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BMO Global Asset Management

Dividend Investing with ETFs

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ETF MARKET **INSIGHTS**



TODAY'S SPEAKERS



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Annual Returns by Factor

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023 (YTD)
Enhanced Value 17.0	Quality 6.5	Dividend 15.1	Quality 25.3	Low Volatility 0.9	Quality 38.4	Quality 22.3	Enhanced Value 28.2	Dividend -4.6	Enhanced Value 2.8
Low Volatility 15.8	Low Volatility 4.9	Enhanced Value 15.0	Enhanced Value 21.3	Quality -3.1	USA 30.9	USA 20.7	Quality 27.1	Low Volatility -9.7	Equal Weight 4.5
Dividend 13.8	USA 0.7	Equal Weight 13.6	USA 21.2	Dividend -3.2	Equal Weight 29.3	Equal Weight 14.6	USA 26.5	Enhanced Value -14.8	USA 4.0
Equal Weight 12.7	Dividend -0.3	USA 10.9	Equal Weight 18.6	USA -5.0	Low Volatility 27.1	Low Volatility 5.1	Equal Weight 25.1	Equal Weight -17.4	Quality -3.5
USA 12.7	Equal Weight -3.0	Low Volatility 9.8	Dividend 18.4	Equal Weight -8.5	Enhanced Value 26.5	Dividend 0.6	Dividend 20.9	USA -19.8	Dividend -1.8
Quality 11.2	Enhanced Value -7.0	Quality 7.3	Low Volatility 18.4	Enhanced Value -11.7	Dividend 21.3	Enhanced Value -1.1	Low Volatility 20.4	Quality -23.0	Low Volatility -2.1

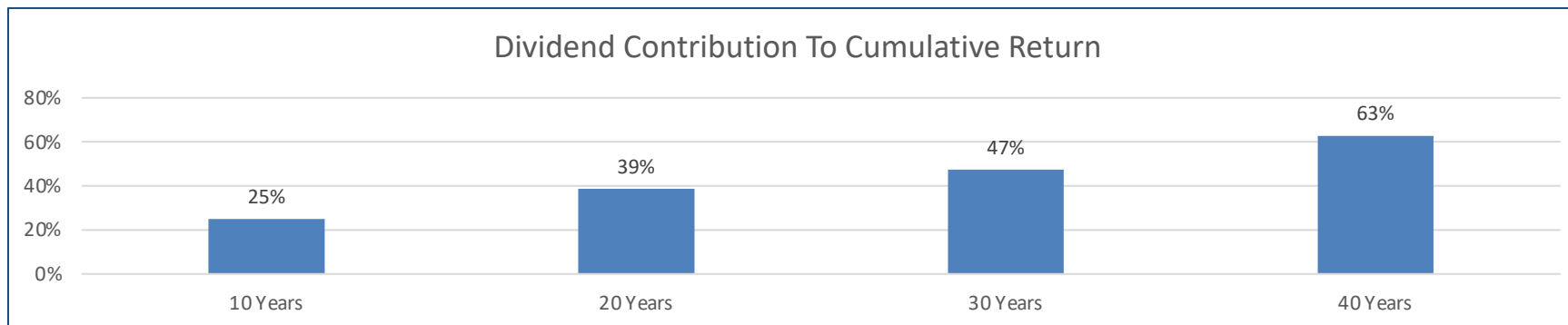
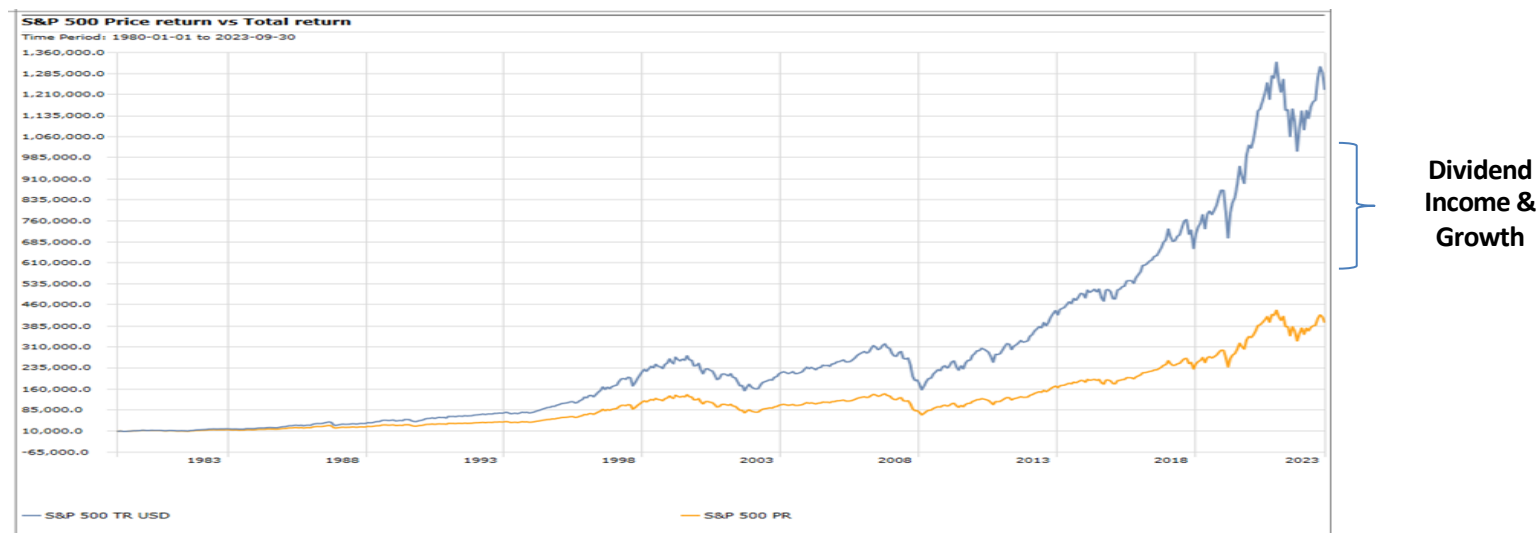
Source: Morning Star, March 31, 2023

- FACTORS**
- WHY DIVIDENDS**
- DIVIDEND GROWTH**
- FUNDING THE DIVIDEND**
- DIVIDENDS AND INFLATION**
- METHODOLOGY MATTERS**
- CONSIDERATIONS**
- COMPARING DIVIDEND ETFS**
- ENHANCED DIVIDEND INCOME**

For illustrative purposes only.

Dividends are a critical component of the long term return of the stock

Growth of \$10,000 since 1980



Source: BMO Global Asset Management. Data as of Oct 18 2023. Past performance is not a guarantee of future results. Investments cannot be made in an index. Dividends are not guaranteed and are subject to change or elimination. Index returns do not reflect transactions costs or the deduction of other fees and expenses and it is not possible to invest directly in an Index.

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ONE MINUTE UPDATE
FACTORS

WHY DIVIDENDS
DIVIDEND GROWTH
FUNDING THE DIVIDEND
DIVIDENDS AND INFLATION
METHODOLOGY MATTERS
CONSIDERATIONS
COMPARING DIVIDEND ETFS
ENHANCED DIVIDEND INCOME

Better return profile at lower volatility = a winning investment proposition.

ONE MINUTE UPDATE
FACTORS
WHY DIVIDENDS

DIVIDEND GROWTH

FUNDING THE DIVIDEND

DIVIDENDS AND INFLATION

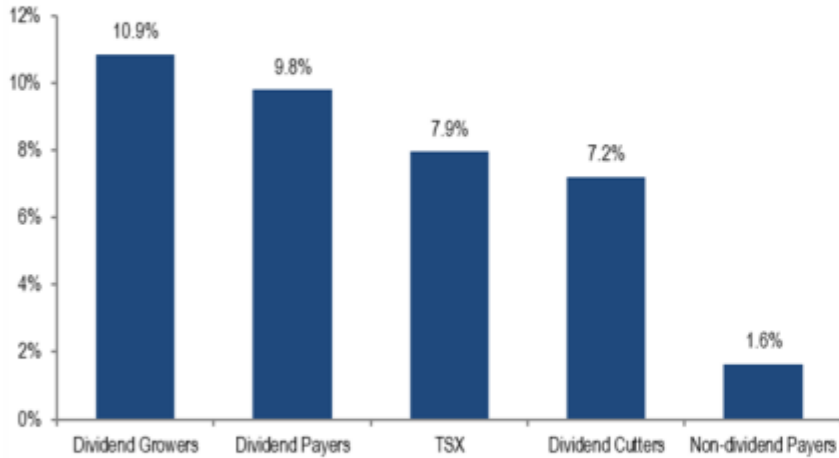
METHODOLOGY MATTERS

CONSIDERATIONS

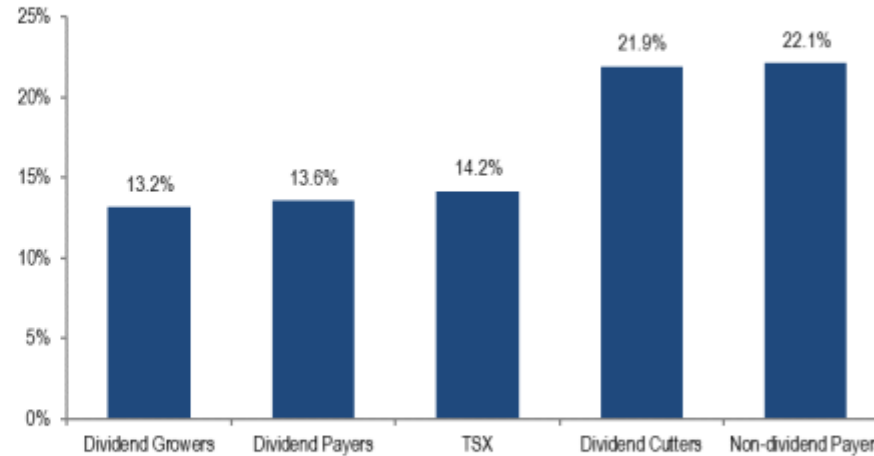
COMPARING DIVIDEND ETFS

ENHANCED DIVIDEND INCOME

S&P/TSX Total Returns by Dividend Category
(since 1990)



Annualized Volatility



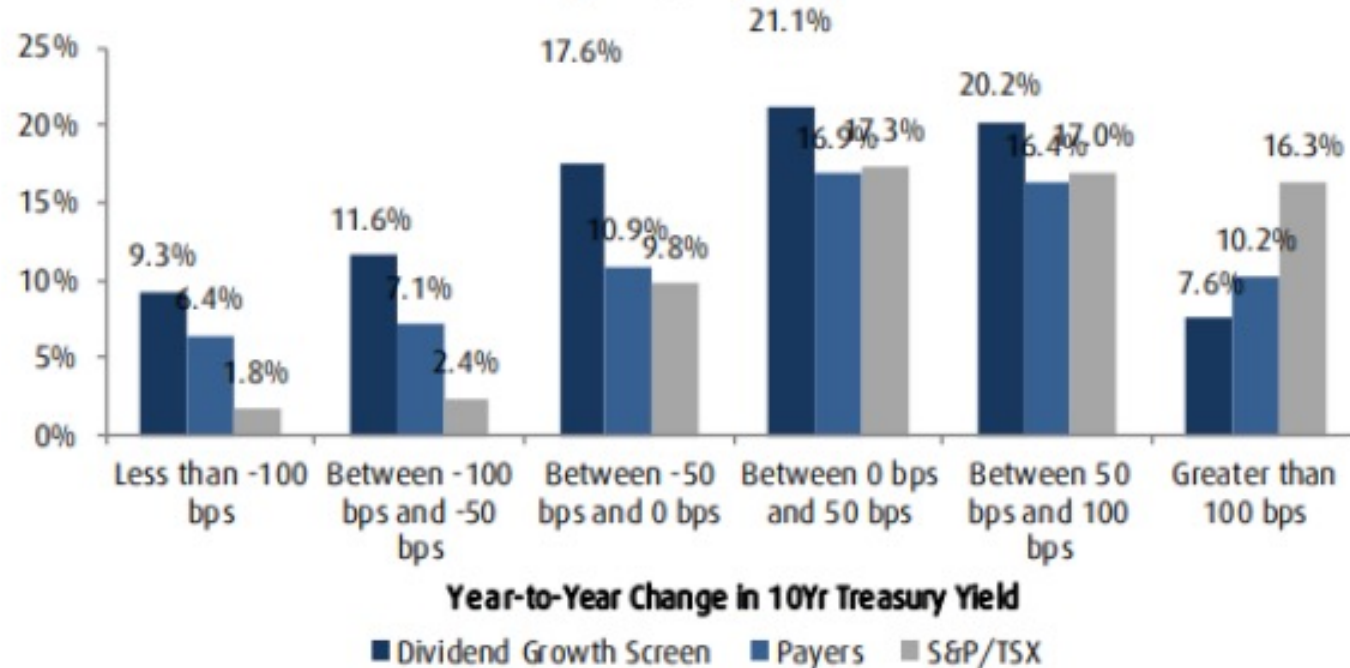
Better return profile at lower volatility = a winning investment proposition.

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Source: BMO Investment Strategy Group, unweighted. As at Sept 23, 2023 (Analysis begins in 1990. January)

Dividend Growth Consistently Outperforms Through Most Phases of Rate Cycle

S&P/TSX Average Rolling 1Yr Total Return Based on Year-to-Year Change in 10Yr Treasury Yield
monthly data, beginning 1990

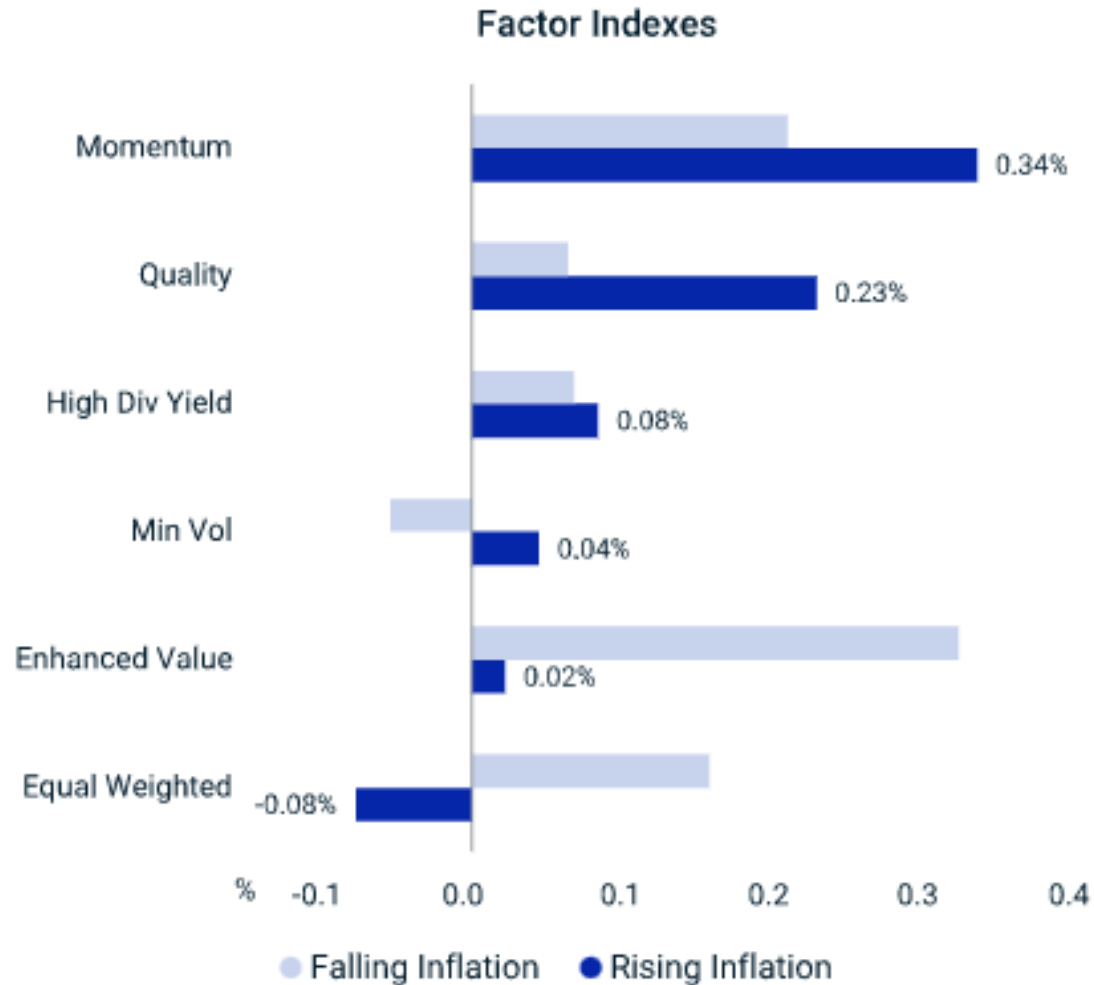


Source: BMO Capital Markets Investment Strategy Group, FactSet, Compustat, IBES, FRB.

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ONE MINUTE UPDATE
FACTORS
WHY DIVIDENDS
DIVIDEND GROWTH
FUNDING THE DIVIDEND
DIVIDENDS AND INFLATION
METHODOLOGY MATTERS
CONSIDERATIONS
COMPARING DIVIDEND ETFS
ENHANCED DIVIDEND INCOME

Active returns in different inflation regimes



Monthly excess returns over the MSCI World Index from December 1975 to October 2021.

ONE MINUTE UPDATE

FACTORS

WHY DIVIDENDS

DIVIDEND GROWTH

FUNDING THE DIVIDEND

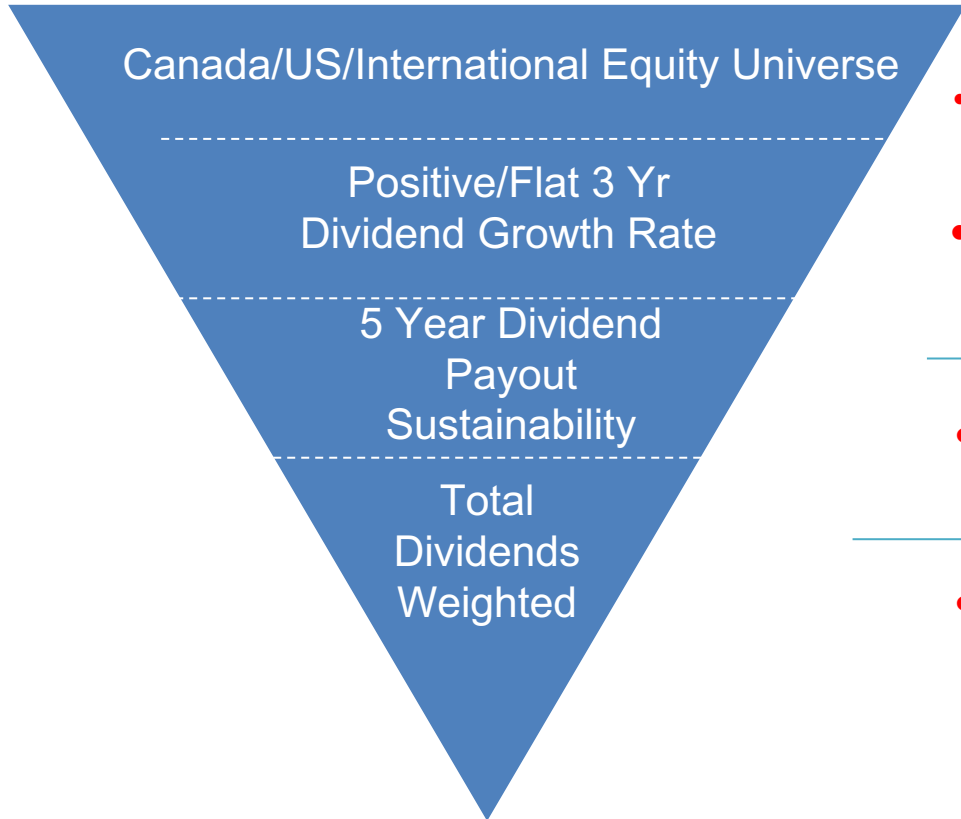
DIVIDENDS AND INFLATION

METHODOLOGY MATTERS

CONSIDERATIONS

COMPARING DIVIDEND ETFS

ENHANCED DIVIDEND INCOME



- Security selection begins with large cap equities
- Securities selected have a value and quality bias, and tend to be larger cap, liquid stocks
- Ensures the dividend is funded by ongoing operations and is forward looking
- Reduces value tilt and captures capital growth with market leading companies

ONE MINUTE UPDATE

FACTORS

WHY DIVIDENDS

DIVIDEND GROWTH

FUNDING THE DIVIDEND

DIVIDENDS AND INFLATION

METHODOLOGY MATTERS

CONSIDERATIONS

COMPARING DIVIDEND ETFS

ENHANCED DIVIDEND INCOME

Annualized Distribution Yield as of Oct 31 2022: The most recent regular distribution, or expected distribution, (excluding additional year end distributions) annualized for frequency, divided by current NAV

ONE MINUTE UPDATE
FACTORS

WHY DIVIDENDS

DIVIDEND GROWTH

FUNDING THE DIVIDEND

DIVIDENDS AND INFLATION

METHODOLOGY MATTERS

**CONSIDERATIONS
COMPARING DIVIDEND ETFS**

ENHANCED DIVIDEND INCOME

Considerations when comparing Dividend ETFs:

- 1) Are the dividends sustainable?
- 2) Are the dividends growing over time?
- 3) How long have dividend growth and payments been analyzed?
(longer time periods lead to more sustainable data)
- 4) How is the ETF weighting each dividend stock?

Investors can **enhance dividend income** by using covered call ETFs.

Benefits of Covered Call ETFs

- Enhanced level of yield: option premiums + dividend income provides an enhanced cash flow
- Tax-efficient: the option premium yield generated is taxed as capital gains
- Lower Volatility: additional income collected from option premiums acts as a buffer against losses on underlying securities

Considerations when comparing Covered Call ETFs:

- 1) How far out of the money are calls being written? (This will affect how much option premium is generated and how much security growth will be available to the investor.)
- 2) How much of the portfolio is being written on?
- 3) Is there an underlying dividend strategy and are the dividends sustainable?
- 4) What is the focus of the portfolio? Region or Sector?

ONE MINUTE UPDATE

FACTORS

WHY DIVIDENDS

DIVIDEND GROWTH

FUNDING THE DIVIDEND

DIVIDENDS AND INFLATION

METHODOLOGY MATTERS

CONSIDERATIONS

COMPARING DIVIDEND ETFS

ENHANCED DIVIDEND INCOME

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