



BMO  Exchange Traded Funds

FTSE
Russell

MBS:

An emerging allocation in Canadian
fixed income

[ftserussell.com](https://www.ftserussell.com)

November 2020

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FTSE Russell
Canada NHA MBS 975

Canadian Mortgage Securitization Market

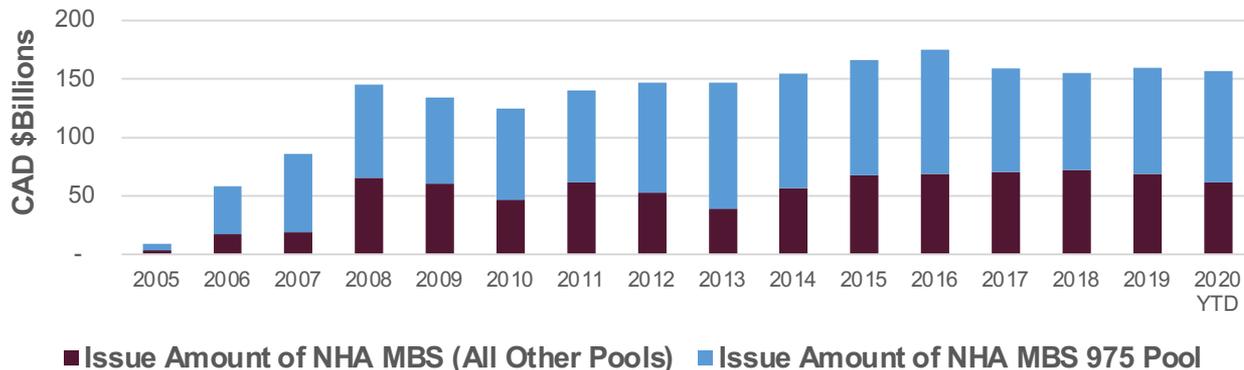
Federal government housing mortgage market programs

National Housing Act (NHA) MBS Program – allows for issuance of MBS (backed by pools of residential mortgages), which are insured by the Canada Mortgage and Housing Corporation (CMHC)

CMB Program (Canada Mortgage Bonds) – allows for sale of NHA MBS to CHT (Canada Housing Trust) which are issued as semi-annual bullet bonds

Insured Mortgage Purchase Program (IMPP) – allows mortgage lenders to pool insured mortgages into NHA MBS and sell to CMHS to obtain liquidity in financial crisis

