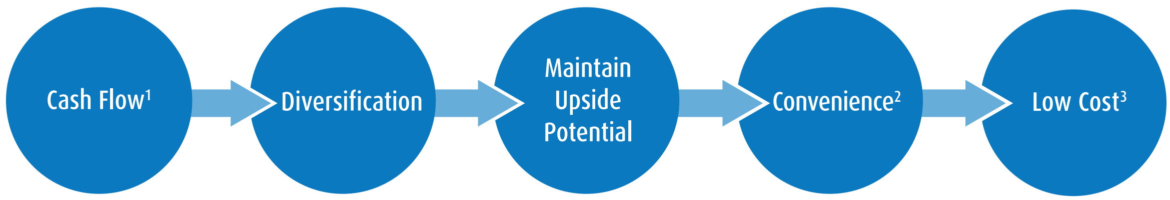
BMO Covered Call Spread Gold Bullion ETF Methodology

Cash flow that shines

Ticker: ZWGD | **Management Fee:** 0.65% | **Distribution Frequency:** Monthly



BMO Covered Call Spread Gold Bullion ETF is the first of it's kind in Canada[4], producing monthly cashflow from a yield less asset while persevering the benefits of gold, including diversification, safety and strong historical performance.[5]

Covered call spread explained

A covered call spread on gold begins with a traditional covered call strategy - owning gold bullion and writing call options[6,7] to generate monthly cashflow from premiums. This strategy produces cash flow from gold, a traditionally non-yielding asset.

The additional long call option[8] in the structure creates the "**covered call spread**" to help maintain the unlimited upside potential of gold.

BMO Covered Call Spread Gold Bullion ETF methodology

The portfolio will own physical gold by holding BMO Gold Bullion ETF – ZGLD. To generate cashflow and maintain upside exposure to gold, the call option spread will be implemented on 50% of the portfolio. The options will be out-of-the-money[9] (OTM) with 1-2 months to expiry and both options will have the same expiry date.

For more information on a traditional covered call strategy (BMO Covered Call Methodology).

Mechanics of a covered call spread

Consider a $10,000 portfolio

- Comprised of 100 shares
- Stock price of $100 per share

1. **Write a call option** (strike price $101)
   receive premium: +$150
2. **Buy a call option** (strike price $103)
   pay premium: -$50

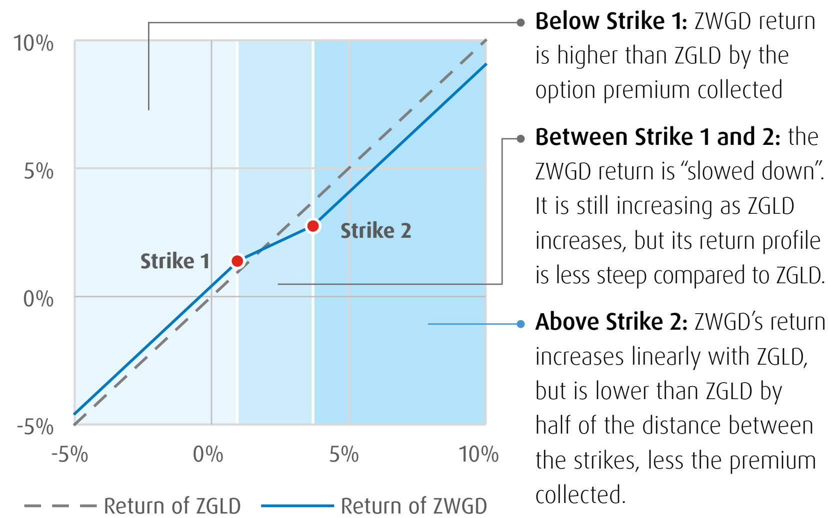
3. **Collect net credit = $100**

Risk reduction benefit (initial cost)

Covered call spread investor:
$10,000 - $100 credit = **$9,900 (discounted)**

Long only investor: $10,000

Implementation example: ZWGD monthly payoff relative to gold



For illustrative purpose only. The returns shown on the axes do not reflect the actual performance of the ETFs. Performance data of ZWGD will be available after the fund has completed one full year. Performance is not guaranteed

Why use a covered call spread strategy?

The Rationale

A covered call spread approach is used to generate cash flow from gold, while maintaining the portfolio diversification and hedging benefits that it offers.

A traditional covered call strategy is expected to work well in modestly up markets, but it would detract from gold upside potential benefits during times of market stress or high inflation. In a covered call spread, a long call is added to maintain the upside on gold and thus preserving gold's diversification benefits.

Unique characteristics of gold

- Gold prices and volatility[10] tend to have a positive correlation[11].
- Equities and volatility tend to have a negative correlation.
- Higher volatility means potentially higher option premiums.
- When Gold prices are rising you can sell options at higher strike prices leaving more room for growth.
- When gold is flat or falling, it's volatility is generally lower, so strike prices can be written lower.

