

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

BMO US Preferred Share Index ETF (ZUP/ZUP.U) (the “ETF”)

For the 12-month period ended December 31, 2022 (the “Period”)

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

Management Discussion of Fund Performance

Investment Objective and Strategies

The ETF seeks to replicate, to the extent possible, the performance of the Solactive U.S. Preferred Share Select Index (NTR) (the “Index”), net of expenses. 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. As an alternative to or in conjunction with investing in and holding 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 ETF that materially affected the overall risk level associated with an investment in the ETF. The Manager reviewed the ETF using the standardized investment risk classification methodology prescribed by National Instrument 81-102 *Investment Funds* and determined on January 17, 2022 that the risk rating of the ETF had not changed. The Manager reviews the ETF’s investment risk level and reference index, if any, at least annually.

Results of Operations

The Canadian dollar (“CAD”) units of the ETF underperformed the broad-based S&P 500 Index (CAD) by 1.42%. However, the more appropriate comparison is to the Solactive U.S. Preferred Share Select Index (NTR) (CAD) (the “Index (CAD)”), due to the concentration of the portfolio in U.S. preferred shares. The ETF returned -13.58% versus the Index (CAD) return of -14.38%. The difference in the performance of the CAD units of the ETF relative to the Index (CAD) during the Period (0.80%) resulted from the management expense ratio (-0.50%), and the impact of sampling and certain other factors (1.30%), which may have included timing differences versus the Index (CAD), and market volatility.

The U.S. dollar (“USD”) units of the ETF returned -19.26% versus the Solactive U.S. Preferred Share Select Index (NTR) (USD) (the “Index (USD)”) return of -19.96%. The difference in the performance of the USD units of the ETF relative to the Index (USD) during the Period (0.70%) resulted from the management expense ratio (-0.50% and the impact of sampling and certain other factors (1.20%), which may have included timing differences versus the Index (USD), and market volatility. The change in total net asset value during the Period from approximately \$104 million to approximately \$68 million had no impact on the performance of the ETF.

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 or SEDAR at 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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Market Conditions

U.S. equities declined during 2022 as the Russia-Ukraine conflict and rise of inflation led to increased market uncertainty and weighed on equity evaluations. The U.S. Consumer Price Index (CPI) rose 7.1% year-over-year as of the last published rate for the Period. The U.S. equity market, as measured by the S&P 500 Index, returned -12.2% (in Canadian dollars) over the Period. The U.S. Federal Reserve Board (“Fed”) moved aggressively on the overnight lending rate to try to curb inflation, moving the target rate to 4.5% from 0.25% at the beginning of the Period. The significant positive contributors to performance from a sector perspective were Energy and Health Care, while the significant negative contributors were Information Technology, Consumer Discretionary, and Communications Services.

The ETF’s exposure to Energy contributed the most to performance. Industrials provided negative returns that were higher than the average, while the Financials and Real Estate sectors detracted the most from performance. Among individual securities, DCP Midstream LP 7 8/7 Perp and National Asset Recovery Corp Float 01/15/43 preferred shares added to performance the most. Qurate Retail Inc. Series A 8 03/15/31 and Diversified Healthcare Trust 5 5/8 08/01/42 preferred shares were among the largest detractors from performance.

Recent Developments

After a challenging year for both equity and bond markets, the Fed is expected to continue interest rate hikes well into 2023, however market expectations are starting to price in some optimism that the interest rate hiking cycle is nearing an end. The expectation of the end of the hiking cycle in the U.S. could mean that there is more stability in the market for the year ahead. The portfolio manager does expect economic growth to slowdown and for a recession to come to fruition. Economic data, more importantly inflation, will be on the top of the radar for investors as it will likely dictate the path of interest rate policy for much of 2023.

With the Fed anticipated to pause on its interest rate hikes early this year, it will likely benefit the interest rate sensitive U.S. preferred shares. Furthermore, more stable interest rates will provide clarity potentially leading to tighter credit spreads, which would also likely benefit the asset class.

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.

