

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# BMO Low Volatility International Equity ETF (ZLI) (the “ETF”)

For the 12-month period ended December 31, 2021 (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 international stocks that have lower sensitivity to market movements with the potential for long-term capital appreciation. The ETF will primarily invest in and hold equity securities of international companies. Securities will be selected from the international equity universe. The securities that have lower sensitivity to market movement (beta) will be selected for the portfolio and it will be weighted so that a higher allocation is given to securities with lower beta.

### 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. The Manager reviewed the ETF using the standardized investment risk classification methodology prescribed by National Instrument 81-102 *Investment Funds* and determined on January 14, 2021 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 5.19% versus the MSCI EAFE Index (the “Index”) return of 10.32%. The change in total net asset value during the Period from approximately \$370 million

to approximately \$508 million had no impact on the performance of the ETF. The difference in the performance of the ETF relative to the Index during the Period (-5.13%) resulted from the management expense ratio (-0.44%), and the impact of certain other factors (-4.69%), which may have included differences in holdings resulting from the portfolios concentration in low volatility equities, and market volatility.

### Market Conditions

In Europe, the spread of the coronavirus Delta variant depressed government bond yields. During the Period, the European Central Bank set its inflation target to 2% in the medium term. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield around 0% during the Period. The Bank of Japan committed to purchasing unlimited amounts of government bonds and buying more corporate debt, but in December 2021, the Bank of Japan decided to taper its corporate debt purchases to pre-pandemic levels and scale back some of its emergency funding. The lifting of some pandemic-related restrictions, as well as the monetary and fiscal support measures helped international stocks to recover during the Period. The MSCI EAFE Index, which represents the performance of equities in developed economies outside of North America, returned 10.3% in Canadian dollars over the Period.

The exposure to the Industrials and Utilities sectors contributed the most to the ETF’s performance, while exposure to the Real Estate and Consumer Staples sectors detracted the most from performance. Among the individual

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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 interim financial report, proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.



Exchange Traded Funds

# BMO Low Volatility International Equity ETF

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securities, Merck KGaA and Iliad S.A. added the most to the ETF's performance, while Grifols, S.A. and Alstom SA were among the largest detractors from performance. From a regional perspective, the ETF's exposure to France and Switzerland contributed the most to performance, while its exposure to Japan and Germany detracted the most from performance.

## Recent Developments

International stocks are trading at lower valuations than their North American counterparts, which has led global fund flows to move towards international stocks. In addition, with the economic recovery looking more fragmented in international markets, central bank tightening in certain areas is anticipated to be more gradual, which may be more favourable for their equity markets. With higher growth already priced into North American markets, international stocks potentially may offer more upside but also carry additional political risks from the Russia and Ukraine tensions.

The portfolio manager continues to have a positive outlook on equity markets for 2022 overall, though a relative measure of caution may be warranted in international markets, where geo-political risks are higher, as well as where there are more stringent policies around the evolving COVID-19 pandemic. As such, the ETF continues to be constructed to provide exposure to equity markets, where the portfolio manager is generally constructive on growth, while maintaining more defensive sector and security composition should volatility elevate in 2022 in these markets.

In February 2022, hostilities commenced in Ukraine. In response, a number of countries have imposed economic sanctions on Russia and certain Russian citizens and entities. The impact of the hostilities, economic sanctions and other measures may have wide-ranging global effects on price volatility for securities and commodities as well as the stability of global financial markets. It is uncertain how long the hostilities, economic sanctions and market instability will continue and whether they will escalate further.

## Related Party Transactions

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.

## Manager

The Manager, an indirect, wholly-owned subsidiary of Bank of Montreal ("BMO"), is the portfolio manager, trustee and promoter of the ETF. The Manager is paid a management fee by the ETF as compensation for its services, which is described in the "Management Fees" section later in this document.

## 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 (each, a "Related Party Transaction"):

- (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) trades of a security from or to, another investment fund or a managed account managed by the Manager or an affiliate of the Manager.

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

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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.

## 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				
	2021	2020	2019	2018	2017
Net assets, beginning of period	\$ 24.51	25.40	23.76	23.14	20.72
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 0.66	0.65	0.79	0.76	0.71
Total expenses <sup>(2)</sup>	\$ (0.19)	(0.17)	(0.21)	(0.20)	(0.21)
Realized gains (losses) for the period	\$ 0.38	(0.36)	0.56	1.56	0.52
Unrealized gains (losses) for the period	\$ 0.28	(0.80)	1.00	(0.72)	1.97
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ 1.13	(0.68)	2.14	1.40	2.99
<b>Distributions</b>					
From net investment income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ 0.45	0.51	0.55	0.59	0.52
From capital gains	\$ —	—	0.33	0.69	—
Return of capital	\$ 0.19	0.14	0.06	0.01	0.00
<b>Total Annual Distributions<sup>(4)</sup></b>	\$ 0.64	0.65	0.94	1.29	0.52
<b>Net assets, end of period</b>	\$ 25.13	24.51	25.40	23.76	23.14

