

BMO Trade Opportunity

BMO Premium Yield ETF (ticker ZPAY): An Alternative Income Strategy for Today's Markets

ZPAY was designed to provide defensive yield and downside protection, with an ability to participate in market upside as well, and this is exactly what the ETF delivered since it was launched last year (January 2020).

ZPAY, 18 months Later:

- **Downside Protection:** During the market sell off in March 2020, ZPAY returned -0.7% vs the S&P 500 Index return of -11.6%.¹ (ZPAY entered the market sell-off in March 2020 with around 35% equity exposure.)
- **Upside Participation:** ZPAY's YTD total return is 6.9% vs the S&P 500 return of 19.4%, but is taking on much less risk than the broad equity market (ZPAY's beta is 0.61). **ZPAY's risk/return efficiency comes from two places: outsized premiums from the put options market, and the dynamic allocation to equities achieved through the option overlay.**¹
- **Consistent Yield:** ZPAY has maintained a consistently high yield of around 6% since it was launched.¹ Volatility in the equity markets has been an opportunity for this mandate to keep yield consistent.

ZPAY Returns vs. ZSP During the Market Sell-Off in March 2020¹



Source: Bloomberg, March 22, 2021. ZSP is the BMO S&P 500 Index ETF.

Defensive Yield

- ZPAY is defensive because it is only *partially* exposed to equity markets (see equity exposure graph on page 2).
- ZPAY's one-year beta is 0.61. Its one-year standard deviation is 6.1% vs the S&P 500 Index at 11.0%, so it carries much less risk than the broad market by both measures.¹
- **ZPAY yields 6.1%*.** Most of the yield is generated through selling options, so this yield is tax efficient (option premiums are taxed as capital gains). Income is available to investors with monthly distributions.

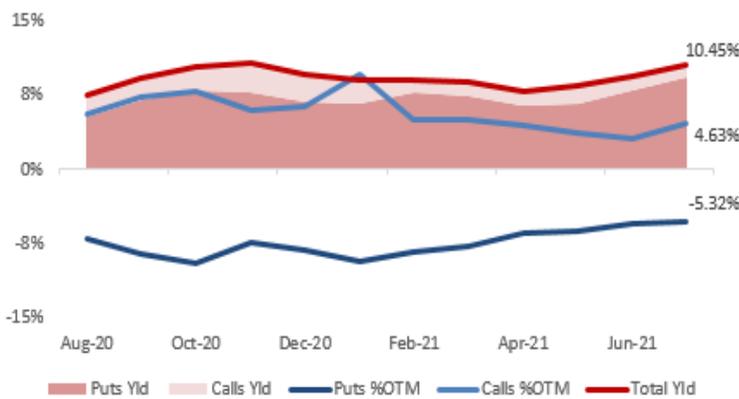
Buy Low, Sell High

- ZPAY dynamically shifts its equity weight to react to market movements because it writes put options on blue chip, large cap, US equities. When markets sell off, ZPAY buys these stocks (at discounts, buy low) and its equity weight increases.
- When markets rally and stocks recover, ZPAY will sell some of these stocks as the calls written on these names enter in the money (sell high). Calls are written on approximately half of the portfolio.
- The basket of stocks ZPAY writes options on are **high-quality, blue-chip stocks**. Currently we are finding many of these companies in the Information Technology and Health Care sector. Being overweight to these sectors and to higher quality companies has helped drive ZPAY's performance over the last 18 months.

