

BMO Trade Opportunity

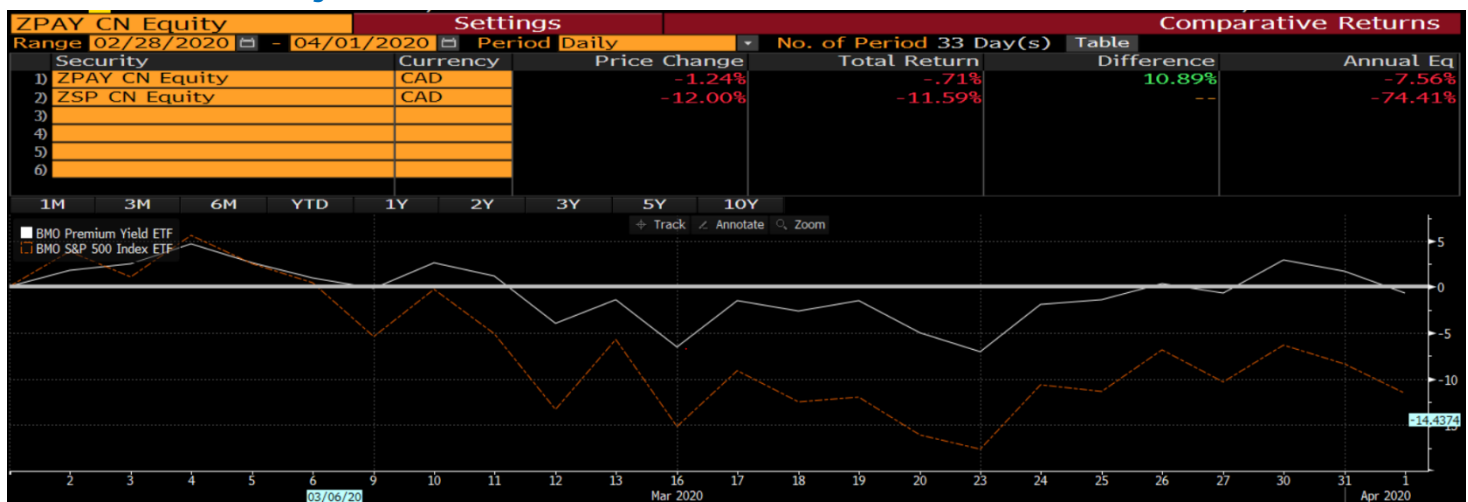
BMO Premium Yield ETF (ticker ZPAY): An Alternative Income Strategy for Today's Markets

ZPAY was launched on January 15th, 2020, right before the economic turmoil and equity market sell-off brought on by the global pandemic. 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.

ZPAY, One Year Later

- **Downside Protection:** During the market sell off in month of March of last year, ZPAY returned -0.7% vs the S&P 500 return of -11.6%.¹ (ZPAY entered the market sell-off in March 2020 with around 35% equity exposure.)
- **Upside Participation:** ZPAY's one-year return is 13.0% vs the S&P 500 return of 23.8%, but with a more efficient risk/return trade off than the broad equity market (ZPAY's beta is 0.56). **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% throughout the year.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 0.56. Its one-year standard deviation is 7.4% vs the S&P 500 Index at 18%, so it carries much less risk than the broad market by both measures.¹
- **ZPAY yields 6.4%***. Most of the yield is generated through selling options, so this yield is tax efficient (option premiums are taxed as capital gains).

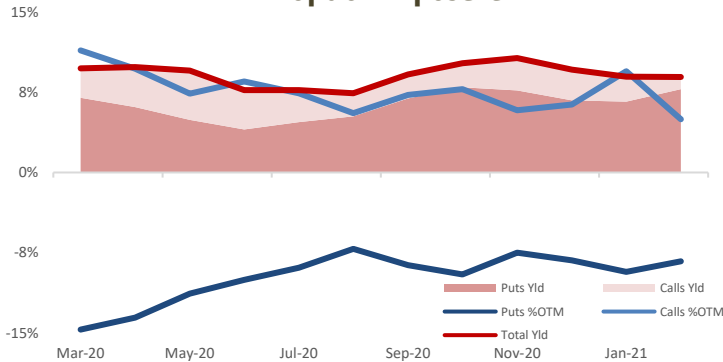
Buy Low, Sell High

- 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 year.

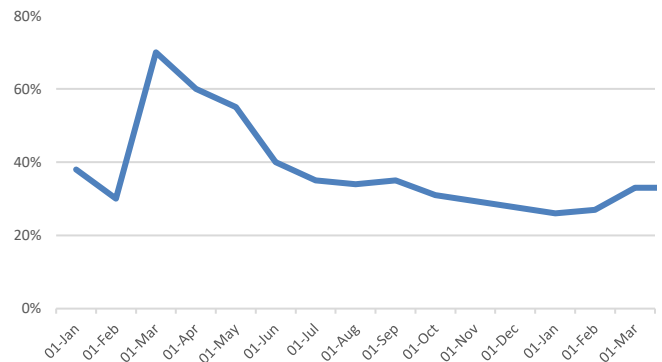
Take Advantage of Volatility

- Volatility is elevated relative to pre-pandemic levels. Today the VIX is at 27 and has been hovering around the 30 mark since the beginning of the year. This is still elevated relative to pre-pandemic levels (before last March it was in the high 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 **ZPAY** **ZPAY.U**
 hedged to CAD unhedged USD units
 Distribution Yield: 6.4% | M
 Mgmt. Fee: 0.65%
Risk Rating: Low to Medium

Top Holdings

Weight (%)	Name
66.59%	UNITED STATES TREASURY BILL- WHEN ISSUED 06May2021
3.49%	PROCTER & GAMBLE CO/THE
2.64%	COSTCO WHOLESALE CORP
2.59%	MERCK & CO INC
2.48%	AMGEN INC
2.37%	WALMART INC
1.73%	MICROSOFT CORP
1.27%	PEPSICO INC
1.19%	CISCO SYSTEMS INC/DELAWARE
1.19%	INTEL CORP

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 March 1, 2021. Total Yield represents the portfolio yield before fees and expenses.

*Annualized distribution yield as of March 19, 2021. Yield is subject to change each month. ZPAY's 1-year performance is 13.0% and its annualized performance since inception (January 15, 2020) is 6.5%

¹ Bloomberg March 19, 2021. Returns as of Feb 26, 2021. ZPAY's beta is relative to the S&P 500 TR Index. 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, March 19, 2021. ³BMO Global Asset Management, March 1, 2021.

Holdings as of March 19, 2021. Source: BMO Global Asset Management.

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