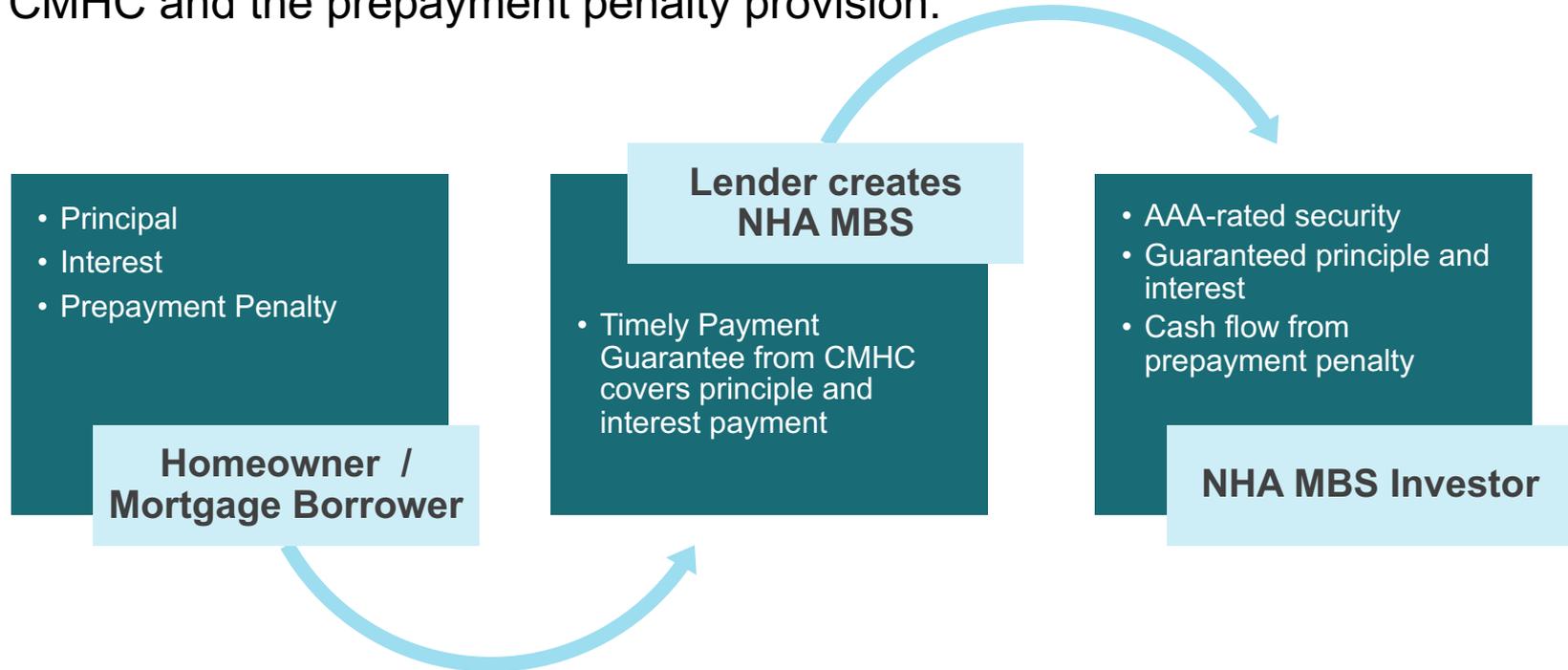
Issuance of mortgage debt has been steady in the last 10 years. The NHA MBS market is currently at C\$500 BN, with 975 Pools representing over 60% of issuance.



Source: CMHC, FTSE Russell. Data as of October 30, 2020.

NHA MBS Securitization Process

Canadian mortgage-backed securities provide a stream of monthly principal and interest payments and offer risk mitigation through the full payment guarantee by CMHC and the prepayment penalty provision.

