

# ETF Portfolios Q1 2022 Commentary

*BMO ETF Portfolios are built to win, combining active management from BMO GAM’s Multi-Asset Solutions Team (MAST) with our leading ETF product shelf that provides full market core exposures and satellite positions to build effective portfolios. As a market innovator, BMO ETF Portfolios have delivered a strong performance track record that stretches back to 2013 (see table on page 4).*

*With BMO ETF Portfolios we begin with the strategic asset mix, which considers the macro and competitive environment to establish our longer-term view (12-18 months) that defines the neutral asset mix and the design choices of each portfolio. Our team also makes tactical shorter term (3-12 months) portfolio decisions. Each portfolio is designed with specific portfolio parameters in mind to allow for sufficient freedom to implement meaningful tactical calls when appropriate.*

## Setting the Stage

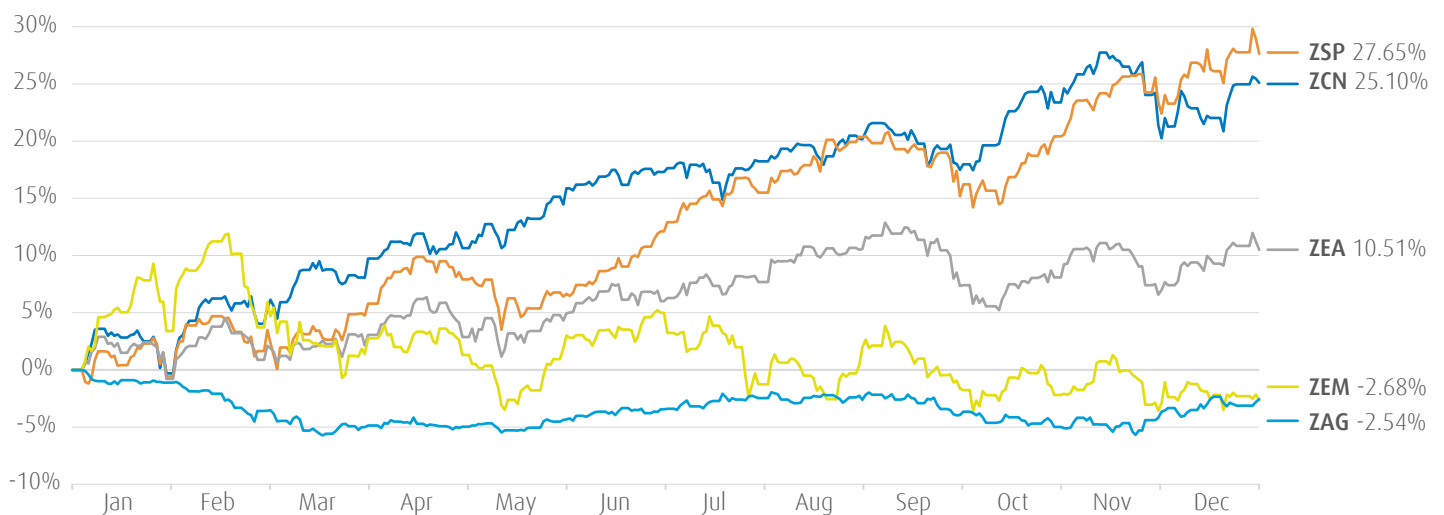
Over the course of 2021, the biggest decision in portfolio allocation was the equity-to-fixed income mix, as equities continued the rally from March 2020 led by U.S. markets, with BMO S&P 500 Index ETF (ZSP) returning 27.6% in 2021 while aggregate fixed income markets produced negative returns, with BMO Aggregate Bond Index ETF (ZAG) returning -2.6%. In the fourth quarter of 2021, higher inflation prints and a rising and steepening yield curve caused investor concerns, and volatility picked up particularly in December. Once again, North American equities led the way, with BMO S&P/TSX Capped Composite Index ETF (ZCN) returning 6.5% over the quarter.

