

# Views from the Desk

## BMO Low Volatility ETFs – Rebalance Update

Jun 30, 2021

### Summary

The Low Volatility ETFs were rebalanced in the month of May 2021. The turnovers were relatively light, ranging from 5.5% to 7% across ZLB, ZLU & ZLI (one-way turnover). From a return perspective, low volatility ETFs participated well in a generally favourable/risk-on equity backdrop. ZLB had strong performance, nearly at the performance level of the broad market. ZLU lagged vs. the broader market as we saw a strong rebound in the technology sector near the end of Q2 (June 2021), in which we were significantly underweight. On the international side, ZLI lagged the broader market as well, mainly due to underweight in financials & technology sector.

During the year, markets were up, with equities in the US & Canada recording all-time highs, and near all-time highs in EAFE. This uptrend was previously driven by a risk-on stance from investors mostly favoring value/small cap stocks in Q1, however, in Q2 the markets favored growth stocks again as yields slightly retracted in tandem with strong investor optimism and positive economic global outlook. For example, QQQ (Growth) returned only 1.8% in Q1 vs IWM (Small Cap) which returned a whopping 12.9%. However, in Q2 this flipped with QQQ returning 11.2% vs IWM returning 4.0%.

On the positive side, encouraging vaccine rollouts and the decline in the number of new cases worldwide (mainly developed countries) are allowing for economies to gradually reopen. We have also seen spending increase with retail sales rising and PMI manufacturing & services coming out strong. However, the risk of inflation is hovering in the background and will be key in the decision of central banks to cut back on the amount of QE and amend their monetary policy stance.

### What does this mean for the Low Volatility Strategies?

Markets continue to trend higher, led by changing market drivers. Going forward, instances of increased volatility could be expected as inflation pressure may trigger monetary policy changes. Holding well diversified products such as the BMO Low Volatility strategies in comparison to an increasingly rich and concentrated market should translate into favorable tail winds and provide diversification benefits for client's overall portfolio. As the economy starts to reopen, previously neglected areas of GDP should get a boost and on the margin stealing growth from booming industries such as tech, in which we are underweight. Weakening demand on tech products and service, plus rising inflation are making technology stocks' expensive valuations harder to justify. As always, the low volatility portfolios provide defensively-tilted equity exposure, designed to deliver long term growth, while remained poised to defend should equity markets become more challenging.

## YTD High Level Performance Summary:

	<b>BMO Low Volatility Canadian ETF (ZLB)</b>	<b>BMO S&amp;P/TSX Capped Composite (ZCN)</b>
Return	15.06%	17.46%

	<b>BMO Low Volatility US ETF (ZLU)</b>	<b>BMO S&amp;P 500 Index ETF (ZSP)</b>
Return	6.26%	12.20%

	<b>BMO Low Volatility International ETF (ZLI)</b>	<b>BMO MSCI EAFE Index ETF (ZEA)</b>
Return	3.25%	6.83%

Date: 12/31/2020 till June 30, 2021 Source; BMO Global Asset Management

## BMO Low Volatility Canadian ETF (ZLB)

<b>BMO Low Volatility Canadian Eq (ZLB)</b>			
<b>Sectors</b>	<b>Previous Weight</b>	<b>New Weight</b>	<b>Difference</b>
Consumer Staples	13.1%	15.3%	2.2%
Utilities	14.9%	15.6%	0.7%
Industrials	8.8%	9.1%	0.3%
Information Technology	3.5%	3.7%	0.2%
Communication Services	10.8%	11.0%	0.2%
Energy	0.0%	0.0%	0.0%
Health Care	0.0%	0.0%	0.0%
Consumer Discretionary	7.5%	7.2%	-0.3%
Financials	22.8%	22.3%	-0.5%
Materials	9.1%	8.0%	-1.2%
Real Estate	9.4%	7.7%	-1.6%

