

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

# BMO Ultra Short-Term Bond ETF (ZST/ZST.L) (the “ETF”)

For the 12-month period ended December 31, 2022 (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 a variety of fixed income securities with a remaining effective term to maturity of one year or less. The ETF will primarily invest in money market instruments and directly in fixed income securities, including corporate, Government of Canada, provincial and municipal bonds. The ETF may invest in floating rate instruments, floating rate preferred shares and other floating rate securities, subject to the rate reset date being no greater than one year and the term being no greater than five years.

### 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 17, 2022 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 Canadian dollar (“CAD”) units of the ETF outperformed the broad-based FTSE Canada Universe Bond Index by 12.86%. However, the more appropriate comparison is

to the FTSE Canada Short Term Corporate Bond Index (the “Index”), due to the concentration of the portfolio in short-term Canadian corporate bonds. The CAD units of the ETF returned 1.17% versus the Index return of -4.42%. The change in total net asset value during the Period from approximately \$1,053 million to approximately \$1,078 million had no impact on the performance of the ETF. The difference in the performance of the CAD units of the ETF relative to the Index during the Period (5.59%) resulted from the management expense ratio (-0.17%), and the impact of sampling and certain other factors (5.76%), which may have included timing and holding differences from the concentration of portfolio holdings in very short-term bonds versus the Index, and market volatility.

The Accumulating units of the ETF returned 1.17% versus the FTSE Canada Short Term Corporate Bond Index (the “Index”) return of -4.42%. The difference in the performance of the Accumulating units of the ETF relative to the Index during the Period resulted from the management expense ratio (-0.16%), and the impact of sampling and certain other factors (5.75%), which may have included timing and holding differences from the concentration of portfolio holdings in very short-term bonds versus the Index, and market volatility.

### Market Conditions

The Canadian fixed income market declined primarily due to the rise of inflation and an increase in interest rates across the maturity spectrum. The Canadian bond market, as measured by the FTSE Canada Universe Bond Index, returned -11.7% during 2022. The Canadian Consumer Price Index (CPI) rose 6.8% year-over-year as of the last

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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 Ultra Short-Term Bond ETF

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published rate for the Period. The Bank of Canada (“BoC”) moved aggressively on the overnight lending rate to try to curb inflation, moving to 4.25% from 0.25% at the beginning of the year. The Government of Canada 10-year bond yield increased to 3.30% from 1.43% during 2022. Corporate bonds underperformed Federal bonds despite shorter maturities due to ongoing conflict between Russia and Ukraine as well as concerns over an economic slowdown. Provincial bonds underperformed corporate bonds due to longer maturities. Short-term bonds significantly outperformed long-term bonds as the interest rate curve shifted upwards.

The ETF’s short-duration positioning contributed to performance. From a sector perspective, Financials contributed most to performance while Real Estate contributed least to performance. The portfolio’s exposure to A rated bonds contributed most to performance.

The ETF aims to maintain a distribution based on the earnings, premiums received, or premiums received and dividend yield, of the underlying portfolio, net of fees. This benefits existing unitholders by reducing uncertainty regarding expected distribution rates resulting from fund growth. A significant portion of the distributions consist of return of capital due to certain factors, which may include capital losses on covered call options, derivatives contracts, or hedging contracts, reducing the underlying portfolio’s earnings. The distributions made do not impact the ETF’s ability to fulfill its investment objectives.

## Recent Developments

After a challenging year for both equity and bond markets, the Bank of Canada (“BoC”) is expected to continue interest rate hikes well into 2023, however market expectations are starting to price in some optimism that the interest rate hiking cycle is nearing an end. The expectation of the end of the hiking cycle in Canada could mean that there is more stability in the market for the year ahead. The portfolio manager does expect economic growth to slowdown and for a recession to come to fruition. Economic data, more importantly inflation, will be on the top of the radar for investors as it will likely dictate the path of interest rate policy for much of 2023. The portfolio’s exposure to corporate bonds could be well positioned in period ahead.