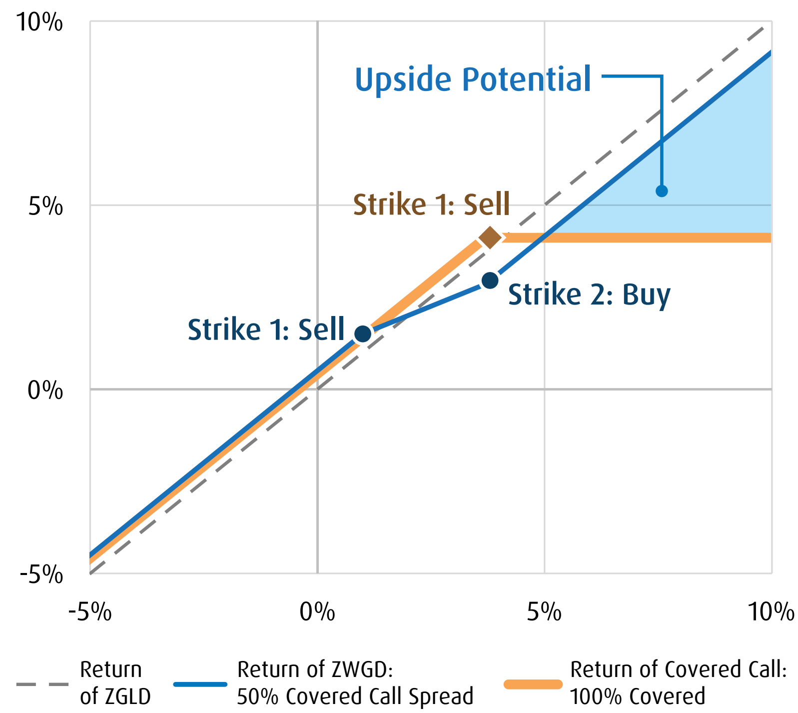
This makes Gold an ideal asset class for a covered call spread to generate potential cash flow using options.

Not about timing the market, but your time in gold

- Gold's return characteristics support the call spread structure.
- It's returns are typically muted or down, with occasional spikes of significant outperformance.
- During the unpredictable upside surges the call spread approach ensures investors do not miss out on significant gains.

This allows investors to stay invested in gold to reap the diversification benefits, all the while collecting cashflow along the way.[1]

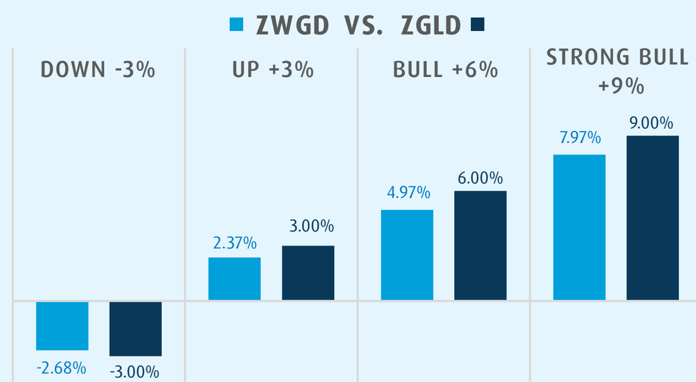
BMO Covered Call Spread Compared to Traditional Covered Call Strategy



For illustrative purpose only. The returns shown on the axes do not reflect the actual performance of the ETFs. Performance data of ZWGD will be available after the fund has completed one full year[9] Performance is not guaranteed.

Expected Investor Experience

Relative to long only exposure to BMO Gold Bullion ETF - ZGLD, the chart below illustrates what you can expect from a Covered Call Spread Gold strategy:



For illustrative purpose only. The returns shown on the axes do not reflect the actual performance of the ETFs. Performance data of ZWGD will be available after the fund has completed one full year. Performance is not guaranteed

Who can consider ZWGD?

- **Investors seeking a portfolio hedge against unexpected outcomes and inflation.**
  Holding ZGLD - BMO Gold Bullion ETF as the underlying, gold can provide inflation protection as gold prices rise with inflation.
- **Investors who find it challenging to own gold because it is a yield less asset.**
  BMO Covered Call Spread strategy is an innovative solution that provides a buy-and-hold experience while generating monthly cashflow[1] on physical gold.
- **Investors in need of a portfolio diversifier and to dampen market volatility.**
  The diversification benefits of gold are maintained through the strategy.

BMO Exchange Traded Funds by BMO Global Asset Management

Let's connect

1-800-361-1392

bmoetfs.com

1 Distributions are not guaranteed, may fluctuate and are subject to change and/or elimination.
2 Since the underlying ETF is ZGLD. Investor get the convenience of owning physical gold without having to store it.
3 Low cost for an actively managed option based strategy.
4 Source: NBF ETF Research April 30, 2025
5 See the ZWGD sales aid for historical performance data of physical gold bullion. Invetors should consider the impact of currency: relative to the price of Gold in USD, ZGLD the underlying asset in ZWGD, is priced in CAD.
6 Call Option: a contract that gives buyer the right, but not the obligation, to purchase a specific asset at a predetermined price within a specified timeframe.
7 Writing (Short) Call: a contract obligating the seller to sell the underlying asset, at a specific price (the strike price) if the buyer chooses to exercise the option. The seller receives a premium for selling.
8 Purchasing (Long) Call: standard call option where the buyer has the right, but not the obligation, to purchase a stock at a specified price (the strike price) on or before a certain date. The buyer pays a premium for this right
9 Out of the money option: a contract that has no value, meaning it cannot be exercised for a profit if exercised immediately.
10 Volatility: Measures how much the price of a security, derivative, or index fluctuates.This material is for information purposes. 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 relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.
11 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).

Disclaimers

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.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

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' simplified prospectus.

Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the ETF Facts or simplified 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 simplified 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 Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.

Publication Date: May 2025.