Dividend Yield	2.77%	2.74%	-0.02%
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Weighted Mkt Cap (MLN)	\$ 27,321	\$ 27,848	\$ 526
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Turnover (1-way)	6.57%
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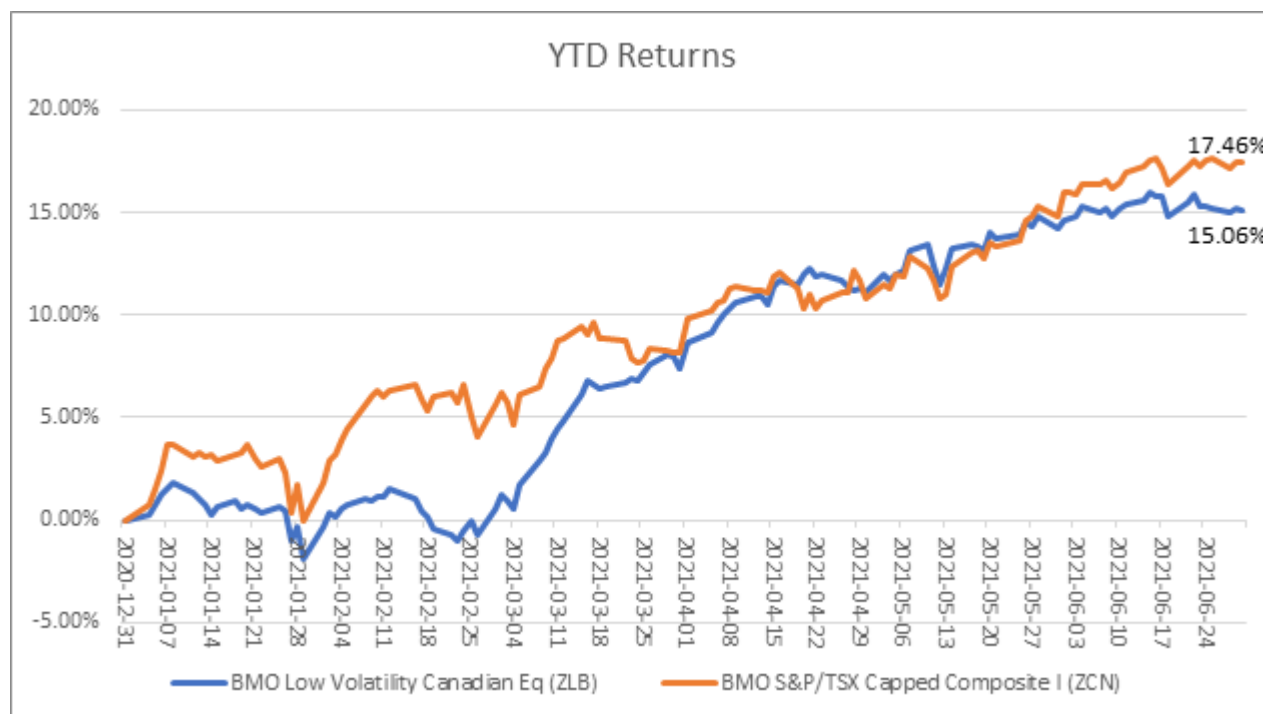
**ZLB Commentary:**

