

BMO's Suite of CLO ETFs

Private Credit with the Liquidity of an ETF

Smart
cash flow!

BMO AAA CLO ETF

ZAAA.F ZAAA ZAAA.U
Hedged Units CAD Units USD Units

Management Fee: 0.20%

Distribution Frequency: Monthly¹

Risk Rating²:

ZAAA.F, ZAAA.U: Low | ZAAA: Low to Medium

BMO BBB CLO ETF

ZBBZ.F ZBBZ ZBBZ.U
Hedged Units CAD Units USD Units

Management Fee: 0.40%

Distribution Frequency: Monthly¹

Risk Rating²: Low to Medium

What are collateralized loan obligations (CLO)?

CLOs are securitized³ products backed by a diverse portfolio of senior secured loans to businesses. A CLO portfolio is typically comprised primarily of ~200-300 first lien senior secured loans across industries. CLOs are funded by layers of debt (called tranches) of varying seniority and equity.

The principal and interest received from the portfolio of senior secured loans is distributed according to a cash flow waterfall. The debt obligations have varying seniority in the cash flow waterfall, with AAA being the most-senior and therefore the most stable with priority access to interest and principal payments.

BMO CLO ETFs hold a diversified basket of senior rated CLO tranches.

Key Benefits of BMO's CLO ETFs

Underlying CLOs Provide Attractive Cashflow Potential

CLOs often provide higher yields compared to traditional investment-grade bonds.⁴ BMO CLO ETFs has a monthly distribution frequency.¹

Diversification

CLO ETFs provide exposure to a distinct asset class that is less correlated with traditional fixed-income securities, enhancing portfolio diversification.

Access to Institutional-Grade Investments

ETFs allow investors access to CLOs, a market historically dominated by institutional investors.

Floating Rate

CLO tranches have a floating interest rate tied to benchmarks of overnight rates which reset periodically making them an effective hedge against the movement of interest rates.

Low Default Rates

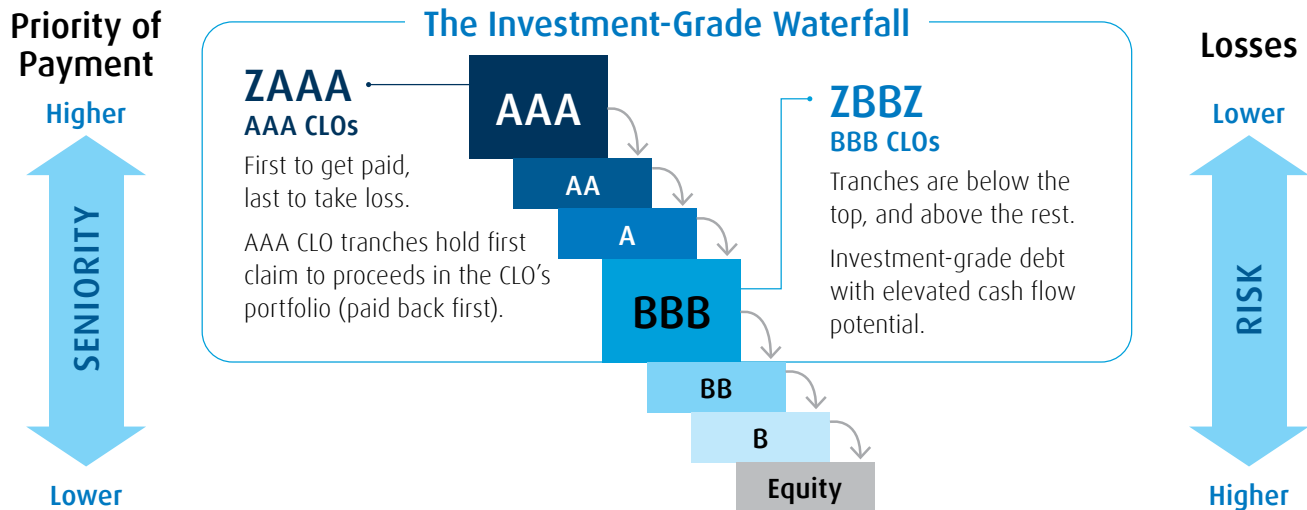
There have been minimal default rates on investment-grade CLOs through the 30-year history of CLOs.⁴

Liquidity and Transparency

ETFs offer a more liquid way to invest in CLOs compared to purchasing individual tranches directly, which can be illiquid and complex. ETFs also provide daily pricing and greater transparency.

