# Investing with **BMO SPDR Select Sector Index ETFs**

## Access the 11 sectors of the S&P 500

BMO Exchange Traded Funds

by BMO Global Asset Management

# **Efficient Access to U.S. Sectors** for Canadian Investors

BMO Asset Management Inc. brings the most widely known U.S. sectors to Canada through a suite of **BMO SPDR Select Sector Index ETFs**. For the first time Canadian investors can access all 11 Global Industry Classification Standard System ('GICS') sectors with the currency convenience of a Canadian listed ETFs available in both hedged and unhedged versions.

## Why does this matter to Canadian Investors?

- Purchasing Canadian listed ETFs in Canadian dollars can help minimize currency conversion costs. The unhedged and hedged versions empower investors to cost effectively gain or reduce U.S. dollar exposure.
- Canadians can simplify tax compliance by mitigating potential U.S. estate tax and reduce foreign property filing requirements (Form T1135).
- **Ultimately making investing in U.S. sectors easier for Canadians.**

Sector Investing just got easier

## Benefits of Sector Investing

### Access all 11 GICS Sectors

11 GICS sectors of the S&P 500 available in Canada

### Actively Manage Currency

Control U.S. Dollar exposure with hedged and unhedged versions

### A Powerful Portfolio Construction Tool

Pursue alpha[1] opportunities and efficiently manage risk

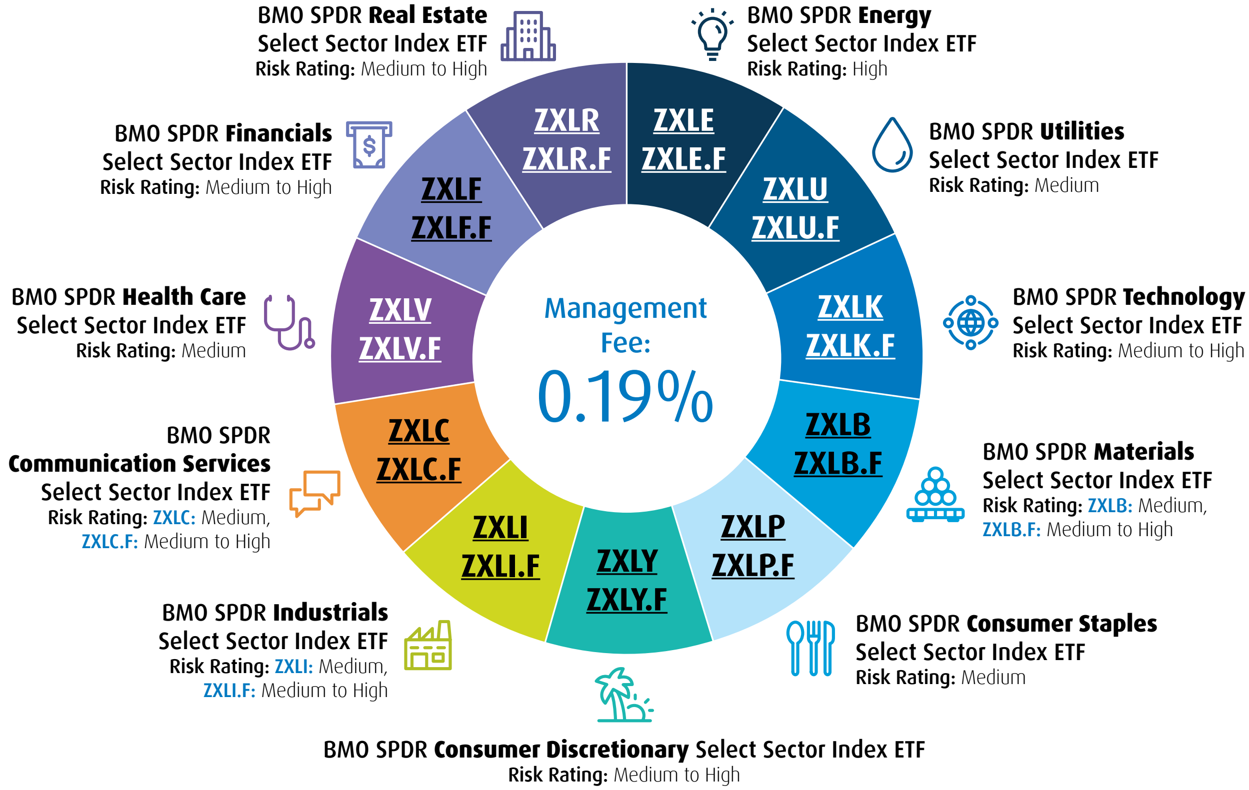
[1] Alpha: A measure of performance often considered the active return on an investment. It gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

# What are Sectors?

GICS is the most widely used system for classifying the equity universe into 11 major sectors. The classification is based how a company earns revenues, which aligns with how we interact with the goods and services the company sells. To ensure the holdings are pure to the desired sector, the suite of 11 Sector ETFs below use GICS.

