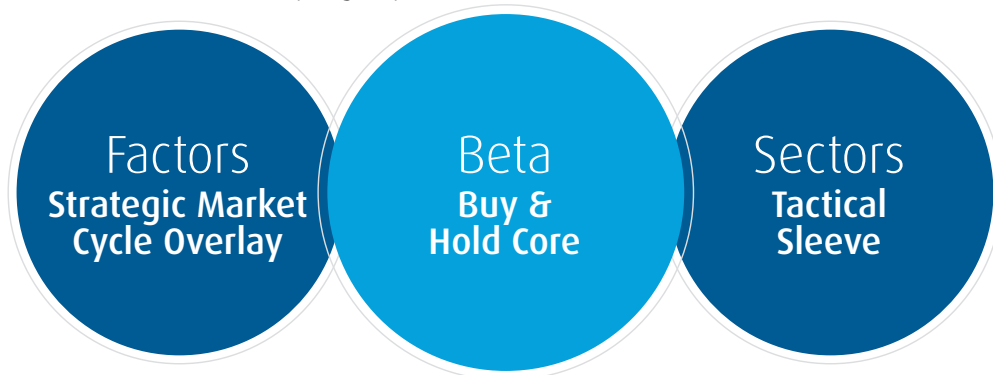


Equity ETF Portfolio Decision Tree

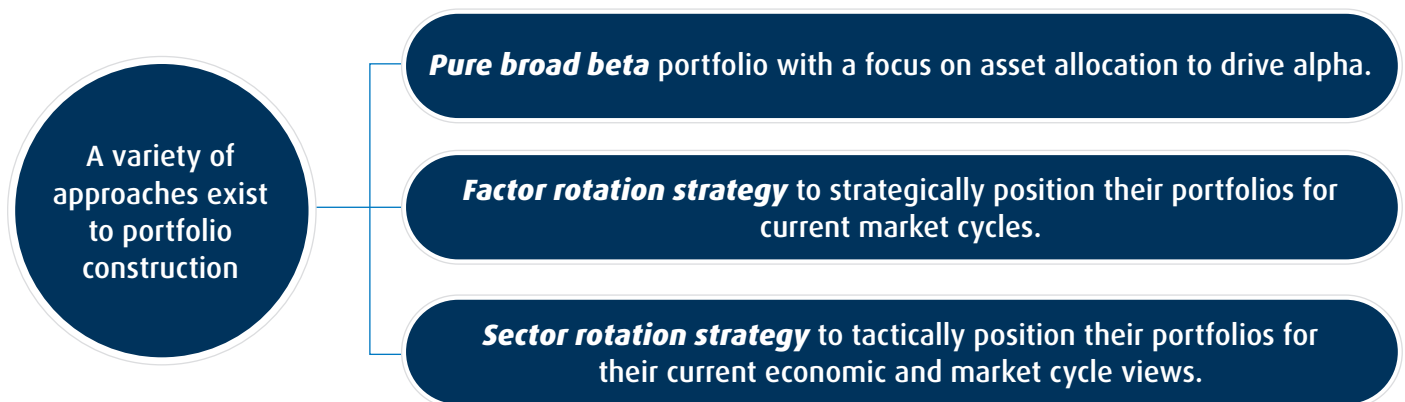
ETFs are the gift that keeps on giving and continue to gain in popularity around the globe for their endless efficiencies. In Canada, there are over 350 equity ETFs, dwarfing that number in the US there are over 1300 equity ETFs.¹ If you have an exposure in mind, chances are you can find an ETF to meet your desired outcome with products covering the spectrum of broad beta, factors and sectors. Additionally, recent innovation has led some investors to consider adopting active ETFs to enhance alpha in a portfolio.

Portfolio construction is as much an art as it is a science. ETFs can simplify the portfolio construction process because they offer greater transparency. It may be helpful to review a simple framework for building an equity portfolio and the considerations that help determine what mix is right for you. For the purposes of this framework we have divided the equity ETF universe into three simple groups.



