# BMO US Put Write ETF (ZPW, ZPW.U)
# BMO US Put Write Hedged to CAD ETF (ZPH)

**BMO US Put Write ETF** is an alternative income strategy that is constructed by selling out of the money (OTM) put options on U.S. equities. This strategy will own long equities and purchase them at attractive entry points when the puts are in money and stocks go on sale.[1]

The goal of the put writing strategy is to generate cash flow by selling downside protection in equity securities. By maintaining diversification and specific risk levels, the portfolio has the opportunity to generate an overall total return similar to the long-run rate of return on the broad equity market.

**Large Cap U.S. Equity**

**Security Selection**
- Technical Screens
- Fundamental Screens

**Write OTM Put Options (Cash Secured)[2]**

**Monthly Cash Flow[3]**

## Initial Screening Process

The selection universe for the BMO US Put Write Strategy includes U.S. large capitalization equities which provide high liquidity in the options market. We then screen the universe based on a proprietary three step screening methodology.

### Technical Screens

**1. Lower exposure to downside risk**
- Screen for fundamentally strong companies with positive technical momentum (to lower downside risk).

**2. High implied volatility[4] relative to its history**
- Measure implied volatility relative to the stock's historical range.
- Identifies stocks with higher volatility that can potentially generate a high level of premium and in turn a higher level of cash flow.

### Fundamental Screen

**3. Qualitative Oversight**
- Once the two screens are applied our portfolio management team applies a qualitative oversight and evaluates each position on an individual basis to understand company specific risks such as earnings announcements that may impact future stock performance.

## Construction*

Stocks on the short list are analyzed using fundamental factors and technical indicators to assess specific downside risk. The stocks are then analyzed in the context of the options market to determine the most optimal moneyness[5] and tenor of each position. Using names selected from the short list, the portfolio is constructed with approximately 25-50 securities.

## Tenor and Moneyness of Positions

Our portfolio will generally write puts 1 to 3 months to expiry and we will aim to diversify option maturities. The shorter the tenor, the greater the effect of time decay[6]. However, this also leaves less time for a stock to recover, should it experience a significant downside move. Moneyness of the option in part will be determined by the tenor selected. Generally target range for how far out-the-money the put is written is 5%-15%. The portfolio at times, may implement at put spread[7] strategy by purchasing puts with a lower strike purchase than previously sold, subject to any significant stock price declines.

## Rolling Positions

The options selected will on average be held to maturity. When a security moves higher, we may look to roll the option position into a future option that can provide the strike price that offers the most reward for risk over the remaining time to maturity.

## Frequency of Screening

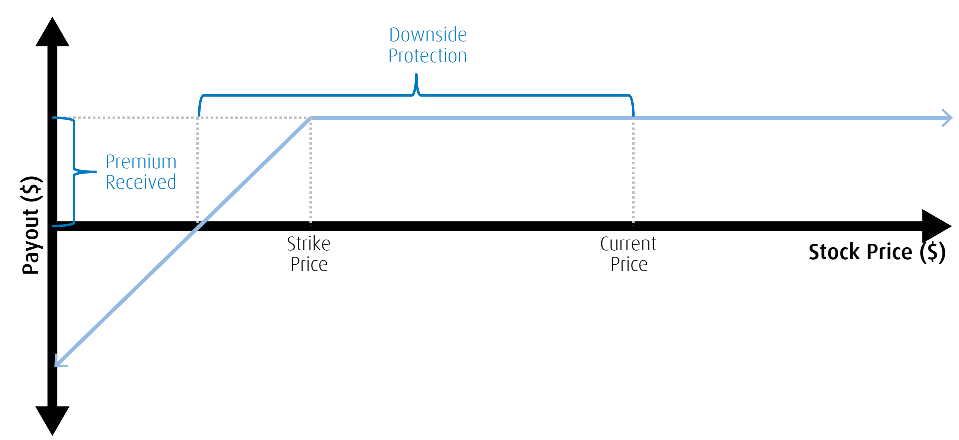
Positions are actively managed with a screen being run on a short list of potential options on monthly basis, in advance of expiry. The portfolio manager will also have daily oversight on each option.  Candidates will remain on the short list for the month until the screen is run again. Should cash flows require new put positions to be implemented intra month, the same list of candidates will be used to select from. New lines on existing or new securities altogether may be selected.

## Return Environment

The advanced screens and portfolio constraints ensure the portfolio is constructed to perform well in flat or moderately advancing equity markets. In high return scenarios, this strategy will underperform but have some downside protection by the amount of the moneyness of the puts. In significant market downturns this strategy will decline as the puts move into the money.

Our put write strategy provides exposure to short dated options that are appealing to investors looking to generate income with low correlation[8] to other asset classes.

## Payoff Characteristics of Selling an OTM Put Option

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[1] **Buying a Put:** Gives its owner the right, but not the obligation, to sell a certain amount of the underlying asset at a set price within a specific time.
**Writing a Put:** A contract giving the option buyer the right, but not the obligation, to sell a specified amount of an underlying asset at a predetermined price within a specified time frame.
**In the money (ITM)** option is one where the strike price is more favorable than the current market price of the underlying asset, resulting in intrinsic value for the option hold
**Out-of-the-money (OTM)** option is one where the strike price is not favorable relative to the current market price of the underlying asset. So the option has no intrinsic value.

[2] The BMO ETF may also purchase put options to potentially limit the loss from significant stock price declines.

[3] Distributions are not guaranteed, may fluctuate and are subject to change and/or elimination.

[4] **Volatility:** Measures how much the price of a security, derivative, or index fluctuates.

[5] **Optimal Moneyness:** the option strike price determined by the Portfolio Manager that has the best risk/reward trade off.

[6] **Time Decay:** a measure of the rate of decline in the value of an options contract due to the passage of time.

[7] **Put Spread:** an options trading strategy involving simultaneously buying and selling put options on the same underlying asset with the same expiration date but different strike price.

[8] **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).



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