BMO Target Canadian Corporate Bond ETFs
Frequently Asked Questions

How many Target Maturity Bond ETFs are there, and what are their holdings?

BMO offers 3 target maturity ETFs:

- BMO Target 2027 Canadian Corporate Bond ETF (Ticker: ***ZXCO***)
- BMO Target 2028 Canadian Corporate Bond ETF (Ticker: ***ZXCP***)
- BMO Target 2029 Canadian Corporate Bond ETF (Ticker: ***ZXCQ***)

ZXCO, ***ZXCP*** and ***ZXCQ*** invest primarily in investment-grade Canadian corporate debt instruments with effective maturities in 2027, 2028 and 2029. The ETFs will also invest in derivatives to lock in rates for the final year of maturity. This strategy helps minimize reinvestment risk and provide greater yield certainty in the ETF's final year. Allowing investors to plan according to their investment goals.

What are Target Maturity Bond ETFs and how do they work?

Target Maturity Bond ETFs have the combined benefits of a traditional bond ETFs such as diversification and professional management with the advantages of individual bonds such as defined maturity and the reduction of duration risk over time. Target maturity bond ETFs hold a portfolio of bonds that mature in the same calendar year. The ETFs themselves mature at a specified date within that calendar year providing an experience similar to holding an individual bond.

What is the difference between BMO's Target Maturity Bond ETFs and traditional target maturity products?

During the final year of maturity, the proceeds from Traditional Target Maturity Bond ETFs are reinvested into cash and cash equivalents. By doing this the portfolio is subject to the variable rates provided by the cash and cash equivalents at the time of reinvestment. This strategy can provide uncertainty in yield during the final year.

The BMO Target Maturity Bond ETFs are different in that they provide a defined income for a fixed period during the year of maturity. The rate for the final year of maturity are locked-in upon the ETFs inception. This is done by using derivatives to implement a hedging strategy designed to minimize reinvestment risk as a result of staggered bond maturity dates. Furthermore, BMO's Target Maturity Bond ETFs do not rebalance. They will hold a static portfolio of such bonds with maturity dates in the fund's final year to provide further yield certainty.

Why should I buy a Target Maturity ETF instead of a Bond?

The funds provide various benefits compared to individual bonds including a straightforward solution for investors to access bonds, diversification as the funds will hold a portfolio of bonds, additional liquidity due to the fund being sold through an exchange and having it professionally managed by BMO Global Asset Management.

What type of strategies can Target Maturity ETFs be used for? How do these fit into my portfolio?

These ETFs can be used as a complement or replacement for fixed income allocations in existing portfolios. They can be used to create a diversified laddered bond portfolio to smooth out the effect of fluctuations in interest rates. The flexibility of the ETF also allows investors to position themselves on specific points on the yield curve. Lastly, due to the defined maturity feature investors can match cash flows with their future financial liabilities or goals.

What happens at maturity? What happens to my money at the end of the term?

Once the maturity date of the ETF is reached, the ETF will delist from the exchange and make a final distribution of the net asset value per unit to its unitholders.

Can I buy or sell my Target Maturity ETF at any time, or do I have to buy at the beginning of the term and sell at the end of the term?

The Target Maturity Bond ETFs trade on an exchange and can be bought or sold anytime during the term.

Tax treatment?

Generally, the returns on the Target Maturity ETFs will be classified as interest income and capital gains. However, we always recommend consulting with a Tax specialist.

What can we expect if we purchase the ETF in the middle of the term?

An investor can expect a yield to maturity ('YTM') based on the prevailing price, interest rates, and the remaining annualized distributions at the time of purchase.

What happens when a large purchase or redemption happens in the portfolio? Will this change the expectations of the YTM of the ETF?

Based on the large purchase or redemption, additional bonds will be either be bought or sold to maintain consistency. Existing derivative contracts can be scaled, so the hedges will also be adjusted accordingly without needing to enter or end another contract.

Is there intra-day liquidity?

Yes, all of BMO Target Maturity Bond ETFs are listed on the exchange and will trade just like any other exchange traded fund.

How often will the ETF make distributions?

The Distribution frequency will be made quarterly.

Definitions:

Duration Risk: A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise). Essentially, duration estimates the percentage change in a bond's price for a 1% change in interest rates. This sensitivity is what constitutes the risk: as interest rates rise, bond prices fall, and vice versa.

Intra Day Liquidity: ETFs listed on a exchange can be bought and sold at any time during market exchange hours.

Derivative Overlay: investment strategy that includes the use of derivatives to create a targeted return and risk profile.

Reinvestment Risk: the possibility that an investor might be unable to reinvest cash flows at a rate comparable to their current rate of return.

Investment Grade Debt: Corporate fixed income securities, such as bonds and notes, are considered investment grade if they have a low risk of default and possess a credit rating of BBB and above.

Yield Curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

Volatility: Measures how much the price of a security, derivative, or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

Yield to Maturity (YTM): The total expected return from a bond when it is held until maturity – including all interest, coupon payments, and premium or discount adjustments.