




BMO Global Asset Management

Monthly ETF Update

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The growth advantage of re-emerging markets

Why invest in emerging markets?

Emerging markets (EM) are quickly becoming the driver of global growth. With the slowdown in developed markets growth, primarily driven by slow deleveraging and mature consumer segments, emerging markets are expected to grow at 2 to 3 times the rate of the U.S., according to the IMF. The greater share of growth will be driven by positive trade balances and the growth of the domestic consumer base in EM countries.

From a strategic perspective, correlations between developed markets & emerging markets have decreased over the shorter term. The correlation between emerging markets and Europe for example has fallen from 0.77 to 0.51 when we look at 15 year versus 3 year correlations. The table below shows correlations among the broad market indices over 3, 5 and 15 years.

Correlation of MSCI EM vs. markets below	3 year	5 year	15 year
MSCI World	0.68	0.71	0.81
MSCI EAFE*	0.58	0.65	0.80
SP500	0.45	0.37	0.54
MSCI Europe	0.51	0.61	0.77
FTSE 100	0.60	0.62	0.74

Source: Morningstar. Information as at 30 December 2016. Currency: GBP

*EAFE: Europe, Australasia and Far East

Name	Total Return 1 Year USD	Total Return Annualised 3 Year USD	Total Return Annualised 5 Year USD	Total Return Annualised 10 Year USD
MSCI World	1.79	4.40	9.65	4.48
MSCI Emerging Markets	9.67	-1.70	0.90	3.82
MSCI EAFE	-2.74	-0.86	5.48	1.70
S&P 500	4.51	8.84	13.57	6.70
MSCI Europe	-6.89	-2.47	4.96	1.34
FTSE 100	-10.10	-4.26	2.73	0.53

Source: Bloomberg. Information as at 30 December 2016.

The risk premium from emerging markets merits a tactical overweight during expansionary periods. According to the International Monetary Fund's October 2016 report, emerging economies are expected to grow 4.6 percent in 2017, building on growth from the tail end of 2016. While EM has been a challenging asset class over the past 3 years, recent events outlined below, combined with long term growth projections have sparked a comeback and consideration for the region from an investment perspective.

What influences emerging markets?

- China - Fears of a hard landing negatively impacted EM, however more recently Chinese authorities have added fiscal and monetary stimulus to stabilize growth.
- Commodities - Oil prices have rallied significantly in 2016, after a hard fall in 2015, beneficial to EM countries which are typically net extractors. Prices appear to be more stable near US\$50.
- US Monetary Policy - As anticipated, the Fed chose to raise rates in December with the expectation of more to come gradually in 2017 which generally leads to a strengthening of the USD. The positive effect of this for EM exporters is that their goods become more attractive when their currencies weaken against the USD.

In summary, a strong US economy as well as USD strength, stabilized commodity prices, steady Chinese growth, and the long term growth of the local consumer base all support the EM investment thesis.

Index Methodology for Emerging Markets

While the MSCI Select Quality Yield Index methodology is applicable across regions as illustrated through the BMO range of Income Leaders ETFs, the benefits are even more pronounced in EM, where these markets typically suffer a greater decline during significant market corrections such as in 2008. Whilst quality and income can offer protection during market declines, identifying industry leaders helps capture most of the positive performance in rising markets. The result is long-term outperformance of the MSCI Emerging Markets Select Quality Yield Index compared to the MSCI Emerging Markets benchmark, 11.84% vs. 8.69% since inception on 29 December, 2000 (Information as at 30 December, 2016). MSCI Emerging Markets Select Quality Yield Index outperformed in 4 out of 6 drawdown periods in the past 15 years as highlighted in the table below. In 2008 this was demonstrated with MSCI EM Select Quality Yield Index outperforming its benchmark by 10%.

