

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.

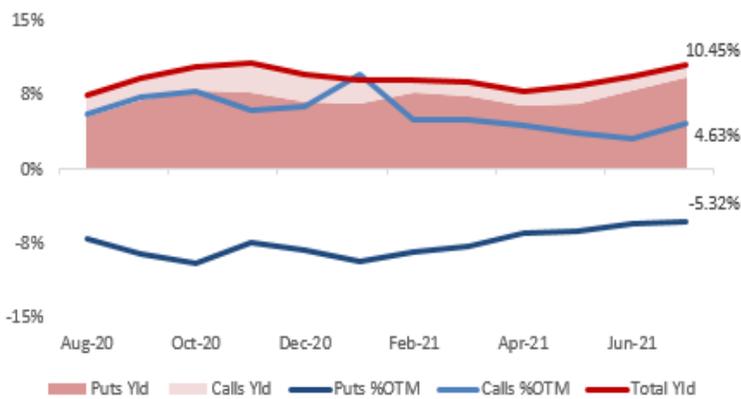
Buy Low, Sell High

- 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.

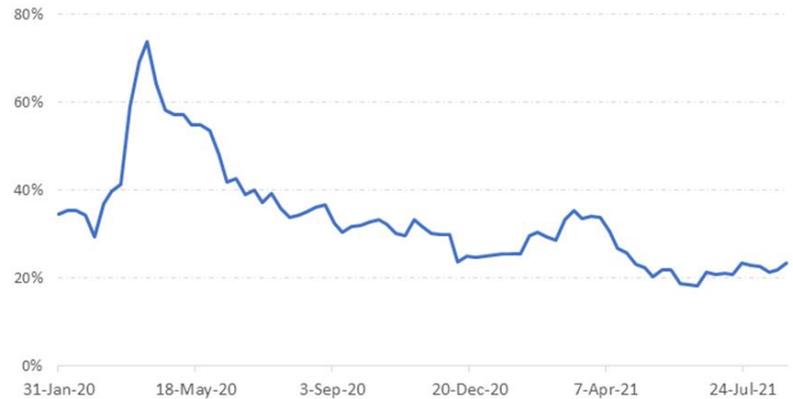
Take Advantage of Volatility

- 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%

¹Bloomberg 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. ²Morningstar Direct, September 16, 2021. ³BMO Global Asset Management, September 1, 2021.

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

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