

# ETF Portfolios Q1 2022 Commentary

*BMO ETF Portfolios are built to combine active management from our Multi-Asset Strategy Team (MAST) with our leading ETF shelf<sup>1</sup> that provides full market core exposures and satellite positions to build effective portfolios. BMO ETF Portfolios have delivered a strong performance track record that stretches back to 2013 (see table on page 4).*

*With BMO ETF Portfolios we begin with the strategic asset mix, which considers the macro and competitive environment to establish our longer-term view (12-18 months) that defines the neutral asset mix and the design choices of each portfolio. Our team also makes tactical shorter term (3-12 months) portfolio decisions. Each portfolio is designed with specific portfolio parameters in mind to allow for sufficient freedom to implement meaningful tactical calls when appropriate.*

## Setting the Stage

Over the first quarter of 2022, equity markets struggled with the continued upward surprise of high inflation prints, impacting growth oriented equities that are valued on future cash flows. The invasion of Ukraine created further instability in markets, and notably led to a strong oil rally, with West Texas Intermediate (WTI) oil ending the quarter at just over 100 USD per barrel. At the same time, higher inflation led to a rising yield curve and the expectation of hawkish central bank policy, so fixed income did not provide protection against stumbling equity markets. The most significant decision over the quarter was the allocation to Canadian equities, as Canada stood out in producing positive returns, backed by financials and energy companies.

Canadian equities then returned +3.8% in the first quarter, as measured by BMO S&P/TSX Capped Composite Index ETF (ZCN). U.S. equity markets, with a greater exposure to technology and other growth areas of the market, returned -5.8% as measured by BMO S&P 500 Index ETF (ZSP). Aggregate Canadian fixed income markets, as measured by BMO Aggregate Bond Index ETF (ZAG) returned -7.0%, demonstrating that there was little opportunity to shelter from market unrest.

The quarter delivered disappointing returns for International and Emerging Markets, as the Ukraine invasion added further uncertainty to the regions. BMO MSCI EAFE Index ETF (ZEA) returned -8.0% over

the quarter, while Emerging Markets, grappling with the valuation of Russian securities as trading was frozen, returned -8.7% as measured by BMO EMSCI Emerging Markets Index ETF (ZEM). While Russian securities had historically been a significant weight in Emerging Markets, with the rise of China, Russia had declined to less than 4% of the exposure prior to the Ukraine invasion.

In fixed income, the challenges only intensified in the first quarter of 2022, with interest rate volatility, rising inflation, and a steepening yield curve. There hasn't been anywhere to hide, as short term rates, as measured by the 2 Year Bank of Canada Bond Index increased from 95 basis points to 229 basis points over the quarter, and long term rates, as measured by the 10 Year Bank of Canada Bond Index increased from 143 basis points to 240 basis points. The Canadian Consumer Price Index (CPI) rose to 5.7% over the quarter, increasing expectations of accelerated Bank of Canada overnight interest rate increases over the remainder of the year.

All data from Bloomberg, March 31, 2022. Returns in CAD.

