

BMO Premium Yield ETF

Exposure to U.S. equities with an enhanced income overlay

ZPAY | ZPAY.F (Hedged to CAD Units) | ZPAY.U (USD Units)



BMO Premium Yield ETF uses option strategies (put-write and covered calls) combined with some long stock exposure to provide an enhanced income product that has less volatility, more diversification, higher yield and partial market exposure.

Alternative Yield

The BMO Premium Yield ETF utilizes option strategies to generate yield while maintaining a lower-risk investment. As an alternative yield focused ETF, ZPAY will have lower correlation to both equity and fixed income products, benefiting overall portfolio construction.

A regular long-only portfolio has full market exposure, and the portfolio value will move fully with the stock price. When a portfolio adds options, its exposure to the market changes. The BMO Premium Yield ETF is a dynamic strategy that responds to market conditions by using options which means it will not fully capture market upside, but it also means it will not fully capture market downside either. The trade-off vs a long-only portfolio is the enhanced yield, greater diversification and lower overall volatility.

Portfolio Implementation

The portfolio will buy a concentrated basket of 40-60 large-cap U.S. equities. These stocks will be selected based on quality fundamentals such as strong balance sheets, low debt to

equity, high return on equity and liquidity screens. In normal market conditions, the fund will target a range of 20-50% to be invested in equity securities, however, during market selloffs, the equity weight can rise further as securities are received and to add the opportunity to further participate in a potential market rebound.

Call option writing will be implemented on half of the long portfolio. These options will be out-of-the-money (OTM) with 1-2 months to expiry. The long exposure will be held to maintain upside exposure and provide capital appreciation. The call option writing will generate income.

Put options will be written on stocks that the fund manager considers attractive, using the same screens and inclusion criteria as the long portfolio. Put options will be written OTM with 1-2 months to expiration. If the stock declines and the option is exercised, the fund will be obligated to purchase the stock at the strike price. Depending on market conditions, the fund may choose to hold the stock if it anticipates a price reversal. Premiums earned selling puts adds income to the portfolio.

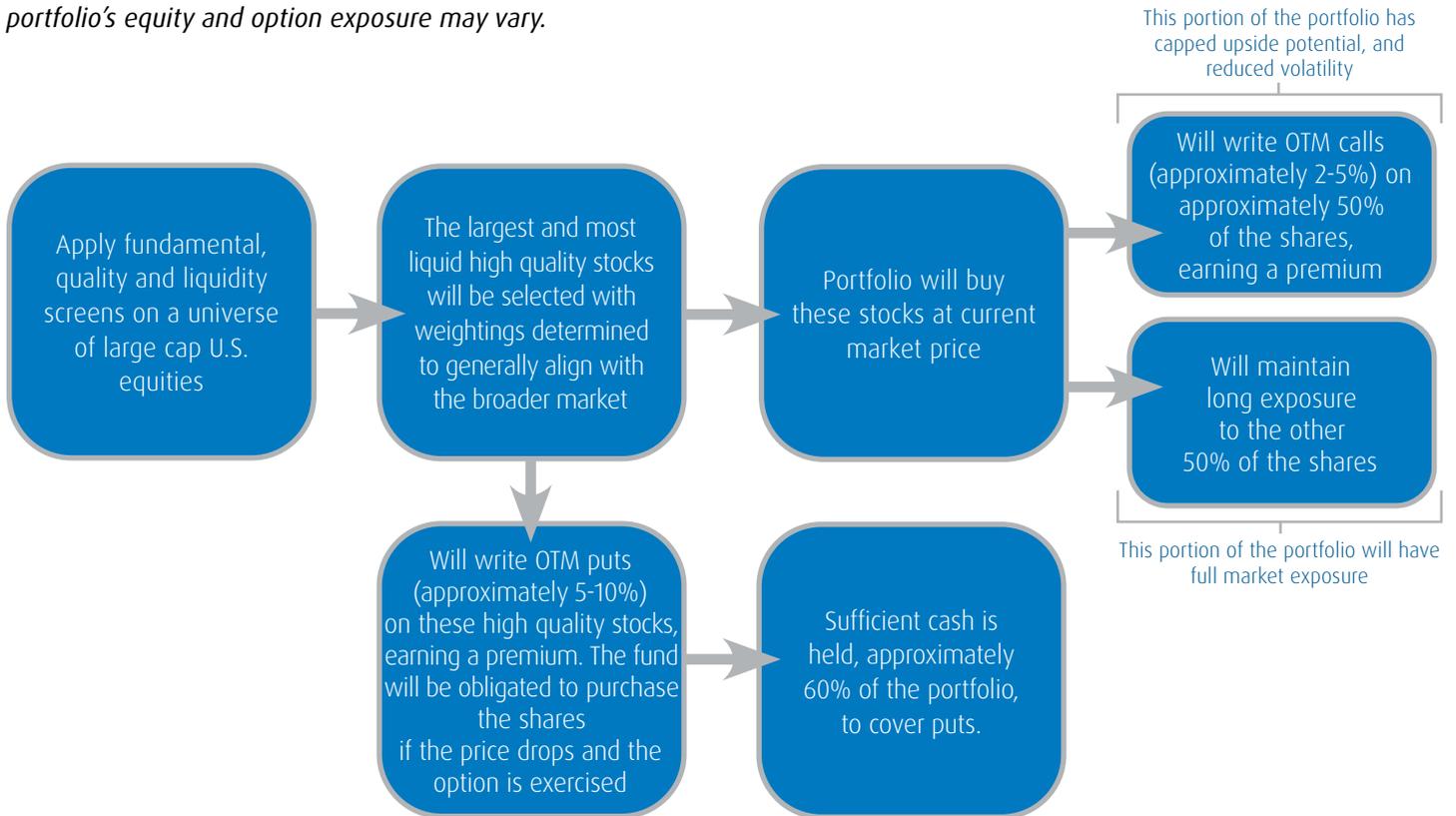
If put options are called, it will provide an attractive, lower-cost entry point for a security that the portfolio has identified as a quality stock. Stock exit points will be determined based on recognizing rising valuations and based on the equity allocation band.

