



BMO Guaranteed Investment Funds (GIF) – Frequently Asked Questions

Product Design

Why are transactions like deposits and fund switches processed only monthly?

BMO GIFs offer market leading automatic monthly maturity guarantee resets coupled with a 100% maturity guarantee for deposits with a term as short as 15 years. This benefit combination could be viewed as more important in today's volatile markets. The monthly processing of transactions is an integral part of how BMO Insurance manages this risk. When you consider the time horizon of a GIF investment at 15 to 25 years, this is not a significant delay to investing into a selected fund. Moreover, in addition to contractual rescission rights for deposits and switches, we will allow your client to cancel deposits and switches up to the 15th of the month (or the following month if the order was placed after the 15th) at no cost or penalty to the client.

Does my client's money earn interest while it's waiting to be deposited into the selected fund?

Yes. Your client's money is temporarily invested in a holding class of the Money Market Fund. On the transaction date (20th), your client's deposit plus any accrued income is invested in the selected fund.

When are deposit commissions paid?

Deposit commissions are paid at time of deposit into the contract. This includes lump deposits into the holding class of the Money Market Fund so commissions are NOT deferred until the transfer into the selected fund on the 20th of the month. PAD deposits are made on the 20th so deposit commissions would be paid at that time.

Do you plan to offer a lower cost version of segregated funds (e.g. 75/75)?

It is with great pride that we announce our entry into the Canadian traditional segregated fund marketplace with a 100/100 plan. We do anticipate making future enhancements, which could include other plan types and additional fund options.

What is the mechanism for rebalancing, and how often will this occur?

The portfolio manager of the BMO GIFs will maintain an asset allocation in line with BMO Volatility ControlTM as well as the fund specific mandate. Rebalancing will occur as needed, as frequently as daily.

Why are death benefit resets only offered at the maturity date renewal and not during the investment term?

BMO GIFs provide a stronger maturity guarantee and reset benefit than what is currently available in the market, which will appeal to pre-retirees who are looking to invest in the market but want downside protection. Pre-retirees are looking to maximize the ability to grow their savings and lock-in market gains while living, yet still enjoy the safety net of deposit guarantees on death. While there are no resets of the death benefit during an investment term of BMO GIF, there is the possibility of death benefit resets at renewals (for clients under 75).

Why don't you have any high net worth pricing?

This feature may be included in future BMO GIF product development releases.

If my client wants to put in a deposit within the last 15 years to the maturity date, can I start a new contract to get a 100% guarantee?

Yes. A new contract with a term to maturity date of at least 15 years could be created, allowing for a 100% deposit maturity guarantee.

Why would I want to sell the No-Load Option?

The No-Load option is a great alternative to selling a front-end or back-end load option. It makes the conversation with your client about commissions easy. Unlike other low-load options, there is NO deferred sales charge or front-end charge to your client in the No-Load option. Advisors earn a deposit commission of 2.5-3% plus trailer commission of 1% starting in the 25th month. There is a pro-rated commission chargeback for deposit withdrawals in the first 24 months.

What are the cost savings to my client by avoiding probate?

Segregated fund assets with a properly designated beneficiary are considered to be held outside of the estate such that the fees associated with probating the estate can be avoided. Probate fees vary by province and estate value. In Ontario, for estate values over \$50,000, the probate fee is \$250 plus 1.5% of the estate value over \$50,000*. Avoiding probate also saves executor fees, which can be as high as 5% of the estate value, as well as legal and accounting fees. By naming a beneficiary in a segregated fund and avoiding probate, you can also keep these assets “private” (outside the estate) and get these assets into the hands of your beneficiary faster.

* Source: www.taxtips.ca March 2013

What do you mean by “potential creditor protection”?

Creditor protection rules depend on legislation and vary by province. Segregated fund assets will not be creditor protected if the client was in financial difficulty before the

investment was made. Usually there is a minimum period of time stipulated between when the investment was made and when financial difficulties commenced. Your clients should seek independent legal advice to determine if their segregated fund contract would be exempt from seizure from creditors under provincial law and the federal Bankruptcy and Insolvency Act given their specific situation.

