Structured Outcome ETF FAQ

What are Structured Outcome ETFs?

Structured outcome ETFs seek to reshape a traditional investment's risk/return profile by creating a range of potential outcomes that are known to an investor prior to investing provided they remain invested through the duration of the outcome period. BMO Global Asset Management has launched several new Structured Outcome ETFs that can be characterized as buffer ETFs.

Historically, these types of structured outcome strategies have only been available to capital markets clients. BMO Global Asset Management aims to democratize these solutions to make them accessible to all.

What are Buffer ETFs?

Buffer ETFs provide exposure to the price return and dividends of major equity markets in the United States. In exchange for capped upside, the ETFs have structured buffer levels to help limit losses on the downside. BMO Buffer ETFs provide a cap of 10.5% on the price return (plus dividends) of the underlying and have a buffer on the downside of 15%, resetting annually[1].

How do they work?

Buffer ETF: First, the fund invest in the underlying reference asset. For example, the BMO S&P 500 Hedged to CAD index ETF, ticker ZUE. Next, the fund buys a customized options package known as a put spread. to create the downside buffer. Third, the fund sells an upside call option to pay for the cost of the protective put spread. This is what creates the upside cap on growth potential.

What is the MER[2]?

The MER on all BMO Structured Outcome ETFs is 0.73%.

What if I buy shares of a Structured Outcome ETF on the first day?

If you buy the ETF on the first day of a structured outcome period, your structured outcome will match the fund's full parameters of the outcome period.

What if I buy shares of a Structured Outcome ETF after the first day?

An investor can achieve a structured outcome at any point during the outcome period, it will just be a different outcome than those who entered the Fund on day one. The potential outcomes will be based on the current NAV and the length of time remaining in the outcome period.

Do these ETFs mature?

No. At the end of an outcome period, the Fund will reset into a new portfolio with the same exposure. The new parameters may or may not be the same as the preceding years. Periods of higher market volatility will offer higher upside caps.

Does any entity guarantee I will not lose my investment? Can I lose my money?

No. ETFs are not backed by the faith and credit of an issuing institution.

The fund is exposed to the value of a reference asset that may increase or decrease over time.

Are there any comparable products in the market?

First trust Canada offers a buffered ETF linked to the S&P 500 and hedged to Canadian dollars at a 0.95% MER.

Can I buy and hold this investment, or do I need to re-purchase the ETF after the end of each Outcome Period?

While the ETFs reset at the end of their respective outcome periods, they can be held indefinitely. At each new outcome period, the ETF will roll into a new set of options contracts to create new structured outcomes aligned with the fund's objectives.

How many ETFs are in the series?

BMO offers 4 Buffer ETFs:

Buffers:
BMO US Equity Buffer Hedged to CAD ETF – January (Ticker: ZJAN)
BMO US Equity Buffer Hedged to CAD ETF – April (Ticker: ZAPR)
BMO US Equity Buffer Hedged to CAD ETF – July (Ticker: ZJUL)
BMO US Equity Buffer Hedged to CAD ETF – October (Ticker: ZOCT)

How do these ETFs fit in my portfolio?

These ETFs can be used as a complement or replacement for equity allocations in existing portfolios. The inherent flexibility of the ETFs, and the price discovery and intraday liquidity now afforded to structured outcomes, make the structured outcome ETFs an agile portfolio allocation tool.

What are the fund's investment objectives?

The BMO Structured Outcome ETFs seeks to provide a specified investment result known to an investor prior to them investing.

What does the fund invest in? What type of reference indices will we use?

The fund will invest directly in a reference asset and will then buy different options to create the structured outcomes.

Is it considered a capital gain if I sell at a higher NAV than my initial price?

Yes.

Can you breakdown the cost for owning the fund?

Management fee:

Fund management fee: 0.65% Taxes.

Trading Expense Ratio (TER) is an aggregation of the trading costs incurred to the fund.

Sales Charges is an "upfront commission" that your advisor may charge and is negotiated at the time of purchase. See the fund prospectus or fund facts for further details.

Is there intra-day liquidity?

Yes, all of BMO Structured Outcome ETFs are listed on the exchange and will trade just like any other exchange traded security.

What is the minimum purchase price?

The minimum purchase price is the price listed on the exchange. This price will fluctuate.

Do the Structured outcome ETFs pay out a dividend?

