

BMO CLO ETFs

Frequently Asked Questions

How can I invest in BMO CLO ETFs?

- BMO AAA CLO ETF – CAD Units (Cboe CA: [ZAAA](#))
- BMO AAA CLO ETF – Hedged Units (Cboe CA: [ZAAA.F](#))
- BMO AAA CLO ETF – USD Units (Cboe CA: [ZAAA.U](#))
- BMO BBB CLO ETF – CAD Units (Cboe CA: [ZBBZ](#))
- BMO BBB CLO ETF – Hedged Units (Cboe CA: [ZBBZ.F](#))
- BMO BBB CLO ETF – USD Units (Cboe CA: [ZBBZ.U](#))

(the BMO AAA CLO ETF and BMO BBB CLO ETF are referred to as the “BMO CLO ETFs”)

What is a Collateralized Loan Obligation (CLO)?

CLOs are debt securities issued by a trust or other special purpose vehicle (a “CLO Issuer”) backed by a diverse pool of loans to businesses held by the CLO Issuer. The CLO Issuer actively manages this securitized loan portfolio comprised primarily of non-investment grade corporate loans, which may include domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans. CLOs are funded by layers of debt of varying seniority (also known as tranches).

The principal and interest received from the CLO Issuer’s portfolio of loans is distributed according to a cash flow waterfall. The debt obligations each have a specified seniority in the cash flow waterfall, beginning with AAA (or AAA+) tranches and continuing through other investment grade tranches (including BBB tranches) followed by non-investment grade tranches, with residual cash flows being distributed to the CLO’s equity holders. Due to the size of the loan portfolio, priority of cash flows, credit enhancements, diversification, active management and other risk protections, senior CLO tranches earn investment grade ratings. CLO Issuers are generally required to adhere to certain diversification rules to mitigate against the risk of concentrated defaults within a given industry or sector.

How are BMO CLO ETFs structured?

The BMO CLO ETFs are actively managed funds that will each hold a portfolio of CLOs primarily issued by US CLO Issuers. The BMO AAA CLO ETF will invest primarily in AAA-rated CLO tranches and the BMO BBB CLO ETF will invest primarily in BBB-rated CLO tranches.

What are the advantages of accessing CLOs through an exchange traded fund that invests in CLOs (a CLO ETF) and why BMO CLO ETFs?

The CLO ETF structure offers a liquid, accessible security which allows ordinary investors to invest in CLOs. Purchasing individual CLO tranches directly can be complex, difficult for ordinary investors to diligence and in practice the market is effectively limited to institutional investors. ETFs also provide daily pricing and greater transparency. CLO ETFs generally have lower management fees compared to alternative methods of investing in CLOs, such as private funds.

The BMO Global Asset Management (BMO GAM) team of experts brings over 20 years of portfolio management experience in originating, structuring and investing across credit assets. BMO ETFs is the largest fixed income ETF issuer in Canada with over 70 fixed income ETFs and over 40 billion dollars in assets under management within them¹. Along with fixed income, the BMO GAM team also has experience in structured credit, private credit, and restructuring.

What are the benefits of having CLO exposure in your portfolio?

Underlying CLOs Offer Higher Cash Flow Potential

CLOs often provide higher yields compared to traditional investment grade bonds due to the higher credit risk of the non-investment grade underlying leveraged loans held by the CLO Issuer².

Active Portfolio Management

CLOs are not index tracking funds; they are actively managed investment vehicles. Although CLOs have strict covenants regarding portfolio diversification, credit quality and other metrics by which CLO managers must abide, there is substantial discretion to reinvest collateral proceeds. A CLO manager can, among other things, buy, sell and substitute loans in the underlying asset portfolio. A CLO manager's ability to assess credit and quickly respond to changes in markets can significantly impact the performance of a CLO's portfolio.

Diversification

Specific covenants are incorporated into the transaction documents to regulate the type of loans that CLO managers may acquire, including the requirement for CLO managers to construct a diversified portfolio for the CLO. The typical CLO Issuer's portfolio is diversified across a wide range of industries and borrowers. It is common to have more than 200 individual companies in a single CLO portfolio. Generally, only a small percentage of the assets (typically up to 2%) may be invested in the loans of any individual borrower. These limitations on portfolio composition mitigate outsized exposure to any single borrower or industry and restrict the purchase of lower credit quality loans.

Floating Rate Feature

CLO tranches may have either a fixed interest rate or a floating interest rate tied to benchmarks, such as the Secured Overnight Financing Rate (SOFR)[^] for United States dollars. CLOs with floating rates allow investors to have short duration in their portfolios.