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 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;

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(c) trades in over-the-counter debt securities in the secondary market with BMO Nesbitt Burns Inc., or any other affiliate of the Manager, acting as principal in the Canadian debt securities market; and

(d) trades of a security of any issuer from or to, another investment fund managed by the Manager or an affiliate of the Manager 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 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				
	2022	2021	2020	2019	2018
Net assets, beginning of period	\$ 49.34	50.37	50.82	51.05	51.79
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 0.94	0.33	1.04	1.33	1.30
Total expenses	\$ (0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Realized gains (losses) for the period	\$ (0.12)	(0.17)	(0.09)	(0.07)	(0.28)
Unrealized gains (losses) for the period	\$ (0.07)	0.03	(0.07)	(0.01)	0.14
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	\$ 0.67	0.11	0.80	1.17	1.08
<b>Distributions</b>					
From net investment income (excluding dividends)	\$ 0.62	0.90	1.26	1.26	1.58
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.73	0.24	0.09	0.19	0.19
<b>Total Annual Distributions<sup>(3)</sup></b>	\$ 1.35	1.14	1.35	1.45	1.77
<b>Net assets, end of period</b>	\$ 48.56	49.34	50.37	50.82	51.05

Listed Accumulating Units	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Net assets, beginning of period	\$ 53.92	53.79	52.83	51.58	50.57
<b>Increase (decrease) from operations</b>					
Total revenue	\$ 0.98	0.40	1.12	1.36	1.24
Total expenses	\$ (0.09)	(0.08)	(0.09)	(0.08)	(0.08)
Realized gains (losses) for the period	\$ (0.15)	(0.25)	(0.08)	(0.07)	(0.28)
Unrealized gains (losses) for the period	\$ (0.15)	0.06	(0.03)	(0.02)	0.21
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	\$ 0.59	0.13	0.92	1.19	1.09
<b>Distributions</b>					
From net investment income (excluding dividends)	\$ 0.75	1.13	1.24	1.06	0.90
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.48	0.07	—	—	—
<b>Total Annual Distributions<sup>(3)</sup></b>	\$ 1.23	1.20	1.24	1.06	0.90
<b>Net assets, end of period</b>	\$ 54.55	53.92	53.79	52.83	51.58

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

<sup>(2)</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>(3)</sup> Distributions were either paid in cash or reinvested in additional units of the ETF, or both.

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## Ratios and Supplemental Data

Listed CAD Units	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Total net asset value (000's) <sup>(1)</sup>	\$ 839,769	706,173	603,975	661,998	173,812
Number of units outstanding (000's) <sup>(1)</sup>	17,293	14,311	11,991	13,027	3,405
Management expense ratio <sup>(2)</sup>	% 0.17	0.16	0.16	0.17	0.17
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.17	0.16	0.16	0.17	0.17
Trading expense ratio <sup>(3)</sup>	% —	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	% 143.08	108.42	139.81	22.58	117.44
Net asset value per unit	\$ 48.56	49.34	50.37	50.82	51.05
Closing market price	\$ 48.57	49.33	50.35	50.81	50.99

Listed Accumulating Units	Financial years ended Dec. 31				
	2022	2021	2020	2019	2018
Total net asset value (000's) <sup>(1)</sup>	\$ 238,201	347,319	484,736	343,972	110,440
Number of units outstanding (000's) <sup>(1)</sup>	4,367	6,442	9,011	6,511	2,141
Management expense ratio <sup>(2)</sup>	% 0.16	0.16	0.16	0.16	0.16
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.16	0.16	0.16	0.16	0.16
Trading expense ratio <sup>(3)</sup>	% —	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	% 143.08	108.42	139.81	22.58	117.44
Net asset value per unit	\$ 54.55	53.92	53.79	52.83	51.58
Closing market price	\$ 54.54	53.91	53.80	52.83	51.63

<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. For all the financial periods listed, no commissions or other portfolio transaction costs were incurred by the ETF. As a result, the trading expense ratio for all the periods was nil.