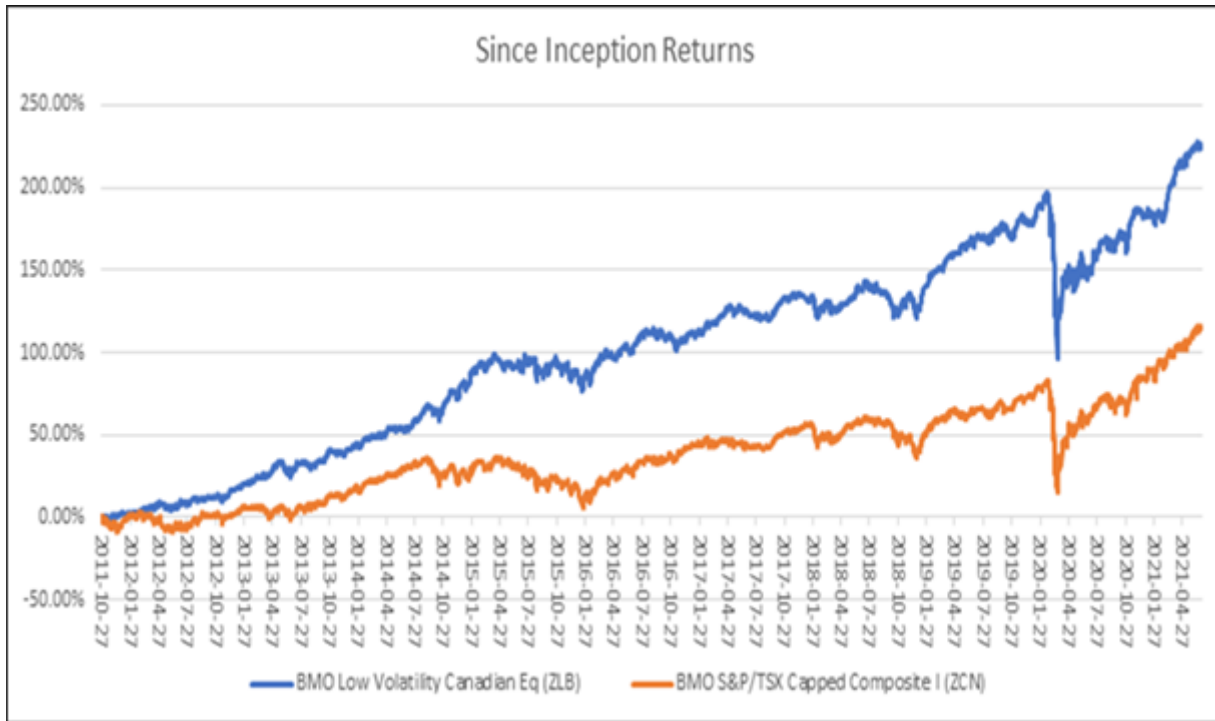
- During the May 2021 rebalance, there were no new additions or deletions
- From a performance perspective, ZLB had a very strong upside capture ratio of 86% vs the broad market.
  - Our overweight exposure in Utilities & Consumer Staples detracted value
  - Our underweight exposure in Technology & Energy sector detracted value as well, as it ended up being the strongest sector YTD. The growing optimism over a global economic recovery and the bullish forecast from the OPEC+ boosted the price of oil.
  - The underperformance was partially offset by our overweight to Real Estate, Communication Services & Consumer Discretionary sectors.

	BMO Low Volatility Canadian ETF (ZLB)	BMO S&P/TSX Capped Composite (ZCN)
Return	15.06%	17.46%

Since Inception	BMO Low Volatility Canadian Eq (ZLB)	BMO S&P/TSX Capped Composite I (ZCN)
Cumulative Return	224.75%	115.19%
Annualized Return	12.94%	8.24%

Date: October 27, 2011 till June 30, 2021 Source: BMO Global Asset Management/





BMO Low Volatility US ETF (ZLU)

BMO Low Volatility US ETF (ZLU)			
Sectors	Previous Weight	New Weight	Difference
Consumer Staples	17.6%	20.3%	2.7%
Communication Services	1.3%	1.7%	0.3%
Health Care	13.1%	13.4%	0.3%
Materials	1.2%	1.3%	0.1%
Energy	0.0%	0.0%	0.0%
Information Technology	0.0%	0.0%	0.0%
Industrials	8.4%	8.3%	-0.1%
Consumer Discretionary	13.9%	13.4%	-0.4%
Utilities	22.0%	21.3%	-0.6%
Real Estate	7.6%	6.6%	-1.0%
Financials	14.9%	13.6%	-1.3%