The year has not been as kind to International and Emerging Markets, as the allocation between North America and the rest of the world has proven to be another important portfolio

allocation decision. BMO MSCI EAFE Index ETF (ZEA) returned 11.1% over the year, while Emerging Markets, with leverage fears from China, including 32% Chinese equities with an additional 16% weight in Taiwan, returned -2.6% as measured by BMO EMSCI Emerging Markets Index ETF (ZEM).

In fixed income, the challenges continued in the fourth quarter, with interest rate volatility, rising inflation and a steepening yield curve. Positioning has become even more challenging, as short term rates, as measured by the 2 Year Bank of Canada Bond Index increased from 20 basis points to 95 basis points over the year, and long term rates, as measured by the 10 Year Bank of Canada Bond Index increased from 68 basis points to 143 basis points. The Canadian Consumer Price Index (CPI) rose to 4.8% with the December reading, increasing concerns on fixed income returns.

**Daily ETF Returns for 2021** (from Dec 31, 2020 to Dec 31, 2021)



## Key Active Decisions

1. Increased Equity overweight
2. Maintained overweight to North American Equity
3. Reduced long-term fixed income exposure

### 1. Increased Equity Overweight

Across the BMO ETF Portfolios, adding to equity weight has been the largest positive driver of performance over both the year and the quarter, as equities have continued to advance since March 2020 while bonds have struggled, generally producing negative returns. Using BMO Balanced ETF Portfolio, the equity weight was increased from 58.8% to 61.9% at year end (by 3.1% over the quarter), and from 56.4% at the prior year end (increased by 5.5%). The MSCI ACWI Index, as a broad measure of global equities, returned 17.9% over the year in Canadian Dollar terms, while ZAG returned -2.6% as mentioned above.

### 2. Maintained overweight to North American Equity

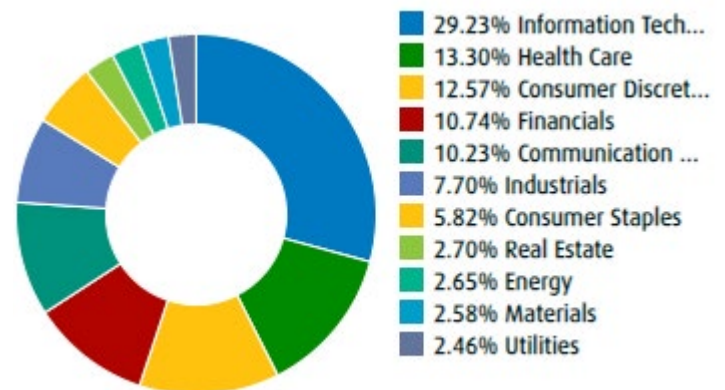
Referencing BMO Balanced ETF Portfolio, the U.S. equity weight was increased by 3.8% over the quarter, accounting for all of the equity weight increase. The largest position increase in the fourth quarter was adding 2.2% to ZSP, for a weight of 18.1% as of year end, also the largest position in the portfolio. While returns of growth-oriented names were more volatile due to rising inflation, firms with strong cash flows and mature businesses continued to outperform. Within technology, Apple Inc. (AAPL US) was the leading contributor, returning 25.7% over the quarter, with Microsoft Corp (MSFT US) close behind, returning 19.5% over the same period. Steadier consumer names were also important contributors, as we continue to deal with the work-from-home environment, with Home Depot Inc. (HD US) returning 27.6% over the quarter, and Costco Wholesale Corp (COST US) returning 26.5%, all stock returns in U.S. dollars.