Subsequent Event

As at December 31, 2022, the ETF had exposure to the US banking sector including certain US regional banks. Subsequent to year-end, the ETF continues to have exposure to this sector. In certain cases, government agencies have assumed control or otherwise intervened in the operations of certain banks due to liquidity and solvency concerns. The ultimate resolution of these liquidity and solvency concerns and the extent of the related impact to the ETF is uncertain and could be significant.

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 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;

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(b) investments in a class of 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 over-the-counter debt securities in the secondary market with BMO Nesbitt Burns Inc., or any other affiliate of the Manager, acting as principal in the Canadian debt securities market; and

(d) trades of a security of any issuer from or to, another investment fund managed by the Manager or an affiliate of the Manager 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:

	2022	2021
Total brokerage commissions	\$ 55,014	58,605
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	\$ 223	8,540

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⁽¹⁾

Listed CAD Units	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Net assets, beginning of period	\$ 24.78	25.07	24.83	23.69	24.33
Increase (decrease) from operations					
Total revenue	\$ 1.49	1.49	1.64	1.66	1.66
Total expenses ⁽²⁾	\$ (0.28)	(0.29)	(0.29)	(0.29)	(0.28)
Realized gains (losses) for the period	\$ (1.39)	(0.15)	0.03	0.07	(0.36)
Unrealized gains (losses) for the period	\$ (3.22)	0.10	0.32	1.00	(0.49)
Total increase (decrease) from operations⁽³⁾	\$ (3.40)	1.15	1.70	2.44	0.53
Distributions					
From net investment income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ 1.24	1.14	1.52	1.35	1.24
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.04	0.18	—	0.02	0.00
Total Annual Distributions⁽⁴⁾	\$ 1.28	1.32	1.52	1.37	1.24
Net assets, end of period	\$ 20.22	24.78	25.07	24.83	23.69

Listed USD Units [†]	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Net assets, beginning of period	\$ 25.38	25.47	24.80	22.53	25.22
Increase (decrease) from operations					
Total revenue	\$ 1.48	1.55	1.60	1.61	1.64
Total expenses ⁽²⁾	\$ (0.27)	(0.30)	(0.28)	(0.29)	(0.28)
Realized gains (losses) for the period	\$ (1.38)	(0.16)	0.09	0.09	(0.35)
Unrealized gains (losses) for the period	\$ (3.08)	0.10	(0.55)	0.75	(0.39)
Total increase (decrease) from operations⁽³⁾	\$ (3.25)	1.19	0.86	2.16	0.62
Distributions					
From net investment income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ 1.22	1.18	1.41	1.30	1.30
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.06	0.14	0.07	0.06	0.02
Total Annual Distributions⁽⁴⁾	\$ 1.28	1.32	1.48	1.36	1.32
Net assets, end of period	\$ 19.34	25.38	25.47	24.80	22.53

[†] Amounts stated in U.S. dollars.

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

⁽²⁾ Includes commissions and other portfolio transaction costs and unitholding taxes.

⁽³⁾ 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.

⁽⁴⁾ 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				
	2022	2021	2020	2019	2018
Total net asset value (000's) ⁽¹⁾	\$ 47,010	74,964	57,829	71,808	62,839
Number of units outstanding (000's) ⁽¹⁾	2,325	3,025	2,307	2,892	2,652
Management expense ratio ⁽²⁾	% 0.50	0.50	0.49	0.49	0.48
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.50	0.50	0.49	0.49	0.48
Trading expense ratio ⁽³⁾	% 0.06	0.06	0.08	0.10	0.05
Portfolio turnover rate ⁽⁴⁾	% 83.49	117.57	116.08	132.44	71.88
Net asset value per unit	\$ 20.22	24.78	25.07	24.83	23.69
Closing market price	\$ 20.34	24.99	25.15	24.77	23.49

Listed USD Units	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Total net asset value (000's) ⁽¹⁾	\$ 21,213	29,220	18,157	14,817	10,767
Number of units outstanding (000's) ⁽¹⁾	810	910	560	460	350
Management expense ratio ⁽²⁾	% 0.50	0.50	0.50	0.50	0.49
Management expense ratio before waivers or absorptions ⁽²⁾	% 0.50	0.50	0.50	0.50	0.49
Trading expense ratio ⁽³⁾	% 0.06	0.06	0.08	0.10	0.05
Portfolio turnover rate ⁽⁴⁾	% 83.49	117.57	116.08	132.44	71.88
Net asset value per unit†	\$ 19.34	25.38	25.47	24.80	22.53
Closing market price†	\$ 19.44	25.42	25.56	24.82	22.70

† Amounts stated in U.S. dollars.

