

Whitepaper

BMO Strategic Equity Yield Fund

This white paper discusses the BMO Strategic Equity Yield Fund (the “Fund”) and some of the components that make up the Fund. The Fund will seek to replicate the outcome of an actively managed portfolio of diversified structured notes offered by North American and/or international issuers.

Structured Notes

A structured note is a hybrid security that combines characteristics of fixed income instruments with equity securities. Approximately 75%-95% of the composition of structured note payouts are created using bonds, with the remainder composed of equity derivatives.

Autocallable Note

Autocallable notes are currently one of the most popular categories of structured notes. They are medium-term market-linked investments with a call feature, contingent coupon payments and contingent principal protection. Autocallable notes potentially offer an above market coupon along with downside contingent protection. Key benefits include:

- Income generation
- Contingent downside protection
- Differentiated return profile from equities and bonds

Key Features of Autocallable Notes

Call Feature – Autocallable notes are redeemed (matured) if, at any pre-determined call observation date, the underlying reference asset’s level meets or exceeds the autocall level.

Contingent Coupon - A coupon is paid if, on a pre-determined coupon observation date, the underlying reference asset’s level meets or exceeds the coupon threshold. Coupons may be monthly, quarterly or in some other pre-determined interval.

Contingent Principal Protection - Autocallable notes offer contingent principal protection. If the note is not called prior to maturity, the initial principal is protected if the underlying asset’s level is at or above the protection level at maturity.

Components of an Autocallable Note Structure

- 1) Zero Coupon Bond – Zero coupon bonds are used by the Fund to earn interest and provide capital appreciation within the structure.
- 2) Digital Knock-in Call Options – Contingent, periodic coupons are replicated by the Fund with a long position in digital knock-in call options. These coupon payments provide the yield that potentially outperforms the return on major equity indexes.

- 3) **Put Options** – The downside protection component, used by the Fund to mitigate the decline in a price of an underlying asset, can be structured using one of the following two methods:
- Barrier protection** – Autocallable notes with barriers are structured by **shorting a digital knock-in put option** on the downside. At maturity, if the note has not been called, the note provides principal protection level at or above the principal protection level. Below the principal protection level, the note’s maturity amount is equal to the underlying asset’s decline.
 - Geared buffer protection** – Autocallable notes with buffer protection are structured by **shorting put options** striking at the principal protection level. At maturity, if the note has not been called, the note provides principal protection level at or above the principal protection level. Below the principal protection level, the notes maturity amount will be less than the principal amount but greater than the underlying asset’s decline.

Impact of Markets

The Fund is expected to outperform equity markets in a slightly bearish, flat or slightly rising markets.

Down Markets

Autocallable notes have embedded contingent principal protection, characterized by the barrier or buffer protection, and are expected to result in equal or less loss than the underlying reference asset’s loss.

Rising Markets

In a moderately rising market, Autocallable notes will be called and the return of the note is expected to outperform the underlying reference asset’s return. Consequently, the Fund may outperform the market. Whereas, with a strong rising market, Autocallable notes will be called and the return may underperform the underlying reference asset’s return. Consequently, the Fund may be expected to underperform the underlying reference asset’s return.

Flat Markets

In a flat market, Auto callable notes may have potential to be called. If called, the return is expected to outperform the underlying reference asset’s return.

Glossary

Feature	Description
Autocallable Barrier (AB) Level	If the underlying asset’s level is at or above the autocallable barrier (AB) level on any of the pre-determined observation dates, the note will be automatically called. The principal will be returned to the investor and the note will cease to exist. No additional coupon payments will be paid in subsequent observation periods.
Coupon Barrier (CB) Level	If the underlying asset’s level is at or above the coupon barrier (CB) level on any of the pre-determined observation dates, a coupon will be triggered and paid to the investor.
Principal Protection (PP) Level	If the underlying asset’s level is at or above the principal protection (PP) level at maturity, the note will be principal protected. Otherwise, when the underlying asset’s level is below the PP level at maturity, part of the initial principal will be lost.

Call Frequency	Frequency in which notes can be called.
Coupon Frequency	Frequency in which coupon can be paid.
Memory Feature	Memory feature allows the note holder to recover any missed coupons in previous coupon observation periods when the underlying asset's level is at or above the CB level on any observation dates.
Digital Knock-in Options	knock-in options are call or put options that come into existence when the underlying's price crosses the pre-determined strike price

Disclosures:

This communication is intended for informational purposes only and is not, and should not be construed as, investment and/or tax advice to any individual. Particular investments and/or trading strategies should be evaluated relative to each individual's circumstances. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors cannot invest directly in an index.

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

Commissions, trailing commissions (if applicable), management fees and expenses all may be associated with mutual fund investments. Please read the fund facts or prospectus of the relevant mutual fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Distributions are not guaranteed and are subject to change and/or elimination.

For a summary of the risks of an investment in BMO Mutual Funds, please see the specific risks set out in the prospectus.

BMO Mutual Funds are managed by BMO Investments Inc., which is an investment fund manager and a separate legal entity from Bank of Montreal.

BMO Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.

"BMO (M-bar roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.