

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# BMO MSCI China ESG Leaders Index ETF (ZCH) (the “ETF”) (formerly BMO China Equity Index ETF)

For the 12-month period ended December 31, 2021 (the “Period”)

Manager: BMO Asset Management Inc. (the “Manager” and “portfolio manager”)

## Management Discussion of Fund Performance

### Investment Objective and Strategies

Prior to December 3, 2021, the ETF’s investment objective sought to replicate, to the extent possible, the performance of a broad Chinese equity markets index, net of expenses. The ETF sought to replicate the performance of the S&P/BNY Mellon China Select ADR Index. The investment strategy of the ETF was to invest in and hold the constituent securities of the S&P/BNY Mellon China Select ADR Index in the same proportion as they are reflected in the S&P/BNY Mellon China Select ADR Index.

On December 3, 2021, the ETF’s investment objective changed to seek to replicate, to the extent possible, the performance of an environmental, social and governance (“ESG”) focused broad Chinese equity markets index, net of expenses. Currently, the ETF seeks to replicate the performance of the MSCI China ESG Leaders Index (the “Index”). The investment strategy of the ETF is to invest in and hold the constituent securities of the Index in the same proportion as they are reflected in the Index. The Manager may also use a sampling methodology in selecting investments for the ETF to obtain exposure to the performance of the Index. As an alternative to or in conjunction with investing in and holding the constituent securities, the ETF may invest in or use certain Other Securities (as defined in the prospectus) to obtain exposure to the performance of the Index.

### Risk

The risks associated with an investment in the ETF remain as disclosed in the ETF’s most recent prospectus or any amendments thereto and ETF facts. During the Period, there were no changes to the Fund that materially affected the overall risk level associated with an investment in the ETF. However, the Manager reviewed the ETF using the standardized investment risk classification methodology prescribed by National Instrument 81-102 *Investment Funds* and determined on January 14, 2021 that the risk rating of the ETF had changed from “high” to “medium to high”. The Manager reviews the ETF’s investment risk level and reference index, if any, at least annually.

### Results of Operations

The ETF underperformed the broad-based MSCI Emerging Markets Index by 38.64%. However, the more appropriate comparison is to the S&P/BNY Mellon China Select ADR Index, due to the concentration of the portfolio in Chinese companies. The ETF returned -42.01% versus the S&P/BNY Mellon China Select ADR Index return of -44.70%. The change in total net asset value during the Period from approximately \$136 million to approximately \$102 million had no impact on the performance of the ETF. The difference in the performance of the ETF relative to the S&P/BNY Mellon China Select ADR Index during the Period (2.69%) resulted from the management expense ratio (-0.72%), and the impact of sampling and certain

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the ETF. If the annual financial statements of the ETF do not accompany the mailing of this report, you may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by writing to us at BMO Asset Management Inc., 250 Yonge Street, 7th Floor, Toronto, Ontario, M5B 2M8 or by visiting our website at [www.bmo.com/etflegal](http://www.bmo.com/etflegal) or SEDAR at [www.sedar.com](http://www.sedar.com). You may also contact us using one of these methods to request a copy of the ETF’s interim financial report, proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.



Exchange Traded Funds

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other factors (3.41%), which may have included timing differences versus the S&P/BNY Mellon China Select ADR Index, and market volatility.

## **Market Conditions**

Emerging markets central banks tightened their monetary policy and increased their interest rates in order to anchor inflation expectations, which has put pressure on growth focused equities. Emerging market equities underperformed developed market equities during the Period. The MSCI Emerging Markets Index returned -3.4% (in Canadian dollars) during the Period. Emerging market countries have been slower than developed nations to contain the COVID-19 virus and vaccinate their populations. Despite the increase in COVID-19 cases in India this year, India has been one of the main drivers of performance in emerging markets over the Period. China, on the other hand, has detracted, driven by debt concerns from major real-estate developers such as Evergrande, U.S. sanctions on equity listings, underperformance in Information Technology stocks and political uncertainty in Hong Kong.

China seems to have decided to transition from a broad based, high growth economic mindset to a moderate and sustainable, quality growth perspective that prioritizes social equality for the broader population under the banner of the “common prosperity” program initiated by the Chinese Communist Party (“CCP”). In 2021, Chinese policy makers implemented a series of reforms aimed at reducing excessive use of leverage in the Real Estate market (with Evergrande being the most notable posterchild in this area) and the broader equity markets. The CCP also introduced legislation to control the power of technology companies’ monopolies in using consumer data and their investments abroad. Those regulatory changes, seen as headwinds by investors, led many sectors of the Chinese market to sub-par performances in 2021 as market participants questioned the country’s commitment to a market-based economy.

