

# BMO Value ETFs

## Enhanced Access to the Value Factor

- BMO MSCI Canada Value Index ETF (ZVC)
- BMO MSCI USA Value Index ETF (ZVU)

### Defining the Value Factor

Value factor investing- the pursuit of low cost securities relative to their fundamental value- is an investing style employed by active managers. While the premise may be similar not all value strategies are the same. Factor based value investing takes traditional value style investing a step further by selecting a more concentrated segment of the investable universe and adjusting securities weights by the value score. BMO Value ETFs provide a rules-based and transparent methodology while being cost effective and maintaining a more consistent risk-return profile.

### How Do We Identify Value?

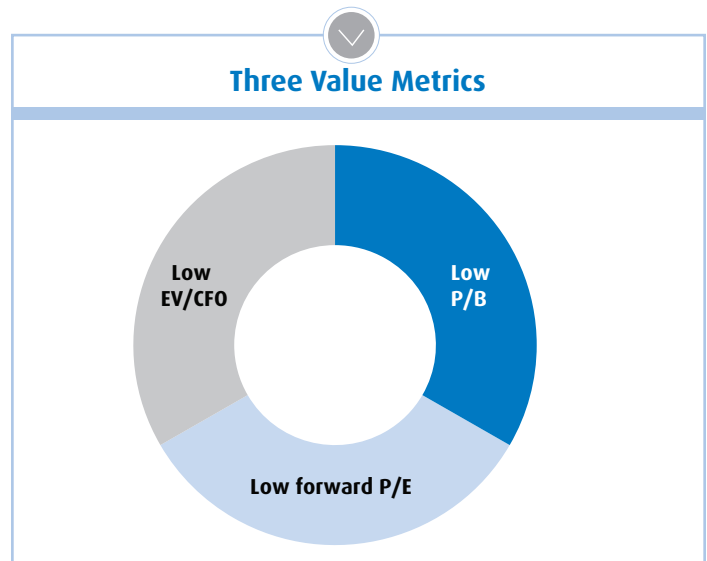
Traditional value investors can employ flawed strategies that contain sector bias, have a high concentration of highly leveraged companies, or depend on metrics that can be subject to distortion. These characteristics can increase risk within a value strategy and lead investors into value traps: stocks that may seem inexpensive, but will not actually appreciate. BMO Value ETFs use a value index which more accurately identifies value companies while reducing risk associated with traditional value approaches. This is achieved by focusing on three core metrics:

- **Low Forward Price-to-Earnings (P/E)**  
Indicates a company is less expensive than its peers who have similar earnings projections; signals a market mispricing.
- **Low Price-to-Book (P/B)**  
Identifies companies which are less expensive than their peers.
- **Low Enterprise Value-to-Cash Flow from Operations (EV/CFO)**  
Enterprise Value reflects all sources of capital, debt and equity. Therefore, evaluating Enterprise Value will screen out companies which are highly financially leveraged. Lower EV companies with high levels of operating cash flow indicate a value company.

On their own, each metric is not an indicator of a value company. For example, P/B is a backward looking variable, can contain sector

- BMO MSCI EAFE Value Index ETF (ZVI)

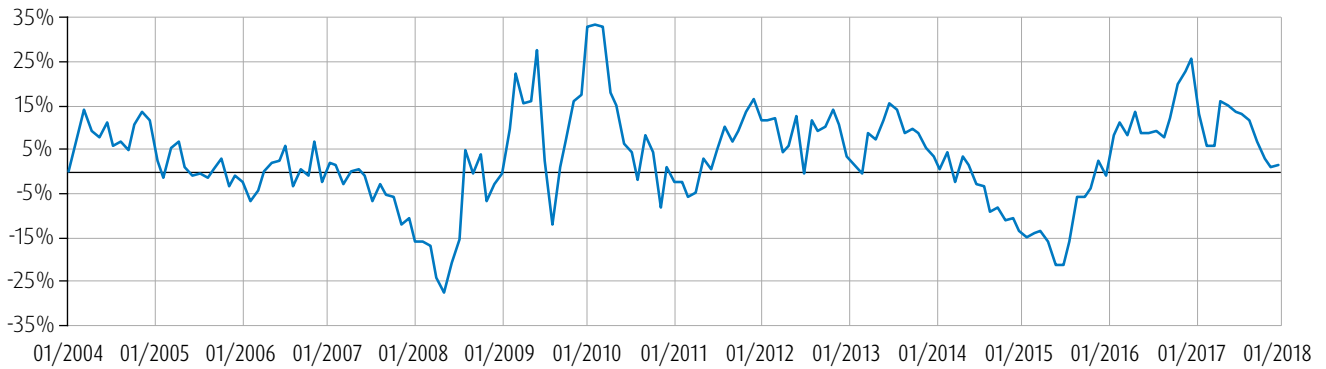
bias and only reflects the market value of the firm's equity. P/E can be volatile and earnings can be manipulated. When combined, these three value descriptors provide a more accurate assessment.