## Explore our Suite

### Available in Hedged to CAD (.F) or Unhedged




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.

# Select Sector Index Methodology[2]

BMO SPDR Select Sector Index ETFs seek to replicate the performance of the Select Sector Index, a subindex of the S&P 500 Index.

- Each sector index is calculated using a "modified" market capitalization methodology.
- This formula ensures each of the component stocks within a Sector Index is represented in a proportion consistent with its percentage of the total market cap of that particular index.
- As a result, this represents the natural market cap changes occurring within the sector and each Index will be modified so that an individual security does not comprise more than 25% of the index.
- The index is rebalanced quarterly to maintain individual security caps.

Generally, BMO SPDR Select Sector Index ETFs will invest substantially all of its assets, directly or indirectly, in the relevant Select Sector SPDR® Fund. However, BMO SPDR Select Sector Index ETFs may invest substantially all of its assets, directly or indirectly, in the index constituents, in substantially the same proportions as the index constituents are represented in the applicable index.

[2] About SPDR ETFs

# Benefits of Canadian Listed ETFs

## Mitigating Currency Conversion Costs

Converting currency can add substantial costs that can reduce overall portfolio performance by adding an expense to invest or exit sector positions. This expense is associated with the spreads on foreign exchange rates that dealers often apply on transactions. Beyond the entry and exit costs, there is also the ongoing expense of converting currency on regular distributions from your investments.

## Controlling the Impact of Currency on Total Return

Currency is an important factor when investing in U.S. sector ETFs. The appreciation or depreciation of the U.S. dollar against the Canadian dollar can either enhance or diminish your total return. BMO Global Asset Management offers all 11 GIC sectors in hedged and unhedged versions empowering investors to have better control over how currency impacts their sector performance. BMO SPDR Select Sector Index ETFs will use currency forwards[3] that are very liquid (between the CAD/USD pair) and a cost effective way to hedge.[4]

**Currency volatility – A long term picture of CAD vs USD**


Source: Bloomberg, as of December 31, 2024. Historical volatility doesn't tell you how volatile currency pairs will be in the future.

## Mitigating Tax Friction

Canadian investors diversifying their portfolios internationally should be aware of potential tax implications. By investing in Canadian listed ETFs investors can simplify tax compliance by mitigating potential U.S. Estate Tax and reduce foreign property filing requirements (Form T1135).[5]

[3] Currency Forward: A derivative contract that sets a fixed foreign currency rate for a transaction that will occur on a specified future date.
[4] Getting a handle on the impact of currency, BMO (December 30, 2023).
[5] Tax Issues, U.S. Investing, and Your Clients, BMO (March, 2021).

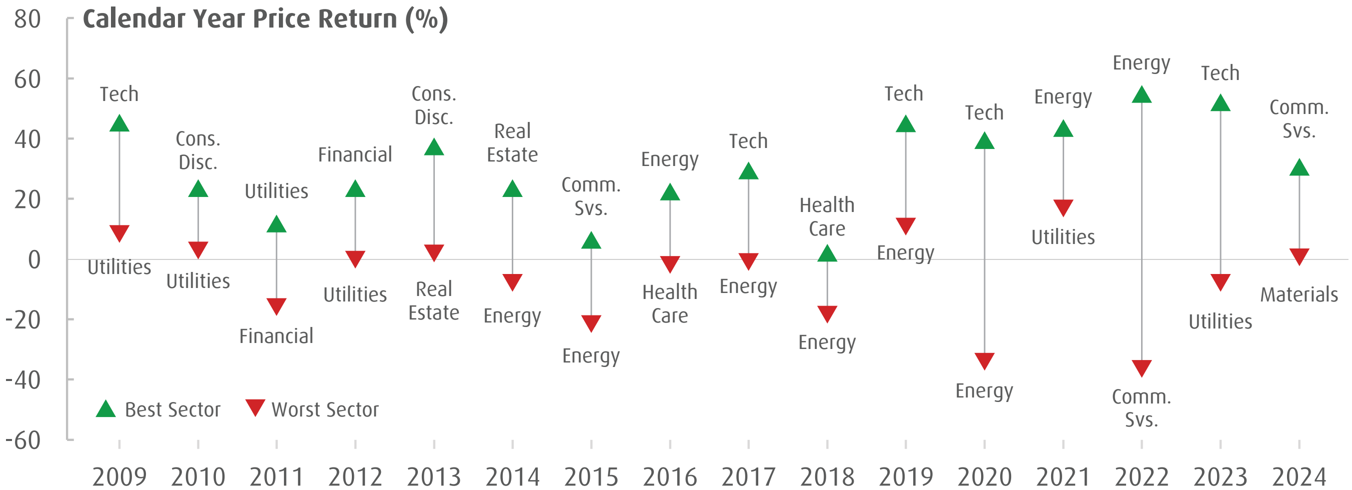
# A Powerful Portfolio Construction Tool