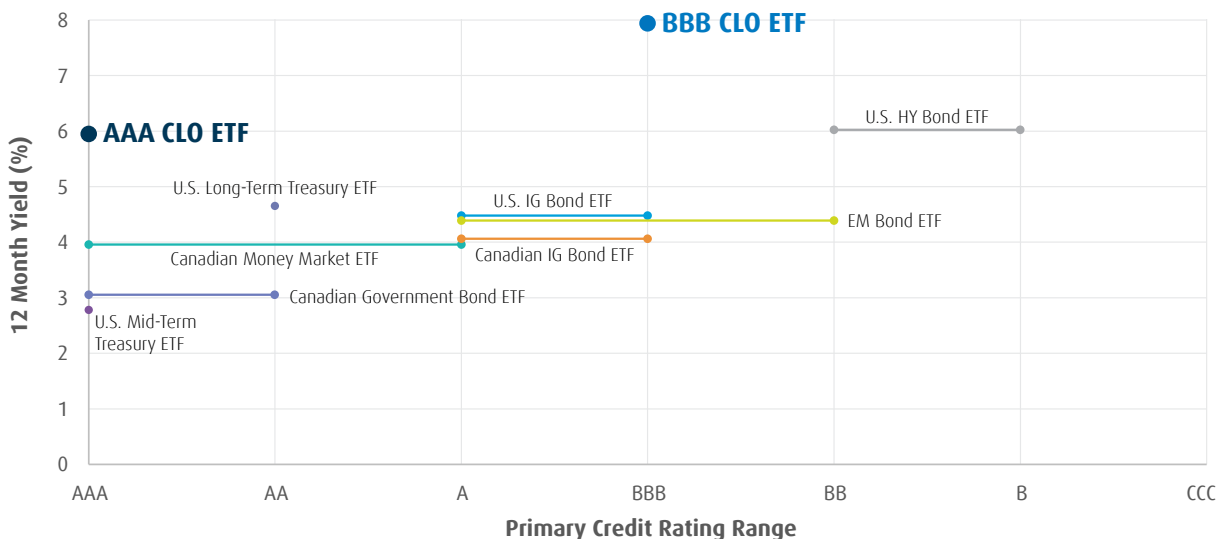
One waterfall, two opportunities!

1. **The AAA CLO tranches** represent the most senior, stable, and highest-rated portion of the capital stack. They receive first priority in cash flow distributions and are historically known for resilience.
2. **The BBB CLO tranches** offer investment-grade exposure with the added potential for higher cash flows compared to traditional BBB-rated fixed income ETFs.



For illustration purposes only.

AAA and BBB CLOs have shown to have an attractive yield compared to other fixed income instruments



Indices used to represent asset classes:

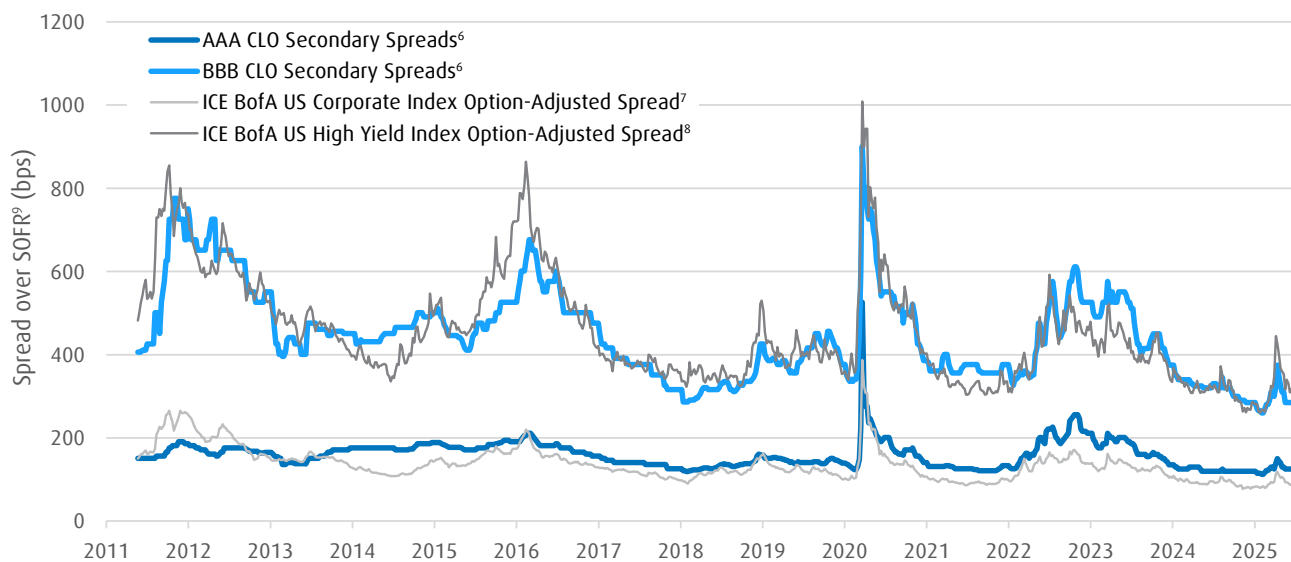
- **AAA CLO ETF:** J.P. Morgan AAA CLO Index
- **BBB CLO ETF:** J.P. Morgan CLO BBB Index
- **U.S. HY Bond ETF:** Bloomberg U.S. High Yield Index CAD Hedged
- **Canadian Money Market ETF:** BMO Money Market Fund ETF Series
- **Canadian IG Bond ETF:** FTSE Canada All Corporate Bond Index
- **Canadian Government Bond ETF:** FTSE Canada All Government Bond Index
- **U.S. Mid-Term Treasury ETF:** Bloomberg U.S. Treasury 5 - 10 Year Bond Index
- **U.S. IG Bond ETF:** Markit® iBoxx® USD Liquid Investment-grade Total Return Index hedged in CAD
- **U.S. Long-Term Treasury ETF:** ICE U.S. Treasury 20+ Year Bond Index (CAD-Hedged)
- **EM Bond ETF:** Barclays Emerging Markets Tradable External Debt (EMTED) GDP Weighted Capped Index CAD Hedged

Source: Bloomberg, J.P. Morgan, as of June 30, 2025.

Historical Spreads⁵

1. **AAA-rated CLOs** offer stronger credit quality and sit at the top of the payment waterfall. While they carry narrower spreads, investors can benefit from more attractive yields relative to corporate bonds.
2. **BBB-rated CLOs** provide wider spreads and the potential for yields comparable to traditional high-yield fixed income but with an investment-grade credit rating.

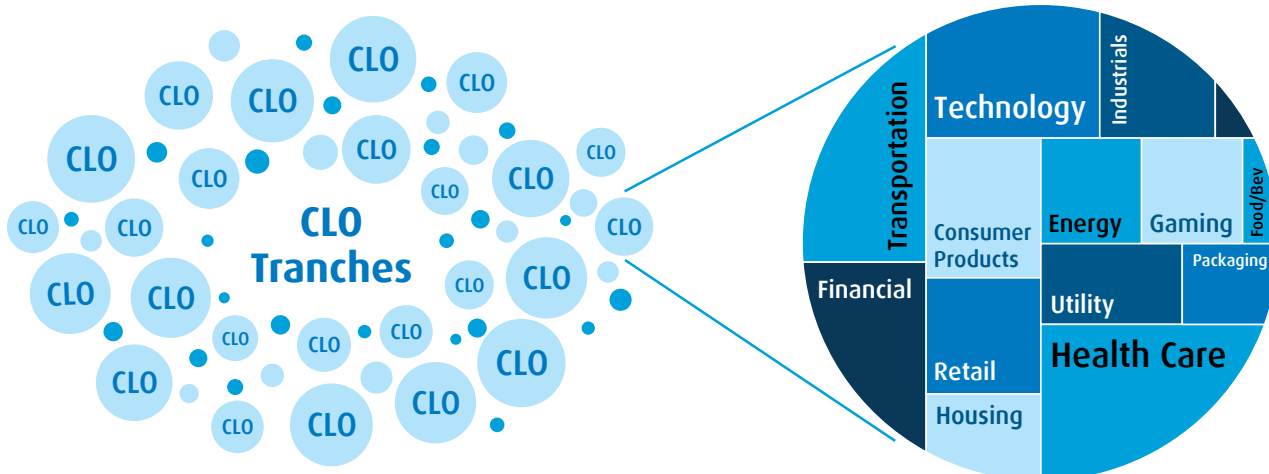
Spreads of AAA/BBB CLOs⁶, Corporate Bonds⁷, and High Yield⁸



