

## SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# BMO Short Provincial Bond Index ETF (ZPS/ZPS.L) (the “ETF”)

For the six-month period ended June 30, 2017 (the “Period”)

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

## Management Discussion of Fund Performance

### Results of Operations

The ETF underperformed the broad-based FTSE TMX Canada Universe Bond Index by 2.25%. However, the more appropriate comparison is to the FTSE TMX Canada Short Term Provincial Bond Index™ (the “Index”), due to the concentration of the portfolio in short-term Canadian provincial bonds. The ETF returned 0.11% versus the Index return of 0.23%.

The difference in the performance of the ETF relative to the Index during the Period (-0.12%) resulted from the payment of management fees (-0.14%) and the impact of sampling and certain other factors (0.02%), which may have included timing differences versus the Index, and market volatility.

The accumulating units were launched on February 3, 2017. For the period February 3, 2017 to June 30, 2017, the accumulating units ETF returned -0.02% versus the Index return of 0.07%.

The difference in the performance of the accumulating units ETF relative to the Index for the period February 3, 2017 to June 30, 2017 (-0.09%) resulted from the payment of management fees (-0.11%) and the impact of sampling and certain other factors (0.02%), which may have included timing differences versus the Index, and market volatility.

The change in total net asset value during the Period from approximately \$485 million to approximately \$507 million had no impact to the performance of the ETF.

### Market Conditions

During the Period, Canadian fixed income markets were up as the Bank of Canada (“BoC”) maintained its current interest rate policy. The portfolio manager believes the strong housing market and consumer debt levels weighed heavily on the BoC’s decision to not raise interest rates, despite improving economic growth and stabilizing oil prices. Canadian bonds returned approximately 2.4%, as measured by the FTSE TMX Canada Universe Bond Index. Canadian bonds posted positive returns across most maturities and sectors, however, bonds with long-dated maturities generated higher total returns than short-dated bonds. Specifically, long-term bonds (10+ years), which returned approximately 6.1%, with short-term bonds (1 to 5 years) returning approximately 0.3%. Mid-term bonds (5 to 10 years) returned approximately 1.3%. From a sector perspective, Corporate bonds posted returns at approximately 2.9%, Provincial bonds at approximately 3.5% and Federal bonds at approximately 0.9%.

The ETF’s shorter-dated bond holdings contributed to performance, while exposure to provincial bonds contributed to performance relative to federal bonds, but detracted from performance relative to corporate bonds.

### Recent Developments

The portfolio manager believes that the Canadian economy will continue to strengthen for the remainder of 2017. Canada should remain in a relatively low interest rate environment with the expectation that the BoC will moderately raise interest rates in the coming period. The

---

This semi-annual management report of fund performance contains financial highlights but does not contain the complete semi-annual or annual financial statements of the ETF. If the semi-annual financial statements of the ETF do not accompany the mailing of this report, you may obtain a copy of the semi-annual or 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 proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

# BMO Short Provincial Bond Index ETF

---

ETF's shorter-dated bond holdings and provincial bond holdings should provide interest rate protection from the potential of rising interest rates. Shorter-dated bonds should outperform longer-dated bonds and provincial bonds should outperform federal bonds, during this period.

## **Related Party Transactions**

The Manager, an indirect, wholly-owned subsidiary of Bank of Montreal ("BMO"), is the portfolio manager, trustee and promoter of the ETF. 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.

## **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 other major dealers in Canada to act as dealers for the creation and redemption of units of BMO exchange traded funds.

## **Buying and Selling Securities**

### ***Trades in Debt Securities with a Related Entity, Trading as Principal and Conducting Inter-Fund Trades***

During the Period, the Manager relied on an approval and standing instruction provided by the ETF's Independent Review Committee ("IRC") with respect to the following related party transactions:

- (a) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc. who is trading with the ETF as principal; and
- (b) inter-fund trades (each, a "Related Party Transaction").

In accordance with the IRC's approval and standing instruction, in making a decision to cause the ETF to make a Related Party Transaction, the Manager, as Manager and portfolio manager of the ETF, is 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 approval and standing instruction and its compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the 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.