Dividend Yield	2.32%	2.34%	0.01%
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Weighted Mkt Cap (MLN)	\$ 66,124	\$ 67,650	\$ 1,526
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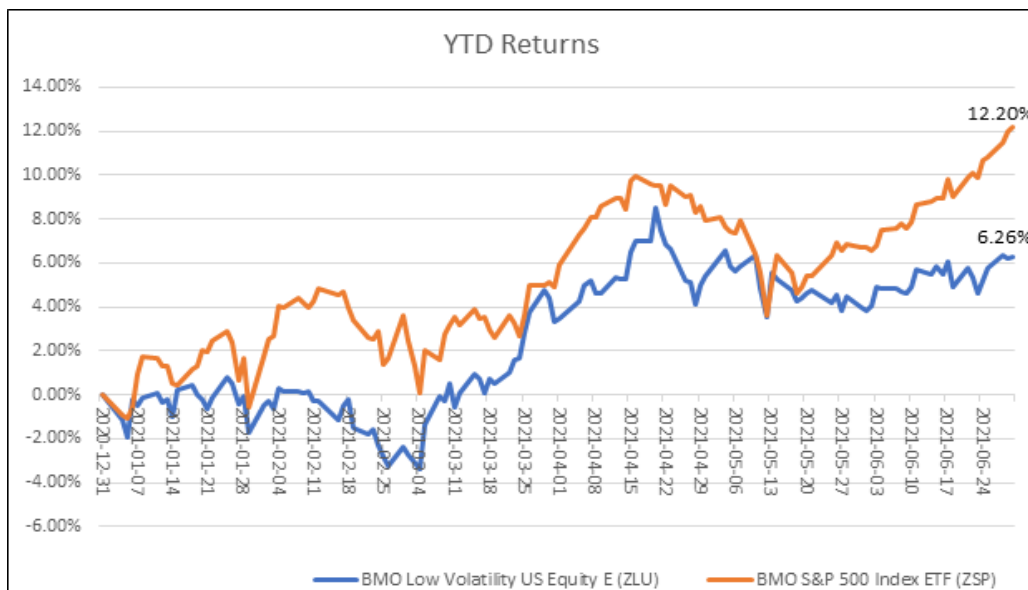
Turnover (1-way)	5.72%
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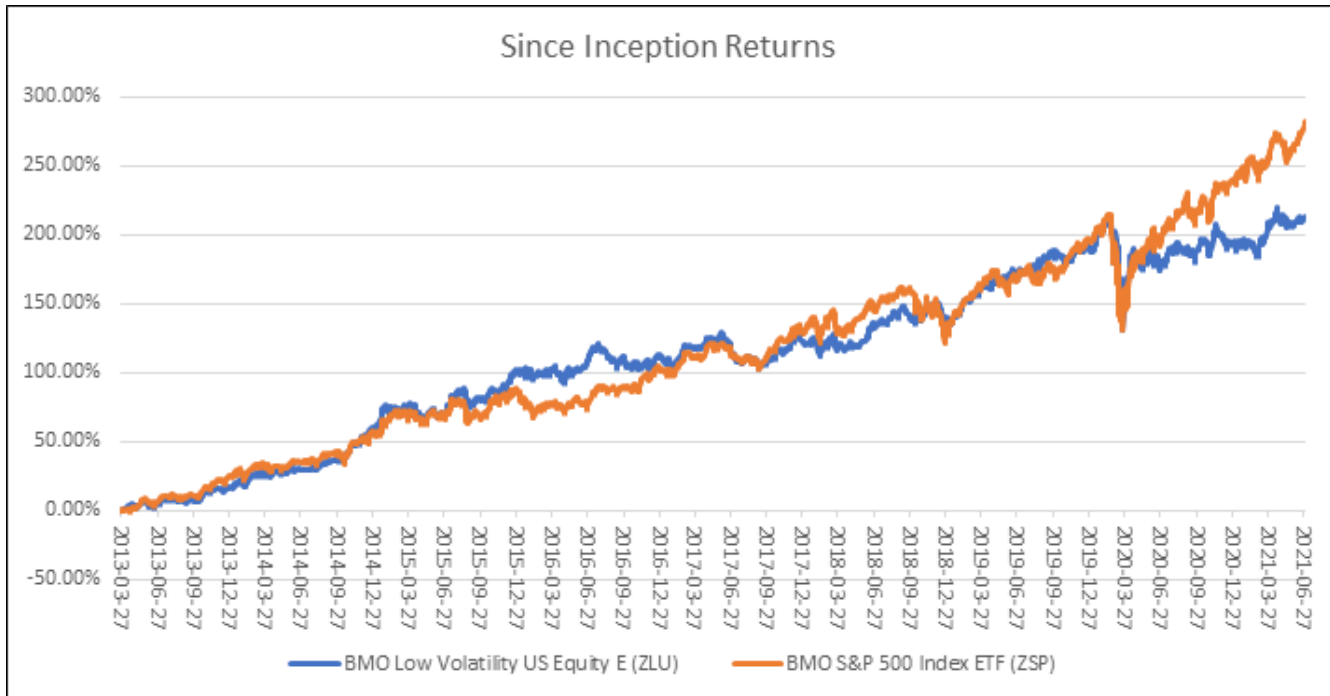
ZLU Commentary

- During the May 2021 rebalance, there were no new additions or deletions
- From a performance perspective, ZLU had a satisfactory upside capture ratio of 51% vs the broad market (ZSP)
  - Our overweight exposure to Utilities & Consumer staples detracted value, where both sectors underperformed the board market by more than 10%.
  - Our underweight exposure to Technology & Communication services detracted value as we saw strong growth returns in Q2
  - The underperformance was partially offset by our overweight to Real Estate