### A Good Time For Value

Factor investing is cyclical and there are certain macroeconomic factors which contribute to value factor success. Recently, growth investing has outperformed value investing, indicating the trend is likely to reverse. The value factor performs best with restored investor confidence in the economy: as the economy recovers and grows, value stocks become more popular. Lastly, a rising interest rate environment also favours value investing. With interest rates trending up for the first time in a decade, value investing is more attractive now than it has been over the last ten years. BMO Value ETFs are designed to accurately identify stocks that will capitalize on a value cycle which is trending upwards.

Value vs. Growth Rolling Performance



Source: Morningstar, March 2018. 1 Year rolling return of value vs growth

Strategy Implementation

The selection universe begins with a neutral parent index (ZVC- MSCI Canada Index, ZVU- MSCI USA Index, ZVI- MSCI EAFE Index), then adjusts towards the value factor by using equal weights of the three core metrics to compute a composite z-score. The z-score is scored by sector, producing a final value score which is multiplied by the market cap. The maximum security weight in each index is capped at 10%. The index targets 50% of the parent market cap coverage. The weight of each sector is the same as the

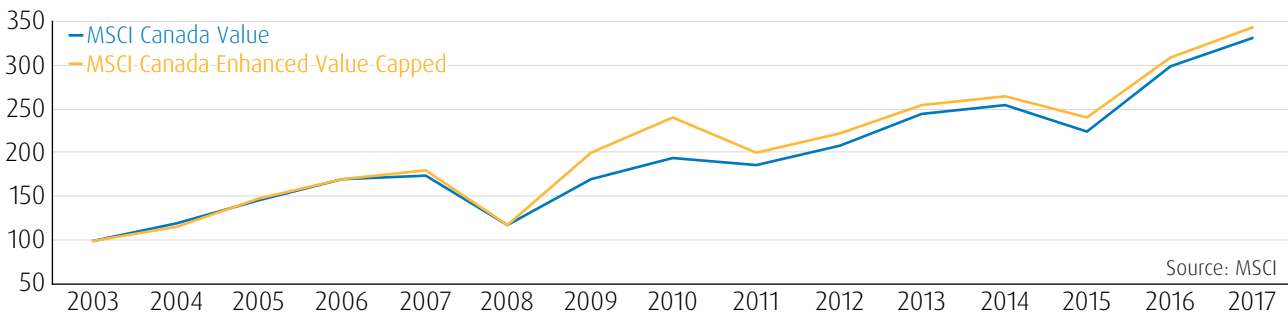
sector weights within the parent index. For the MSCI EAFE Enhanced Value Region Neutral Capped Index, region neutrality is achieved by maintaining identical region weights to that of the MSCI EAFE Index. The portfolios are rebalanced and reviewed semi-annually. This methodology aims to not only identify value companies, but to ensure high trading liquidity and to moderate security turnover while staying cost effective. BMO Value ETFs are designed to be core equity options.

