


U.S. Preferred Shares

BMO US Preferred Share Index ETF (ZUP/ZUP.U) and BMO US Preferred Share Hedged to CAD Index ETF (ZHP)

Similar to Canada, preferred shares in the U.S. are hybrid securities that have characteristics of both bonds and equities. Many preferred shares are exchange traded and pay ongoing dividends, such as common shares. Similar to bonds, U.S. preferred shares can be redeemed by an issuing company at par value. Since preferred shares are higher up in the company's capital structure than common shares, they have priority to a company's after tax income and also higher claims in the event of a bankruptcy. U.S. preferred shares can be a difficult asset class for investors to trade but with ETFs, investors can efficiently access a basket of U.S. preferred shares with enhanced liquidity.



Security Type	Payments	Priority of Claim	Par Value
Senior Debt	Interest	Highest	Yes
Subordinated Debt	Interest	Higher	Yes
Preferred Shares	Dividend	High	Yes
Common Equity	Dividend	Lowest	No

The U.S. preferred share market has some unique characteristics that make them attractive compared to the Canadian market.

- Higher Dividends:** U.S. preferred shares have historically paid higher dividends compared to their Canadian equivalent making them attractive for income oriented investors.
- Different credit exposure:** The U.S. economy is far more diversified than Canada. The credit spread of issuers in Canada tend to be either directly or indirectly impacted by commodity prices. The credit exposure of U.S. preferred shares, on the other hand, tend to be less sensitive to the cyclical nature of commodity prices and are driven by the U.S. economy.
- Less volatility:** The majority of preferred shares listed in the U.S. have a fixed coupon. As a result, the dividends on these preferred tend to be stable and are not affected by declining interest rates. In addition, given U.S. preferred shares tend to have wide credit spreads above treasury bonds, the tightening of credit spreads could partially offset duration risk in a rising interest rate environment.
- Diversification benefits:** U.S. preferred shares tend to have low correlation to traditional asset classes such as bonds, equities and cash. U.S. preferred shares have also had low correlation to Canadian preferred shares. Consequently, U.S. preferred shares can make an efficient portfolio construction tool and are complementary to Canadian preferred shares.

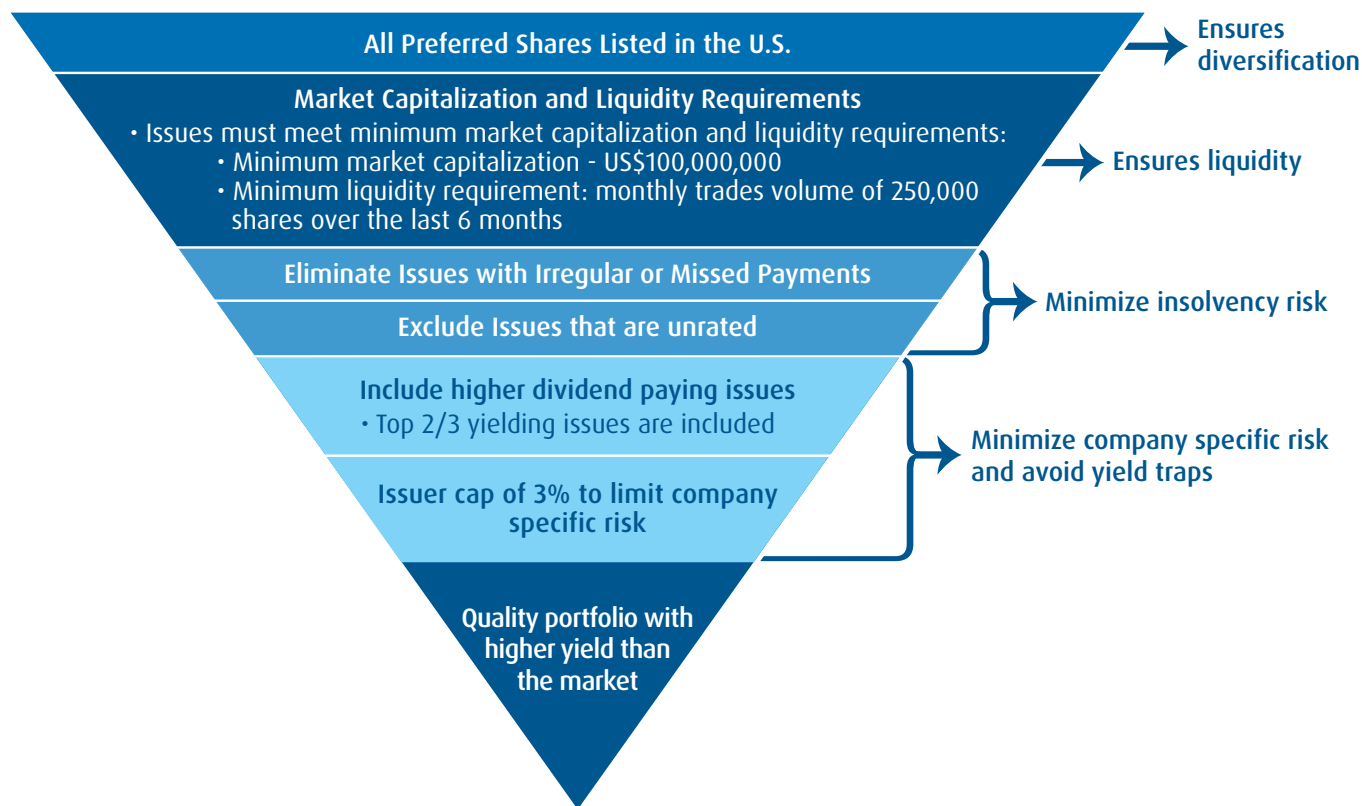
While the U.S. preferred share market has many positive attributes, it does present some challenges that need to be addressed.

- A large part of the market does not have a credit rating and we address this by limiting our exposure to non-rated securities
- Issues with irregular dividend payments can potentially signal default risk and by screening for dividend yield we eliminate this risk
- Large issues can make up a sizable part of market which is why we implement issuer caps

Investment Methodology:

BMO US Preferred Share ETFs use a smart beta strategy that provides Canadian investors with efficient and liquid exposure to a diversified portfolio of U.S. preferred shares. Rather than using a traditional market capitalization approach, these ETFs utilize a unique screening methodology that looks to mitigate challenges of the U.S. preferred share market.

The Screening Methodology of these ETFs:



This ETF is listed in Canada and is available in different currency options, providing solutions for various investor needs.

<p>BMO US Preferred Share Index ETF ZUP Mgmt Fee: 0.45% Risk Rating: Medium</p>	<p>BMO US Preferred Share Index ETF (USD Units) ZUP.U Mgmt Fee: 0.45% Risk Rating: Medium</p>	<p>BMO US Preferred Share Hedged to CAD Index ETF ZHP Mgmt Fee: 0.45% Risk Rating: Medium</p>
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For more information about these products, please contact your local BMO ETF Specialist.

Risk is defined as the uncertainty of a return and the potential for capital loss in your investment.

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