The challenge is deciding how to combine these products to build a strong equity portfolio

Approaches to portfolio construction



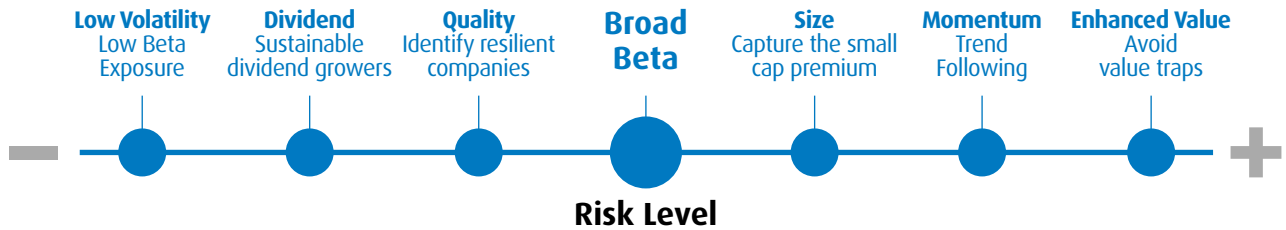
A further approach would be to adopt a blend of these approaches. Sounds simple enough but deciding how to align your portfolio weights with your economic views, level of conviction, and considering how factors and sectors intersect entails greater deliberation.

¹ Source: ETFGI, June 2023.

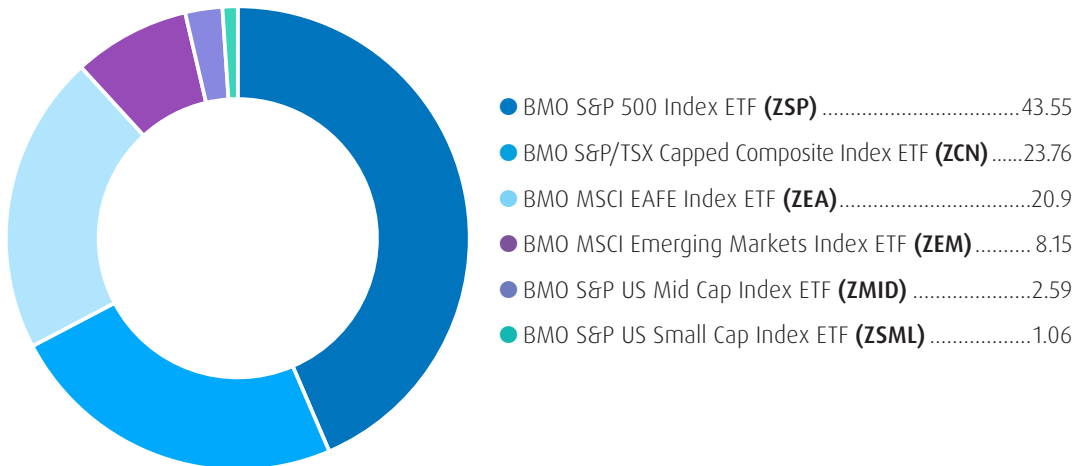
Decision Framework:

1. a) Conviction Level: How heavy in the core?

Using a core and satellite approach, higher conviction leads to higher weights in the satellites, whereas more uncertainty leads higher weight in the core. Investors with confidence in global leadership and the further expansion of coordinated global growth will put higher weights in satellites; including more cyclical factors, and less defensive sectors. Investors with limited confidence will do the opposite. Those in between, are best off with broad beta exposures.

