

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF (ZWA) (the “ETF”)

For the 12-month period ended December 31, 2020 (the “Period”)

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

## Management Discussion of Fund Performance

### Investment Objective and Strategies

The ETF seeks to provide exposure to the performance of a portfolio of U.S. stocks to generate income and to provide long-term capital appreciation, while mitigating downside risk through the use of covered call options.

The ETF will primarily invest in and hold securities of the issuers included in the Dow Jones Industrial Average in the proportions in which they are reflected in the Dow Jones Industrial Average and use derivative instruments to hedge back to the Canadian dollar. Depending on market volatility and other factors, the ETF will write covered call options on these securities. Under such call options, the ETF will sell to the buyer of the option, for a premium, either a right to buy the security from the ETF at an exercise price or, if the option is cash settled, the right to a payment from the ETF equal to the difference between the value of the security and the exercise price. Covered call options partially hedge against a decline in the price of the securities on which they are written to the extent of the premiums received by the ETF at the time the options are written by the ETF. The call options written by the ETF may be either exchange traded options or over-the-counter options.

### Risk

The risks associated with an investment in the ETF remain as disclosed in the ETF’s most recent prospectus or any amendments thereto and ETF facts. During the Period there were no changes to the ETF that materially affected the

overall risk level associated with an investment in the ETF. On January 10, 2020, the Manager reviewed the ETF using the standardized investment risk classification methodology prescribed by National Instrument 81-102 *Investment Funds* and determined that the risk rating of the ETF had not changed. The Manager reviews the ETF’s investment risk level and reference index, if any, at least annually.

### Results of Operations

The ETF returned 5.45% versus the Dow Jones Industrial Average Index (CAD hedged) (the “Index”) return of 7.21%. The change in total net asset value during the Period from approximately \$247 million to approximately \$206 million had no impact to the performance of the ETF. The difference in the performance of the ETF relative to the Index during the Period (-1.76%) resulted from the management expense ratio (-0.72%) and other factors such as differences in holdings versus the Index, and market volatility (-1.04%). Additionally, due to the call writing strategy, the ETF will tend to outperform in flat or down markets and underperform in sharp market advances. This performance difference occurs over the period that the calls are written, typically with one to two months to expiry, and then resets with new option positions.

### Market Conditions

U.S. equity markets were rocked by the global pandemic, hitting a low in March 2020. The growing concern over the spread of COVID-19 in early 2020 led to a global health care crisis, and the pandemic forced a complete economic shutdown. The shutdowns led to increased volatility and

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the ETF. If the annual financial statements of the ETF do not accompany the mailing of this report, you may obtain a copy of the 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.



Exchange Traded Funds

# BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF

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a sell-off of equity markets that bottomed on March 23, 2020, a point where equity markets lost almost a third of their value. Central banks provided unprecedented monetary and fiscal support with fear of an economic recession. The U.S. equity market rebounded, which was supported by stronger than expected corporate earnings and increased consumer spending despite still elevated unemployment. Towards the end of the Period, U.S. equities continued to rebound as the COVID-19 vaccine trials started to show positive results and reached new highs following the U.S. election of President-elect Joe Biden. Energy equities declined significantly as a result of reduced demand for oil. Companies in the Information Technology sector benefited from the shift to working from home and the growth of e-commerce. In 2020, the S&P 500 Index posted a return of 16.3% (in Canadian dollars) and 18.4% (in U.S. dollars).

The ETF's exposure to the Information Technology and Consumer Discretionary sectors contributed the most to performance, while the Industrials and Energy sectors detracted from performance. Significant individual contributors to performance were Apple Inc. and Microsoft Corp. Individual detractors from performance included The Boeing Co and Raytheon Technologies Corp.

## Recent Developments

Investor sentiment remains positive and focused on the potential for a steady economy in 2021 and beyond. With COVID-19 vaccine rollouts dominating the headlines, there is potential for growth to rebound in the second half of 2021, as lockdowns and other pandemic related measures are eased. How successful the roll out of the vaccine is will determine the pace at which the economy may reopen and the economic growth which will follow.

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

### *Buying and Selling Securities*

During the Period, the ETF relied on standing instructions provided by the independent review committee ("IRC") for any of the following related party transactions that may have occurred in the ETF:

- (a) investments in securities issued by BMO, an affiliate of the Manager, or any other issuer related to the Manager;
  - (b) investments in a class of non-government debt securities and/or equity securities of an issuer during the period of distribution of those securities to the public and/or the 60-day period following the distribution period where BMO Nesbitt Burns Inc., an affiliate of the Manager, or any other affiliate of the Manager acted as an underwriter in the distribution;
  - (c) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., an affiliate of the Manager, that is trading with the ETF as principal; and
  - (d) inter-fund trades
- (each, a "Related Party Transaction").

In accordance with the IRC's standing instructions, in making a decision to cause the ETF to enter into a Related Party Transaction, the Manager and the portfolio manager of the ETF are 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 standing instructions and its compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure that each 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.

# BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF

## Brokerage Commissions

The ETF pays standard brokerage commissions at market rates to BMO Nesbitt Burns Inc., an affiliate of the Manager, for executing a portion of its trades. The brokerage commissions charged to the ETF (excluding exchange and other fees) during the periods were as follows:

	2020	2019
Total brokerage commissions	\$ 70,998	87,493
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	\$ 5,224	1,801

## 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>

Listed CAD Units	Financial years ended Dec. 31				
	2020	2019	2018	2017	2016
Net assets, beginning of period	\$ 24.12	20.99	23.33	20.01	18.81
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 0.49	0.55	0.52	0.50	0.50
Total expenses <sup>(2)</sup>	\$ (0.24)	(0.26)	(0.26)	(0.24)	(0.23)
Realized gains (losses) for the period	\$ 3.98	2.11	1.18	1.50	(0.08)
Unrealized gains (losses) for the period	\$ (3.62)	1.97	(2.85)	2.56	2.04
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ 0.61	4.37	(1.41)	4.32	2.23
<b>Distributions</b>					
From income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ 0.32	0.29	0.28	0.28	0.29
From capital gains	\$ 2.01	0.40	—	1.17	—
Return of capital	\$ 0.07	0.39	0.71	0.04	0.68
<b>Total Annual Distributions<sup>(4)</sup></b>	\$ 2.40	1.08	0.99	1.49	0.97
<b>Net assets, end of period</b>	\$ 24.05	24.12	20.99	23.33	20.01

<sup>(1)</sup> This information is derived from the ETF's audited annual financial statements.

<sup>(2)</sup> Includes commissions and other portfolio transaction costs and withholding taxes.

<sup>(3)</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>(4)</sup> Distributions were either paid in cash or reinvested in additional units of the ETF, or both.

## Ratios and Supplemental Data

Listed CAD Units	Financial years ended Dec. 31				
	2020	2019	2018	2017	2016
Total net asset value (000's) <sup>(1)</sup>	\$ 205,910	247,485	263,622	297,764	223,368
Number of units outstanding (000's) <sup>(1)</sup>	8,561	10,261	12,561	12,761	11,161
Management expense ratio <sup>(2)</sup>	% 0.72	0.71	0.72	0.71	0.72
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.72	0.71	0.72	0.71	0.72
Trading expense ratio <sup>(3)</sup>	% 0.07	0.07	0.07	0.08	0.08
Portfolio turnover rate <sup>(4)</sup>	% 56.04	32.57	33.76	30.30	27.29
Net asset value per unit	\$ 24.05	24.12	20.99	23.33	20.01
Closing market price	\$ 24.01	24.10	20.84	23.38	20.02

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

<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.

<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.

## 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 annual rate set out in the table below.

Ticker	Annual Management Fee Rate %
ZWA	0.65

## 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.

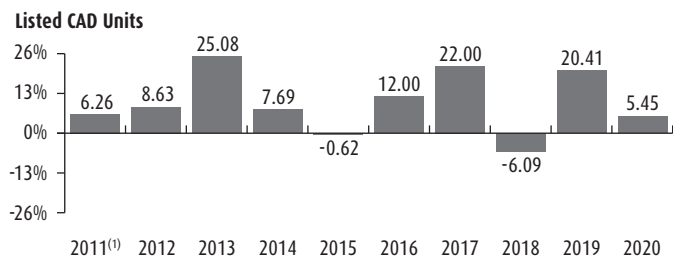
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember that how the ETF has performed in the past does not indicate how it will perform in the future.

On December 31, 2012, the Manager announced that the ETF intended to rely on exemptive relief granted and that the ETF would no longer be limited to the 10% concentration restriction in subsection 2.1(1) of NI 81-102. This change could have affected the performance of the ETF, had it been in effect throughout the performance measurement periods presented.

# BMO Covered Call Dow Jones Industrial Average Hedged to CAD 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.



<sup>(1)</sup> For the period beginning with the performance launch date of October 20, 2011 to December 31, 2011.

## Annual Compound Returns

This table compares the historical annual compound returns of the ETF with its benchmark index, the Dow Jones Industrial Average Index (CAD hedged), a broad-based index.

The Dow Jones Industrial Average Index (CAD hedged) is a price-weighted index that consists of 30 stocks that are all leaders in their respective industries. The U.S. dollar currency exposure is hedged back to the Canadian dollar.

As at December 31, 2020

Listed CAD Units	Since Inception <sup>(1)</sup>				
	1Yr	3Yr	5Yr	10Yr	Since Inception <sup>(1)</sup>
BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF	%	5.45	6.04	10.26	10.55
Dow Jones Industrial Average Index (CAD hedged)	%	7.21	8.10	13.26	13.30

<sup>(1)</sup> Return from the performance launch date of October 20, 2011 to December 31, 2020.