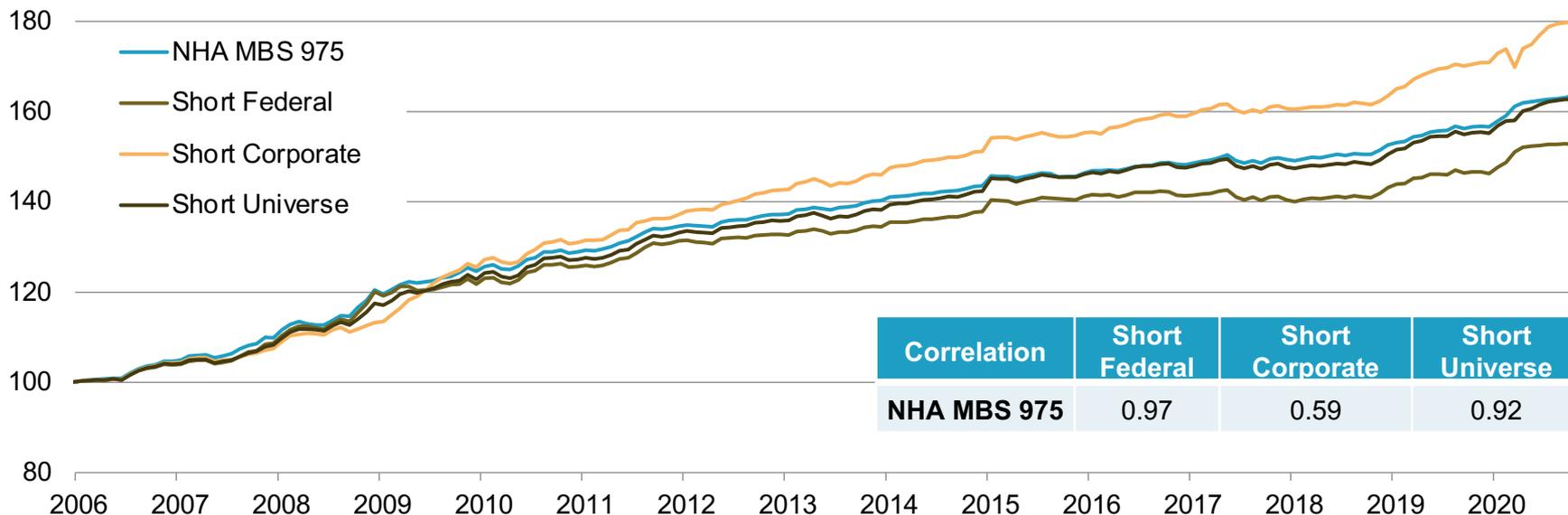


Source: FTSE Russell, for illustrative purposes only.

FTSE Canada NHA MBS 975 Index

The Index includes NHA MBS issued under the 975 pool type, with over 1 year to maturity, at least \$200 MM at issuance and \$100 MM remaining. Typically issued with a 5-year term, these are all AAA-rated Government / Federal securities.

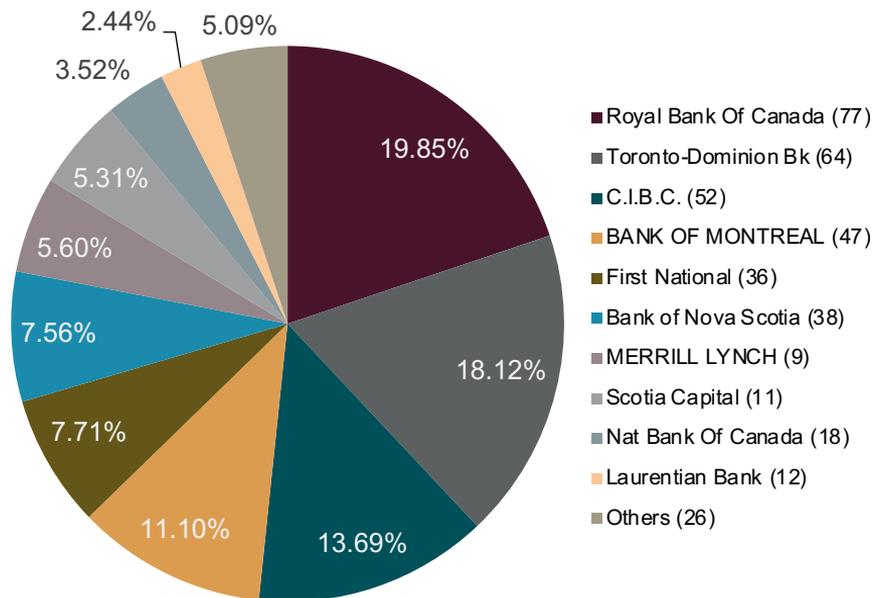
Comparison of NHA MBS 975 index Total Return versus other duration-matched indexes



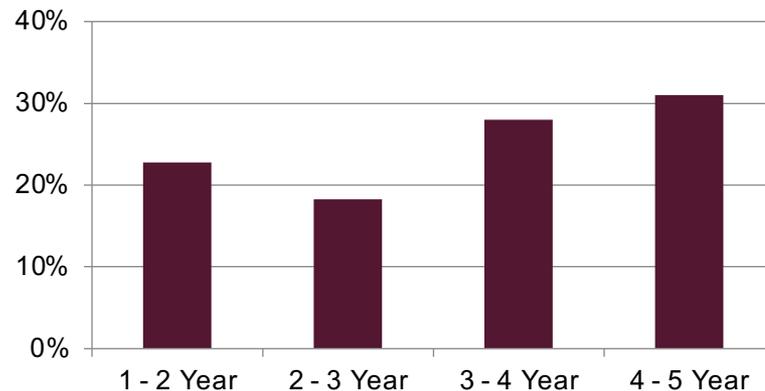
Source: FTSE Russell. Data as of October 30, 2020.