Does Bank of Montreal have a segregated fund loan referral program?

Yes. RSP loans as well as personal loans secured against non-registered segregated funds are available for your clients. Only individuals with above average incomes and financial means should consider leveraging. For further details, contact a BMO Investment Lending Specialist at www.bmo.com/investmentlending

Investment Funds

Why are there only four investment funds available?

The four ETF-based balanced funds offer a broad exposure to North American stock markets and popular equity income sectors. Almost two-thirds of Canadian traditional segregated fund sales are invested in balanced and equity income categories so we believe that our four funds to start should appeal to many investors. BMO Insurance will look to add fund options in future product development releases.

Why isn't there a track record for BMO GIFs?

The BMO GIFs are new ETF-based balanced fund options available on December 2, 2013. While there is no track record yet established for these unique ETF bundled segregated funds, the historical performance of the underlying BMO ETFs held in the segregated funds is available online at www.etfs.bmo.com

In the near future, return performance and other information about the BMO GIF options will be available to you online in the Fund Profiles found at www.bmoinsurance.com/advisor/GIF

How will BMO Volatility Control benefit my clients?

Strongly correlated with market volatility and interest rate levels, the BMO Volatility Control model systematically manages the asset allocation of each BMO GIF to smooth out the return volatility, while potentially enhancing total return over the long-term. Lower return volatility enables us to offer superior segregated fund features at a competitive MER (like automatic monthly resets coupled with a 100% deposit maturity guarantee for deposits with a term as short as 15 years).

What factors drive the allocation between equity and fixed income in the BMO Volatility Control model?

The BMO Volatility Control model is sensitive to changes in:

- 1) Volatility – the model responds to changes in the two month rolling market volatility. Lower market volatility supports more exposure to equity.
- 2) Interest rates – the model responds to changes in interest rates with higher interest rates supporting less protection or fixed income exposure and more equity exposure.

Why is the allocation to equity below 50% at the present time?

The BMO Volatility Control model is sensitive to changes in volatility and interest rates. While current levels of market volatility have decreased, interest rates remain low. Increases in interest rates support increased equity exposure. Based on our sensitivity analysis at current volatility levels, a 1% increase in interest rates supports an 8% higher equity exposure. It is important to keep a long-term view of this investment. While we cannot predict the future, based on back-tested results, we would expect the long-term average equity percentage to be between 50% and 60%.

What are the maximum equity percentages in the four BMO GIF Funds, and what do you anticipate will be the average equity percentage holding in the four Funds?

For regulatory capital purposes, the maximum equity percentage is 75%. While we cannot predict the future, based on back-tested results, we would again expect the long-term average equity percentage to be between 50% and 60%.

What are the minimum equity percentages in the four BMO GIFs?

There is no stipulated minimum equity allocation in the BMO GIF contract. While we do expect the equity percentage to vary between 20% and 75% depending on market volatility and interest rates, in practice it is possible for the equity percentage to fall below 20%. In fact, during a short period in 2009, at a time of record high market volatility and record low interest rates, our back-tested BMO Volatility Control model illustrated the equity percentage falling to the 10% range. Note that this was a temporary period, after which the equity percentage increased.

Why don't you offer pure equity funds?

In order to offer the maturity guarantees and resets that BMO GIFs enjoy, BMO Insurance aims to keep return volatility to a manageable level, and 100% equity funds makes this very difficult to do. While some other carriers offer pure equity funds, they don't come with the maturity guarantees and resets that BMO GIFs offer. In fact, some carriers only offer a 75% maturity guarantee at age 100, which could be viewed as irrelevant to many investors.

Why do BMO GIFs invest in the BMO Mid Federal Bond Index ETF as the fixed-income component?

