BMO Long Short Equity ETFs

Long on Performance[1], Short on Fees

ZLSC

BMO Long Short Canadian Equity ETF
Mgmt. Fee: 0.65%
Distribution frequency: **Q**
Risk[2] Rating: Low to Medium

ZLSU

BMO Long Short US Equity ETF[3]
Mgmt. Fee: 0.65%
Distribution frequency: **Q**
Risk[1] Rating: Low to Medium

Why BMO Long Short Equity ETFs?

Lower Fees

Keep more of your returns and avoid the hefty performance fees associated with traditional long short strategies.

Liquidity

Listed on the TSX for 100% intra-day liquidity.

Transparency

Always know what inside your portfolio with daily portfolio transparency: Daily Holdings

Performance

Potential for stronger risk adjusted[4] performance and lower beta[5] than long only equity funds.

Access

The ETF structure makes alternative investing available to all investors, big or small. No documentation required.

Diversification

Add an alternative asset class with lower correlations[6] to the TSX and S&P 500.

What are Liquid Alternatives?

In 2019 the Canadian Securities Administrators introduced a new regulatory framework that helped democratize alternative investing by allowing alternative strategies to be accessed through exchange traded funds and mutual funds. Thus creating a liquid alternative for not just accredited investors and institutions.

Examples of alternative strategies include long short equities, market neutral, or managed futures. Similar to traditional strategies, liquid alternatives focus on enhancing return potential, and diversifying the source of risk, which can assist investors in constructing more optimal portfolios.

Long Short Equity Strategy

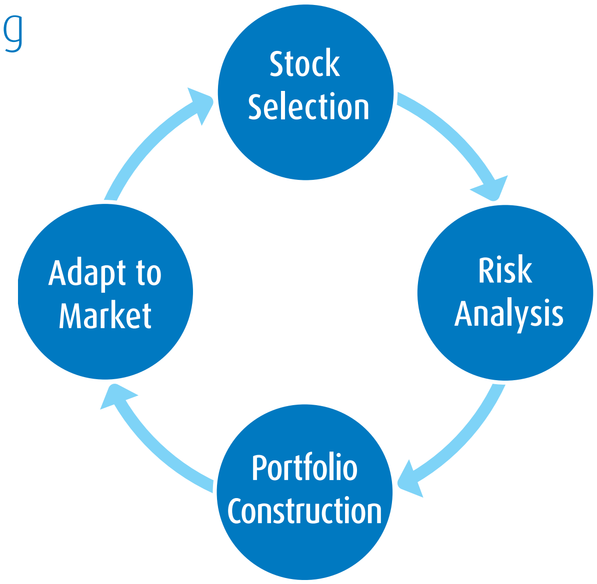
The long (buys) short (sells) equity strategy is an investment strategy that takes long positions in equities the manager believes will outperform, and short positions in equities that are expected to underperform its peers. Long short strategies tend to have a partial long bias, for example a net equity exposure (% longs - % shorts) of 50%.

Why Employ a Long Short Strategy?

Long short equity strategies can improve potential for "alpha[7]" capture with the ability to short stocks that are expected to underperform. And provide the ability to lower risk relative to a long only equity strategy acting as a hegde to against a long portoflio.

BMO GAM's Approach to Long Short Investing

By focusing on identifying candidates for both the long and short portfolios using a model driven process, and robust portfolio construction technique is used to build well balanced and risk controlled portfolios. A consistent monthly rebalancing and reconstituting adapts to new market information, reconstructing the optimal portfolio, while taking into account trading costs.



Model Driven Process

Stocks are compared relative to their sector peers based on fundamentals. These fundamental factors are used to rank companies based on their relative attractiveness for investment. Companies that score well across multiple metrics have historically outperformed, while companies that scored badly have historically underperformed.

The multi-faceted alpha score is driven by economically meaningful investment factors which have been shown to lead to stock equity outperformance and underperformance historically. The weighting of the sub-component factors is monitored and weighted towards the most strongly performing factors in the respective markets, while balancing between factors to benefit from signal diversification.