If a call option is exercised, the portfolio is "covered" meaning it owns the stock and will deliver it to the counter-party. If the put option is exercised, the fund holds sufficient cash to cover this position.

Portfolio ranges referenced are what the portfolio aims for in normal market conditions. As market conditions change the portfolio's equity and option exposure may vary.

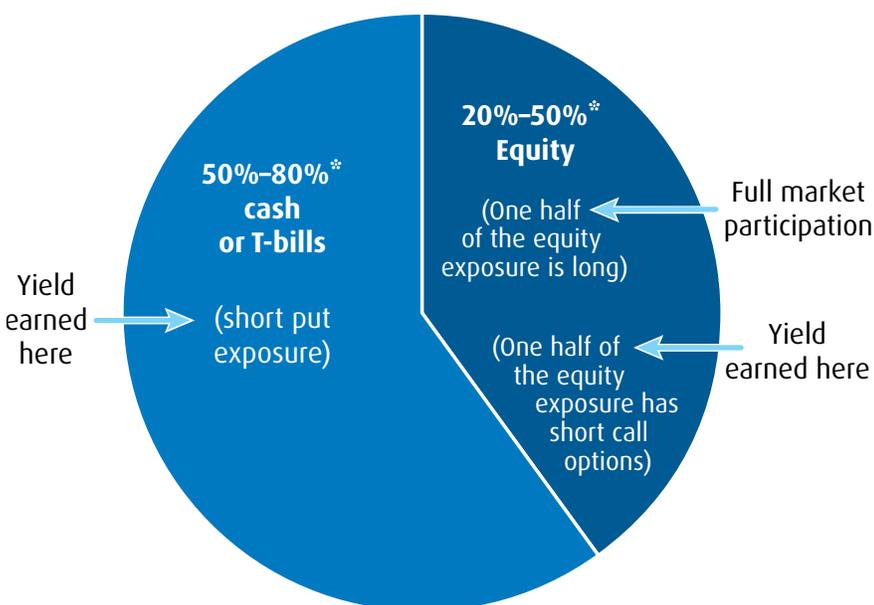
Implementation Example:

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Example Portfolio Composition:

*Portfolio composition can change based on market movements, asset mix below is a target under normal market conditions



Market Example

- Buy 400 shares of Apple at \$300
- Write call option on 200 shares at \$310 strike price
- Sell put option on 800 shares of Apple at \$290 strike price
- Buy T-Bill to cover short puts
- If stock stays between \$290 - \$310, keep all premium
- If stock goes below \$290, puts are assigned and portfolio owns 1,200 Apple shares → start the covered call process again
- If stock goes above \$310, calls are assigned and portfolio owns 200 Apple shares → now sell put on 1,000 shares and call on 100 shares

Tax Efficiency

ZPAY will have considerable tax efficiency because some of the option premiums are taxed as capital gains. Also, the long portion of the portfolio with exposure to U.S. equities will have greater ability for growth, and this capital appreciation is also taxed as capital gains.

What's a covered call?

A covered call is a popular option strategy where income can be generated by earning premiums. An investor will be long a stock, and then sell a call on that same stock. If the stock hits the exercise price, the investor must sell the stock at that price. The strategy creates a hedge on the long stock position. The strategy is most successful when the underlying stock price does not move much in the short-term.

What's a put write?

Put options offer downside protection on an underlying stock, much like an insurance contract. When an investor buys a put, they are simply securing a price floor for that asset. An investor who wants to sell the protection would write the put option. They will earn a premium, but must buy the stock if it drops to the pre determined price (the strike price).

BMO Premium Yield ETF

ZPAY
unhedged

ZPAY.U
USD units

ZPAY.F
hedged to CAD

Distribution Yield: n/a | M

Mgmt. Fee: 0.65%

Risk Rating: Low to Medium

new

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Commissions, management fees and expenses (if any) all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus 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 prospectus. BMO ETFs and ETF series 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.

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