

BMO Innovation ETFs

Q3 Report

- BMO MSCI Innovation Index ETF (ZINN)
- BMO MSCI Fintech Innovation Index ETF (ZFIN)
- BMO MSCI Genomic Innovation Index ETF (ZGEN)
- BMO MSCI Tech & Industrial Innovation Index ETF (ZAUT)
- BMO MSCI Next Gen Internet Innovation Index ETF (ZINT)



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The technological platforms behind innovation companies have been providing massive tailwinds for innovation stocks so far in 2021, and year-to-date performance of the MSCI Innovation Indexes has shown this (page 5). In Q3, growth stocks faced some short-term headwinds, contending with a steepening yield curve and a value rotation. This has not slowed or stopped the progress, advancement and momentum building behind each of the four main innovation platforms (fintech, autonomous technology, next gen internet, genomics). We view the recent pull back as an attractive buying opportunity for innovation stocks. These companies are exposed to the accelerating growth from megatrends which will propel them far beyond any macro challenges they were faced with in Q3.

A Note On Investing in Innovation:

Investing in innovations is thematic investing, not sector investing, and it is important for investors to understand the difference. For example, an information technology sector ETF could miss out on innovative growers such as Tesla and Amazon which are classified as Consumer Discretionary stocks, or Alphabet, Facebook and Netflix which are classified as Communication Services stocks. Therefore, we need to look across sectors to truly identify the most innovative publicly listed companies. However, in terms of portfolio construction, investors can use thematic ETFs such as ZGEN, ZFIN, ZAUT and ZINT in the same way as a sector ETF. It can be added to tilt a portfolio to a targeted exposure, in this case one of the four innovations. Because ZINN has exposure to all four innovation platforms and holds over 330 names across the globe, this ETF can be used as a larger core component of a global growth portfolio because of its diversification and broader access to all of the most relevant megatrends. **All five BMO Innovation ETFs are rated medium risk and maximize exposure to innovation while minimizing stock specific risk.**

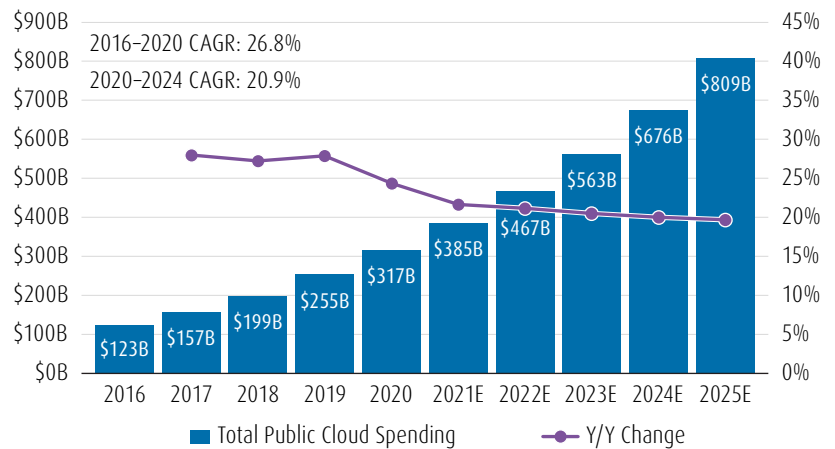


BMO MSCI Innovation Index ETF (ZINN)

In Q3, performance in ZINN was led by next generation internet companies, notably those exposed to cloud computing technologies. Many companies who have been investing in cloud capabilities benefitted from this theme in Q3, from the mega cap heavy hitters like **Amazon** to the mid and small cap pure play tech firms. The growing migration from businesses to the public cloud have been driven most recently by an increase in remote work, contactless customer interactions, and demand for business to business connectivity. Many companies are still running off in-house infrastructure but will likely shift to the cloud