For the fixed income allocation, BMO GIFs have chosen to invest in the BMO Mid Federal Bond Index ETF because it meets BMO Insurance's default-free credit quality and average maturity requirements. The balanced fixed income and equity allocation of each BMO GIF supports our ability to deliver the industry's richest maturity guarantee and reset benefit at a competitive price.

If BMO GIFs wrap BMO ETFs, shouldn't they be lower in cost?

Holding ETFs does lower the Management Fee cost in a BMO GIF. This is reflected in our disclosed GIF management fees (1.55% for the U.S./Cdn Balanced Growth to 1.70% for the Income Strategy Funds). When combined with the Insurance Fees and other expenses charged to the funds, BMO Insurance provides the industry's richest maturity guarantee and reset benefit in the industry at a very competitive MER. BMO GIF features include market leading maturity guarantees with automatic monthly maturity resets, competitive death benefit guarantees and BMO Volatility Control™.

Note: Management Fees also cover the cost of deposit and trailer commissions.

Administration

What if my first time BMO GIF sale is rejected on FundSERV?

This likely means that your seg fund rep code is not yet set up on our segregated fund back office system. This can be addressed quickly by asking your MGA/dealer to contact our BMO GIF Administrative and Services Office with details. Note: Your MGA/dealer and you must be contracted with BMO Life Assurance to sell BMO GIFs.

What happens if I put in the wrong fund code for my purchase order?

Trades can be cancelled and corrected on FundSERV if before 4:00 pm Toronto time on the same day of the purchase with no penalty to the client. If after 4:00 pm, or if it was a direct trade, the Advisor must provide a letter of Direction but still with no penalty to the client provided we receive the cancellation request by the 15th of the month (or the following month if the order was placed after the 15th).

The policyowner also has regulatory rescission rights for up to 7 days to cancel an order but the client would be charged for any loss as a result of a reduction in market value (but with a refund of any sales charges or other fees paid).

Can I receive a more detailed breakdown of my client's deposits by 100% vs. 75% deposit guarantee?

Yes. Please contact our BMO GIF Administrative and Services Office should you require a breakdown of the maturity or death benefit guarantees by deposit.

Will my client's statement show returns?

Yes. The rate of return on your client's policy contract for the last 3 months, 1, 3, 5 years and since inception will be reported on their June 30 and December 31 statement.

How can I contact the BMO GIF Administrative and Services Office?

BMO GIF Administrative and Services Office
250 Yonge Street, 9th Floor, Toronto, ON M5B 2M8
Tel: 1-855-639-3867 (English); 1-855-639-3869 (French)
Fax: 1-855-747-5613
E-mail: ClientServices.BMOLifeGIF@bmo.com

What do I need to do to sell BMO GIFs in nominee name?

In order to sell BMO GIFs in nominee name, the advisor must be licensed with both IIROC (i.e. licensed to sell securities) as well as life-licensed to sell segregated funds.

Taxation

What tax reporting will my clients be responsible for each year?

Segregated funds are deemed trusts and as such "flow-through" interest income, dividends, capital gains/losses and foreign income on an annual basis to unitholders. Each year your clients will receive a T3 tax slip reflecting their proportional share of these items.

Under what circumstances is it considered a disposition of the policy, and what are the tax consequences to the policyowner?

A full surrender or partial surrender, as well as the death of the owner or annuitant (providing a successor annuitant was not named) are all considered a disposition of the policy. The taxable gain would be calculated as the market value of the policy less the adjusted cost basis (ACB). BMO Insurance will keep track of the ACB of the unitholder's funds. BMO Insurance will report any gain on disposition to the unitholder on their annual T-3 slip.

How will any "top-up" payments for guarantees be treated?

The taxation of "top-up" payments for guarantees at maturity or death is uncertain at this time, but we intend on treating them as capital gains. Thus, top-up payments should be considered within the broader context of policy taxation to ascertain the net taxable impact. Clients should seek professional tax advice for their particular circumstances.