	BMO Low Volatility US ETF (ZLU)	BMO S&P 500 Index ETF (ZSP)
Return	6.26%	12.20%

Since Inception	BMO Low Volatility US Equity E (ZLU)	BMO S&P 500 Index ETF (ZSP)
Cumulative Return	213.57%	281.73%
Annualized Return	14.83%	17.59%
Date: March 27, 2013 till June 30, 2021		





### BMO Low Volatility International ETF (ZLI)

BMO Low Volatility International ETF (ZLI)			
Sectors	Previous Weight	New Weight	Difference
Materials	3.8%	5.3%	1.4%
Consumer Discretionary	9.5%	10.9%	1.4%
Health Care	15.4%	15.9%	0.5%
Financials	3.6%	3.6%	0.0%
Information Technology	0.0%	0.0%	0.0%
Consumer Staples	14.6%	14.5%	-0.1%
Real Estate	12.3%	12.2%	-0.1%
Energy	1.0%	0.9%	-0.1%
Utilities	12.9%	12.6%	-0.3%
Communication Services	10.7%	9.8%	-0.9%
Industrials	16.2%	14.4%	-1.9%

BMO Low Volatility International ETF (ZLI)			
Country Exposure	Previous Weight	New Weight	Difference
Germany	17.21%	19.41%	2.21%
Australia	6.67%	7.69%	1.02%
Japan	16.57%	17.03%	0.46%
Finland	0.95%	0.99%	0.04%
Ireland	1.09%	1.13%	0.04%
Denmark	0.93%	0.96%	0.03%
Belgium	0.93%	0.93%	0.00%
Sweden	1.10%	1.06%	-0.04%
Netherlands	3.01%	2.91%	-0.10%
Hong Kong, SAR China	6.49%	6.36%	-0.13%
Italy	5.22%	4.92%	-0.30%
United Kingdom	10.91%	10.57%	-0.35%
Switzerland	5.28%	4.91%	-0.38%
Spain	5.99%	5.56%	-0.43%
France	17.64%	15.57%	-2.07%

Dividend Yield	2.76%	2.64%	-0.12%
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Turnover (1-way)	6.01%
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Additions			
Ticker	Name	Sector	New Weight
NST AT Equity	Northern Star Resources Ltd	Materials	1.36%
HFG GY Equity	HelloFresh SE	Consumer Discretionary	1.48%

Deletions			
Ticker	Name	Sector	Reason
9142 JT Equity	Kyushu Railway Co	Industrials	Deletion from EAFE
SESG FP Equity	SES SA	Communication Services	Deletion from EAFE

## ZLI Commentary

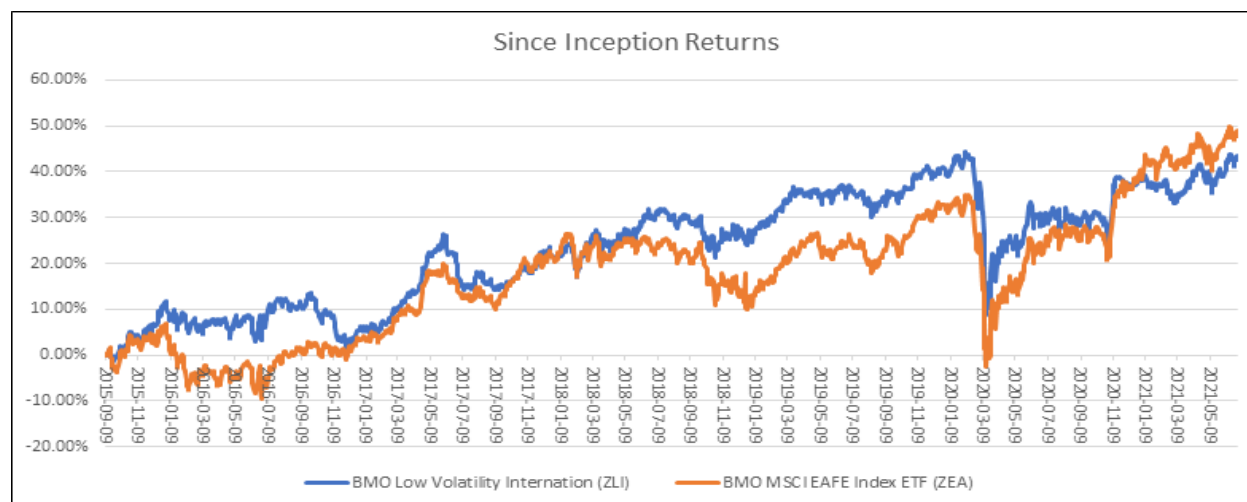
- During the May 2021 rebalance, there were two deletes and two new additions
- From a performance perspective, ZLI had a lower than expected upside capture ratio of 48% vs the broad market (ZEA)
  - Our overweight exposure to Utilities & Real Estate detracted value, where utilities have negative returns YTD
  - Our underweight exposure to Financials and Technology sector detracted value
  - The underperformance was partially offset by our significant underweight Japan at the country level which was up only 70bps YTD.