A discussion on the relative performance of the ETF as compared to its benchmark index can be found under the Results of Operations section of this report.

## Summary of Investment Portfolio

As at December 31, 2020

Portfolio Allocation	% of Net Asset Value
Information Technology	21.83
Health Care	17.60
Industrials	16.82
Financials	14.00
Consumer Discretionary	13.34
Consumer Staples	8.11
Communication Services	5.15
Energy	1.81
Materials	1.19
Cash/Receivables/Payables	0.38
Call Options	(0.23)
<b>Total Portfolio Allocation</b>	<b>100.00</b>

Top 25 Holdings	% of Net Asset Value
<b>Long Positions</b>	
UnitedHealth Group Incorporated	7.53
Home Depot, Inc., The	5.70
Goldman Sachs Group, Inc., The	5.66
Amgen Inc.	4.93
salesforce.com, inc.	4.78
Microsoft Corporation	4.77
Visa Inc., Class A	4.69
McDonald's Corporation	4.61
Boeing Company, The	4.59
Honeywell International Inc.	4.57
Caterpillar Inc.	3.91
Walt Disney Company, The	3.89
3M Company	3.75
Johnson & Johnson	3.38
Walmart Inc.	3.09
NIKE, Inc., Class B	3.04
Travelers Companies, Inc., The	3.01
Procter & Gamble Company, The	2.99
Apple Inc.	2.85
JPMorgan Chase & Co.	2.73
International Business Machines Corporation	2.70
American Express Company	2.59
Chevron Corporation	1.81
Merck & Co., Inc.	1.76
Verizon Communications Inc.	1.26

**Long Positions as a Percentage of Total Net Asset Value 94.59**

# BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF

<b>Top 25 Holdings</b>	<b>% of Net Asset Value</b>
<b>Short Positions</b>	
Goldman Sachs Group, Inc., The, Call Option, Jan 22, 2021, \$270.00 .....	(0.07)
UnitedHealth Group Incorporated, Call Option, Jan 15, 2021, \$370.00 .....	(0.02)
Honeywell International Inc., Call Option, Jan 22, 2021, \$227.50 .....	(0.01)
Visa Inc., Call Option, Jan 15, 2021, \$230.00 .....	(0.01)
International Business Machines Corporation, Call Option, Jan 29, 2021, \$137.00 .....	(0.01)
JPMorgan Chase & Co., Call Option, Jan 22, 2021, \$135.00 .....	(0.01)
Microsoft Corporation, Call Option, Jan 29, 2021, \$247.50 .....	(0.01)
3M Company, Call Option, Jan 29, 2021, \$190.00 .....	(0.01)
Apple Inc., Call Option, Jan 22, 2021, \$150.00 .....	(0.01)
Johnson & Johnson, Call Option, Jan 22, 2021, \$170.00 .....	(0.01)
Walmart Inc., Call Option, Jan 29, 2021, \$155.00 .....	(0.01)
Merck & Co., Inc., Call Option, Jan 15, 2021, \$85.00 .....	(0.01)
Amgen Inc., Call Option, Jan 15, 2021, \$250.00 .....	(0.01)
NIKE, Inc., Call Option, Jan 29, 2021, \$155.00 .....	(0.01)
McDonald's Corporation, Call Option, Jan 22, 2021, \$230.00 .....	(0.01)
American Express Company, Call Option, Jan 15, 2021, \$130.00 .....	(0.01)
Caterpillar Inc., Call Option, Jan 22, 2021, \$200.00 <sup>*</sup> .....	(0.00)
Procter & Gamble Company, The, Call Option, Jan 22, 2021, <sup>*</sup> .....	(0.00)
Dow Inc., Call Option, Jan 22, 2021, \$60.00 <sup>*</sup> .....	(0.00)
Boeing Company, The, Call Option, Jan 15, 2021, \$275.00 <sup>*</sup> .....	(0.00)
Coca-Cola Company, The, Call Option, Jan 22, 2021, \$57.50 <sup>*</sup> .....	(0.00)
Travelers Companies, Inc., The, Call Option, Jan 15, 2021, \$150.00 <sup>*</sup> ..	(0.00)
salesforce.com, inc., Call Option, Jan 15, 2021, \$270.00 <sup>*</sup> .....	(0.00)
Cisco Systems, Inc., Call Option, Jan 29, 2021, \$48.00 <sup>*</sup> .....	(0.00)
Intel Corporation, Call Option, Jan 15, 2021, \$57.50 <sup>*</sup> .....	(0.00)
<b>Short Positions as a Percentage of Total Net Asset Value</b>	<b>(0.23)</b>
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>94.36</b>
<b>Total Net Asset Value</b>	<b>\$205,910,449</b>

<sup>\*</sup>Holdings of less than 0.005% and greater than -0.005% are rounded to 0.00%.

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

### **Caution regarding forward-looking statements**

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.

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