributions are reinvested back into the ETF.

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.

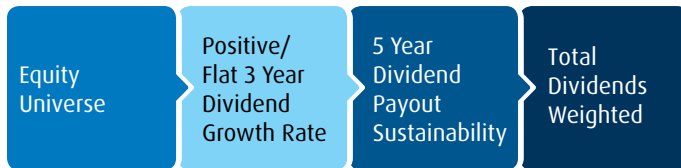
We sell options with 1 to 2 months to expiry in order to take maximum advantage of time decay\*. Options experience more time decay impact, the closer they are to expiry. Writing shorter term options provides greater flexibility to adjust options strike price more frequently to capture more upside.

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

\* Time Decay: a measure of the rate of decline in the value of an options contract due to the passage of time.

## 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.



For more information on BMO's dividend ETF strategy, please read our white paper

[BMO Dividend ETFs Portfolio Construction Methodology](#)

ETFs	BMO Global High Dividend Covered Call ETF	BMO Canadian High Dividend Covered Call Fund	BMO Europe High Dividend Covered Call Fund / BMO Europe High Dividend Covered Call Hedged to CAD ETF	BMO US High Dividend Covered Call Fund / 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
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

\* Source: BMO ETFs. These considerations are subject to change at any time and without notice.

## BMO's Covered Call Sector ETFs

ETFs	BMO Covered Call Energy Fund	BMO Covered Call Health Care ETF	BMO Covered Call Canadian Banks ETF	BMO Covered Call US Banks ETF	BMO Covered Call Utilities ETF	BMO Covered Call Technology ETF
Ticker	ZWEN	ZWHC	ZWB/ZWB.U	ZWK	ZWU	ZWT
Exposure	Equally weighted Global Energy companies	Equally weighted US Healthcare & Healthcare related companies	Canadian banks, equal weighted	US banks, equal weighted	Utilities, telecommunications and pipeline companies, equal weighted	North American Technology and Technology-related companies
Management Fee	0.65	0.65	0.65	0.65	0.65	0.65
Inception Date	Jan 26th 2023	Jan 26th 2023	Jan 28 2011	Feb 15 2019	Oct 20 2011	Jan 26 2021

## BMO's Index Based Covered Call ETFs

ETF	BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF
Ticker	ZWA
Exposure	Dow Jones Industrial Average companies, price weighted
Management Fee	0.65
Inception Date	Oct 20 2011

## BMO's All in One Solution

ETF	BMO Global Enhanced Income Fund ETF
Ticker	ZWQT
Exposure	Asset allocation
Management Fee	0.65
Inception Date	June 19 2023



by BMO Global Asset Management

Let's connect



[ETF Dashboard](#)



1-800-361-1392

This communication is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Particular investments and/or trading strategies should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

Changes in rates of exchange may also reduce the value of your investment.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus of the BMO ETFs before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the BMO ETF's prospectus. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.