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

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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 %
ZUP	0.45
ZUP.U	0.45

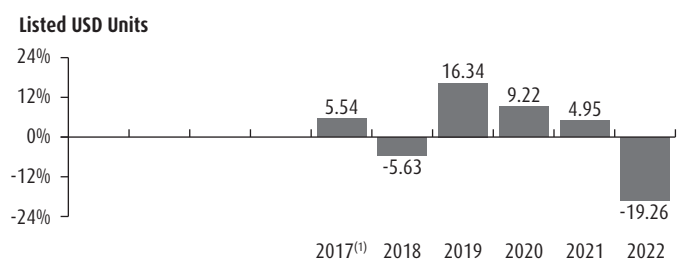
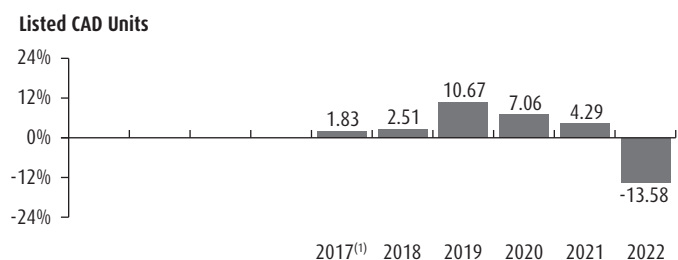
Past Performance

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.

Year-by-Year Returns

The following bar charts show the performance of the ETF for each of the financial years shown, and illustrate how the ETF's performance has changed year to year. The charts show, 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.



⁽¹⁾ For the period beginning with the performance launch date of February 3, 2017 to December 31, 2017.

Annual Compound Returns

This table compares the historical annual compound returns of the ETF with its benchmark index, the Solactive U.S. Preferred Share Select Index (NTR) and a broad-based index, the S&P 500 Index.

The Solactive U.S. Preferred Share Select Index (NTR) measures the U.S. Preferred Share market that pays higher dividends. Eligible securities must be U.S. listed, have a minimum market capitalization of US\$100 million and meet the minimum liquidity requirements. The Solactive U.S. Preferred Share Select Index (NTR) Index is reported in both Canadian and U.S. dollars.

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The S&P 500 Index is a market capitalization-weighted index of securities of 500 of the largest U.S. listed issuers provided by S&P. The S&P 500 Index is commonly used as a measure of broad U.S. stock market performance. The S&P 500 Index is reported in both Canadian and U.S. dollars.

As at December 31, 2022

Listed CAD Units		1Yr	3Yr	5Yr	10Yr	Since
						Inception ⁽¹⁾
BMO US Preferred Share Index ETF	%	(13.58)	(1.18)	1.83		1.85
Solactive U.S. Preferred Share Select Index (NTR) (CAD)	%	(14.38)	(1.12)	0.00		1.99
S&P 500 Index (CAD)	%	(12.16)	9.25	0.00		11.86
Listed USD Units						
		1Yr	3Yr	5Yr	10Yr	Since Inception ⁽¹⁾
BMO US Preferred Share Index ETF	%	(19.26)	(2.55)	0.32		1.19
Solactive U.S. Preferred Share Select Index (NTR)	%	(19.96)	(2.48)	0.00		1.31
S&P 500 Index (USD)	%	(18.11)	7.66	0.00		11.08

⁽¹⁾ Return from the performance launch date of February 3, 2017 to December 31, 2022.