Targeting Value

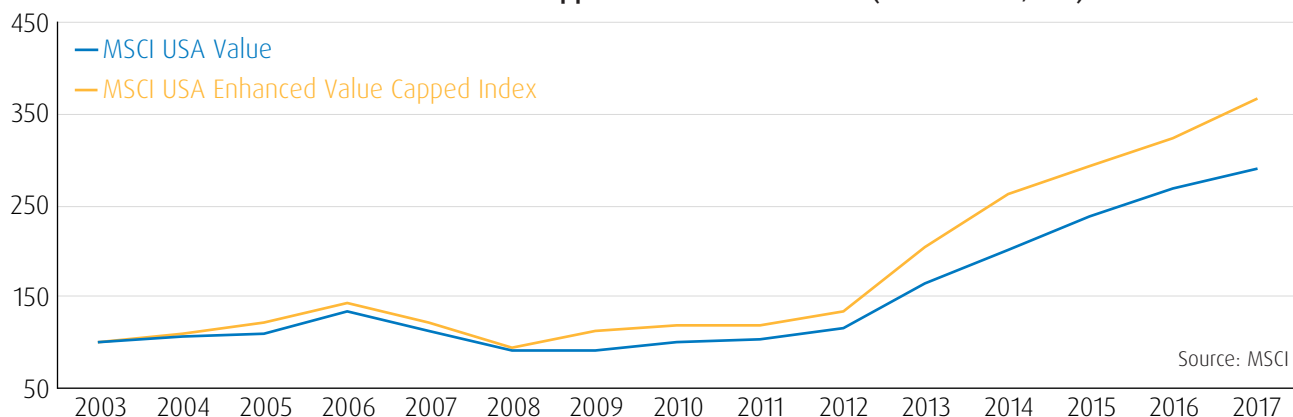
The MSCI Enhanced Value Capped Indexes have historically outperformed the traditional MSCI Value Indexes in all three geographic sectors. This is a result of the difference between style investing and factor investing. The traditional MSCI Value indexes follow value style characteristics (using P/B, forward P/E, and dividend yield), target 50% of the parent index (which are the same parent indexes as the Enhanced Value Capped Indexes) and can only moderately capture value, offering a tilt towards value bias. In contrast, the MSCI Enhanced Value Capped Indexes target the value factor, and are designed to capture high levels

of exposure to value. The Enhanced Value Capped Indexes differ in that they use EV/CFO instead of dividend yield to identify value companies. This is a more precise metric because it assists in avoiding value trap situations. These indexes target 30% of their parent index (with the exception of Canada which targets 50%) and are based on derived value scores so companies exhibiting higher value scores will have a heavier weighting in the index. The ability to create a more focused exposure to value has allowed the MSCI Enhanced Value Capped Indexes to outperform the traditional value indexes over time.

MSCI Canada Value vs. MSCI Canada Enhanced Value Capped Index – Growth of 100

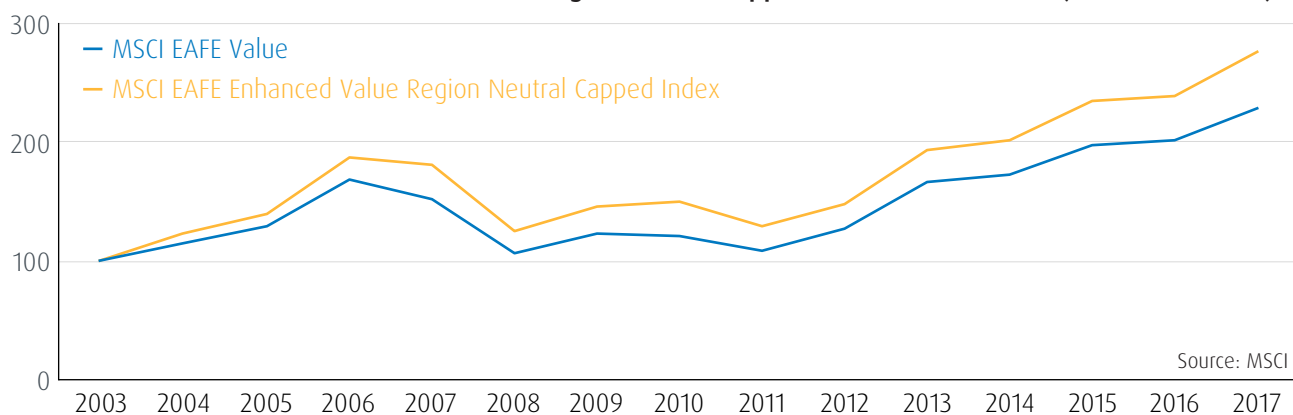


**MSCI USA Value vs. MSCI USA Enhanced Value Capped Index – Growth of 100 (Returns Gross, CAD)**



Source: MSCI

**MSCI EAFE Value vs MSCI EAFE Enhanced Value Region Neutral Capped Index – Growth of 100 (Returns Gross, CAD)**



Source: MSCI

**Value Investing Performance**

Annual Performance (%)