<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 %
ZST	0.15
ZST.L	0.15

## 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.

Effective January 6, 2014, the ETF changed its name and ticker symbol to BMO Ultra Short-Term Bond ETF (ZST), the management fee rate was reduced to 0.15% from 0.19% and the units of the ETF were consolidated on a one for four basis.

In addition, the investment objective of the ETF changed to seek to provide unitholders with exposure to a variety of fixed income securities with a remaining effective term to maturity of one year or less. The ETF may invest in money market instruments and directly in fixed income securities, including corporate, Government of Canada, provincial and municipal bonds or invest in other ETFs, mutual funds or public investment funds and derivative instruments to obtain exposure to such debt securities. The ETF may also invest in floating rate instruments and floating rate preferred shares and other fixed income securities, subject to the rate reset date being no greater than one year and the term being no greater than five years.

On May 18, 2021, the Manager changed the distribution frequency for the Accumulating units of the ETF from annually to quarterly.

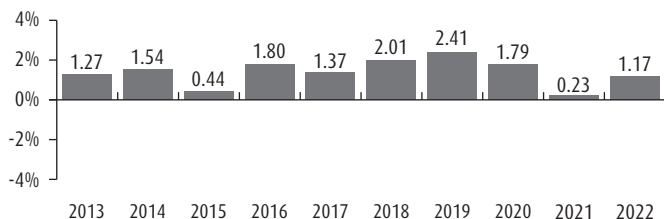
These changes could have affected the performance of the ETF, had it been in effect throughout the performance measurement periods presented.

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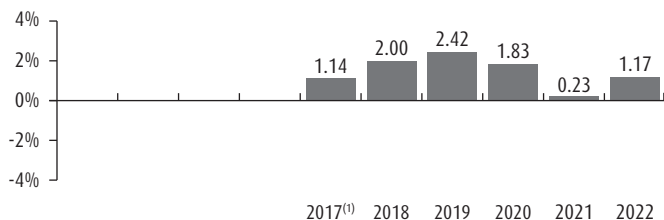
## Year-by-Year Returns

The following bar charts show the performance of the ETF for each of the financial years shown, and illustrate how the ETF's performance has changed year to year. The charts show, 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.

### Listed CAD Units



### Listed Accumulating Units



<sup>(1)</sup> For the period beginning with the performance launch date of February 3, 2017 to December 31, 2017.

## Annual Compound Returns

This table compares the historical annual compound returns of the ETF with its benchmark index, the FTSE Canada Short Term Corporate Bond Index and a broad-based index, the FTSE Canada Universe Bond Index.

The FTSE Canada Short Term Corporate Bond Index consists of semi-annual pay fixed rate corporate bonds denominated in Canadian dollars, with an effective term to maturity less than five years but greater than one year, a credit rating of BBB or higher and a minimum size of \$100 million per issue.

The FTSE Canada Universe Bond Index is designed to be a broad measure of the Canadian investment-grade fixed income market consisting of federal, provincial, municipal and corporate bonds. The FTSE Canada Universe Bond Index consists of semi-annual pay fixed rate bonds issued domestically in Canada and denominated in Canadian dollars, with an effective term to maturity of greater than one year and a credit rating of BBB or higher.

As at December 31, 2022

Listed CAD Units		1Yr	3Yr	5Yr	10Yr	Since Inception
BMO Ultra Short-Term Bond ETF	%	1.17	1.06	1.52	1.40	
FTSE Canada Short Term Corporate Bond Index	%	(4.42)	0.37	1.48	1.94	
FTSE Canada Universe Bond Index	%	(11.69)	(2.20)	0.27	1.63	

Listed Accumulating Units		1Yr	3Yr	5Yr	10Yr	Since Inception <sup>(1)</sup>
BMO Ultra Short-Term Bond ETF	%	1.17	1.08	1.53		1.48
FTSE Canada Short Term Corporate Bond Index	%	(4.42)	0.37	1.48		1.36
FTSE Canada Universe Bond Index	%	(11.69)	(2.20)	0.27		0.68

<sup>(1)</sup> Return from the performance launch date of February 3, 2017 to December 31, 2022.