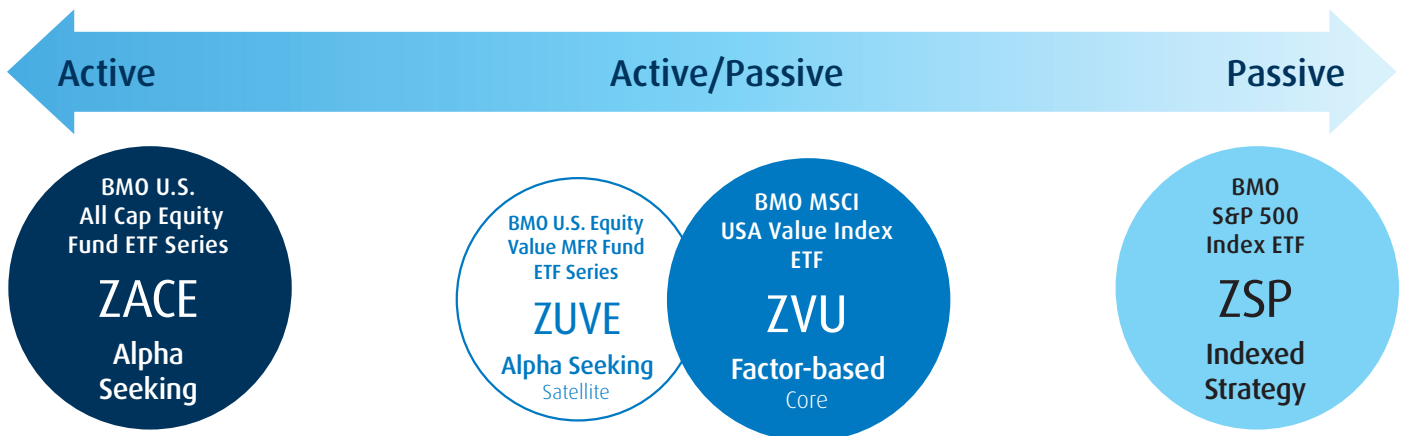


Core Broad Beta – Sample Portfolio



1. b) Active, Index or Blend?

With the launch of Active Equity ETFs, investors will typically follow three paths: passive portfolios for confident investors or efficient market believers, mixed active and passive portfolios for less confident investors, and active portfolios for unsure investors, and enhanced global exposure.

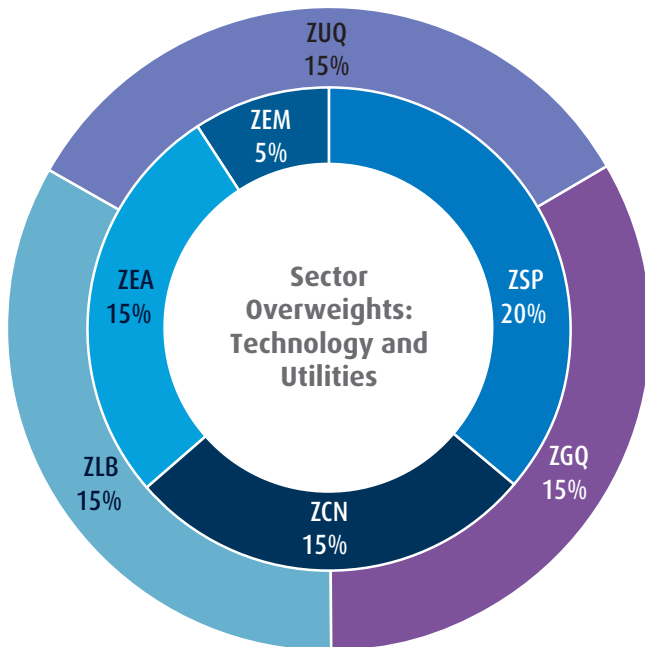


2. Economic View:

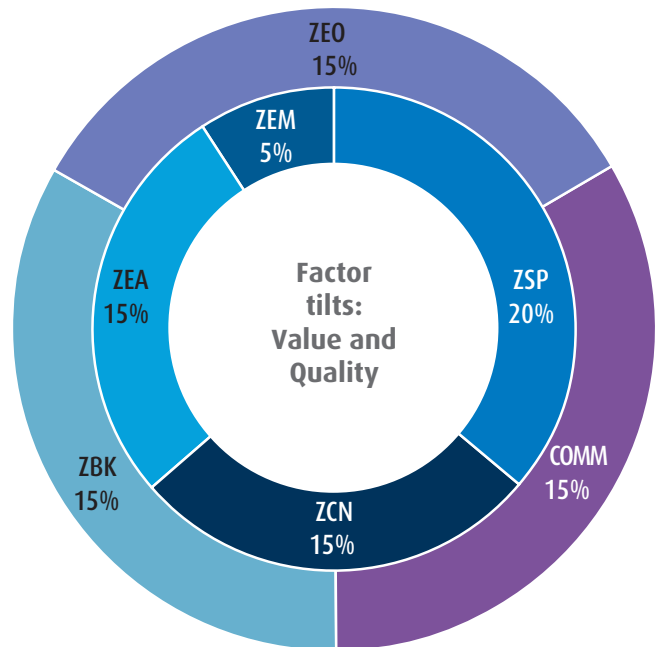
Not all factors and sectors have the same macroeconomic drivers, and therefore some factors/sectors will outperform others based on inflation, the interest rate environment, and the economic cycle. Using a rotation strategy can be profitable as a satellite to your core broad beta exposures.

