

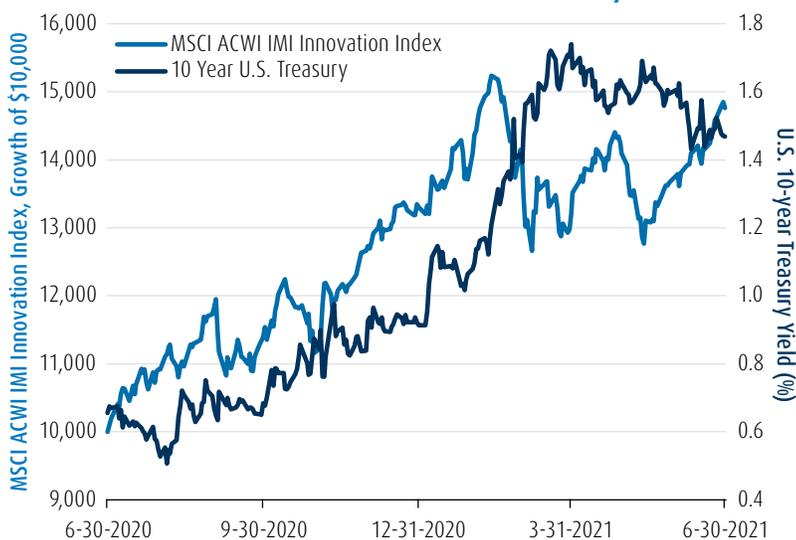
BMO's Innovation ETFs

Q2 Report

There have been two recent macro factors impacting growth stocks so far in 2021. First, treasury yields jumped: the 10-year hit 1.74% on March 31 before settling to 1.47% by the end of Q2, which still represents a 61% spike since the beginning of the year.¹ Secondly, a rotation into value stocks (thanks to rising yields) pulled the wind out of the sails of growth companies as market flows began heading to rallying cyclical stocks. **Higher long term yields directly impact growth stocks, whose future earnings are important to current pricing, as the earnings will be discounted at this higher rate.**

When we think about growth investing, we usually think about the **long term**. Amazon wasn't built in a day, right? Growth investors should not be distracted by short term market noise and volatility. Growth investing is about being focused on long term opportunities which continue to have potential to mature looking out five to ten years. **We believe innovation remains a pillar of the growth equation, and if the pandemic taught us anything, it is that innovative companies will continue to drive and support our behaviours and needs, well beyond the days of the pandemic.**

MSCI ACWI IMI Innovation Index vs. U.S. Treasury Yields



Source: Bloomberg, July 2021. Returns in USD. You cannot invest directly in an index.

BMO MSCI Innovation Index ETF (ZINN)

In Q2, performance in ZINN was led by genomic innovation companies. Many of these companies are exposed to gene editing and CRISPR cas9 technologies and were beneficiaries of recent advancements in this space. For example, **Intellia Therapeutics** made a breakthrough after a successful trial where gene-editing technology had its first delivery as medicine into a human body.² This was a crucial step towards developing future cures for genetic diseases. Vaccine deployment and the urgency for mRNA technologies also helped the genomic innovators, with companies such as **Moderna** benefitting from strong demand for its mRNA COVID-19 vaccine.

Many large cap companies which are exposed to the "stay at home" trend were also strong this quarter. Companies such as **NVIDIA**, which is exposed to three innovation platforms, (Next Generation Internet, Fintech, Autonomous Technology) benefitted from developments in blockchain technology, 5G roll outs and increased demand for semiconductors. We are seeing that even as economies reopen and recover from the pandemic, the companies which benefitted from the "stay at home" lifestyle are still gaining momentum. This evolved way of living seems to be here to stay, and the companies that are supporting these new routines and lifestyles will continue to be in demand well into the future.

¹ Bloomberg, June 30, 2021.

² <https://www.nasdaq.com/articles/looking-to-play-intellias-ground-breaking-gene-therapy-2021-07-06>



BMO MSCI Fintech Innovation Index ETF (ZFIN)

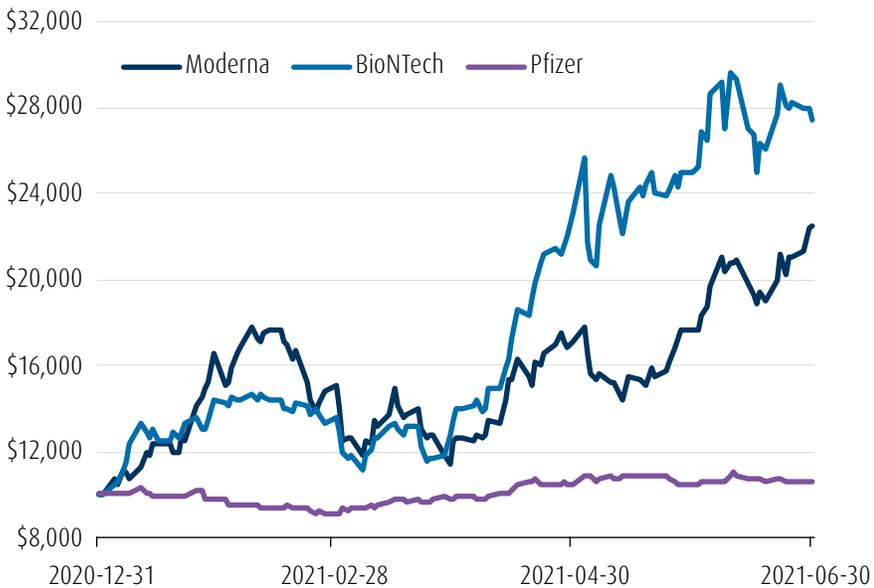
The pandemic drove a lot of users (both consumers and businesses) to digital wallets and online payments as physical bank branches closed, especially in slower-to-adapt regions such as North America. **Shopify**, which had a gangbuster year, hasn't slowed down. While Shopify's core businesses builds e-commerce infrastructure, it also offers services which may disrupt the traditional financials sector, making Shopify a growing player in the fintech space. For example, earlier this year Shop Pay (Shopify's online checkout service) launched Shop Pay Installments, a buy now pay later service for online purchases. This will likely boost sales for businesses by providing payment options for consumers. **PayPal**, which is the largest holding in ZFIN, was another top performer in Q2, as its digital wallet business Venmo continued to grow its user base. PayPal announced its Q1 earnings in May which beat analyst forecasts. Revenues were up, driven by total payment volume among users and the growing adoption of digital wallets.³