Year	MSCI EM Select Quality Yield Index	MSCI Emerging Markets Index
2016	11.91	11.19
2015	-18.20	-14.92
2014	-0.79	-2.19
2013	-7.36	-2.60
2012	17.63	18.22
2011	-11.32	-18.42
2010	20.29	18.88
2009	71.27	78.51
2008	-43.63	-53.33
2007	42.87	39.42
2006	32.40	32.14
2005	27.19	34.00
2004	33.02	25.55
2003	61.78	55.82
2002	11.75	-6.17

Source: MSCI. Information as at 30 December 2016

Even with the recent outperformance, valuations still support further relative outperformance in EM, where Price to Equity (P/E) & Price to Book (P/B) ratios for the broad EM benchmark and the Select Quality Yield index are materially lower than those of developed markets.

	MSCI EM Select Quality Yield Index	MSCI Emerging Markets Index	MSCI All-Country World Index
P/E	12.10	14.34	20.78
P/B	1.73	1.51	2.13
Sharpe Ratio (10 Year)	0.24	0.15	0.23

Source: MSCI. Information as on 30 December 2016

Introducing BMO MSCI Income Leaders Emerging Markets UCITS ETF

BMO recently added emerging markets exposure to our suite of Income Leaders ETFs. The BMO MSCI Emerging Markets Income Leaders UCITS ETF tracking the MSCI Emerging Markets Select Quality Yield Index is designed for investors looking for long-term growth with an increased level of income from companies that meet certain quality criteria. The quality criteria selects companies that exhibit high return on equity, stable earnings growth and low financial leverage. The stable earnings stream from companies that are better suited to cope with market shocks and uncertainty, helps reduce the portfolio volatility and delivers enhanced risk adjusted returns.

Index Methodology

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



BMO MSCI Emerging Markets Income Leaders UCITS ETF – Key Facts

Fund Ticker	Net Assets (MM) Jan 13, 2017	Base Currency	Trading Currency	Estimated Index Yield	OCF**	Inception Date	Index	ISIN
ZIEM	US\$10.41	USD	GBP	4.20%*	0.38%	Dec 06, 2016	MSCI Emerging Markets Select Quality Yield Index	IE00BZ053T90

*Source: MSCI. Information as at 30 December 2016. Estimated Index Yield does not include withholding tax. **Ongoing Charges Figure

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. BMO MSCI Emerging Markets Income Leaders UCITS ETF is registered for distribution in the UK. All other BMO ETFs are registered for distribution in the UK, Germany, Italy (for institutional investors only), Netherlands and Spain. Shares are listed on the London Stock Exchange and may be purchased and sold on the exchange through a broker-dealer. Purchasing and selling shares may result in brokerage commissions. Applications for subscriptions directly to the funds may only be made by authorised participants. 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. Commissions, fees, costs and expenses all may be associated with investments in exchange traded funds. Please read the prospectus and key investor information document (KIID) before investing. Investment objectives, risk information, fees and expenses and other important information about the funds can be found in the prospectus. Exchange traded funds are not guaranteed, their values change frequently and past performance may not be repeated. This document is provided for information purposes only and is not to be construed as investment advice to a recipient on the merits of any investment. This document does not constitute, or form part of, any solicitation of any offer to deal in any type of investment. This document is provided only to assist financially sophisticated investors in their independent review of particular investments and is not intended to be, and must not be relied upon, as the sole basis for any investment decision. This document must not be acted on or relied on by persons who are not relevant persons and who are not the intended recipients of this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of any investment, and should consult its own legal counsel and financial, actuarial, accounting, regulatory and tax advisers to evaluate any such investment.

Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Investing in ETFs involves risk, including risks associated with market volatility, currency rate fluctuations, replication strategies, and changes in composition of the underlying index and assets. Diversification and asset class allocation do not guarantee profit or protect against loss. Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned. The funds or securities referred to herein are not sponsored, endorsed, issued, sold or promoted by MSCI, and MSCI bears no liability with respect to any funds or securities or any index on which such funds or securities are based. The prospectus contains a more detailed description of the limited relationship MSCI has with F&C Management Limited and any related funds.

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