During the Period, the ETF’s exposure to Energy and Utilities contributed the most to performance, while exposure to the Consumer Discretionary and Communication Services sectors detracted the most from performance. In terms of individual stock contributors, Petrochina Co. Ltd., ADR and China Petroleum & Chemical Corp., ADR contributed the most to the ETF’s performance, while Alibaba Group Holding Ltd., ADR and Pinduoduo Inc., ADR proved to be among the biggest detractors from performance.

## **ETF Name Change and Management Fee Rate Reduction**

On December 3, 2021, the ETF’s name changed from BMO China Equity Index ETF to BMO MSCI China ESG Leaders Index ETF in conjunction with the investment objective and strategy changes described in the “Investment Objective and Strategies” section of this document. In addition, the annual management fee rate of the ETF was reduced from 0.65% to 0.60%.

## **Recent Developments**

In 2022, the market expectation is that the weight of the CPP regulatory measures should diminish. The Chinese economy will still grow, although at a more moderate pace. The belief is that as the CCP celebrates its 20<sup>th</sup> National Party Congress, the Chinese government will be keen to continue providing some level of monetary accommodation to support growth (that has started with the recent reduction of the reserve requirement ratio by 0.5% by the People’s Bank of China) and showcase its success.

In February 2022, hostilities commenced in Ukraine. In response, a number of countries have imposed economic sanctions on Russia and certain Russian citizens and entities. The impact of the hostilities, economic sanctions and other measures may have wide-ranging global effects on price volatility for securities and commodities as well as the stability of global financial markets. It is uncertain how long the hostilities, economic sanctions and market instability will continue and whether they will escalate further.

## **Related Party Transactions**

From time to time, the Manager may, on behalf of the ETF, enter into transactions or arrangements with or involving other members of BMO Financial Group, or certain other persons or companies that are related or connected to the Manager (each a “Related Party”). The purpose of this section is to provide a brief description of any transactions involving the ETF and a Related Party.

## **Manager**

The Manager, an indirect, wholly-owned subsidiary of Bank of Montreal (“BMO”), is the portfolio manager, trustee and promoter of the ETF. The Manager is paid a management fee by the ETF as compensation for its services, which is described in the “Management Fees” section later in this document.

## **Designated Broker**

The Manager has entered into an agreement with BMO Nesbitt Burns Inc., an affiliate of the Manager, to act as designated broker and dealer for distribution of BMO exchange traded funds, on terms and conditions that

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are comparable to arm's length agreements in the exchange traded funds industry. The material terms and conditions of the agreement have been disclosed in the ETF's prospectus.

The Manager has also entered into agreements with certain other registered dealers in Canada to act as dealers for the creation and redemption of units of BMO exchange traded funds.

## Buying and Selling Securities

During the Period, the ETF relied on standing instructions provided by the independent review committee ("IRC") for any of the following related party transactions that may have occurred in the ETF (each, a "Related Party Transaction"):

- (a) investments in securities issued by BMO, an affiliate of the Manager, or any other issuer related to the Manager;
- (b) investments in a class of non-government debt securities and/or equity securities of an issuer during the period of distribution of those securities to the public and/or the 60-day period following the distribution period where BMO Nesbitt Burns Inc., an affiliate of the Manager, or any other affiliate of the Manager acted as an underwriter in the distribution;
- (c) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., an affiliate of the Manager, that is trading with the ETF as principal; and
- (d) trades of a security from or to, another investment fund or a managed account managed by the Manager or an affiliate of the Manager.

In accordance with the IRC's standing instructions, in making a decision to cause the ETF to enter into a Related Party Transaction, the Manager and the portfolio manager of the ETF are required to comply with the Manager's written policies and procedures governing the Related Party Transaction and report periodically to the IRC, describing each instance that the Manager relied on the standing instructions and its compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure that each Related Party Transaction (i) is made free from any influence of BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc.; (ii) represents the business judgment of the Manager, uninfluenced by considerations other than the best interests of the ETF; and (iii) achieves a fair and reasonable result for the ETF.

## Brokerage Commissions

The ETF pays standard brokerage commissions at market rates to BMO Nesbitt Burns Inc., an affiliate of the Manager, for executing a portion of its trades. The brokerage commissions charged to the ETF (excluding exchange and other fees) during the periods were as follows:

		2021	2020
Total brokerage commissions	\$	88,667	7,222
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	\$	3,336	3,264

## Financial Highlights

The following tables show selected key financial information about the ETF and are intended to help you understand the ETF's financial performance for the periods indicated.