<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				
	2021	2020	2019	2018	2017
Total net asset value (000's) <sup>(1)</sup>	\$ 507,808	370,270	475,199	268,422	298,453
Number of units outstanding (000's) <sup>(1)</sup>	20,207	15,107	18,707	11,297	12,897
Management expense ratio <sup>(2)</sup>	% 0.44	0.45	0.44	0.42	0.45
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.44	0.45	0.44	0.42	0.45
Trading expense ratio <sup>(3)</sup>	% 0.07	0.05	0.10	0.07	0.06
Portfolio turnover rate <sup>(4)</sup>	% 26.98	30.68	36.74	32.40	44.84
Net asset value per unit	\$ 25.13	24.51	25.40	23.76	23.14
Closing market price	\$ 25.12	24.47	25.39	23.70	23.16

<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. The management fee is subject to applicable taxes. The Manager may, from time to time in its discretion, waive all or a portion of the management fee charged.

Ticker	Annual Management Fee Rate %
ZLI	0.40

## Past Performance

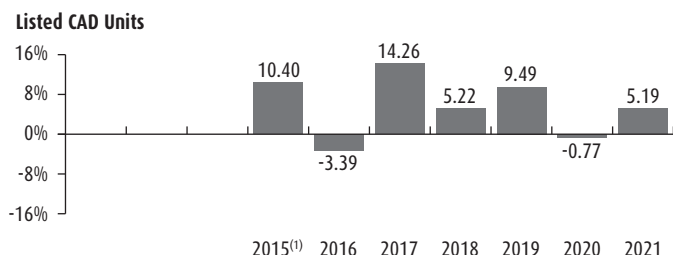
The ETF's performance information assumes that all distributions made by the ETF in the periods shown were used to purchase additional units of the ETF and is based on the net asset value of the ETF.

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.

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## Year-by-Year Returns

The following bar chart shows the performance of the ETF for each of the financial years shown and illustrates how the ETF's performance has changed year to year. 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 September 2, 2015 to December 31, 2015.

## Annual Compound Returns

This table compares the historical annual compound returns of the ETF with its benchmark index, the MSCI EAFE Index.

The MSCI EAFE Index is an equity index that captures large and mid capitalization representation across developed market countries around the world, excluding the U.S. and Canada. The MSCI EAFE Index covers approximately 85% of the free float-adjusted market capitalization in each country.

As at December 31, 2021

Listed CAD Units	Since Inception <sup>(1)</sup>				
	1Yr	3Yr	5Yr	10Yr	Since Inception <sup>(1)</sup>
BMO Low Volatility International Equity ETF %	5.19	4.55	6.56		6.22
MSCI EAFE Index %	10.32	10.62	8.25		7.19

<sup>(1)</sup> Return from the performance launch date of September 2, 2015 to December 31, 2021.

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, 2021

Portfolio Allocation	% of Net Asset Value
Germany	16.4
Japan	15.0
France	12.8
United Kingdom	11.3
Australia	7.5
Hong Kong	6.4
Spain	5.7
Switzerland	5.0
Italy	4.1
Netherlands	3.7
Belgium	3.1
Denmark	2.2
Sweden	2.0
United States	1.7
Luxembourg	1.1
Ireland	1.1
Finland	1.0
Cash/Receivables/Payables	(0.1)
<b>Total Portfolio Allocation</b>	<b>100.0</b>

Sector Allocation	% of Net Asset Value
Health Care	18.8
Consumer Staples	14.7
Industrials	14.6
Utilities	12.7
Communication Services	10.6
Real Estate	9.9
Consumer Discretionary	6.5
Financials	5.8
Materials	5.5
Energy	1.0
Cash/Receivables/Payables	(0.1)
<b>Total Sector Allocation</b>	<b>100.0</b>

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<b>Top 25 Holdings</b>	<b>% of Net Asset Value</b>
Qiagen N.V. ....	1.6
Newcrest Mining Limited .....	1.6
Symrise AG .....	1.5
Northern Star Resources Limited .....	1.5
Nippon Building Fund Inc. ....	1.4
Grifols, S.A. ....	1.4
Recordati Industria Chimica e Farmaceutica S.p.A. ....	1.4
Japan Real Estate Investment Corporation .....	1.3
Red Electrica Corporacion, S.A. ....	1.3
Siemens Healthineers AG .....	1.3
Knorr-Bremse AG. ....	1.3
Teleperformance SE .....	1.3
Sanofi. ....	1.3
Merck KGaA. ....	1.2
Reckitt Benckiser Group plc .....	1.2
Vonovia SE. ....	1.2
Unilever PLC .....	1.2
AstraZeneca PLC .....	1.2
Tryg A/S .....	1.2
Beiersdorf AG .....	1.2
Wolters Kluwer N.V. ....	1.2
Sartorius Stedim Biotech. ....	1.2
Carl Zeiss Meditec AG .....	1.2
Eurofins Scientific SE. ....	1.1
Chocoladefabriken Lindt & Sprüngli AG, Participating Certificates .....	1.1
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>32.4</b>
<b>Total Net Asset Value</b>	<b>\$507,807,623</b>

*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.

BMO exchange traded funds are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal.

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