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

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## Summary of Investment Portfolio

As at December 31, 2022

Portfolio Allocation	% of Net Asset Value
Financials	44.2
Money Market Investments	15.6
Utilities	11.0
Consumer Discretionary	9.7
Real Estate	8.5
Energy	4.6
Communication Services	3.6
Industrials	2.0
Cash/Receivables/Payables	0.5
Consumer Staples	0.3
<b>Total Portfolio Allocation</b>	<b>100.0</b>

Top 25 Holdings	% of Net Asset Value
Bank of Nova Scotia, The, Senior, Unsecured, Notes, 2.380% May 1, 2023	7.4
Hydro One Inc., Medium Term Notes, Senior, Unsecured, 0.710% Jan 16, 2023	6.7
Government of Canada, Treasury Bills, 4.340% Jul 20, 2023	6.5
Canadian Western Bank, Deposit Notes, Senior, Unsecured, 1.570% Sep 14, 2023	5.7
OMERS Realty Corporation, Series 12, Senior, Unsecured, Debentures, 1.298% Sep 22, 2023	4.8
Toronto-Dominion Bank, The, Deposit Notes, Senior, Unsecured, 1.909% Jul 18, 2023	3.8
TELUS Corporation, Series CJ, Unsecured, Notes, Callable, 3.350% Mar 15, 2023	3.7
Ventas Canada Finance Limited, Series D, Senior, Unsecured, Notes, Callable, 2.550% Mar 15, 2023	3.6
Government of Canada, Treasury Bills, 4.331% Jul 20, 2023	2.7
VW Credit Canada, Inc., Senior, Unsecured, Notes, 1.200% Sep 25, 2023	2.5
Ivanhoe Cambridge II Inc., Series 1, Senior, Unsecured, Debentures, Callable, 2.909% Jun 27, 2023	2.4
Daimler Canada Finance Inc., Senior, Unsecured, Notes, 2.540% Aug 21, 2023	2.3
Emera Incorporated, Series 2016-1, Senior, Unsecured, Notes, 2.900% Jun 16, 2023	2.2
Canadian Imperial Bank of Commerce, Deposit Notes, Senior, Unsecured, 2.970% Jul 11, 2023	2.2
Government of Canada, Treasury Bills, 4.458% Jul 20, 2023	2.0
Canadian Imperial Bank of Commerce, Senior, Unsecured, Notes, 2.430% Jun 9, 2023	2.0
Prime Structured Mortgage Trust, Series 20-1, Senior, Secured, 1.968% Feb 15, 2023	2.0
Fortified Trust, Series A, Credit Card Asset-Backed Notes, Secured, 2.340% Jan 23, 2023	1.9
Royal Bank of Canada, Deposit Notes, Senior, Unsecured, 2.949% May 1, 2023	1.9

Top 25 Holdings	% of Net Asset Value
HSBC Bank Canada, Deposit Notes, Senior, Unsecured, 2.542% Jan 31, 2023	1.8
Pembina Pipeline Corporation, Medium Term Notes, Senior, Unsecured, 2.560% Jun 1, 2023	1.8
Federation des caisses Desjardins du Quebec, Medium Term Notes, Senior, Unsecured, 3.056% Sep 11, 2023	1.7
BMW Canada Inc., Series W, Senior, Unsecured, Notes, 0.630% Jan 16, 2023	1.6
EPCOR Utilities Inc., Medium Term Notes, Senior, Unsecured, 1.299% May 19, 2023	1.5
Toronto-Dominion Bank, The, Deposit Notes, Senior, Unsecured, 3.005% May 30, 2023	1.5
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>76.2</b>
<b>Total Net Asset Value</b>	<b>\$1,077,970,145</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.

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