

Engineering performance with BMO Income Leaders ETFs



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Key facts

Structure

Exchange Traded Funds (ETFs)

Lead fund manager

Terry Wood

Alternative fund manager

Alex Jones

Distributions

Quarterly

The suite of BMO MSCI Income Leaders ETFs provides an innovative approach to income investing. Our ETFs are built combining two factors; quality and yield. With this range of ETFs, investors benefit from sustainable returns and capital growth opportunities in a risk-controlled framework. Offering regional building blocks and a combination of hedged and unhedged ETFs, investors and asset allocators have access to a broad range of tools to meet their income and growth requirements.

Fund	Base currency	Ongoing charges figure p.a. (OCF)
BMO MSCI USA Income Leaders UCITS ETF	USD	0.25%
BMO MSCI USA Income Leaders (GBP Hedged) UCITS ETF	GBP	0.30%
BMO MSCI Europe ex-UK Income Leaders UCITS ETF	EUR	0.25%
BMO MSCI Europe ex-UK Income Leaders (GBP Hedged) UCITS ETF	GBP	0.30%
BMO MSCI UK Income Leaders UCITS ETF	GBP	0.25%
BMO MSCI Emerging Markets Income Leaders UCITS ETF	USD	0.38%

Investing for income

Income generating investments are in great demand and equity dividends are an excellent source of income.

However, dividend strategies alone can incorporate yield traps. This can be mitigated by introducing additional portfolio construction features, such as explicit quality screening, preceding a filter seeking high dividend-paying stocks.

Applying such quality filters can also have additional benefits, such as reducing portfolio volatility, enhancing the risk adjusted returns and capturing market growth.

Risk factors

Past performance is not a guide to future performance. Stock market and currency movements mean the value of investments and the income from them can go down as well as up and investors may not get back the original amount invested. Shares purchased on the secondary market cannot usually be sold directly back to the Fund. Secondary market investors must buy and sell ETF Shares with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current Net Asset Value per Share when buying ETF Shares and may receive less than the current Net Asset Value per Share when selling them.

BMO Income Leaders ETFs

BMO Income Leaders ETFs go beyond traditional income. They focus on sustainable, high-quality income.

Quality as a 'Factor'

Quality screening is a common approach employed by active managers as a first step to construct robust portfolios of market leading companies. It is now recognised as an established factor alongside others such as value, size, yield, momentum and low volatility. Quality investing has demonstrated long-term outperformance against the market.

Quality strategies are often built by selecting stocks providing high profitability, earnings persistency and low debt levels. Companies which possess these characteristics typically have a competitive edge against their peers and can contain costs during periods of low economic growth. Generally, quality stocks are better supported through market cycles¹ offering risk adjusted, longer-term capital growth potential.

Blending quality and income

Quality and income investing are complementary factors, and provide investors with sustainable income and growth over the long term. We focus on quality first, to identify market leaders and those companies delivering sustainable income over time. We aim to screen out companies with poor fundamentals, which helps avoid yield traps.



Partnering with MSCI

We have partnered with MSCI, a global leader of both traditional market capitalisation and smart beta indices, to create the MSCI Select Quality Yield indices. These vehicles are designed to represent the performance of companies that have relatively high quality scores and with higher than average dividends within the parent index universe of securities.

The BMO Income Leaders suite of ETFs provide multiple building blocks to help investors achieve income generation across regions. Adding currency-hedged and unhedged vehicles, investors can also make an active decision on their currency exposure.

Universe	Parent Index (excluding REITs): MSCI USA Index MSCI United Kingdom Index MSCI Europe ex-UK Index MSCI Emerging Markets Index
Quality Return on Equity (ROE) Financial Leverage Earnings Growth	Quality screen – top 50% of securities with the highest quality scores
Dividend Yield	Dividend yield screen – top 50% of securities by dividend yield from previous screen
Issuer Cap	Individual securities are capped at 5%
Market Cap Weighting	Improves the liquidity and volatility of the portfolio
MSCI Select Quality Yield Indices	The BMO Income Leaders ETFs track the MSCI Select Quality Yield Indices. Combining factor strategies to deliver sustainable and favourable risk adjusted returns.

Avoids yield traps by screening for Quality.

¹ MSCI, Flight to Quality, Understanding Factor Investing, September 2015.