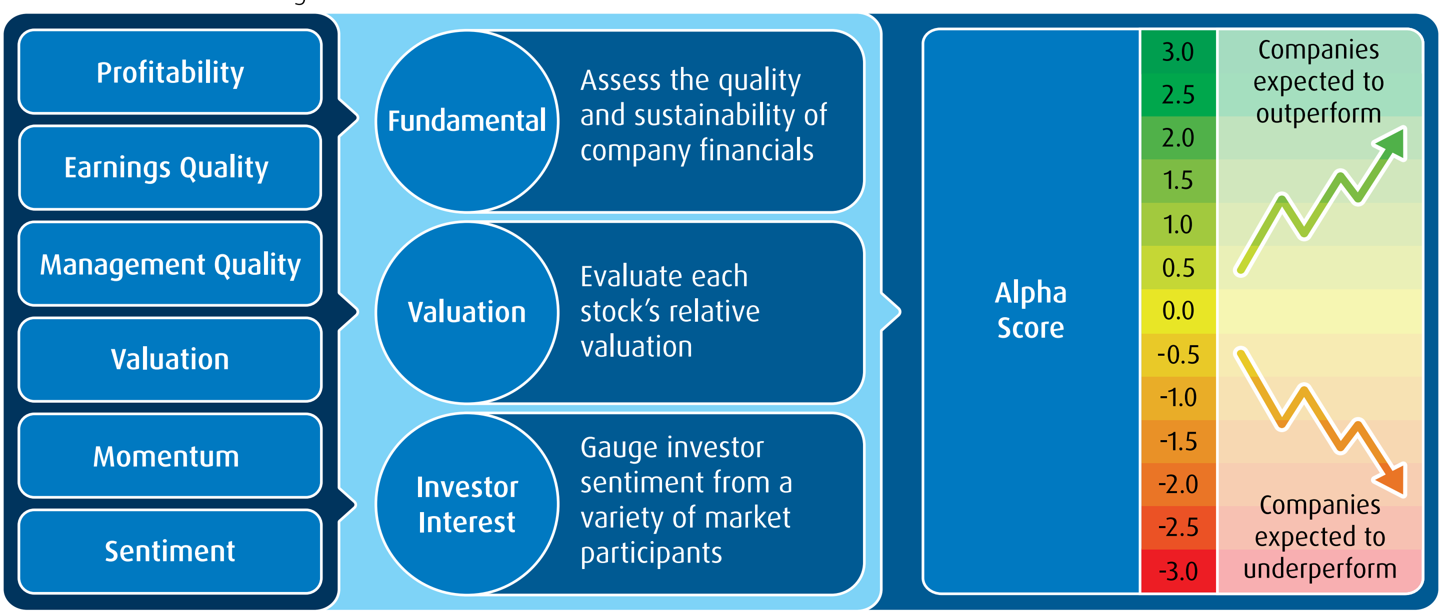


Table 1: Sample Quantitative metrics we look at while judging a stock's attractiveness

Fundamental	Profitability	High cash earnings on capital and assets used in the business
	Earnings Quality	Accounting is conservative and earnings match cashflows. Earnings and Cashflows are growing
	Management Quality	Management returns cash to shareholders instead of empire building
Valuation	Value	High cash earnings on market price we pay to own the company
Investor Interest	Momentum	Rising stock price over multiple months
	Sentiment	Rising earnings estimates from analysts who follow the company

Portfolio construction: Risk versus Reward

With the BMO Long Short ETFs, we combine our alpha score with risk and cost considerations to build a well diversified portfolios which aim to maximise risk adjusted returns.

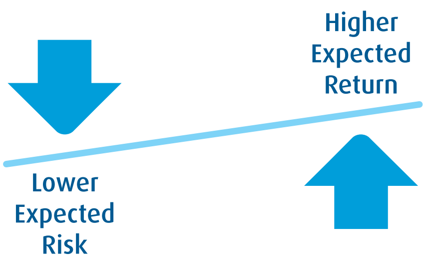
We monitor and control risks of various kinds using a combination of industry standard and proprietary tools.

Systematic Risks: Exposure to market movements: Cyclicals versus defensives, sector exposure etc.

Macro Economic Risks: Exposure to changing interest rates, inflation or recession risk

Fundamental Risks: Regulatory or legal risks, upcoming corporate actions like mergers etc.

We constantly monitor for changes in the market as falling prices or improving fundamentals and investor interest can provide new opportunities. We systematically rebalance the portfolio monthly to adjust it for market movements, and to capture new information which reveals opportunities or risks.



Other portfolio construction constraints ensure a well-diversified final portfolio, with managed exposure to sectors and individual securities.

Target Portfolio Construction Controls

Sector Weights	+/- 2% Net relative to parent equity index
Security Weights	+/- 3% Net relative to index weight
Shorting	Max -1.75% per individual short
Rebalance	Monthly – to consistently update the portfolio

Summary

Liquid alternatives will be increasingly attractive and utilized by investors, as they manage complex investment markets, as broadened investment tools provide opportunities to enhance portfolios. BMO's long short equity solutions are robustly constructed, transparent and efficient solutions to provide an additive, risk-managed solution to client portfolios.

BMO | Exchange Traded Funds
by BMO Global Asset Management

Let's connect

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[1] Performance is not guaranteed. All investments involve risk. The value of an ETF can go down as well as up and you could lose money.

[2] 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' prospectus.

[3] Changes in rates of exchange may also reduce the value of your investment.

[4] Return (risk-adjusted): A measure of investment performance taking into consideration how much risk/volatility was assumed to generate it. Consider two investments, both of which return 10% over a given time period. The investment with the greater risk-adjusted return would be the one that experienced less price fluctuation. Two of the most commonly used measures of risk adjusted returns are Sharpe and Sortino ratios.

[5] Beta: A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

[6] 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).

[7] Alpha refers to excess returns earned on an investment above the benchmark return.