## Key Active Decisions

1. Increased equity overweight
2. Increased Canadian equity weight
3. Added to International equity weight

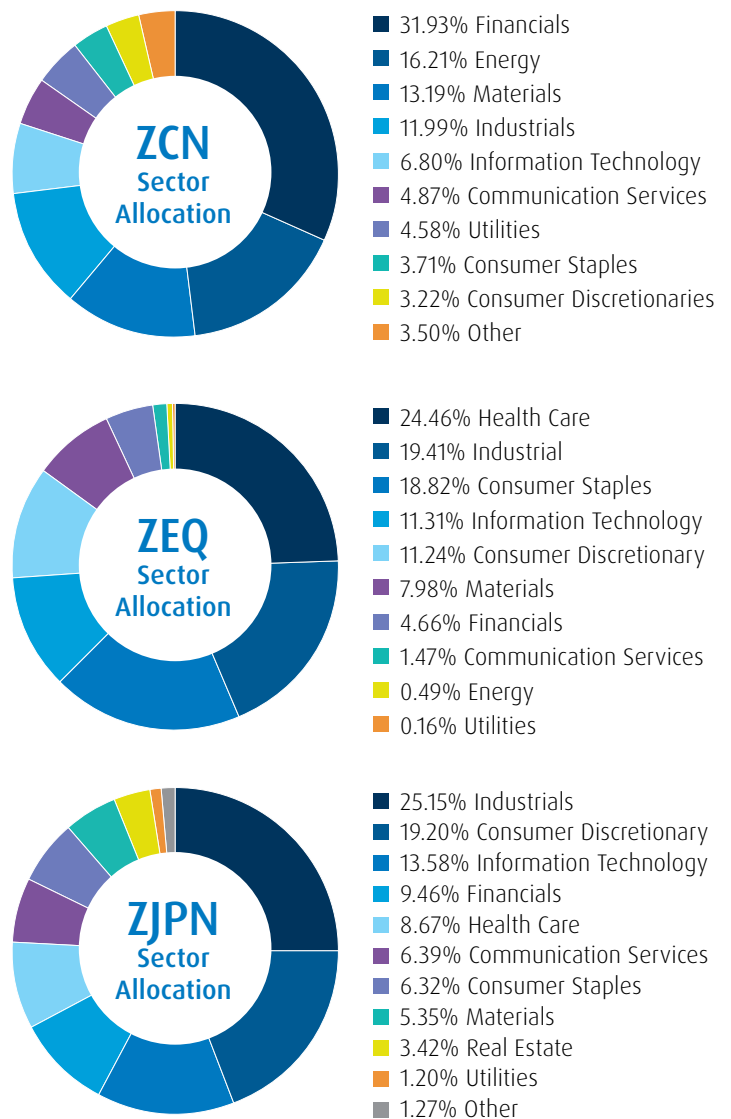
### 1. Increased equity overweight

Across the ETF Portfolios, adding to equity weight has positioned the portfolios to best capture market returns, as fixed income markets remained challenged. Using BMO Balanced ETF Portfolio, the equity weight was increased from 61.9% to 62.5% at quarter end (increased by 0.6%) which is on top of the equity weight increase in 2021. The fixed income weight was reduced from 36.5% to 34.1% (decreased by 2.4%), resulting in a small increase to cash as a defensive position. While market returns were negative in both equities and bonds over the quarter, we continue to see better growth opportunity in equity markets. The MSCI ACWI Index, as a broad measure of global equities, returned -6.5% over the quarter in Canadian Dollar terms, while ZAG returned -7.0% as mentioned above.

### 2. Increased Canadian equity weight

Referencing BMO Balanced ETF Portfolio, the Canadian equity weight was increased by 1.8% over the quarter to 20.2% of the fund. The largest position increase in the quarter was adding 1.8% to ZCN, for a weight of 19.0%, now the largest position in the portfolio. Canadian resource companies benefitted from rising inflation and the spike in oil markets, Canadian Natural Resources (CNQ) was the leading contributor over the quarter returning 46.2%, benefitting from the oil surge. Other significant contributors included Nutrien (NTR) returning 36.5% as significant global production of fertilizer is from Russia creating supply issues and Suncor Energy (SU) returning 30.0% based on the soaring oil prices. The most notable detractor was Shopify (SHOP), which returned -51.5% based on the correction of growth and technology stocks.

The Canadian equity weight increase was partially funded by reducing the U.S. equity weight, as the position in BMO Low Volatility US Equity ETF (ZLU) was eliminated from the portfolio. While ZLU did outperform broad U.S. equity due to overweight to defensive names and sectors, it underperformed the Canadian market as we removed the lower beta exposure.



Sector allocations as of Mar 31, 2022.

### 3. Added to International equity weight

Again, using BMO Balanced ETF Portfolio as the reference fund, International equity was increased to 16.5% from 13.9%, an increase of 2.6% over the quarter. New positions were added in BMO MSCI Europe High Quality Hedged to CAD Index ETF (ZEQ) at 2.0% and BMO Japan Index ETF (ZJPN) at 2.0%, partially offset with a small reduction in ZEA exposure. The increased weight in International equity ETFs was funded by reducing the Emerging Markets equity weight, as ZEM was reduced 2.6% from 5.2%. This decrease is a result of increased risk in equity markets.

ZEQ selects stocks with high quality scores based on three fundamental variables: high return on equity, stable earnings growth, and low financial leverage. Large positive contributors in the quarter included Rio Tinto (RIO),

returning 29.2% as inflation drove metals prices higher and BAE Systems (BA) returning 30.5% as defense companies appreciated with the outbreak of war in Ukraine. Significant detractors included Unilever (ULVR) returning -11.6% on inflation and the expectation of higher prices for shoppers. All returns in local currency.

ZJPN is a market capitalization weighted exposure to Japanese listings, a new listing which allows us to disaggregate international exposure. Top contributors over the quarter included video game companies with strong results, Nintendo (7974) which returned 16.9% and Nexon (3659) which returned 31.8%. Large detractors over the quarter included Sony (6758) returning -11.8% as the global chip shortage is expected to impact production. All returns in Japanese Yen.