Source: J.P. Morgan for secondary AAA and BBB CLO spread.

Source: ICE Data Indices, LLC, ICE BofA AAA US Corporate Index Option-Adjusted Spread [BAMLC0A1CAAA], retrieved from FRED (Federal Reserve Bank of St. Louis).

A well-diversified portfolio of CLOs



BMO CLO ETFs

BMO CLO ETFs hold a diversified portfolio of investment-grade CLOs across many managers and sectors.

Investment-grade CLO

Each CLO must meet diversification requirements across industries and geographies to help maintain its credit rating

A history of low default rates

Over the 30 year history of CLOs, there have been zero defaults on AAA-rated tranches, while BBB-rated tranches have experienced a 0.30% default rate. CLOs as a whole have consistently demonstrated low default rates across the rating spectrum, comparing favourably to traditional corporate debt.*

30 Year History of Credit Default Rates*

Original Rating Category	CLO	Traditional Corporate Loans	
		5 Year	10 Year
AAA	0.00%	0.42%	0.83%
AA	0.03%	0.41%	0.96%
A	0.15%	0.64%	1.65%
BBB	0.30%	1.79%	3.93%
BB	1.26%	7.26%	13.35%
B	3.36%	17.48%	24.79%

* Source: Bloomberg, as of December 31, 2024 (Jan-1995 to Dec-2024). Past default rates are not indicative of future default rates.

Differences between collateralized debt obligations (CDOs)¹⁰ versus collateralized loan obligations (CLOs)

CDOs and CLOs may sound alike; however, they are quite different. CDOs have often included risky assets such as subprime mortgages and were a big part of the 2008 Great Financial Crisis (GFC). CLOs, on the other hand, continued to perform well during the GFC due to their focus on corporate loans and active management.¹¹

Attribute	CDOs ⁹	CLOs
Asset	Subprime mortgages	First lien on senior secured, unsecured, subordinated and corporate loans.
Correlation¹²	High: Portfolio value driven by U.S. home prices and homeowner behaviour	Low: Portfolios include diverse borrowers across many different industries
Active Management	No: Selected by investment banks, originators and mortgage specialists; asset pool remains unchanged after issuance	Yes: Selected and actively managed by asset managers with capital at risk; underperforming loans can be traded out
Creditworthiness	Underlying mortgages were often made to borrowers with low incomes and few assets	Loans made to well-known companies with financial statements evaluated by credit professionals
Monitoring	No: Information regarding credit quality only provided at time of borrowing	Yes: Detailed financial statements provided quarterly and annually
Volatility	High: Prices declined during the GFC and never fully recovered	Low: CLOs have remained resilient even during market downturns
Losses	All junior tranches of RMBS [†] CDOs suffered significant impairments during the GFC	There have been zero defaults/losses on AAA tranches* and low but non-zero defaults for BBB tranches

[†] RMBS (Residential Mortgage-Backed Securities): Securities backed by pools of residential mortgages.

Experienced portfolio management team

With over 70 fixed income ETFs and \$40 billion in fixed income ETF assets under management, BMO Global Asset Management (BMO GAM) is the largest fixed income ETF provider in Canada with a history of democratizing hard to access asset classes such as preferred shares and mortgage back securities for investors.¹³

BMO GAM brings over 30 years of portfolio management experience in originating, structuring, and investing across credit assets.

Our Experts

**Mark Jarosz**

Head of Private Credit

Mark joined BMO Global Asset Management in 2023 and serves as Head of Private Credit. Mark brings over 20 years' experience in originating, structuring and investing across credit assets. Prior to joining BMO GAM, Mark was with CPP Investments where he served as a member of the Private Credit investments team and was head of the credit investment committee for Antares. He began his career at Coventree where he spent 10 years in Structured Credit.