## Pursue Alpha Opportunities

Sector based investment strategies can help you align and adjust your portfolios based on economic trends, shifts in company fundamentals or technical indicators such as momentum. Investors can use sector ETFs to take advantage of tactical opportunities or adjust their strategic asset allocation[6] by investing across a wide dispersion of returns among sectors.

### Wider Dispersion and Changing Leaders Create Opportunities

A wider dispersion provides investors more opportunities to pursue active returns by overweighting strong performers and underweighting laggards.



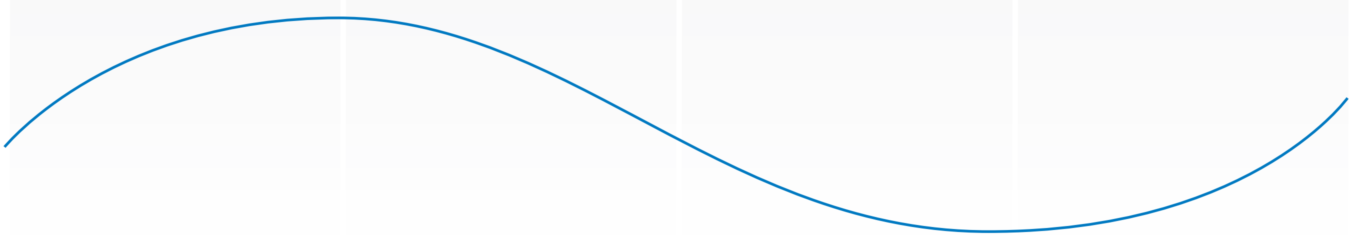

Source: Morningstar, as of December 31, 2024. Past performance is not a reliable indicator of future performance.

[6] Strategic asset allocation is a portfolio strategy. Target allocations are set for various asset classes and then the portfolio is rebalanced periodically. The portfolio is rebalanced to the original allocations when they deviate significantly from the initial settings due to differing returns from the various assets.

## Sector Rotation and the Business Cycle

Sector rotation is a popular tactical asset allocation strategy[7]. Sectors ETFs can be used to express an economic view by overweighting or underweighting a sector based on an investor's outlook of the economic cycle.

| Expansion | Slowdown | Recession | Recovery |
|---|---|---|---|
| • Growth reaches the peak<br>• Increased spending to improve productivity and meet increasing demand<br>• Interest rates start rising from their relatively low level | • Capacity utilization peaks<br>• Positive output gaps<br>• Positive but decelerating growth<br>• Interest rates continue to rise | • Declining economic outputs<br>• Falling demand from both consumers and business<br>• Increasing unemployment<br>• Low consumer confidence<br>• Interest rates decline | • Economy rebounds but below trends<br>• Consumer expectations improve<br>• Discretionary spending increases<br>• Businesses stop cutting back on commercial activities<br>• Interest rates remain at lower level |
| ++<br>Financials<br>Technology<br>+<br>Communication Services<br>–<br>Consumer Staples<br>– –<br>Health Care<br>Utilities | ++<br>Consumer Staples<br>Health Care<br>+<br>Industrials<br>–<br>Materials<br>– –<br>Consumer Discretionary<br>Real Estate | ++<br>Consumer Staples<br>Utilities<br>+<br>Health Care<br>–<br>Communication Services<br>– –<br>Real Estate<br>Technology | ++<br>Consumer Discretionary<br>Real Estate<br>+<br>Materials<br>–<br>Health Care<br>– –<br>Consumer Staples<br>Utilities |



Source: SPDR Americas Research. ++/-- indicates the best/worst two performing sectors. +/- indicates the third best/worst performing sectors. The Energy sector did not make the top/bottom three sectors during any cycles, as it is less sensitive to U.S. economic cycles but more driven by global supply and demand of crude oil. For illustrative purposes only.