Cycle	Recession	Early Recovery	Slowdown	Late Recovery	End of Cycle
Style	Defensive, Income	Value	Growth	Momentum	Defensive, low Vol/ Quality
Size	Large	Small	Mid	Large	Large
Sectors	Defensive Utilities, Health Care, Consumer Staples	All Cyclicals → Early Cyclicals Cons. Discretionary, Technology	Early Cyclicals → Mid Cyclicals Technology, Health Care	Late Cyclicals Financials, Industrials, Resources, Technology	Defensive Utilities, Health Care, Consumer Staples
Rates	Falling	Falling	Rising → Falling	Rising	Falling

Late Cycle Defensive Factor Rotation

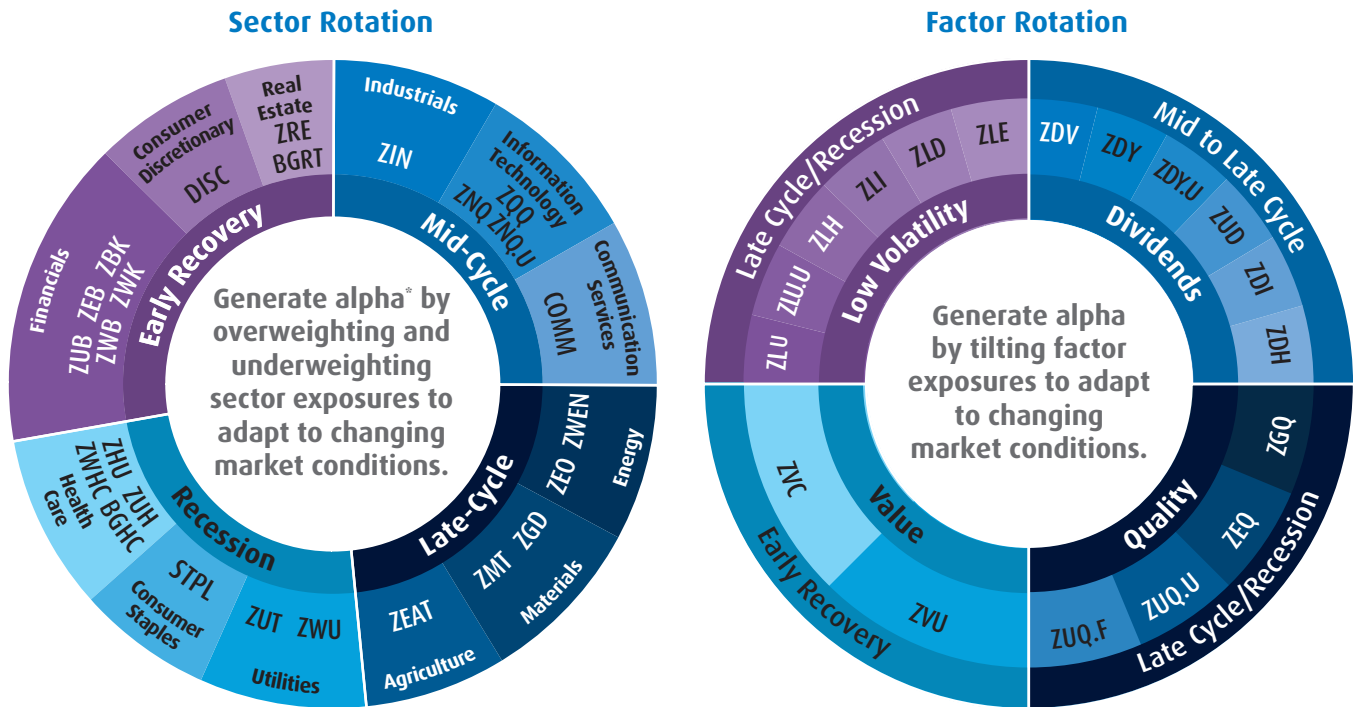


Early Recovery Growth with Sector Rotation



3. Sector/Factor convergence - what are the biases?

Being aware of how Factors intersect with sectors and how Factors have consistent sector concentrations is an important consideration. While concentration of sectors in factors such as Momentum and Quality would change over time and tend to be more diverse, Factors such as Low Volatility have more consistent sector biases (Utilities, REITs, Consumer Staples) consider.



