

BMO Global Asset Management

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BMO MSCI Income Leaders ETFs go beyond traditional dividend targeting strategies

Investors challenged by low bond yields are looking to equity markets for yield enhancement opportunities. The BMO MSCI Income Leaders range of ETFs provides attractive yield levels through investment in quality companies positioned to deliver consistent income and capital appreciation over time.

Explicit Quality Screens

Quality and dividend screens generally lead to enhanced risk adjusted returns through various market cycles; reducing volatility and helping investors to avoid yield traps. A screen based solely on dividends paid, or increased, ignores any deteriorating ability of a company to pay these dividends in the future. It's important to look closely at the fundamentals of companies. Quality screening avoids deteriorating stocks masquerading as bargains and focuses on those who can sustain their dividend over the long run.

In looking for such companies, MSCI has created the **Select Quality Yield** indices which apply the following variables to the regional parent MSCI benchmarks:

1. **High ROE** – Indicates a business with a sustainable competitive advantage, efficient operations and profitability.
2. **Stable Earnings Growth** – Demonstrates durability and stability of a company's business model.
3. **Low Financial Leverage** – Ensures returns are based on underlying operations.

MSCI screens the universe as follows:

- 3 Quality variables are determined for all securities of the MSCI Parent Index
- 3 Quality variables equally contribute to a composite score for each security
- Top 50% of securities with the highest quality scores are selected
- Of these, the top 50% of securities by dividend yield are selected

MSCI Weighting:

- Market cap weighting to capture growth and high levels of liquidity
- Individual stocks are capped at 5% at each semi-annual rebalance

This method brings about a number of **Benefits & Key Differentiators**:

1. Forward-looking strategy capturing dividend growth sectors such as technology
2. Market-cap weighting provides enhanced liquidity and exposure to growth areas of the market, in contrast to yield weighting which can over-weight less growth-oriented companies and can result in significant sector biases
3. Pro-actively excludes companies vulnerable to a dividend cut, rather than purely reactive to dividend cuts
4. Higher quality stocks do better in volatile markets and low economic growth environments

Performance of the MSCI Select Quality Yield Index relative to parent index

The table below demonstrates how the MSCI Select Quality Yield Indices have performed in comparison to the respective parent index for each region i.e. USA, Europe ex-UK and the UK.

	MSCI USA Index	MSCI USA Select Quality Yield Index	MSCI Europe ex UK Index*	MSCI Europe ex UK Select Quality Yield Index*	MSCI United Kingdom Index	MSCI United Kingdom Select Quality Yield Index
Currency	USD	USD	EUR	EUR	GBP	GBP
Net Returns (%)	5.16	6.75	4.43	7.00	4.31	9.20
Standard Deviation**	15.30	13.15	16.86	14.67	14.09	12.34
Sharpe Ratio (10 Yr)	0.42	0.60	0.17	0.38	0.30	0.53
Tracking Error (%)	0	8.12	0	5.60	0	7.95
Historical Beta	1	0.72	1	0.82	1	0.80
Turnover (%) (12 Mth)	2.46	13.92	2.41	26.38	2.44	50.30
Price to Book (30.09.2016)	2.87	3.80	1.72	2.20	1.78	3.15
Price to Earnings (30.09.2016)	23.19	20.14	20.83	17.01	22.67	14.56
Div. Yield (%) (30.09.2016)	2.09	2.72	3.40	3.82	3.95	4.51

Source: MSCI based on the period May 29, 1998 – Sep 30, 2016; *Data for the Europe ex UK indices is based on Dec 31 1998 – Sep 30, 2016;** Annualized Standard Deviation, based on Monthly net returns data Sep 30, 2006 - 2016

As evidenced in the table above, the methodology on which BMO MSCI Income Leaders ETFs are based, provides superior risk adjusted returns across regions. Most importantly, these ETFs address investors' demand for innovation that goes beyond the traditional single factor solutions for income generation.

BMO is a leader in providing smart beta ETFs and is proud to boast one of the most experienced ETF teams globally.

Regulatory Disclosure

F&C 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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