**Matt Montemurro**

Head of Fixed Income & Equity Index ETFs

Matt is currently the Head of Fixed Income and Equity Index ETFs. In his role, Matt, and his team, are responsible for all index tracking mandates, both equity and fixed income, managed by BMO GAM. Matt joined BMO in 2009 and joined the BMO ETF portfolio management team in 2012.

**MacKenzie Bier**

Associate Portfolio Manager, Structured Solutions

MacKenzie is an Associate Portfolio Manager on the Structured Solutions team that focuses on developing novel products and providing bespoke derivatives and credit solutions to institutional and retail clients. She is a member of the Women in Securitization (WiS®)

- ¹ Distributions are not guaranteed and are subject to change and/or elimination.
- ² 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.
- ³ **Securitized:** The process of pooling financial assets together to create new securities that can be sold to investors.
- ⁴ Source: Bloomberg, as of December 31, 2024. Past default rates do not guarantee future default rates.
- ⁵ **Credit Spreads:** The difference in yield between a risk-free asset and a corporate bond. It represents the risk premium investors demand for taking on the additional credit risk. Credit spreads widen when investors perceive a higher risk of default or economic uncertainty. This can occur during periods of economic contractions, rising interest rates or market volatility. Conversely credit spreads tighten when there is confidence in the economy and risk of default is low.
- ⁶ **AAA/BBB CLO secondary spreads:** The difference between the yield (return) of a traded, secondary market AAA/BBB-rated collateralized loan obligation (CLO) and a risk-free benchmark, typically a government bond. In simpler terms, it's the additional return an investor receives for taking on the credit risk of the CLO, which is backed by a pool of leveraged loans.
- ⁷ **ICE BofA AAA US Corporate Index Option-Adjusted Spread (OAS):** The difference between the yield of a hypothetical AAA-rated corporate bond index and a benchmark yield curve, typically the U.S. Treasury yield curve, according to Trading Economics and Capital Economics. It reflects the additional yield investors demand for holding corporate debt with embedded options, like call or put features.
- ⁸ **ICE BofA High Yield Index Option-Adjusted Spread (OAS):** A measure of the additional yield investors demand for holding high-yield bonds (those with a credit rating below investment grade) compared to a risk-free benchmark, like Treasury securities. It reflects the credit risk and option-related risk embedded in the high-yield bond.
- ⁹ **Secured Overnight Financing Rate (SOFR):** A benchmark interest rate for USD-denominated derivatives and loans.
- ¹⁰ **Collateralized Debt Obligation (CDO):** A structured financial product where a bank or other entity pools together various types of debt, like mortgages, bonds, and loans, and repackages them into tranches, or classes of securities, based on their risk level.
- ¹¹ Source: Bloomberg, as of June 30, 2025.
- ¹² **Correlation:** A statistical measure of how two securities move in relation to one another. Positive correlation indicates similar movements, up or down together, while negative correlation indicates opposite movements (when one rises, the other falls).
- ¹³ Source: BMO Global Asset Management, August 31, 2025.

This material is for information purposes only. The information contained herein is not, and should not be construed as investment, tax or legal advice to any party. Particular investments and/or trading strategies should be evaluated and professional advice should be obtained with respect to any circumstance.

CLOs are floating- or fixed-rate debt securities issued in different tranches, with varying degrees of risk, by trusts or other special purpose vehicles ("CLO Issuers") and backed by an underlying portfolio consisting primarily of below 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. The BMO BBB CLO ETF pursues its investment objective by investing, under normal circumstances, at least 75% of its net assets in CLOs that are BBB-rated at the time of purchase.

AAA herein refers to the order of payments, 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; e.g., AAA tranches are the most senior, while BBB tranches are mezzanine-level), and scheduled payments to mezzanine tranches take precedence over those to subordinated/equity tranches. 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 serves to protect the other, more senior tranches from default.

The portfolio holdings of the BMO ETFs are subject to change without notice and the holdings depicted in this document may only represent a small percentage of portfolio holdings. They are not recommendations to buy or sell any particular security. Past performance is not indicative of future results.

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.

BMO Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.

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