FTSE Canada NHA MBS 975 Index

Market weight distribution – Top 10 issuers



Market weight distribution – by term

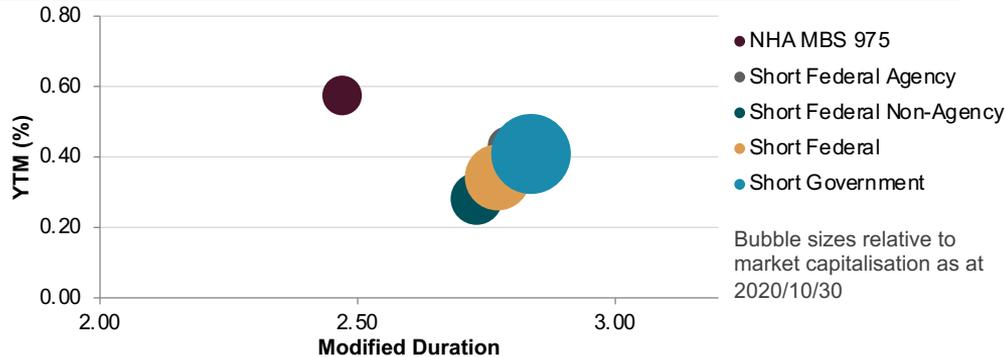
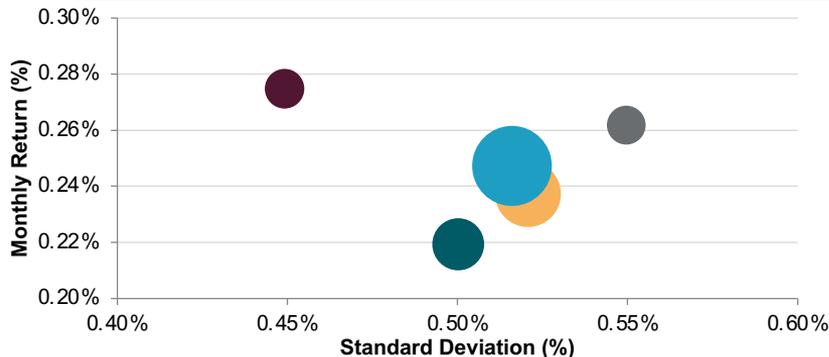
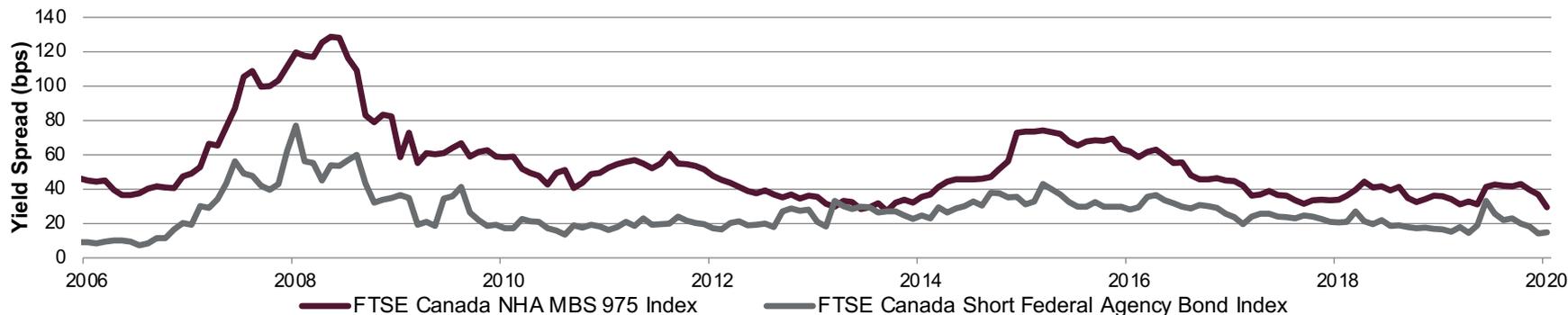


Characteristics	As of Oct 30, 2020
Average Yield	0.57
Average Coupon	1.60
Modified Duration	2.47
Total Market Value (\$MM)	142,177
No. of Issues	390

Source: FTSE Russell. Data as of October 30, 2020.