Yes, if the underlying reference asset pays out a dividend, the investor of the structured outcome ETF at that time will be eligible to receive the dividend.

Tax treatment?

Please consult with a Tax specialist. Generally, the returns on the Structured Outcome ETFs (other than the dividends) will be treated as capital gains.

What happens on the rollover date for a buffer ETF, assuming the Fund hits the cap. Does the NAV reflect that on rollover date? When does the distribution get paid out?

Assuming the underlying holding (ZUE) is trading above the cap, the NAV will typically converge towards the upside cap on a daily basis until the end of the outcome period, less fees, trading costs and other related items. Distributions are passed through to the buffer ETF in regular payouts. Similar to other ETFs, there may be a special distribution that occurs at year-end if required.

Is there a deemed disposition at rollover? If not, will there be a capital gains distribution at the end of the year?

There is not a deemed disposition at rollover. Capital gains, if any, will be distributed at year end. The impact of realized gain/loss should be relatively small at rollover, especially if the underlying rallies above the cap.

If ZUE > Cap: Fund incurs losses on the short call option (i.e. the cap). ZUE will be sold to cover the short call.

If ZUE is between buffer and cap: all options expire at 0, which is typically the cost base of the options, so there would be no impact.

If ZUE is within or below the buffer: proceeds from the protective options would be realized and distributed with a special distribution.

What type of liquidity guarantee do we have in case of a significant market decline?

In times of stress, we would expect volatility to rise and the bid/ask spread to widen. This would apply to both the buffer ETF and the option on the underlying. The advantage of using an ETF is that there is a NAV execution facility always available. This could be an alternative execution strategy in times of market stress, if clients are worried about large declines.

If a “black swan” event occurs on the reset date, the expiring options can be settled at their intrinsic value if required. However, this potential volatility may impact the level of cap for the following outcome period. If there is a black swan event during the outcome period, there may be a higher cost of execution (if trading is required) and could impact the NAV and performance of the outcome period.

What is the underlying holding(s) of BMO Buffer ETFs?

The underlying is the BMO S&P 500 Hedged to CAD Index ETF (Ticker: ZUE). Options are used on U.S. equities, one of the most liquid securities markets in the world, which reduces illiquidity risk.

[1] The buffer and cap listed will be before fees, expenses and taxes.

[2] As the fund is less than one year old, the actual Management Expense Ratio (MER) will not be known until the fund financial statements for the current fiscal year are published. The estimated MER is an estimate only of expected fund costs until the completion of a full fiscal year and is not guaranteed.

Disclaimers

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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.

An investor that purchases Units of a Structured Outcome ETF other than on the first day of a Target Outcome Period and/or sells Units of a Structured Outcome ETF prior to the end of a Target Outcome Period may experience results that are very different from the target outcomes sought by the Structured Outcome ETF for that Target Outcome Period. Both the cap and, where applicable, the buffer are fixed levels that are calculated in relation to the market price of the applicable Reference ETF and a Structured Outcome ETF's NAV (as Structured herein) at the start of each Target Outcome Period. As the market price of the applicable Reference ETF and the Structured Outcome ETF's NAV will change over the Target Outcome Period, an investor acquiring Units of a Structured Outcome ETF after the start of a Target Outcome Period will likely have a different return potential than an investor who purchased Units of a Structured Outcome ETF at the start of the Target Outcome Period. This is because while the cap and, as applicable, the buffer for the Target Outcome Period are fixed levels that remain constant throughout the Target Outcome Period, an investor purchasing Units of a Structured Outcome ETF at market value during the Target Outcome Period likely purchase Units of a Structured Outcome ETF at a market price that is different from the Structured Outcome ETF's NAV at the start of the Target Outcome Period (i.e., the NAV that the cap and, as applicable, the buffer reference). In addition, the market price of the applicable Reference ETF is to be different from the price of that Reference ETF at the start of the Target Outcome Period. To achieve the intended target outcomes sought by a Structured Outcome ETF for a Target Outcome Period, an investor must hold Units of the Structured Outcome ETF for that entire Target Outcome Period.

BMO Buffer ETFs seeks to provide income and appreciation that match the return of a Reference Index up to a cap (before fees, expenses and taxes), while providing a buffer against the first 15% (before fees, expenses and taxes) of a decrease in the Reference Index over a period of approximately one year, starting from the first business day of the stated outcome period.

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. 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 Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.