## **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 maximum annual rate set out in the table below.

Ticker	Maximum Annual Management Fee Rate %
ZPS	0.25
ZPS.L	0.25

# BMO Short Provincial Bond Index ETF

## 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>

	Period ended Jun. 30, 2017	Financial years ended Dec. 31				
		2016	2015	2014	2013	2012
Net assets, beginning of period	\$ 13.90	14.24	14.31	14.32	14.60	14.96
<b>Increase (decrease) from operations</b>						
Total revenue	\$ 0.09	0.18	0.22	0.22	0.52	0.57
Total expenses	\$ (0.02)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Realized gains (losses) for the period	\$ 0.01	0.06	0.08	(0.00)	(0.20)	(0.10)
Unrealized gains (losses) for the period	\$ (0.07)	(0.13)	0.08	0.25	(0.09)	(0.24)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.01</b>	<b>0.07</b>	<b>0.34</b>	<b>0.43</b>	<b>0.19</b>	<b>0.19</b>
<b>Distributions</b>						
From income (excluding dividends)	\$ 0.21	0.42	0.41	0.44	0.47	0.53
From dividends	\$ —	—	—	—	—	—
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.00	0.01	0.02	0.02	0.04	0.02
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>\$ 0.21</b>	<b>0.43</b>	<b>0.43</b>	<b>0.46</b>	<b>0.51</b>	<b>0.55</b>
<b>Net assets, end of period</b>	<b>\$ 13.70</b>	<b>13.90</b>	<b>14.24</b>	<b>14.31</b>	<b>14.32</b>	<b>14.60</b>

		Feb. 3, 2017	to Jun. 30, 2017 <sup>(1)</sup>
<b>Listed Accumulating</b>			
Net assets, beginning of period		\$ 20.00	
<b>Increase (decrease) from operations</b>			
Total revenue		\$ 0.11	
Total expenses		\$ (0.02)	
Realized gains (losses) for the period		\$ 0.01	
Unrealized gains (losses) for the period		\$ (0.12)	
<b>Total increase (decrease) from operations<sup>(2)</sup></b>		<b>\$ (0.02)</b>	
<b>Distributions</b>			
From income (excluding dividends)		\$ —	
From dividends		\$ —	
From capital gains		\$ —	
Return of capital		\$ —	
<b>Total Annual Distributions<sup>(3)</sup></b>		<b>\$ —</b>	
<b>Net assets, end of period</b>		<b>\$ 19.99</b>	

<sup>(1)</sup>This information is derived from the ETF's unaudited and audited financial statements. The financial information presented for the periods ended June 30, 2017, December 31, 2016, December 31, 2015, December 31, 2014 and December 31, 2013 is derived from the financial statements determined in accordance with IFRS. Information for years prior to January 1, 2013 is derived from prior period financial statements prepared in accordance with Canadian GAAP.

<sup>(2)</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>(3)</sup>Distributions were either paid in cash or reinvested in additional units of the ETF, or both. The allocation of the distributions from each of income, dividends, capital gains and return of capital is based on the Manager's estimate as at June 30 of the period shown, which is the ETF's semi-annual period end. However, actual allocation of distributions is determined as at December 15, the ETF's tax year-end. Accordingly, the actual allocation among income, dividends, capital gains and return of capital may differ from these estimates.

## Ratios and Supplemental Data

	Period ended Jun. 30, 2017	Financial years ended Dec. 31					
		2016	2015	2014	2013	2012	
Total net asset value (000's) <sup>(1)</sup>	\$ 505,484	485,360	307,033	195,988	141,775	90,535	
Number of units outstanding (000's) <sup>(1)</sup>	36,896	34,924	21,559	13,700	9,900	6,200	
Management expense ratio <sup>(2)</sup>	% 0.28	0.28	0.28	0.28	0.28	0.28	0.28
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.28	0.28	0.28	0.28	0.28	0.28	0.28
Trading expense ratio <sup>(3)</sup>	% —	—	—	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	% 38.69	89.78	48.61	51.86	80.02	41.08	
Net asset value per unit	\$ 13.70	13.90	14.24	14.31	14.32	14.60	
Closing market price	\$ 13.71	13.87	14.23	14.32	14.33	14.61	

		Feb. 3, 2017 to Jun. 30, 2017	
		Listed Accumulating	to Jun. 30, 2017
Total net asset value (000's) <sup>(1)</sup>		\$ 1,999	
Number of units outstanding (000's) <sup>(1)</sup>		100	
Management expense ratio <sup>(2)</sup>		% 0.29	
Management expense ratio before waivers or absorptions <sup>(2)</sup>		% 0.29	
Trading expense ratio <sup>(3)</sup>		% —	
Portfolio turnover rate <sup>(4)</sup>		% 38.69	
Net asset value per unit		\$ 19.99	
Closing market price		\$ 20.00	

<sup>(1)</sup>This information is provided as at June 30 or December 31 of the period shown, as applicable.

<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. For all the financial periods listed, no commissions or other portfolio transaction costs were incurred by the ETF. As a result, the trading expense ratio for all the periods was zero.

<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.

## 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.

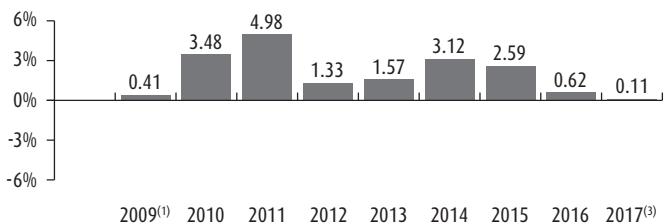
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember that how the ETF has performed in the past does not indicate how it will perform in the future.