As well, as tactical decisions over the quarter, investment was made into US Global Jets ETF (JETS US) at 0.8% weight at year-end and Energy Select Sector SPDR (XLE US) at 1.0%, while maintaining 1.0% in Financial Select Sector SPDR (XLF US). JETS was added on anticipation of normalization of air traffic heading into 2022, while the omicron Covid variant has led to a slower recovery, the position has been maintained on the back of expectations for 2022. XLE was added due to positive views of

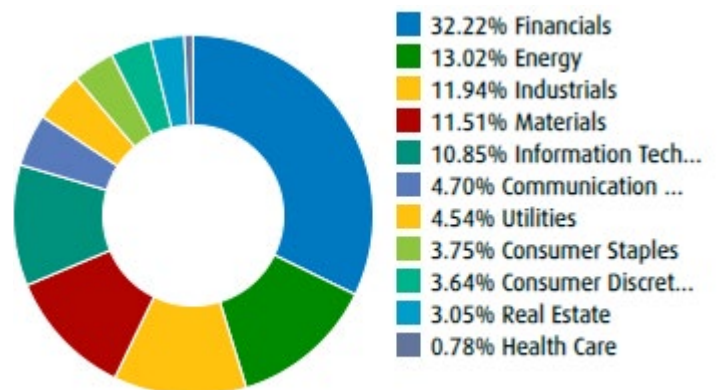
cyclical trade as well as recognizing the supply imbalance in the crude oil market.

For BMO Balanced ETF Portfolio, the Canadian equity weight was increased earlier in the year and continued to payoff into year-end. Canadian equities started the year at 14.9% and finished 2021 at 18.4%, an increase of 3.5%. Most of the position was in ZCN at 17.2% of the portfolio. Banks continued to outperform, benefitting from a steepening yield curve and strong economic activity. Over the fourth quarter banks were a leading contributor, including TD Bank (TD CN) returning 16.7%, and Bank of Nova Scotia (BNS CN) returning 17.5%. As well, the energy sector remained strong, with re-emerging demand coupled with supply side issues, with Suncor Energy Inc. (SU CN) returning 22.2% over the quarter.

### ZSP Sector Allocation



### ZCN Sector Allocation



### 3. Reduced long-term fixed income exposure

Over the course of the year, with both a rising yield curve and a steepening yield curve, and with inflation prints creating sticker shock, the fixed income weight reduction was primarily implemented by selling long-term bonds. During the year, long-term bonds were reduced by a combined 2.4%, across BMO Long Federal Bond Index ETF (ZFL), BMO Long Provincial Bond Index ETF (ZPL) and BMO Long Corporate Bond ETF (ZLC). Using Federal bonds as the comparison, this decision paid off, as ZFL returned -7.4% in 2021, compared to -1.4% for BMO Short

Federal Bond Index ETF (ZFS) and -3.9% for BMO Mid Federal Bond Index ETF (ZFM). Over the quarter, long-term bonds were reduced by only 0.2%, as long-term bonds rallied as yields tightened in December, with ZFL returning 5.6%.

These active decisions, combined with the full market exposure provided by the BMO ETF product shelf, helped to deliver strong performance across the risk-based spectrum of the six BMO ETF Portfolios.

## BMO Balanced ETF Portfolio, 3 Month and 1 year Change

	Dec 31 2021	Sept 30 2021	3 mth change	Dec 31 2020	1 yr change
<b>Equity</b>	61.9%	58.6%	3.3%	56.4%	5.5%
<b>Bond</b>	36.7%	38.8%	-2.1%	41.9%	-5.2%
<b>Cash</b>	1.2%	2.7%	-1.5%	1.7%	-0.5%
<b>Equities</b>					
<b>Canada</b>	18.4%	18.2%	0.2%	14.9%	3.5%
<b>U.S.</b>	24.4%	20.5%	3.9%	21.6%	2.8%
<b>International</b>	13.8%	14.1%	-0.3%	13.5%	0.3%
<b>Emerging Markets</b>	5.4%	5.2%	0.2%	6.5%	-1.1%
<b>Fixed Income</b>					
<b>Aggregate</b>	17.0%	17.5%	-0.5%	17.5%	-0.5%
<b>Federal (includes MBS)</b>	3.6%	3.5%	0.1%	5.0%	-1.4%
<b>Provincial</b>	1.6%	2.1%	-0.5%	3.1%	-1.5%
<b>IG Credit</b>	10.1%	11.3%	-1.1%	12.6%	-2.5%
<b>HY Credit</b>	1.6%	1.8%	-0.1%	2.0%	-0.4%
<b>EM Bond</b>	2.5%	2.7%	-0.3%	1.7%	0.8%

Source: BMO Global Asset Management, December 31, 2021.

## BMO ETF Portfolios Performance as of December 31, 2021

Time Lapse	BMO Fixed Income ETF Portfolio F	BMO Income ETF Portfolio F	BMO Conservative ETF Portfolio F	BMO Balanced ETF Portfolio F	BMO Growth ETF Portfolio F	BMO Equity Growth ETF Portfolio F
3 month	0.7%	2.0%	2.8%	3.8%	5.0%	5.9%
6 month	0.8%	1.9%	2.8%	3.9%	5.4%	6.5%
1 Year	-1.8%	2.0%	4.6%	8.7%	13.6%	17.3%
3 Year	4.1%	6.7%	8.3%	10.7%	13.1%	15.0%
5 Year	2.8%	4.7%	5.7%	7.5%	9.1%	10.8%
Since Inception*	3.1%	5.3%	6.4%	7.9%	9.3%	10.7%
Overall Morningstar Rating	★★★★	★★★★	★★★★★	★★★★	★★★★	★★★
Morningstar Category	Global Fixed Income	Canadian Fixed Income	Global Fixed Income	Global Neutral Balanced	Global Equity Balanced	Global Equity

\*As of August 12, 2013. Source: Morningstar Direct. Performance is for Series F mutual funds in Canadian dollars, and is net of fees and taxes.

The Morningstar Rating™ for funds, or “star rating”, are based on a risk-adjusted return measure that accounts for variation in a fund’s monthly performance, placing more emphasis on downward variations and rewarding consistent performance. Open-end mutual funds and exchange-traded funds are considered a single population for comparison purposes. Ratings are calculated for funds with at least a three year history. The overall rating is derived from a weighted average of three-, five- and 10-year rating metrics, as applicable, excluding sales charges and including fees and expenses. ©2021 Morningstar Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers. It may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance does not guarantee future results. The top 10% of funds in a category receive five stars, the next 22.5% four stars, the next 35% three stars, the next 22.5% two stars and the bottom 10% one star. Ratings are subject to change monthly. Had fees not been waived and/or expenses reimbursed currently or in the past, the Morningstar rating would have been lower. Ratings for other share classes may differ due to different performance characteristics.

Mutual Fund Trust	Fixed Income				Income				Conservative				Balanced				Growth				Equity Growth			
	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based	FE*	LL	DSC**	Fee Based
Advisor	99700	98700	97700	-	99701	98701	97701	-	99702	98702	97702	-	99703	98703	97703	-	99704	98704	97704	-	99705	98705	97705	-
T6	34706	33706	32706	-	34707	33707	32707	-	34708	33708	32708	-	34709	33709	32709	-	34710	33710	32710	-	34712	33712	32712	-
F	-	-	-	95700	-	-	-	95701	-	-	-	95702	-	-	-	95703	-	-	-	95704	-	-	-	95705
F2	-	-	-	14700	-	-	-	14701	-	-	-	14702	-	-	-	14703	-	-	-	14704	-	-	-	14705
F4	-	-	-	-	-	-	-	37701	-	-	-	37702	-	-	-	37703	-	-	-	37704	-	-	-	37705
F6	-	-	-	-	-	-	-	36701	-	-	-	36702	-	-	-	36703	-	-	-	36704	-	-	-	36705
<b>Management Expense Ratio (MER) as of September 30, 2021</b>																								
Advisor	1.00%				1.67%				1.67%				1.72%				1.72%				1.78%			
F	0.44%				0.55%				0.55%				0.61%				0.61%				0.66%			

\*Sales Charge. \*\*Low Load and DSC purchase options are no longer available for sale.



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