Other Considerations

Currency – While over the longer term there is purchasing power parity (PPP) between two currencies, to which they will revert over time, over the shorter-term currencies can trade beyond their PPP for significant periods of time. If an investor believes the U.S. Dollar will appreciate against the Canadian Dollar and are looking to invest in U.S. equities, an unhedged U.S. equity ETF may be more suitable as an example.

Geography – Political regimes, tax laws, monetary policy and business cycles are rarely the same across the globe, and these variables have an impact on the performance of your portfolio. Therefore an investor should be aware of a region’s macro-economic landscape as these variables will impact performance.

Income Needs – investors needing extra income can consider a higher allocation to higher income sectors such as financials and utilities, as well as higher exposure to yield based factor indices.



Sectors: Rotating for Success

Early Recovery

ETF Name	Ticker
BMO Equal Weight US Banks Hedged to CAD Index ETF	ZUB
BMO Equal Weight US Banks Index ETF	ZBK
BMO Covered Call US Banks ETF	ZWK
BMO Equal Weight Banks Index ETF	ZEB
BMO Covered Call Canadian Banks ETF	ZWB
BMO Global Consumer Discretionary Hedged to CAD Index ETF	DISC
BMO Equal Weight REITs Index ETF	ZRE
BMO Global REIT Fund Active ETF Series	BGRT

Mid-Cycle

ETF Name	Ticker
BMO Equal Weight Industrials Index ETF	ZIN
BMO Nasdaq 100 Equity Index ETF	ZNQ, ZNQ.U, ZQQ
BMO Global Communications Index ETF	COMM

Late-Cycle

ETF Name	Ticker
BMO Equal Weight Global Gold Index ETF	ZGD
BMO Equal Weight Global Base Metals Hedged to CAD Index ETF	ZMT
BMO Equal Weight Oil & Gas Index ETF	ZEO
BMO Global Agriculture ETF	ZEAT
BMO Covered Call Energy ETF	ZWEN

Recession

ETF Name	Ticker
BMO Covered Call Utilities ETF	ZWU
BMO Equal Weight Utilities Index ETF	ZUT
BMO Global Consumer Staples Hedged to CAD Index ETF	STPL
BMO Equal Weight US Health Care Hedged to CAD Index ETF	ZUH
BMO Equal Weight US Health Care Index ETF	ZHU
BMO Covered Call Health Care ETF	ZWHC
BMO Global Health Care Fund Active ETF Series	BGHC

Smart Investing with a Factor Based Approach

Quality

ETF Name	Ticker
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
BMO MSCI USA High Quality Index ETF (Hedged Units)	ZUQ.F

Value

ETF Name	Ticker
BMO MSCI Canada Value Index ETF	ZVC
BMO MSCI USA Value Index ETF	ZVU
BMO U.S Equity Value MFR Fund ETF Series	ZUVE

Low Volatility

ETF Name	Ticker
BMO Low Volatility Canadian Equity ETF	ZLB
BMO Low Volatility US Equity ETF	ZLU, ZLU.U
BMO Low Volatility International Equity ETF	ZLI
BMO Low Volatility International Equity Hedged to CAD ETF	ZLD
BMO Low Volatility Emerging Markets Equity ETF	ZLE

Dividend

ETF Name	Ticker
BMO Canadian Dividend ETF	ZDV
BMO US Dividend ETF	ZDY, ZDY.U
BMO US Dividend Hedged to CAD ETF	ZUD
BMO International Dividend ETF	ZDI
BMO International Dividend Hedged to CAD ETF	ZDH



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