NHA MBS 975 Yield Spread and Risk / Return

Comparison of Spreads over FTSE Canada Short Federal Non-Agency Bond Index



Source: FTSE Russell. Data as of October 30, 2020.

Why NHA MBS 975?

FTSE Canada NHA MBS 975 Index offers market participants a transparent benchmark to track the Canadian mortgage market.



ASSET DIVERSIFICATION

NHA MBS securities provide investors with an opportunity to track and access the Canadian mortgage market and provide asset allocation diversification from other fixed income exposure.



RISK MITIGATION

The timely payment of principal and interest on NHA MBS is fully guaranteed by Canadian Mortgage and Housing Corporation (CMHC). Prepayment risk is also mitigated by the prepayment penalty provision.



YIELD ADVANTAGE

The NHA MBS market tends to exhibit a wider spread and higher yield relative to Canada Mortgage Bonds and Federal Non-Agency bonds, while maintaining a AAA rating.

BMO
**ZMBS – BMO Canadian
MBS Index ETF**

The BMO Canadian MBS Index ETF (ZMBS): *Product Highlights*

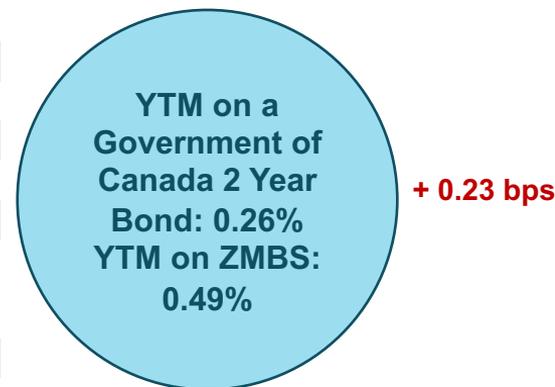


Exchange Traded Funds

- Access a basket of Canadian National Housing Act Mortgage Backed Securities (NHA MBS 975 Pools) in an **ETF**, **which offers efficiency and liquidity and is traded on the exchange**
- The underlying mortgage pools trade OTC at wider spreads than the ETF (~20-25bps)
- Since MBS is an asset class with predominantly institutional participants the underlying mortgage pools typically trades in big block sizes of a minimum of \$1 million to as big as \$100 million per trade

ETF Key Facts:

Duration	2.24
YTM	0.49%
Coupon	1.72%
Net Assets (millions)	\$119.2
Low/High NAV Price*	\$29.9887/\$30.7516
MER	0.17%



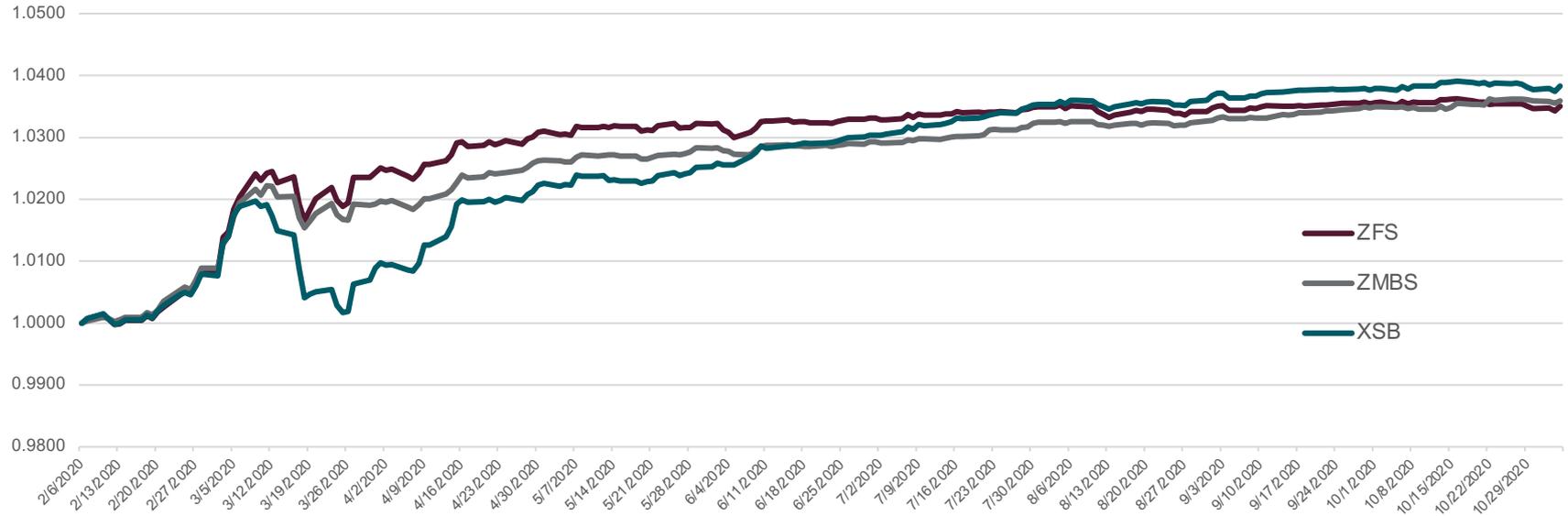
ETF Trading Stats:

Average Daily Dollar Volume	\$1,667,107
Spread	0.10%

*Since Inception (Feb 6)

As of November 2, 2020. Source BMO Global Asset Management. Trading Stats Bloomberg, November 3, 2020.

ZMBS Relative Performance



ETF	Duration	YTM	Credit Rating
ZFS	2.81	0.31%	100% AAA
XSB	2.94	0.65%	50% AAA 26% AA 13% A 11% BBB
ZMBS	2.24	0.49%	100% AAA

Cumulative returns of ZMBS relative to iShares Short Canadian Corporate Bond ETF (XSB) and the BMO Short Federal Bond Index ETF (ZFS). Since inception of ZMBS, February 6, 2020.

Canadian MBS Market Update



Exchange Traded Funds

- IMPP (Insured Mortgages Purchase Program) is the BOC program of buying NHA-MBS pools from banks. The purpose of the program is to help banks fund Insured Mortgages.
- The IMPP program is 150bln (that is equivalent to 1-years worth of NHA MBS supply) but even in 2008 when we were in the midst of a mortgage-related crisis only 68bln was used.
- The NHA MBS market has been very strong throughout the summer. 1) Solid investor demand, 2) continued search for yield pickup, 3) Less NHA MBS supply in the market and 4) government purchase programs have helped the NHA MBS market put up a strong performance.

MBS Performance vs Short Federal Bonds



Source: BMO Capital Markets, November 2020. Total return as of inception of ZMBS, February 6 2020. Past performance does not guarantee future results.

Portfolio Implementation



Exchange Traded Funds

- ZMBS offers short duration, AAA investment grade exposure, with a yield-pick up (around 17bps) over short duration Federal Bonds

Exposure	ETF Name	Ticker	Current Price	AUM (\$MM)	Coupon	Current Yield	YTM	TTM	Duration	Average Credit Rating
Canadian Aggregate	BMO AGGREGATE BOND INDEX ETF	ZAG	16.64	5173.3	3.06	2.59	1.27	10.96	8.28	AA
Short Federal	BMO SHORT FEDERAL BOND INDEX ETF	ZFS	14.59	598.7	1.77	1.70	0.31	2.87	2.80	AAA
Short Provincial	BMO SHORT PROVINCIAL BOND INDEX ETF	ZPS	13.49	406.6	2.71	2.54	0.50	3.14	2.99	AA
Short Corporate	BMO SHORT CORPORATE BOND INDEX ETF	ZCS	14.52	1130.5	3.02	2.86	1.16	3.07	2.91	A
Cash Alternative	BMO ULTRA SHORT-TERM BOND ETF	ZST	50.52	1266.6	2.45	2.43	0.45	0.38	0.37	A
Canadian MBS	BMO CANADIAN MBS INDEX ETF	ZMBS	30.71	119.3	1.72	1.67	0.49	2.85	2.26	AAA

As of October 28 2020. Source BMO Global Asset Management

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Q&A



Thank you.

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