in the coming years as they evolve to become more efficient and more digital.¹ Total public cloud spending in 2020 was \$317 billion, about 20% of total enterprise tech spending and forecasts see annual cloud spending to exceed \$800 billion by 2025.² Companies exposed to this megatrend will benefit as businesses continue to invest in these platforms. For example, **Bill.com** uses an advanced artificial intelligence platform to automate the payment process for businesses, eliminating redundant data entry and human error.³ This unique software exposes Bill.com to three innovative platforms: next gen internet (cloud computing), fintech (online payments) and autonomous technology (machine learning), showing how innovations are converging. The company posted stellar earnings this year and updated its annual revenue forecast which gave it a 45.7% boost in Q3, making it one of the top performers in not only ZINN, but ZAUT, ZINT and ZFIN as well.⁴ **Salesforce** and **ServiceNow**, both Silicon Valley based companies who focus on cloud-based customer relationship management (CRM) services, eliminate the need for individual companies to build out technology infrastructure in-house. Salesforce is up 11.0% in Q3 after reporting annual revenues were above \$20 billion, and increased its revenue forecasts thanks to growing demand for its services and its recent acquisition in the businesses communication technology Slack, another next gen internet innovation platform.⁵ ServiceNow, which offers the Now Platform, is up 13.2% this quarter also beating earnings and improving its revenue forecasts in its most recent report.⁶

Top Cloud Market Spending Forecast, USD



Source: IDC, Bloomberg Intelligence, October 2021.



BMO MSCI Fintech Innovation Index ETF (ZFIN)

A true innovation must be adopted across the globe to accelerate its growth. A great example is in the fintech space, where each continent has a growing fintech sector serviced by regional fintech firms. North America has been one of the slowest to adopt to online payments and digital wallets, because of its entrenched dependency on credit cards. Many emerging markets such as China, have been huge areas for fintech growth in recent years. These economies have been largely cash-based and so the transition to digital payment systems was met with less friction. Two of the largest global players in the fintech space today are from China: **Alibaba** (Alipay) and **Tencent** (We Chat Pay). One of the top fintech performers in Q3 was Latin American e-commerce company **MercadoLibre** which is up 7.8% and derives 39% of total revenue from its fintech arm Mercado Pago.⁷ MercadoLibre's most recent earnings reported for the quarter were US\$1.7 billion, a 94% increase year-over-year.⁸ **Adyen** is a European fintech company based out of the Netherlands that has global reach and returned 14.1% in Q3. The online payment processing company has grown to over

¹ Bloomberg Research, "Amazon Microsoft Duopoly, Cloud Computing" July 2021.

² Bloomberg Research, "Amazon Microsoft Duopoly, Cloud Computing" July 2021. Revenue Forecast in USD.

³ <https://www.bill.com/blog/machine-learning-data-entry-thing-past>, October 2021. Figures in USD.

⁴ Bloomberg, October 2021. Return in USD.

⁵ Bloomberg, October 2021. Return and revenue figures in USD.

⁶ Bloomberg, October 2021. Return and revenue figures in USD.

⁷ Bloomberg, October 2021. Returns in USD.

⁸ Bloomberg, October 2021.

US\$86 billion in market cap, making it a much larger company than many traditional U.S. and European Banks.⁹ Adyen has been especially good at unifying point-of-sale (POS) transactions with online, an area which has seen more growth in Europe than North American so far, making the U.S. market a huge growth area for Adyen to penetrate as American businesses begin to move more POS systems to online.¹⁰



BMO MSCI Genomic Innovation Index ETF (ZGEN)

The story all year for genomic innovation has been mRNA technology, and it makes sense since it has been the single most important innovation in combatting the global pandemic. So naturally, the genomic companies most exposed to mRNA technology have continued to be winners. **Maravei Lifesciences**, perhaps a lesser known name, is up 17.6% in Q3, benefitting from vaccine demand.¹¹ Maravei supplies customers such as BioNTech and Pfizer with building blocks to build mRNA vaccines. **Moderna**, whose ticker symbol is appropriately MRNA, returned 63.8% in Q3 and is up 268.4% YTD, and **BioNTech** is up 21.9% in Q3 and 234.9% YTD, staggering performance numbers for these genomic innovation companies.¹² We believe they still have a lot of runway left. The applications for mRNA vaccines have the potential to go far beyond our COVID-19 inoculations. The future need for boosters will create demand, and most seasonal flu shots going forward will rely on this genomic technology. BioNTech currently holds an approved patent for an mRNA malaria vaccine which would have a profound impact on global health care. Malaria currently kills over 400,000 people per year, and prevention for malaria has been difficult, with many requiring more than four doses of a vaccine to get only partial protection.¹³ mRNA is also being considered to combat certain cancers by doing genetic analysis on a unique tumour sample where an mRNA vaccine can then be developed and tailored to each individual patient.¹⁴