A discussion on the relative performance of the ETF as compared to its 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, 2022

Portfolio Allocation	% of Net Asset Value
Preferred Shares – U.S. Dollar Denominated	98.2
Cash/Receivables/Payables	1.8
Total Portfolio Allocation	100.0

Top 25 Holdings

	% of Net Asset Value
Cash/Receivables/Payables	1.8
Qurate Retail, Inc., Cumulative, Preferred, Redeemable, 8.000% Sep 15, 2025, \$104.00	1.3
Diversified Healthcare Trust, Preferred, Redeemable, 6.250% Jan 30, 2023, \$25.00	1.3
Diversified Healthcare Trust, Preferred, 5.625% Jan 30, 2023, \$25.00	1.0
NuStar Logistics, L.P., Cumulative, Fixed/Floating Rate Preferred, Redeemable, 10.813% Jan 30, 2023, \$25.00	0.9
WESCO International, Inc., Series A, Cumulative, Fixed/Floating Rate Preferred, Redeemable, 10.625% Jun 22, 2025, \$25.00	0.9
Merchants Bancorp, Non-Cumulative, Preferred, Redeemable, 8.250% Oct 1, 2027, \$25.00	0.9
Citigroup Capital XIII, Cumulative, Fixed/Floating Rate Preferred, Redeemable, 10.785% Jan 30, 2023, \$25.00	0.9
SITE Centers Corp., Series A, Cumulative, Preferred, Redeemable, 6.375% Jan 30, 2023, \$25.00	0.8
SiriusPoint Ltd., Series B, Cumulative, Fixed/Floating Rate Preferred, Redeemable, 8.000% Feb 26, 2026, \$25.00	0.8
Brighthouse Financial, Inc., Cumulative, Preferred, Redeemable, 6.250% Sep 15, 2023, \$25.00	0.8
Brunswick Corporation, Preferred, Redeemable, 6.375% Apr 15, 2024, \$25.00	0.8
Pitney Bowes Inc., Preferred, Redeemable, 6.700% Feb 1, 2023, \$25.00	0.8
Brookfield Infrastructure Partners L.P., Series 14, Cumulative, Preferred, Redeemable, 5.000% Feb 16, 2026, \$25.00	0.8
Triton International Limited, Cumulative, Preferred, Redeemable, 7.375% Dec 15, 2024, \$25.00	0.8
PacWest Bancorp, Series A, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable 7.750% Sep 1, 2027, \$25.00	0.8
Office Properties Income Trust, Senior, Unsecured, 6.375% Jun 23, 2025, \$25.00	0.7
Air Lease Corporation, Series A, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, 6.150% Mar 15, 2024, \$25.00	0.7
Wintrust Financial Corporation, Series E, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, 6.875% Jul 15, 2025, \$25.00	0.7
EPR Properties, Series G, Cumulative, Preferred, Redeemable, 5.750% Jan 30, 2023, \$25.00	0.7
Synchrony Financial, Series A, Non-Cumulative, Preferred, Redeemable, 5.625% Nov 15, 2024, \$25.00	0.7
Brookfield Property Partners L.P., Series A, Cumulative, Preferred, Redeemable, 6.500% Mar 31, 2024, \$25.00	0.7

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Top 25 Holdings	% of Net Asset Value
Brookfield Property Partners L.P., Series A2, Cumulative, Preferred, Redeemable, 6.375% Sep 30, 2024, \$25.00	0.7
Argo Group International Holdings, Ltd., Fixed/Floating Rate Preferred, Redeemable, 7.000% Sep 15, 2025, \$25.00	0.7
SL Green Realty Corp., Series I, Cumulative, Preferred, Redeemable, 6.500% Jan 30, 2023, \$25.00	0.7
Top Holdings as a Percentage of Total Net Asset Value	21.7
Total Net Asset Value	\$68,223,246

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.

Solactive AG ("Solactive") is the licensor of Solactive Index. The ETF that is based on the Solactive Index is not sponsored, endorsed, promoted or sold by Solactive in any way and Solactive makes no express or implied representation, guarantee or assurance with regard to: (a) the advisability in investing in the ETF; (b) the quality, accuracy and/or completeness of the Solactive Index; and/or (c) the results obtained or to be obtained by any person or entity from the use of the Solactive Index. Solactive reserves the right to change the methods of calculation or publication with respect to the Solactive Index. Solactive shall not be liable for any damages suffered or incurred as a result of the use (or inability to use) of the Solactive Index.

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