Canadian Fixed Income Forum – Bank of Canada

ETF Overview

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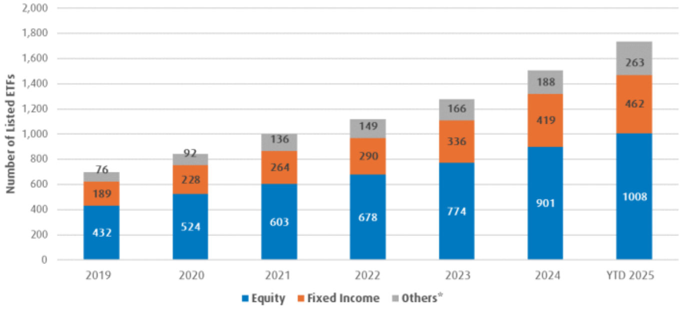
BMO ETFs
BMO Global Asset Management

September 2025

BMO Global Asset Management

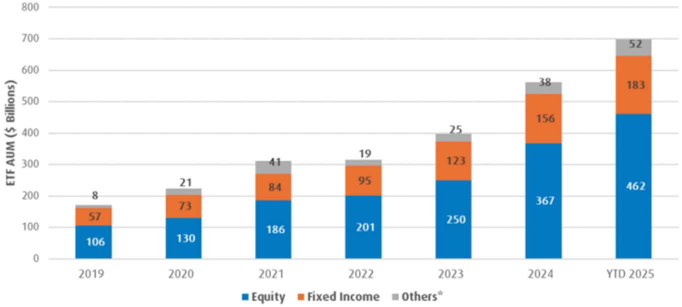
Canadian ETF Industry at a Glance

Number of Canadian-Listed ETFs Over Time



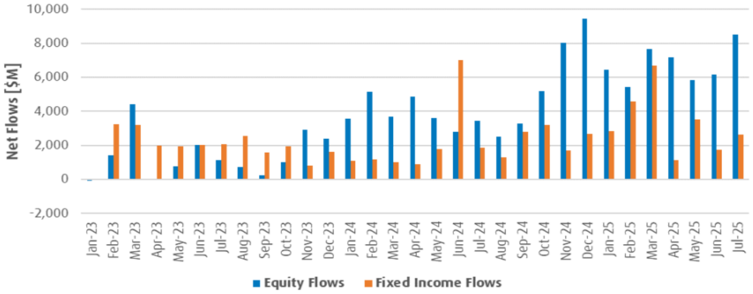
*Others include multi-asset, commodity, inverse, leveraged, digital asset ETFs.
Source: BMO Capital Markets, Bloomberg

Total Asset of Canadian-Listed ETFs Over Time



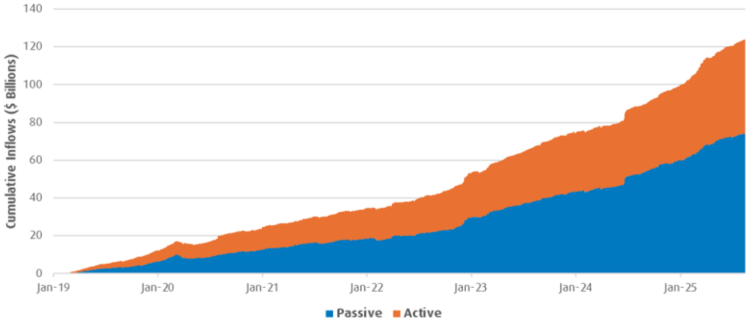
*Others include multi-asset, commodity, inverse, leveraged, digital asset ETFs.
Source: BMO Capital Markets, Bloomberg

Net Flows by Asset Class per Month



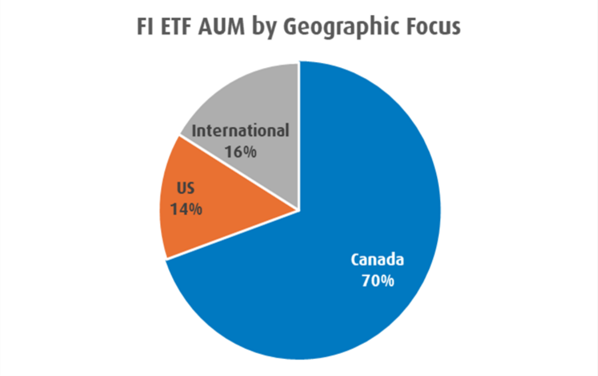
Source: BMO Capital Markets, Bloomberg

Canadian Fixed Income ETFs Net Creations

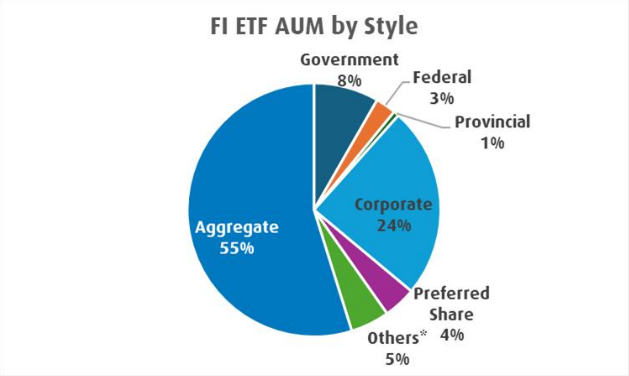


Source: BMO Capital Markets, Bloomberg

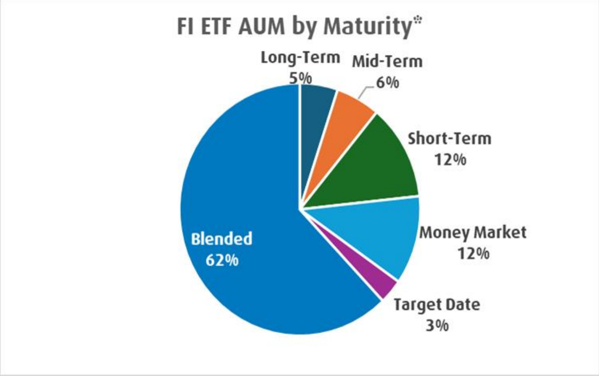
Fixed Income AUM Breakdown



Source: BMO Capital Markets, Bloomberg



*Others include CLO, MBS, leveraged, liquid alternative, and ESG funds, etc.
Source: BMO Capital Markets, Bloomberg



*Excluding HISA.
Source: BMO Capital Markets, Bloomberg

YTD Fixed Income Flows by Credit

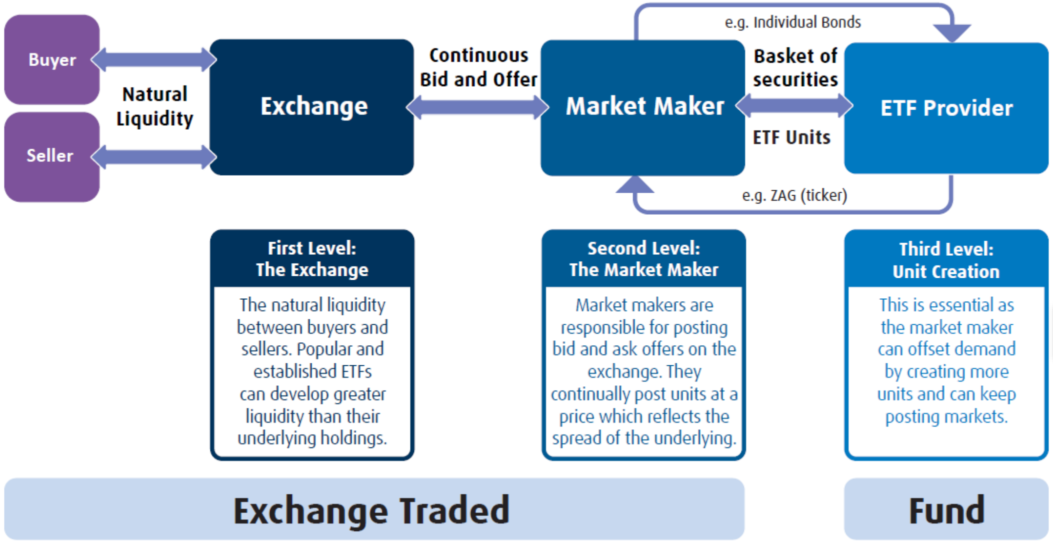
Style	Net Flows [$M CAD]
Aggregate	8,143
Investment Grade	4,843
Government	1,034
High Yield	677
Preferreds	-250

YTD Fixed Income Flows by Maturity

Maturity	Net Flows [$M CAD]
Money Market	5,904
Short-Term	4,270
HISA	982
Mid-Term	13
Long-Term	-95

Source: BMO Capital Markets, Bloomberg

ETF Ecosystem



Create/Redeem Mechanism

1) **In-kind (most common)**
   i. Single Basket
   ii. Create Basket / Redeem Basket
2) **Cash**
3) **Custom Basket**

Most Prevalent Use Cases for ETFs by Institutions:

1) **Liquidity Sleeve**: ETF is used for daily cash management; better alignment of liquidity/cash needs to underlying portfolio strategy/positioning

2) **Tactical Beta**: Asset allocation decisions can be made quicker and more efficiently utilizing ETFs vs cash bonds. Adding non-core exposures (HY, EM, CLO, MBS) can be executed in a single trade, without the need for internal expertise or dedicated resources

3) **Transitional Beta**: ETF is used as a transition vehicle providing better alignment to investment decision making timeframe. Add beta exposure using the ETF, sell down ETF for underlying, as market opportunities in single names become available

Source: BMO Global Asset Management

Tactical Beta Trade Example – Aggregate CAD Fixed Income

Trade Details – Buy & Sell ZAG

Date	Fund	Order	Quantity (Shares)	ADV	$	Execution	Bid/Ask	Cost (vs Mid)	Executed Price
8/6/2024	ZAG	Sell	13.2mm	3x	$ 182,679,197	Risk Trade	$13.82 / 13.84	0 bps	$13.83
8/8/2024	ZAG	Buy	10mm	2.2x	$138,026,000	NAV Trade	NAV: $13.8026	0 bps	$13.8026
8/26/2024	ZAG	Buy	30.5mm	6.8x	$ 427,445,000	Risk Trade	$13.96 / 13.98	7 bps	$13.98
9/9/2024	ZAG	Sell	21.1mm	4.7x	$ 297,132,968	Risk Trade	$14.02 / 14.04	7 bps	$14.02
10/29/2024	ZAG	Buy	7.3mm	1.6x	$ 102,110,091	Risk Trade	$13.83 / 13.84	4 bps	$13.84
11/12/2024	ZAG	Buy	7mm	1.6x	$ 97,661,011	Risk Trade	$13.88 / 13.90	7 bps	$13.90
11/14/2024	ZAG	Sell	14.4mm	3.2x	$200,296,494	Risk Trade	$13.84 / 13.87	0 bps	$13.855
11/19/2024	ZAG	Sell	21.6mm	4.8x	$298,167,834	NAV Trade	NAV: $13.7882	4 bps	$13.7827
11/21/2024	ZAG	Sell	29.6mm	6.6x	$404,617,322	NAV Trade	NAV: $13.6697	4 bps	$13.6642
12/6/2024	ZAG	Buy	8.3mm	1.9x	$117,382,683	Risk Trade	$14.14 / 14.15	4 bps	$14.15
1/3/2025	ZAG	Sell	17.2mm	3.8x	$239,350,244	Risk Trade	$13.88 / 13.90	0 bps	$13.89
1/6/2025	ZAG	Sell	8.8mm	2x	$122,720,622	Risk Trade	$13.89 / 13.90	4 Bps	$13.89
1/21/2025	ZAG	Buy	16mm	3.6x	$223,546,261	Risk Trade	$13.90 / 13.91	4 Bps	$13.91
TOTAL					**$ 2,851,135,728**			**3.8 bps**	

Client Objective: Use ZAG to increase & decrease aggregate bond exposure– Buy & Sell ZAG

Client uses ZAG to easily add or remove aggregate bond exposure in their portfolio. This is an excellent example of how a client can use ETFs to adjust their asset allocation exposure at minimal execution cost. Utilizing ETFs as an exposure vehicle to simply add and reduce aggregate fixed income exposure – maintaining diversification while making sizeable asset allocation shifts.

Over six months, the client entered 14 tactical trades totaling **$2,851B** while making minimal market impact with minimal execution costs (vs Mid).

ETFs prove to be excellent vehicles to efficiently and cost effectively execute market views. In this use case, a client was able to make significant asset allocation calls with full transparency on cost, maintaining diversified exposure, eliminating any cash drag, and doing so completely anonymously (no information leakage).

Example for illustrative purposes only
ZAG – BMO Aggregate Bond Index ETF

Source: BMO Global Asset Management

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Commissions, management fees and expenses all may be associated with investments in exchange-traded funds. Please read the ETF Facts or prospectus of the BMO ETFs before investing. Exchange-traded funds are not guaranteed, their values change frequently, and past performance may not be repeated.

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