### The ETF's Net Assets per Unit<sup>(1)</sup>

Listed CAD Units	Financial years ended Dec. 31				
	2021	2020	2019	2018	2017
Net assets, beginning of period	\$ 33.72	24.60	21.22	25.75	18.85
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 0.19	0.39	0.46	0.57	0.48
Total expenses <sup>(2)</sup>	\$ (0.26)	(0.25)	(0.21)	(0.26)	(0.23)
Realized gains (losses) for the period	\$ (4.23)	2.79	(0.24)	0.05	1.27
Unrealized gains (losses) for the period	\$ (9.07)	6.31	2.79	(3.54)	3.60
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ (13.37)	9.24	2.80	(3.18)	5.12
<b>Distributions</b>					
From net investment income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ —	0.16	0.28	0.26	0.15
From capital gains	\$ —	0.24	—	1.43	0.49
Return of capital	\$ —	0.02	0.01	0.03	0.00
<b>Total Annual Distributions<sup>(4)</sup></b>	\$ —	0.42	0.29	1.72	0.64
<b>Net assets, end of period</b>	\$ 19.55	33.72	24.60	21.22	25.75

<sup>(1)</sup> This information is derived from the ETF's audited annual financial statements.

<sup>(2)</sup> Includes commissions and other portfolio transaction costs and withholding taxes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>(4)</sup> Distributions were either paid in cash or reinvested in additional units of the ETF, or both.

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## Ratios and Supplemental Data

Listed CAD Units	Financial years ended Dec. 31				
	2021	2020	2019	2018	2017
Total net asset value (000's) <sup>(1)</sup>	\$ 102,423	135,863	59,738	49,274	104,616
Number of units outstanding (000's) <sup>(1)</sup>	5,239	4,030	2,429	2,322	4,063
Management expense ratio <sup>(2)</sup>	% 0.72	0.72	0.71	0.71	0.71
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.72	0.72	0.71	0.71	0.71
Trading expense ratio <sup>(3)</sup>	% 0.18	0.01	0.03	0.07	0.06
Portfolio turnover rate <sup>(4)</sup>	% 184.42	76.51	86.16	139.32	43.26
Net asset value per unit	\$ 19.55	33.72	24.60	21.22	25.75
Closing market price	\$ 19.82	33.61	24.55	21.18	25.75

<sup>(1)</sup> This information is provided as at December 31 of the period shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

<sup>(4)</sup> The ETF's portfolio turnover rate indicates how actively the ETF's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the ETF buying and selling all of the securities in its portfolio once in the course of the year. The higher an ETF's portfolio turnover rate in a year, the greater the trading costs payable by the ETF in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of an ETF.

## Management Fees

The Manager is responsible for the day-to-day management of the business and operations of the ETF. The Manager monitors and evaluates the ETF's performance, manages the portfolio and provides certain administrative services required by the ETF. As compensation for its services, the Manager is entitled to receive a management fee payable quarterly and calculated based on the daily net asset value of the ETF at the annual rate set out in the table below. The management fee is subject to applicable taxes. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged.

Ticker	Annual Management Fee Rate %
ZCH	0.60

## Past Performance

The ETF's performance information assumes that all distributions made by the ETF in the periods shown were used to purchase additional units of the ETF and is based on the net asset value of the ETF.

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember that how the ETF has performed in the past does not indicate how it will perform in the future.

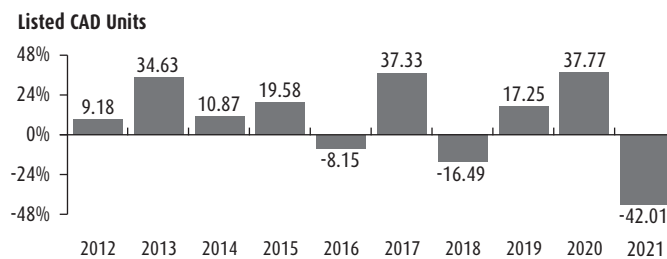
On September 28, 2012, the ETF changed its investment objective and underlying index from the BNY Mellon China Select ADR Index CAD Hedged to the BNY Mellon China Select ADR Index, which is an un-hedged broad Chinese equity markets index.

On December 3, 2021, the ETF changed its investment objective from replicating the performance of a broad Chinese equity index to replicate the performance of an ESG-focused broad Chinese equity index. The underlying index changed from the S&P/BNY Mellon China Select ADR Index to the MSCI China ESG Leaders Index. The annual management fee rate of the ETF was also reduced from 0.65% to 0.60%.