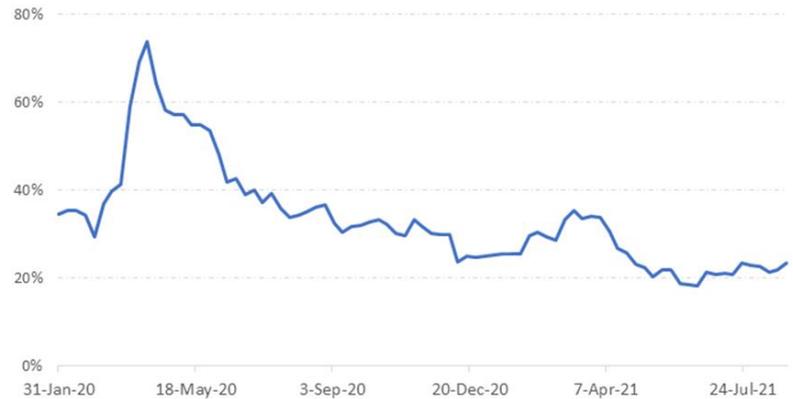
Take Advantage of Volatility

- Today the VIX is at 18 and has been hovering around the high-teens and low 20s in September. This is still elevated relative to pre-pandemic levels (before March 2020 it was in the low teens). The VIX hit a high of 83 on March 16 2020, a level not seen since 2008.² During both the COVID-induced sell off in March '20, and the U.S. election in November, ZPAY was able to generate a high level of premiums through option writing due to higher levels of volatility in the equity markets.

ZPAY Option Exposure³



ZPAY Equity Exposure³



Implementation:

To add defensive income to your portfolio, consider buying the **BMO Premium Yield ETF (ticker: ZPAY)**. Also offered in **USD (ticker: ZPAY.U)** and **Hedged to CAD (ticker: ZPAY.F)**.



BMO Premium Yield ETF

ZPAY.F hedged to CAD **ZPAY** unhedged **ZPAY.U** USD units

Distribution Yield: 6.1% | M

Mgmt. Fee: 0.65%

Risk Rating: Low to Medium

Top Equity Holdings

Weight (%)	Name
2.86%	VISA INC
2.57%	MASTERCARD INC
1.79%	AMGEN INC
1.61%	LOCKHEED MARTIN CORP
1.58%	MERCK & CO INC
1.40%	INTEL CORP
0.83%	FACEBOOK INC
0.77%	TARGET CORP
0.77%	MARKETAXESS HOLDINGS INC
0.77%	PAYPAL HOLDINGS INC

Want to learn more about the BMO Premium Yield ETF Strategy?

[Click here to listen to our BMO ETFs Podcast on ZPAY](#)

Source: BMO Global Asset Mgmt September 16, 2021. Total Yield represents the portfolio yield before fees and expenses.

*Annualized distribution yield as of September 16, 2021. Yield is subject to change each month. ZPAY's 1-year performance is 9.7% and its annualized performance since inception (January 15, 2020) is 8.9%

¹ Bloomberg September 16, 2021. Returns as of September 16, 2021. ZPAY's beta is relative to the S&P 500 TR Index CAD. Beta is a measure of market risk. Standard deviation is a measure of volatility. ZSP is the BMO S&P 500 Index ETF. ² Morningstar Direct, September 16, 2021. ³ BMO Global Asset Management, September 1, 2021.

Holdings as of September 16, 2021. Source: BMO Global Asset Management.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

BMO Global Asset Management is a brand name that comprises of BMO Asset Management Inc., BMO Investments Inc., BMO Asset Management Corp. and BMO's specialized investment management firms.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

Commissions, management fees and expenses 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 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.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and "TSX" is a trademark of TSX, Inc. These trademarks have been licensed for use by S&P Dow Jones LLC and sublicensed to BMO Asset Management Inc. in connection with ZCN, ZUH, ZSP and ZSP.U (the "ETF") The index or indices are products of S&P Dow Jones Indices LLC and have been licensed for use by BMO Asset Management Inc. in connection with the ETFs. The ETFs are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, S&P, TSX or their respective affiliates, and S&P Dow Jones Indices LLC, S&P, TSX and their respective affiliates make no representation regarding the advisability or investing in such ETFs.

For a summary of the risks of an investment in the BMO ETFs or ETF Series of the BMO Mutual Funds, 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. BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal. ETF Series of the BMO Mutual Funds are managed by BMO Investments Inc., which is an investment fund manager and a separate legal entity from Bank of Montreal.

®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence.