BMO Quality ETFs

Making Sense of Quality Investing

- BMO MSCI All Country World High Quality Index ETF (ZGQ)
- BMO MSCI USA High Quality Index ETF (ZUQ)
- BMO MSCI Europe High Quality Hedged to CAD Index ETF (ZEQ)
- BMO MSCI USA High Quality Index ETF Hedged units (ZUQ.F)
- BMO MSCI USA High Quality Index ETF US Dollar Units (ZUQ.U)
- NEW BMO MSCI EAFE High Quality Index ETF (ZIQ)

Why the Quality Factor Matters

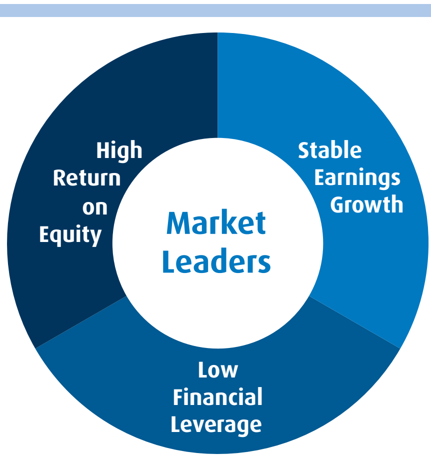
One of the most intuitive smart beta factors is quality investing. Quality based investing is built to identify market leading companies with sustainable competitive advantages. Research has shown that equity investing with a high quality focus has earned a premium while reducing risk over longer periods of time relative to the market.[1] Part of the value is in the meaningful difference from traditional market capitalization indices where quality provides effective exposure throughout the entire market cycle. Furthermore, quality screening avoids inexpensive stocks masquerading as bargains.

What is Quality?

BMO Quality ETFs invest in high quality companies that provide greater long-term growth potential. High quality companies are defined as **market leaders** that have **durable business models** and **sustainable competitive advantages**. Quality growth companies typically have high return on equity (ROE)[2], stable earnings and strong balance sheets with low financial leverage. These quality leaders are positioned to respond to positive market conditions, as well as potentially provide support in market contractions.

Each variable on its own is not necessarily an indicator of a quality company. For example, high ROE could be an abnormal spike at one point in time or a result of high leverage. The 3 variables in combination provide a more accurate assessment. BMO Quality ETFs consider these 3 quality variables in combination.

What is a High Quality Company?



3 Quality Variables

High Return on Equity	Stable Earnings Growth	Low Financial Leverage
Indicates a business with a sustainable competitive advantage, efficient operations and profitability.	Demonstrates durability and stability of a company's business model.	Identifies companies with low debt-to-equity ratios[3], providing greater stability in declining markets.

BMO Quality ETFs

BMO ETFs has created a suite of quality ETFs that captures high quality companies with a transparent, rules based portfolio methodology that aims to provide higher risk adjusted returns[5] to investors. The BMO Quality ETF suite screens for companies with high quality scores based on 3 fundamental variables; high ROE, stable earnings growth and low financial leverage. The portfolio is built on the quality scores and the process is repeated at reweight to ensure the portfolio remains constructed with market leaders. The methodology aims to not only capture the performance of high quality companies, but to ensure reasonably high trading liquidity and to moderate security turnover while staying cost effective. BMO Quality ETFs are designed to be core equity options.

Methodology

BMO Quality ETFs track the performance of MSCI quality indices which are a subset of the broad market parent indices. Security selection relies on the determination of the 3 quality variables. Weighting is based on a combination of the security's quality scores and market capitalization. Quality indices are rebalanced semi-annually.

Security Universe *Parent Index*	**Quality Factor Screen** *ROE, Earnings Stability, Debt to Equity*	**Portfolio Selection and Weighting** *Fixed Number of Securities, Quality Score x Market Capitalization, 5% Cap*	**Review** *Semi-Annual Rebalancing, Buffer Zones*
The parent indices provide an opportunity set with sufficient liquidity and capacity. The applicable universe includes all securities encompassed in parent indices. They are MSCI broad indices, recognized and widely used as benchmarks. MSCI is a provider of traditional market capitalization and factor-based indices.	Each parent index is screened and ranked using the 3 quality variables. The 3 quality variables are standardized, and equal weights are used to calculate a composite score. Extreme data outliers are removed. Composite scores are averaged into one Quality Factor Score.	A fixed number of securities of the parent index universe (approx. 30-40%) allows for high quality exposure while maintaining sufficient index market capitalization and diversification. The Quality Factor Score is multiplied by the market capitalization and normalized to 100%, resulting in high capacity and liquidity. The 5% Cap reduces concentration and single security risk.	Semi-Annual rebalancing in May and November coincides with the semi-annual review of the parent indices. Quality variable data is used in April and October, to capture timely updates of quality characteristics and timed with the rebalancing frequency of the MSCI parent indices. A 20% Buffer rule is applied on a fixed number of securities to reduce turnover and improve replicability.[4]

QUALITY

BMO MSCI USA High Quality Index	BMO MSCI All Country World High Quality Index	BMO MSCI Europe High Quality Hedged to CAD Index	New: BMO MSCI EAFE High Quality Index
ZUQ.F hedged to CAD; **ZUQ** unhedged; **ZUQ.U** USD Units	**ZGQ**	**ZEQ** hedged to CAD	**ZIQ**
Distribution Frequency: Quarterly	**Distribution Frequency:** Quarterly	**Distribution Frequency:** Quarterly	**Distribution Frequency:** Quarterly
Mgmt. Fee: 0.30%	**Mgmt. Fee:** 0.45%	**Mgmt. Fee:** 0.40%	**Mgmt. Fee:** 0.35%
Risk Rating[6]: **ZUQ.F:** Medium to High; **ZUQ/ZUQ.U:** Medium	**Risk Rating[6]:** Medium	**Risk Rating[6]:** Medium	**Risk Rating[6]:** Medium

For more detailed methodology information regarding the quality variables, security composite scoring, security selection, weighting and index maintenance, visit the MSCI quality indices website:

- **MSCI Quality Methodology**
- **MSCI 'Understanding Quality' Research**

BMO Exchange Traded Funds
by BMO Global Asset Management

Let's connect

1-800-361-1392   bmoetfs.com

[1] MSCI Research Report "Quality Time", December 2024.

[2] Return on Equity: A measure of a companies profitability & efficiency. Calculated by dividing net income/shareholders equity.

[3] Debt to Equity Ratio: A measure o a company's financial leverage. Calculated by dividing a company's total liabilities/shareholder equity.

[4] MSCI Quality Methodology: Section 3.1.1 Buffer Rules

[5] Return (risk-adjusted): A measure of investment performance taking into consideration how much risk/volatility was assumed to generate it. Consider two investments, both of which return 10% over a given time period. The investment with the greater risk-adjusted return would be the one that experienced less price fluctuation. Two of the most commonly used measures of risk adjusted returns are Sharpe and Sortino ratios.

[6] All investments involve risk. The value of an ETF can go down as well as up and you could lose money. The risk of an ETF is rated based on the volatility of the ETF's returns using the standardized risk classification methodology mandated by the Canadian Securities Administrators. Historical volatility doesn't tell you how volatile an ETF will be in the future. An ETF with a risk rating of "low" can still lose money. For more information about the risk rating and specific risks that can affect an ETF's returns, see the BMO ETFs' prospectus.

Changes in rates of exchange may also reduce the value of your investment.

This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment.

The BMO ETFs or securities referred to herein are not sponsored, endorsed or promoted by MSCI Inc. ("MSCI"), and MSCI bears no liability with respect to any such BMO ETFs or securities or any index on which such BMO ETFs or securities are based. The prospectus of the BMO ETFs contains a more detailed description of the limited relationship MSCI has with BMO Asset Management Inc. and any related BMO ETFs.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the ETF Facts or prospectus of the BMO ETFs 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 BMO ETF's 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.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.