7 Tactical asset allocation: An active management portfolio strategy that shifts the percentage of assets held in various categories to take advantage of market pricing anomalies or strong market sectors.

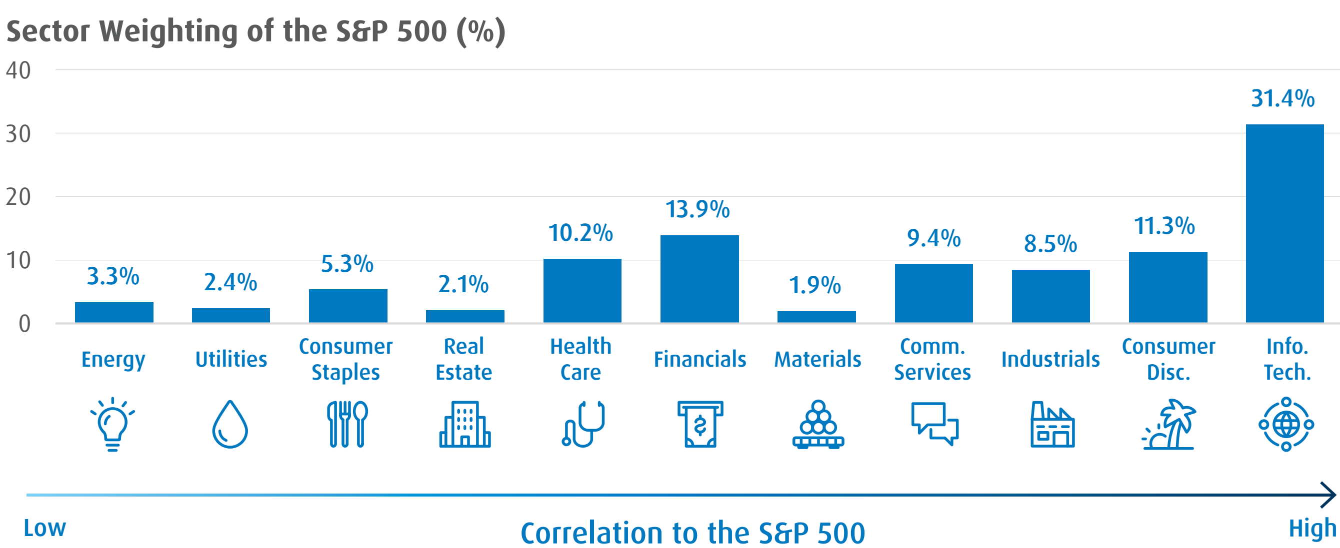
# Efficiently Manage Risk

Cyclical sectors such as technology or financials can be used to be more opportunistic when the economy is doing well. Whereas investing in more defensive sectors such as health care or consumer staples can help dial down volatility. Manage overall portfolio risk by investing in sectors with higher or lower volatility based on your economic outlook.


## Increase Diversification

Investors can often hold concentrated positions in single stocks often due to legacy puchases or company pension plans. Sector ETFs offer a solution by providing diversified exposure to the entire sector that the stock belongs to, reducing individual security risk. Investors can identify sector ETFs with significant holdings of stocks they already own to diversify effectively with BMO's Stock Replacement Tool.

The Canadian market is heavily weighted toward financials, such as the banks, and the energy sector. By investing in U.S sector ETFs investors can reduce their home bias a build a well diversified portfolio. Addtionally, if concentration risk of a sector within the S&P 500 becomes a concern, investors can further diversify their U.S. equity portfolios by overweighting or overweighting sectors based the degree of correlation[8] with the S&P 500.




Source: BMO GAM, December 30, 2024.

[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).