Our equity 'Income Leaders' ETFs aim to provide high quality, cost effective income orientated solutions. Each ETF is based on new MSCI Select Quality Yield Indices, developed by MSCI in partnership with BMO Global Asset Management.

Advanced screening

The MSCI Select Quality Yield Indices are constructed blending two different factors; quality and dividend yield, employing a transparent rules-based methodology. All securities belonging to the parent MSCI index are eligible for inclusion with the exemption of REITs². The security selection is a three-step process:

1) Screening for quality

The quality score is calculated combining three fundamental variables to define the financial aspect of quality: Return on Equity (ROE), earnings variability and financial leverage to the parent index constituents. The top 50% securities by descended quality score are selected.

2) Screening for dividend yield

In a second step, all the previously selected companies are ranked again in descending order of their dividend yield, and the top 50% stocks are selected for inclusion in the index.

3) Weighting for liquidity

Selected securities in the index are then free float-adjusted market capitalisation weighted. Each security in the index is capped at 5% to ensure a well-diversified portfolio.

The index is rebalanced on a semi-annual basis, coinciding with May and November Semi-Annual Index Review (SAIR) of the MSCI Global Investable Market Indices. To reduce index turnover and enhance index stability, a security buffer of 20% is applied during the ongoing index reviews.

The BMO Income Leaders ETFs provide exposure to the MSCI Select Quality Yield Indices. The ETFs fully replicate the underlying basket of constituents.

Currency hedging

The MSCI Select Quality Yield indices are calculated in their base currency (i.e. USD, EUR or GBP). A subset of ETFs are offered hedged to Sterling.

To hedge the currency risk of the Index, each foreign currency in the index is hedged back to a home currency (i.e. GBP) by notionally 'selling' each currency forward at the one-month forward rate at the end of each month.

² Real Estate Investment Trusts (REITs) have structurally very high dividend yield and, if included, would represent a very significant portion of the index. MSCI introduced GICS (Global Industry Classification Standard) sector classification effective September 1st 2016, which elevated Real Estate from an industry group under the Financials GICS sector, to a sector of its own. BMO's Income Leaders underlying MSCI Select Quality Yield indices reflect these changes. As a result, Mortgage REITs (which provide loans to owners and operators of real estate assets or hold or trade mortgage backed securities, earn interest income and are subject to credit risk (that is, the chance that a loan will not be repaid)) will be eligible for inclusion in the investable universe under the Financials sector, while REITs will remain excluded. For more information visit www.msci.com.

A deeper look at quality



1. Profitability

Ability to generate profits for shareholders

How? High return on equity



2. Earnings Growth

Persistency and predictability of earnings in good or bad economic conditions

How? Stable earnings growth



3. Financial Leverage

Returns are based on underlying operations and protects the downside

How? Low Debt-to-Equity

Glossary

REITS – A Real Estate Investment Trust, or REIT, is a company that owns, and in most cases, operates income producing real estate assets. Some REITs provide loans to the owners and operators of real estate. To qualify as a REIT under the Internal Revenue Code, a REIT is required to distribute at least 90% of its taxable income to shareholders annually and receive at least 75% of that income from rents, mortgages, and sales of property.

Source: MSCI

Meet the team



Terry Wood joined the group in August 2007 as a Quantitative Portfolio Manager covering both passive and active funds. Previously Terry spent nine years at Deutsche Asset Management as a Quantitative Analyst for the Global Equity team. He holds a BA (Hons) in Accounting & Finance from the University of Kent and is a CFA Charterholder.

Terry Wood, Head of ETF Portfolio Management (EMEA)



A member of the ETF team since 2015, having joined the Group two years earlier as a researcher within the Multi-Asset Alternatives team. Alex moved from Goodhart Partners where he was one of the founding partners and an analyst on their range of multi-manager portfolios, having been involved in the development and launch of these portfolios whilst at WestLB Asset Management. Alex joined WestLB from Aon Consulting in 2006, where he spent seven years as a member of Aon's Investment Consulting practice. Alex has a BSC (Hons) in Mathematics from Sussex University.

Alex Jones, Portfolio Manager, Exchange Traded Funds

BMO Asset Management Limited is the investment manager of BMO UCITS ETF ICAV which is authorised by the Central Bank of Ireland as a UCITS.

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