BMO MSCI Tech & Industrial Innovation Index ETF (ZAUT)

Tesla, which is a 6.5% weight in ZAUT, is one of the global leaders in autonomous technology and industrial innovations. It was a top performer in ZAUT posting a 14.1% return in Q3 after a slower start to the year. One of the leading manufacturers in electric vehicles (EVs) and autonomous driving, Tesla has been disrupting the traditional auto industry since it came on the scene with its flashy EVs and Auto Pilot driverless technology. However, many of the “old school” auto manufacturers have also been investing heavily in battery technology, electric vehicle design, and driverless features to integrate in their “new school” product lineups. The exposure to these technologies earned several of these automakers a spot in ZAUT’s portfolio this year. The market has also recognized this alignment with innovation and **Ford** (+61.1%), **General Motors** (+26.6%), and **Toyota** (+61.1%) have all outpaced Tesla (+9.9%) so far this year.¹⁵ Some of this performance comes from the value tailwinds car companies have benefited from (automotive stocks tend to be more value oriented) but a lot of the growth is also fueled by recent investments that these companies have made in the industrial innovation space. Ford recently announced it is investing \$11.4 billion into building an electric vehicle and battery manufacturing plant that will be the largest auto-manufacturing site in U.S. history to further support its vision to have more than half of its total auto sales be electric vehicles by 2030.¹⁶ General Motors has been an industry leader in terms of autonomous integration in its

⁹ Bloomberg, October 2021. Market cap in USD.

¹⁰ Bloomberg Research, Adyen, March 31, 2021.

¹¹ Bloomberg, October 2021. Return in USD.

¹² Bloomberg, October 2021. Returns in USD.

¹³ <https://www.theatlantic.com/ideas/archive/2021/03/how-mrna-technology-could-change-world/618431/>, March 29, 2021.

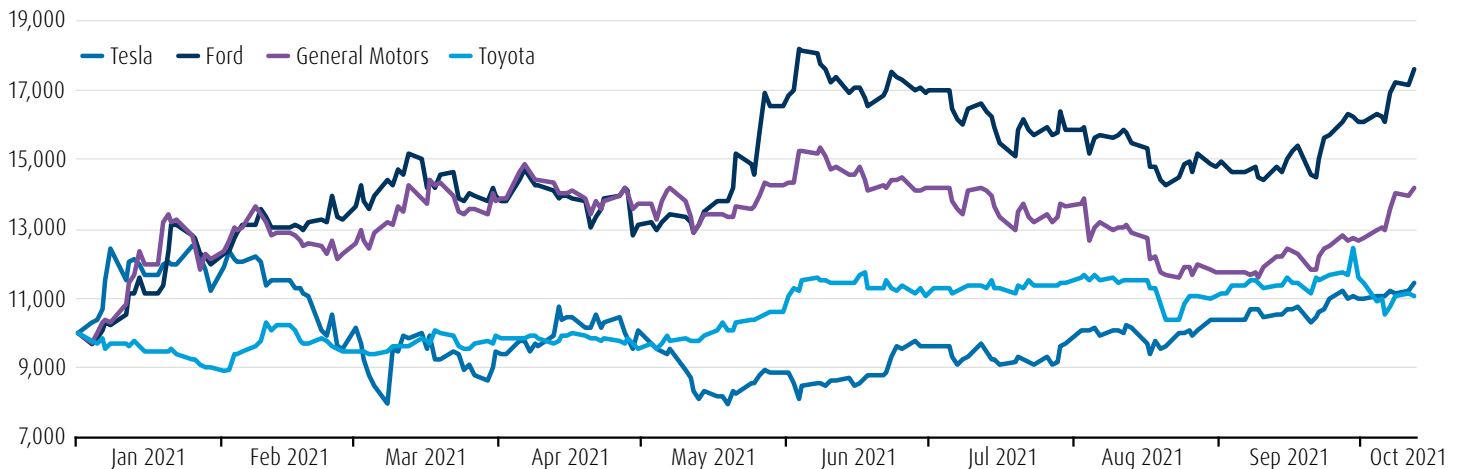
¹⁴ <https://www.theatlantic.com/ideas/archive/2021/03/how-mrna-technology-could-change-world/618431/>, March 29, 2021.