While the portfolio did not appreciate as sharply in first half of 2021, it has delivered a more consistent long term return path inline with its objective

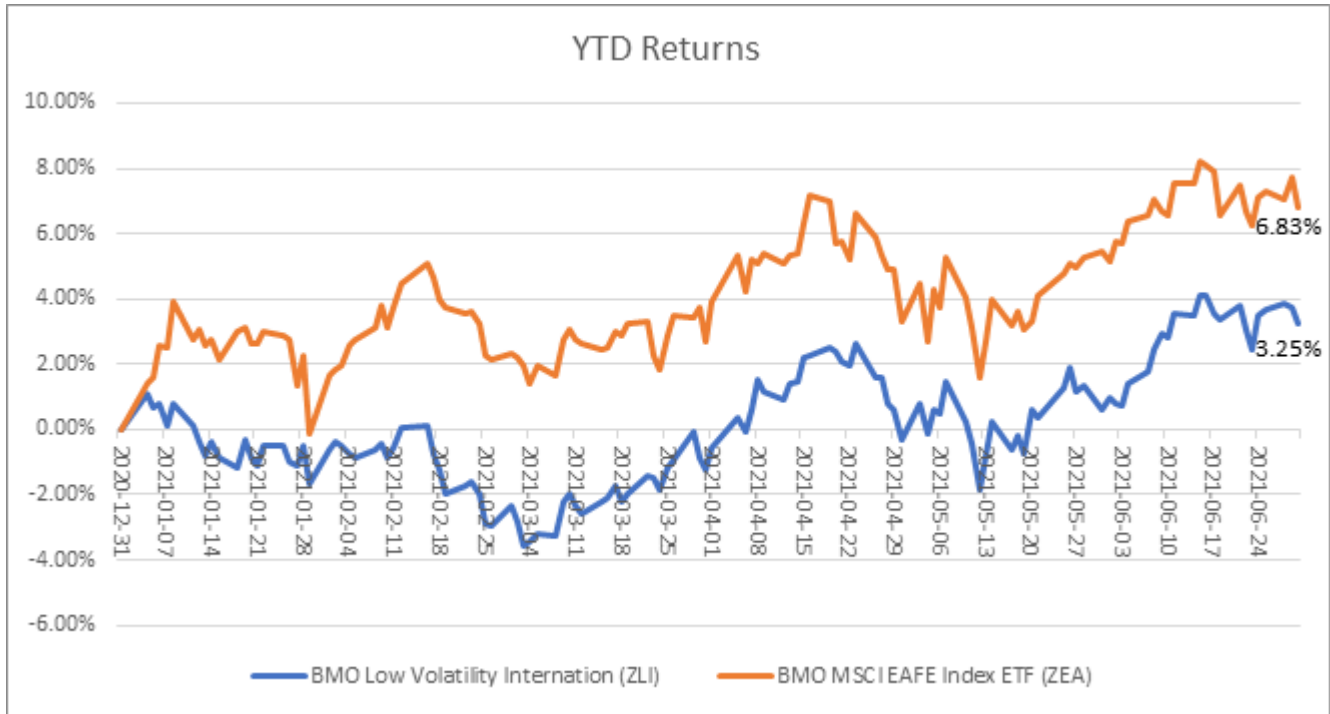
	BMO Low Volatility International ETF (ZLI)	BMO MSCI EAFE Index ETF (ZEA)
Return	3.25%	6.83%

Since Inception	BMO Low Volatility Internation (ZLI)	BMO MSCI EAFE Index ETF (ZEA)
Cumulative Return	42.55%	47.86%
Annualized Return	6.29%	6.96%

Date: September 09, 2015 till June 30, 2021







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