Low Default Rates

Historically, there have been zero defaults on AAA tranches and a 0.03% default rate on BBB tranches through the 30-year plus history of CLOs.²

What are the risks associated with an investment in BMO CLO ETFs?

Investing in a BMO CLO ETF involves several risks, primarily stemming from the nature of the underlying CLOs and the market they are traded in. For more information about the risk rating and specific risks that can affect a BMO CLO ETF's returns, see the prospectus for the respective BMO CLO ETFs.

What is the difference between CLOs and CDOs?

CDOs, or Collateralized Debt Obligations, are issued by special purpose issuers that do not limit their investments to ordinary corporate loans. CDOs include vehicles backed by subprime mortgages, which suffered in the Great Financial Crisis and never fully recovered.¹ CLO portfolios are comprised primarily of first lien senior secured loans.

How often will BMO CLO ETFs make distributions?

BMO CLO ETFs are expected to make monthly distributions. To the extent that the expenses of a BMO CLO ETF exceed the income generated by that BMO CLO ETF in any given month, it is not expected that a monthly distribution will be paid by that BMO CLO ETF.

How long have CLOs been around and how large is the CLO market?

CLOs have been part of the securitized products market since the late 1980s. Historically, most CLOs were privately sold to large institutional investors such as banks, insurance companies, and asset management companies.

CLOs performed well through the financial crisis of 2009, with low default rates and attractive risk-adjusted equity returns³. Even through the credit market turmoil, defaults on pre-crisis CLOs were minimal across all rating categories, and, as of August 2025, no CLO debt that was initially rated AAA has ever defaulted⁴. Although pre-crisis CLO performance was strong through the financial crisis, post-crisis CLOs are characterized by even more robust structures. Structural improvements relative to their pre-crisis counterparts include: (i) substantially more credit enhancement for each rated debt tranche, resulting in lower leverage, (ii) stricter limits on the portfolio composition, and (iii) more restrictive covenants protecting investors.

The CLO market has grown impressively, reaching approximately \$1.5 trillion in assets.¹ The AAA segment of the market is around 60% of the overall market⁵. This growth demonstrates the CLO market's emerging significance and liquidity, and highlights CLOs as a compelling option for investors seeking diversification and growth.

Definitions:

CLOs: CLOs are floating- or fixed-rate debt securities issued in different tranches, with varying degrees of risk, by entities typically organized as trusts or other special purpose vehicles (“CLO Issuers”) and backed by an underlying portfolio consisting primarily of non-investment grade corporate loans. The BMO AAA CLO ETF pursues its investment objective by investing, under normal circumstances, at least 85% of its net assets in CLOs that, at the time of purchase, are rated AAA or the equivalent by a nationally recognized statistical rating organization (“NRSRO”) or, if not rated by any NRSRO, are determined to be of comparable credit quality by BMO GAM. The BMO BBB CLO ETF pursues its investment objective by investing, under normal circumstances, at least 75% of its net assets in CLOs that, at the time of purchase, are rated BBB or the equivalent by an NRSRO or, if not rated by any NRSRO, are determined to be of comparable credit quality by BMO GAM.

AAA, BBB and other CLO tranche ratings: refers to the priority of payments to CLO holders by the CLO Issuer, should there be any defaults, and does not represent the ratings of the underlying loans within the CLO. If there are loan defaults or the CLO Issuer’s collateral otherwise underperforms, scheduled payments to senior tranches take precedence over those of mezzanine tranches (a tranche or tranches subordinated to the senior tranche), and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. AAA is a senior tranche, and BBB is a mezzanine tranche. The riskiest portion is the “Equity” tranche, which bears the first losses and is expected to bear all or the bulk of defaults from the corporate loans held by the CLO Issuer which serves to protect the other, more senior tranches from default.

Secured Overnight Financing Rate (SOFR): a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Disclaimers

¹ Source: Bloomberg August 31, 2025.

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All investments involve risk. The value of an Exchange traded fund (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.

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 and administered by BMO Asset Management Inc., an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal.

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¹ Source: BMO GAM, August 31, 2025

² Source: Bloomberg June 30, 2025. Please be advised for the AAA and BBB CLO tranches past default rates are not indicative of future default rates.

³ Source: Bloomberg December 31, 2024

⁴ Source: Bloomberg December 31, 2024

⁵ Source: Bank of America, December 31, 2024