*These active decisions, including the addition and subtraction of full positions, combined with the full market exposure provided by the BMO ETF shelf, help to deliver strong performance across the risk based spectrum of the six BMO ETF Portfolios.*

## BMO Balanced ETF Portfolio, 3 Month and 1 year Change

	31-Mar-22	31-Dec-21	3 mth change	31-Mar-21	1 yr change
<b>Equity</b>	62.5%	61.9%	0.6%	57.7%	4.8%
<b>Bond</b>	34.1%	36.5%	-2.4%	40.6%	-6.5%
<b>Cash</b>	3.1%	1.2%	1.9%	1.4%	1.7%
<b>Equities</b>					
<b>Canada</b>	20.2%	18.4%	1.8%	16.3%	3.8%
<b>US</b>	23.3%	24.4%	-1.1%	21.8%	1.5%
<b>International</b>	16.5%	13.9%	2.6%	13.0%	3.5%
<b>Emerging Markets</b>	2.6%	5.4%	-2.8%	6.6%	-4.0%
<b>Fixed Income</b>					
<b>Aggregate</b>	17.1%	17.0%	0.1%	19.2%	-2.1%
<b>Federal</b>	2.4%	3.6%	-1.2%	3.6%	-1.2%
<b>Provincial</b>	1.1%	1.6%	-0.5%	2.4%	-1.3%
<b>IG Credit</b>	9.0%	10.1%	-1.1%	10.8%	-1.8%
<b>HY Credit</b>	2.3%	1.6%	0.7%	2.1%	0.2%
<b>EM Bond</b>	2.2%	2.5%	-0.3%	2.5%	-0.3%

Source: BMO Global Asset Management, March 31, 2022.

## BMO ETF Portfolios Series F, Performance as of March 31, 2022

Time Lapse	BMO Fixed Income ETF Portfolio F	BMO Income ETF Portfolio F	BMO Conservative ETF Portfolio F	BMO Balanced ETF Portfolio F	BMO Growth ETF Portfolio F	BMO Equity Growth ETF Portfolio F
3 month	-6.4%	-5.5%	-5.3%	-4.4%	-3.6%	-3.1%
6 month	-5.7%	-3.6%	-2.7%	-0.7%	1.2%	2.5%
1 Year	-3.7%	-1.1%	0.6%	3.5%	6.7%	9.1%
3 Year	0.6%	2.9%	4.2%	6.3%	8.5%	10.2%
5 Year	1.3%	3.1%	4.1%	5.9%	7.6%	9.0%
Since Inception*	2.3%	4.5%	5.5%	7.1%	8.5%	10.0%
Morningstar Category	Global Fixed Income	Canadian Fixed Income	Global Fixed Income	Global Neutral Balanced	Global Equity Balanced	Global Equity

\*As of August 12, 2013. Source: Morningstar Direct. Performance is for Series F mutual funds in Canadian dollars, and is net of fees and taxes. Series F units are only available to investors who participate in eligible wrap programs or flat fee accounts with their registered dealers that have entered into a Series F Agreement with BMO Investment Inc.

Mutual Fund Trust	Fixed Income				Income				Conservative				Balanced				Growth				Equity Growth			
	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based
Advisor	99700	98700	97700	-	99701	98701	97701	-	99702	98702	97702	-	99703	98703	97703	-	99704	98704	97704	-	99705	98705	97705	-
T6	34706	33706	32706	-	34707	33707	32707	-	34708	33708	32708	-	34709	33709	32709	-	34710	33710	32710	-	34712	33712	32712	-
F	-	-	-	95700	-	-	-	95701	-	-	-	95702	-	-	-	95703	-	-	-	95704	-	-	-	95705
F2	-	-	-	14700	-	-	-	14701	-	-	-	14702	-	-	-	14703	-	-	-	14704	-	-	-	14705
F4	-	-	-	-	-	-	-	37701	-	-	-	37702	-	-	-	37703	-	-	-	37704	-	-	-	37705
F6	-	-	-	-	-	-	-	36701	-	-	-	36702	-	-	-	36703	-	-	-	36704	-	-	-	36705
Management Expense Ratio (MER) as of September 30, 2021																								
Advisor	1.00%				1.67%				1.67%				1.72%				1.72%				1.78%			
F	0.44%				0.55%				0.55%				0.61%				0.61%				0.66%			

\*Sales Charge. \*\*Low Load and DSC purchase options are no longer available for sale.



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