Year	MSCI Canada Enhanced Value Capped Index	MSCI Canada Index	MSCI USA Enhanced Value Capped Index	MSCI USA Index	MSCI EAFE Enhanced Value Region Neutral Capped Index	MSCI EAFE Index
2017	10.56	9.22	13.32	13.23	15.58	16.82
2016	29.05	21.15	11.01	7.06	1.48	-2.49
2015	-9.41	-8.36	11.5	20.75	17.01	18.95
2014	4.29	11.43	27.49	22.85	3.75	3.67
2013	13.99	13.58	51.8	40.63	30.64	31.02
2012	10.98	7.46	13.38	12.78	14.21	14.72
2011	-16.38	-9.98	-0.87	3.87	-13.35	-9.97
2010	19.97	14.89	6.24	8.78	3.61	2.13
2009	69.99	33.63	17.02	7.22	14.94	11.91
2008	-34.23	-31.39	-21.77	-21.91	-30.29	-29.18
2007	5.13	10.46	-14.79	-10.57	-2.94	-5.72
2006	16.05	17.9	18.55	14.24	33.85	25.86
2005	27.92	25.63	10.69	2.51	13.49	10.69
2004	14.78	13.84	10.52	2.12	22.73	11.49
2003	26.99	27.08	8.16	5.03	34.16	13.36

Source: MSCI. February 2018.

Index Performance – Gross Returns (CAD) (2003 – 2018)

MSCI Canada Value Capped Index vs. MSCI Canada Index



MSCI USA Value Capped Index vs. MSCI USA Index



MSCI EAFE Value Region Neutral Capped Index vs. MSCI EAFE Index



Source: MSCI, Index data as of February 2018.

ETF Name	Ticker	Management Fee	MER*
BMO MSCI Canada Value Index ETF	ZVC	0.35%	0.40%
BMO MSCI USA Value Index ETF	ZVU	0.30%	0.34%
BMO MSCI EAFE Value Index ETF	ZVI	0.40%	0.45%

\* Estimate only. Audited MER is unavailable since the ETF has not yet completed a financial year.

### Key Metrics as of September 30, 2017

	MSCI Canada Index	MSCI Canada Enhanced Value Capped Index	MSCI USA Index	MSCI USA Enhanced Value Capped Index	MSCI EAFE Index	MSCI EAFE Enhanced Value Region Neutral Capped Index
Sharpe Ratio (3 year)	0.49	0.78	1.04	0.87	0.62	0.64
Standard Deviation (3 year)	7.62	9.59	10.77	11.78	13.53	15.67
Tracking Error (%)	0.00	7.15	0.00	6.04	0.00	4.71
Historical Beta	1.00	0.92	1.00	0.98	1.00	1.06
Turnover (%) <sup>1</sup>	4.15	13.66	2.85	15.88	2.19	17.32
Price to Book** <sup>2</sup>	1.86	1.53	3.32	2.07	1.69	1.10
Price to Earning (Fwd) <sup>2</sup>	14.48	12.84	17.38	12.00	14.30	11.15
Dividend Yield <sup>2</sup>	3.00	2.77	1.87	2.43	3.05	3.10
<b>Performance (%)<sup>3</sup></b>						
YTD	-4.27	-3.47	4.07	3.14	2.55	3.95
1 Year	3.62	6.45	12.58	11.74	16.22	17.21
3 Year	3.47	7.25	11.20	10.06	6.57	7.29
5 Year	7.21	7.45	19.06	20.12	11.88	12.57
10 Year	4.25	6.71	12.02	12.74	5.62	5.69
Since Inception*	7.49	8.70	6.08	8.39	4.69	8.52

\* Gross returns annualized in CAD. Period November 28 1997 - February 28, 2018. Risk is defined as the standard deviation of monthly total returns. Dividend yield is the most recent regular distribution (excluding year end distributions for these investments that distribute more frequently) annualized for frequency divided by current net asset value.

<sup>1</sup> The last 12 months

<sup>2</sup> Monthly averages

<sup>3</sup> Net returns in CAD and for periods longer than one year, returns are annualized.

Please note this data changes from month to month based on market conditions

Source: MSCI. March 2018

For more detailed methodology information regarding the value factor variables, security composite scoring, security selection, weighting and index maintenance, visit the MSCI indices website:

<http://www.msci.com/factor-indexes>



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