BMO MSCI Genomic Innovation Index ETF (ZGEN)

How can we talk about genomic innovations today, without discussing mRNA technology? Vaccines have become the most important headline this year, and the single largest driver of the global recovery from the pandemic. This put a giant spotlight on mRNA technology, which until this year had little funding and hardly any awareness. The leading companies exposed to this technology have benefitted enormously by the global demand for vaccines. While

Leaders in mRNA Technology – YTD Growth of \$10,000



Source: Bloomberg, July 2021. Returns in USD.

larger pharmaceutical companies such as Pfizer also benefit, these companies have diversified revenue streams, which means their stock prices are less directly impacted. The smaller biotech companies are a more pureplay exposure to mRNA technology. **Moderna**, the top holding in ZGEN, is now a household name, and shot up 125% year-to-date (YTD).⁴ The German biotech company **BioNTech**, who splits its vaccine profits with Pfizer, returned 175% YTD.⁵ Both companies are benefitting from continued vaccine demand and the future need for boosters. Today we see mRNA technology as synonymous with COVID-19 inoculations, but this is just the beginning. Going forward it will be used to prevent other illnesses, for example BioNTech is already discussing developing an mRNA malaria vaccine.

³ <https://www.fool.com/investing/2021/07/08/paypal-earnings-what-to-expect/>

⁴ Bloomberg, June 30, 2021. Returns in USD.

⁵ Bloomberg, June 30, 2021. Returns in USD.



BMO MSCI Tech & Industrial Innovation Index ETF (ZAUT)

Move over Tesla- for autonomous tech and industrial innovations, Q2 has been about emerging players in two sub-themes: automated vehicles and the integration of robotics and health care. **NIO INC**, the Chinese electric vehicle manufacturer, had a very strong quarter, thanks to an increase of 112% year-over-year (YoY) in deliveries of its electric vehicles⁶. The company also has many proprietary autonomous technologies which will help propel its smart car development in the future. In health care, **Intuitive Surgical Inc.**, which is a leader in robotic assisted surgery, has been a top performer in ZAUT as a strong balance sheet and lack of competition helped build momentum around this innovative company. Intuitive Surgical's proprietary system makes surgeries less invasive, an innovation which benefits from demographic shifts; as the population ages, the demand for surgeries will increase. While Tesla has been the poster-child for autonomous tech and industrial innovations of late, its pullback in the first half of the year allowed for other innovative companies in ZAUT's portfolio to take centre stage, a great example why a diversified approach to accessing these emerging themes can help smooth out the volatility of many of these high growth stocks.



BMO MSCI Next Gen Internet Index ETF (ZINT)

Next generation internet innovations have been benefitting most recently from the roll out of 5G technology, which aims to deliver higher wireless delivery speeds and improved efficiency across computing platforms. **Alphabet** (Google), which is one of the top holdings in ZINT, has been a major beneficiary of the 5G roll out this year. Google's main revenue source comes from digital advertising, much of which is driving its current stock price. But its portfolio of leading next gen internet companies all stand to benefit from 5G technology. Nest (smart home app), FitBit (health device and app), Waze (navigation app) and YouTube (video streaming) are all direct beneficiaries of ongoing 5G integration. **NVIDIA**, another top holding in ZINT, is a semiconductor manufacturer, which also stands to benefit from a successful 5G roll out. The company announced in June they would partner with Google Cloud to promote its Artificial Intelligence (AI) over 5G Innovation Lab, aimed to increase the speed of AI using 5G, an industry first for the collaboration of these technologies.⁷

MSCI Innovation Indexes Are Built to Capture Growth

	1 month	3 month	6 month	YTD	1 Year	3 Year	5 Year	Since Inception
MSCI ACWI IMI Innovation Index	10.6%	10.2%	7.9%	7.9%	34.5%	26.8%	28.1%	24.9%
MSCI ACWI IMI Next Generation Internet Innovation Index	9.5%	9.2%	8.6%	8.6%	30.5%	25.8%	29.7%	26.8%
MSCI ACWI IMI Fintech Innovation Index	8.9%	7.5%	3.4%	3.4%	29.2%	27.2%	30.2%	26.9%
MSCI ACWI IMI Genomic Innovation Index	12.4%	11.5%	7.4%	7.4%	21.0%	20.1%	19.1%	18.5%
MSCI ACWI IMI Autonomous Technology & Industrial Innovation Index	9.1%	7.8%	7.3%	7.3%	42.5%	25.8%	27.6%	23.4%

Source: Bloomberg, June 30, 2021. Returns in CAD. You cannot invest directly in an index.

⁶ <https://finance.yahoo.com/news/nio-inc-provides-june-second-080000836.html>

⁷ <https://www.nasdaq.com/articles/nvidia-and-amd%3A-digital-flywheels-of-super-exponential-innovation-2021-06-30>



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