# BMO Short Provincial Bond Index ETF

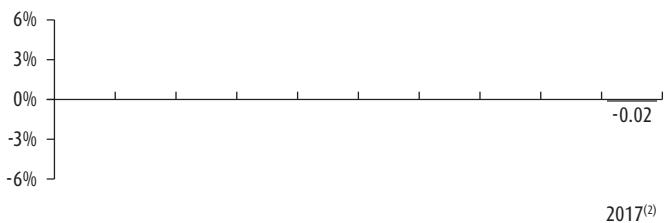
## Year-by-Year Returns

The following bar chart shows the performance of the ETF for each of the financial years shown. 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.

### Listed Units



### Accumulating Units



<sup>(1)</sup> Return from October 20, 2009 to December 31, 2009.

<sup>(2)</sup> Return from February 3, 2017 to June 30, 2017.

<sup>(3)</sup> For the six-month period ended June 30, 2017.

## Summary of Investment Portfolio

As at June 30, 2017

Portfolio Allocation	% of Net Asset Value
Ontario	48.0
Quebec	26.9
British Columbia	7.7
Alberta	5.9
Manitoba	4.1
New Brunswick	3.4
Nova Scotia	2.0
Saskatchewan	0.9
Newfoundland and Labrador	0.7
Prince Edward Island	0.2
Cash/Receivables/Payables	0.2
<b>Total Portfolio Allocation</b>	<b>100.0</b>
Top 25 Holdings	% of Net Asset Value
Province of Ontario, 4.200% Jun 2, 2020	10.3
Province of Ontario, 4.000% Jun 2, 2021	9.7
Province of Ontario, 4.400% Jun 2, 2019	7.2
Province of Ontario, Unsecured, 2.100% Sep 8, 2019	7.1
Province of Quebec, Unsecured, 4.500% Dec 1, 2020	7.0
Province of Quebec, 4.250% Dec 1, 2021	6.8
Province of Quebec, Unsecured, 4.500% Dec 1, 2019	6.7
Province of Ontario, 3.150% Jun 2, 2022	6.3
Province of Ontario, Unsecured, 2.100% Sep 8, 2018	6.0
Province of Alberta, Unsecured, 1.350% Sep 1, 2021	2.7
Province of Quebec, Medium Term Notes, 4.500% Dec 1, 2018	2.6
Financement-Quebec, Unsecured, Notes, 2.450% Dec 1, 2019	2.0
Province of British Columbia, 3.700% Dec 18, 2020	1.8
Province of Alberta, Unsecured, 1.250% Jun 1, 2020	1.8
Province of British Columbia, Unsecured, 4.100% Dec 18, 2019	1.8
Province of British Columbia, 3.250% Dec 18, 2021	1.7
Province of Nova Scotia, 4.150% Nov 25, 2019	1.5
Province of Ontario, Senior, Unsecured, 1.350% Mar 8, 2022	1.4
Province of Alberta, 4.000% Dec 1, 2019	1.4
Province of Manitoba, Unsecured, 1.550% Sep 5, 2021	1.2
Province of Manitoba, Medium Term Notes, 4.750% Feb 11, 2020	1.1
Province of New Brunswick, Unsecured, 3.350% Dec 3, 2021	1.0
Province of British Columbia, Medium Term Notes, Senior, Unsecured, 4.650% Dec 18, 2018	1.0
Province of British Columbia, Unsecured, 2.250% Mar 1, 2019	1.0
Province of New Brunswick, 4.500% Jun 2, 2020	0.9
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>92.0</b>
<b>Total Net Asset Value</b>	<b>\$507,482,665</b>

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

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.

BMO exchange traded funds are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal.

<sup>®</sup>“BMO (M-bar roundel symbol)” is a registered trade-mark of Bank of Montreal.

The ETF is not in any way sponsored, endorsed, sold or promoted by, FTSE TMX Debt Capital Markets Inc. (“FTDCM”), Frank Russell Company (“Russell”) or TSX Inc. (“TSX”) (together the “Licensor Parties”). The Licensor Parties make no claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE TMX Index(es) or the Russell Index(es), (ii) and/or the figure at which the said FTSE TMX Index(es) or Russell Index(es) stands at any particular time on any particular day or otherwise, or (iii) the suitability of the FTSE TMX Index(es) and/or the Russell Index(es) for the purpose to which it is being put in connection with the ETF mentioned herein. The FTSE TMX Index(es) is/are compiled and calculated by and all copyright in the Index values and constituent list vests in FTDCM. The Russell Index(es) is/are calculated by Russell or its agent. The Licensor Parties shall not be liable (whether in negligence or otherwise) to any person for any error in the Index and the Licensor Parties shall not be under any obligation to advise any person of any error therein. “TMX” is a trade mark of TSX Inc. and is used under license. “Russell®” is a trademark of Frank Russell Company.