These changes could have affected performance of the ETF, had they been in effect throughout the performance measurement periods presented.

## Year-by-Year Returns

The following bar chart shows the performance of the ETF for each of the financial years shown and illustrates how the ETF's performance has changed year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.



## Annual Compound Returns

On December 3, 2021, the ETF changed its benchmark from the S&P/BNY Mellon China Select ADR Index ("previous benchmark") to the MSCI China ESG Leaders Index to align with the ETF's current investment objective and strategies.

This table compares the historical annual compound returns of the ETF with its benchmark index, the MSCI China ESG Leaders Index, its previous benchmark, and a broad-based index, the MSCI Emerging Markets Index.

The MSCI China ESG Leaders Index is based on the parent index, the MSCI China Index, which includes large- and mid-capitalization stocks with exposure to China. The MSCI China ESG Leaders Index aims to capture the performance of securities that have been assigned higher ESG ratings by MSCI relative to their peers within the corresponding Global Industry Classification Standard ("GICS") sector. The MSCI

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China ESG Leaders Index uses MSCI ESG ratings to identify companies and targets 50% of the free float-adjusted market capitalization within each GICS sector by only selecting companies that have the highest ratings in each such sector. The MSCI China ESG Leaders Index excludes securities of companies that earn a significant portion of revenues from tobacco, alcohol, gambling, conventional weapons and civilian firearms, any controversial weapons, significant generation of nuclear power, unconventional oil and gas as well as companies involved in severe business controversies (in each case as determined by MSCI Inc.).

The S&P/BNY Mellon China Select ADR Index consists of a select group of American depository receipts traded on the New York Stock Exchange (“NYSE”), NYSE Amex or NASDAQ which are domiciled in China.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

As at December 31, 2021

Listed CAD Units		1Yr	3Yr	5Yr	10Yr	Since Inception
BMO MSCI China ESG Leaders Index ETF	%	(42.01)	(2.16)	1.44	6.76	
MSCI China ESG Leaders Index	%	(23.35)	8.47	9.42	14.23	
S&P/BNY Mellon China Select ADR Index	%	(44.70)	(3.17)	1.04	6.67	
MSCI Emerging Markets Index	%	(3.37)	8.09	8.57	7.52	

A discussion on the relative performance of the ETF as compared to its previous benchmark index and broad-based index can be found under the Results of Operations section of this report.

## Summary of Investment Portfolio

As at December 31, 2021

Portfolio Allocation	% of Net Asset Value
Consumer Discretionary	41.6
Communication Services	24.2
Financials	10.9
Health Care	7.7
Industrials	5.3
Real Estate	2.6
Consumer Staples	2.4
Utilities	2.3
Information Technology	2.2
Materials	0.9
Energy	0.1
Cash/Receivables/Payables	-0.2
<b>Total Portfolio Allocation</b>	<b>100.0</b>

Top 25 Holdings	% of Net Asset Value
Tencent Holdings Limited	24.1
Alibaba Group Holding Limited	16.2
Meituan Dianping, Class B	8.4
China Construction Bank Corporation	4.7
Ping An Insurance (Group) Company of China, Ltd.	3.7
NIO, Inc., ADR	3.1
Wuxi Biologics Cayman, Inc.	3.1
BYD Company Limited	2.2
China Merchants Bank Co., Ltd., H Shares	2.2
Li Ning Company Limited	1.8
Yum China Holdings, Inc.	1.5
XPeng, ADR	1.4
China Mengniu Dairy Company Limited	1.3
Li Auto Inc., Class A, ADR	1.3
Geely Automobile Holdings Limited	1.2
Shenzhen International Group Holdings Limited	1.1
ENN Energy Holdings Limited	1.1
Contemporary Amperex Technology Co., Ltd.	0.9
Great Wall Motor Company Limited	0.9
Country Garden Services Holdings Company Limited	0.8
CSPC Pharmaceutical Group Limited	0.7
China Overseas Land & Investment Limited	0.6
WuXi AppTec Co., Ltd.	0.6
Longfor Group Holdings Limited	0.6
Lenovo Group Limited	0.6

<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>84.1</b>
<b>Total Net Asset Value</b>	<b>\$102,423,420</b>

The summary of investment portfolio may change due to the ETF's ongoing portfolio transactions. Updates are available quarterly.

## Caution regarding forward-looking statements

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the ETF may invest in and the risks detailed from time to time in the ETFs' prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the ETF, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Asset Management Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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