# Sector Returns – By Year (2014-2024)

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| RE 30.19% | CD 10.11% | E 27.36% | IT 38.83% | HC 6.47% | TS 50.29% | IT 43.89% | E 54.64% | E 65.72% | IT 57.84% | TS 40.23% |
| U 28.98% | HC 6.89% | TS 23.48% | M 23.84% | U 4.11% | U 32.69% | E 33.30% | RE 46.19% | U 1.57% | TS 55.80% | IT 36.61% |
| HC 25.34% | CS 6.60% | F 22.80% | CD 22.98% | RE 3.39% | RE 32.13% | SP 23.61% | F 35.04% | CS -0.62% | CD 42.41% | F 30.56% |
| IT 20.12% | IT 5.92% | I 18.86% | F 22.18% | CD 0.83% | I 31.48% | TS 20.73% | IT 34.53% | HC -1.95% | SP 26.26% | CD 30.14% |
| CS 15.98% | RE 4.68% | M 16.69% | HC 22.08% | IT -0.29% | HC 29.37% | U 18.39% | SP 28.68% | I -5.48% | I 18.13% | SP 25.00% |
| F 15.20% | TS 3.40% | U 16.28% | I 21.03% | SP -6.24% | CS 29.01% | RE 13.45% | M 27.28% | F -10.53% | M 12.55% | U 23.43% |
| SP 11.39% | SP -0.73% | IT 13.85% | SP 19.42% | CS -8.38% | IT 27.94% | HC 11.06% | HC 26.13% | M -12.27% | RE 12.36% | I 17.47% |
| I 9.83% | F -1.53% | SP 9.54% | CS 13.49% | TS -12.53% | SP 27.61% | F 10.75% | CD 24.43% | SP -18.13% | F 12.15% | CS 14.87% |
| CD 9.68% | I -2.53% | CD 6.03% | U 12.11% | F -13.03% | F 26.35% | CD 0.48% | TS 21.57% | RE -26.13% | HC 2.06% | E 5.72% |
| M 6.91% | U -4.84% | CS 5.38% | RE 10.85% | I -13.29% | CD 24.58% | M -1.69% | I 21.12% | IT -28.19% | CS 0.52% | RE 5.23% |
| TS 2.99% | M -8.38% | RE 3.39% | E -1.01% | M -14.70% | E 20.82% | CS -2.17% | CS 18.63% | CD -37.03% | E -1.33% | HC 2.58% |
| E -7.78% | E -21.12% | HC -2.69% | TS -1.25% | E -18.10% | M 11.81% | I -33.68% | U 17.67% | TS -39.89% | U -7.08% | M -0.04% |

CD Consumer Discretionary
CS Consumer Staples
E Energy
F Financials
HC Health Care
I Industrials
IT Information Technology
M Materials
RE Real Estate
SP S&P 500
TS Telcommunication Services
U Utilities

Returns are total return figures and are based on historical performance of the sector indicies. Sector indices used were as follows: SPTRCOND Index (Consumer Discretionary), SPTRHLTH Index (Health Care), SPTRCONS Index (Consumer Staples), SPTRINFT Index (Information Technology), SPTRTELS Index (Telecommunication Services), SPTRFINL Index (Financials), SPTRINDU Index (Industrials), SPTRUTIL Index (Utilities), SPTRMATR Index (Materials), SPTRENRS Index (Energy), SPTRRLST index (Real Estate), SPX Index (S&P 500)
Source : Bloomberg, December 30, 2024.

## Let's connect

For more information on the topics in this booklet or for additional information on BMO ETFs, please visit our website at **bmoetfs.com**

Contact Client Services at **1-800-361-1392**

Email us at **bmo.etfs@bmo.com**

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Any information that is not sourced is assumed to be from the following sources: Sector Investing with SPDR ETFs (Q4 2024), Investing with Sector SPDRs (Dec 31, 2024), Sector Investing - A Powerful Portfolio Construction Tool (2024), SSGA Sector Resources, and sectorspdrs.com.

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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

The Select Sector SPDR Trust consists of eleven separate investment portfolios (each a "Select Sector SPDR ETF" or an "ETF" and collectively the "Select Sector SPDR ETFs" or the "ETFs"). Each Select Sector SPDR ETF is an "index fund" that invests in a particular sector or group of industries represented by a specified Select Sector Index. The companies included in each Select Sector Index are selected on the basis of general industry classification from a universe of companies defined by the S&P 500®. The investment objective of each ETF is to provide investment results that, before expenses, correspond generally to the price and yield performance of publicly traded equity securities of companies in a particular sector or group of industries, as represented by a specified market sector index.



The S&P 500 Index is an unmanaged index of 500 common stocks that is generally considered representative of the U.S. stock market. The index is heavily weighted toward stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The S&P 500 Index figures do not reflect any fees, expenses or taxes. An investor should consider investment objectives, risks, fees and expenses before investing.

You cannot invest directly in an index.

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