¹⁵ Bloomberg, October 2021. YTD returns in USD.

¹⁶ <https://www.washingtonpost.com/business/2021/09/28/ford-jobs-electric-batteries/>, September 28, 2021.

vehicles. Its Super Cruise feature, which is an autonomous driver-assistance technology, allows drivers to travel hands-free on over 200,000 miles of compatible roads across the U.S. and Canada.¹⁷

Innovative Auto Manufacturer Returns, YTD USD



Source: Bloomberg



BMO MSCI Next Gen Internet Innovation Index ETF (ZINT)

We talked about the strength and accelerating growth in the cloud businesses, and this has been a huge tail wind for the many next gen internet companies who have been leaders in this software and the technology which backs it. The growth in cloud expansion has led to accelerating demand in another next gen internet sub theme: cyber security. In 2020, \$132 billion was spent on cyber security, 37% of which was spent on software, a number which could continue to grow with further migration to cloud-based services.¹⁸ For example, **Paolo Alto** serves more than 85,000 customers today, returned 29.1% in



Q3 on the strength of its cyber security business.¹⁹ This company is viewed as a leader in the network firewall business backed by its security platform Strata and has recently made some big investments and acquisitions to grow its business including Prisma (cloud security platform) and Cortex (AI-powered threat detection platform).²⁰ **Fortinet** is another cyber security company who provides network security software and solutions such as firewalls, antivirus, antispam, and intrusion prevention systems, all which have increased in demand with remote work, pushing the stock up 22.6% in Q3.²¹

¹⁷ <https://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2021/jul/0723-gm-superdrive.html>, July 23, 2021.

¹⁸ Bloomberg Research, September 2021. Figures in USD.

¹⁹ Bloomberg Research, September 2021. Figures in USD.

²⁰ <https://www.fool.com/investing/2021/10/02/better-cybersecurity-stock-crowdstrike-palo-alto/>, October 2, 2021.

²¹ Bloomberg, October 2021, returns in USD.

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	-4.4%	0.9%	11.2%	8.8%	21.8%	24.0%	24.9%	24.2%
MSCI ACWI IMI Next Generation Internet Innovation Index	-5.4%	1.2%	16.3%	15.6%	23.7%	25.7%	27.2%	25.9%
MSCI ACWI IMI Fintech Innovation Index	-4.8%	-1.9%	5.7%	1.6%	10.4%	22.6%	26.4%	24.8%
MSCI ACWI IMI Genomic Innovation Index	-4.8%	2.1%	13.7%	9.4%	19.8%	17.9%	16.5%	17.7%
MSCI ACWI IMI Autonomous Technology & Industrial Innovation Index	-4.2%	3.8%	15.4%	14.7%	30.6%	25.3%	24.8%	22.2%

Source: Bloomberg, September 30, 2021. Returns in CAD. MSCI Innovation Indexes inception date May 31 2013. 1, 3, 5 and since inception returns are annualized. You cannot invest directly in an index. Past performance should not be seen as an indication of future performance.

BMO's Innovation ETFs:

BMO MSCI Innovation Index ETF ZINN Distribution Yield: N/A A Mgmt. Fee: 0.40% Risk Rating: Medium	BMO MSCI Genomic Innovation Index ETF ZGEN Distribution Yield: N/A A Mgmt. Fee: 0.40% Risk Rating: Medium	BMO MSCI Fintech Innovation Index ETF ZFIN Distribution Yield: N/A A Mgmt. Fee: 0.40% Risk Rating: Medium	BMO MSCI Tech & Industrial Innovation Index ETF ZAUT Distribution Yield: N/A A Mgmt. Fee: 0.40% Risk Rating: Medium	BMO MSCI Next Gen Internet Innovation Index ETF ZINT Distribution Yield: N/A A Mgmt. Fee: 0.40% Risk Rating: Medium
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