STOCKTRADES ETF SUMMARY

ZLB.TO

BMO LOW VOLATILITY CANADIAN EQUITY ETF

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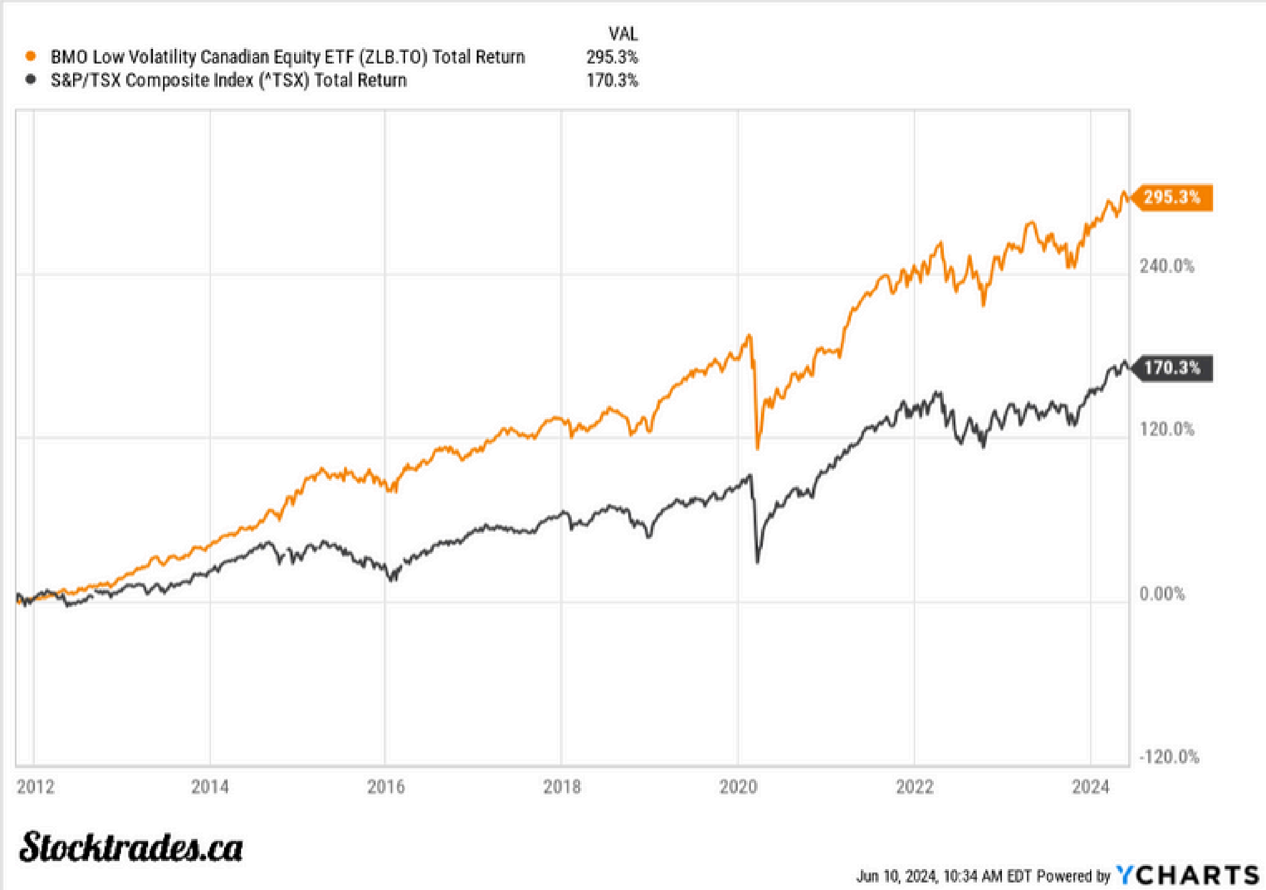
Stocktrades ETF Insights



Performance (CAGR)	11.49%	★★★★
Fees (MER)	0.35%	★★★
Volatility (Beta)	0.76	★★★★★
Distribution (Yield)	2.56%	★★★★
Valuation (Forward P/E)	15.5	★★★★★
5 Year Earnings Growth	8.06%	★★★

Performance: The fund's 10-year annualized returns, or all-time annualized returns if the fund is less than 10 years old.
Fees: The fund's total fees, including the trading expense ratio. A lower star rating means higher fees. However, a high-fee fund could have a high fee rating if its performance has justified the fees.
Volatility: The historical volatility you can expect from the fund. A lower star rating means more volatile. We base this on a combination of the beta and max drawdown of the fund.
Distribution: The yield of the fund. A more tax-efficient ETF will get bonus stars.
Valuation: The overall valuation of the companies inside of the fund.
5 Year Earnings Growth: The expected earnings growth of the fund annualized over the next 5 years. A lower star rating means lower expected growth.

PROS

- Canada's equity markets are much cheaper than the United States, which could vault the performance of high-quality Canadian names in the future
- The fund's performance relative to the TSX Index has been outstanding
- A low-volatility fund with a reasonable yield
- The fund is less concentrated in financials and energy than many other Canadian ETFs

CONS

- Although Canadian stocks are cheaper, the Canadian economy is projected to be relatively weak compared to the US, which could be the reason for low valuations
- Although the fund's fees aren't egregiously high, 0.35% is still on the higher end
- Because of its low volatility nature, it does avoid many promising technology options in Canada

OBJECTIVE AND STRATEGY OF THIS ETF

ZLB is an actively managed ETF by BMO that aims to give investors exposure to a basket of low-volatility Canadian holdings while providing a modest level of income, typically yielding in the 2.5% range.

Interestingly enough, while this fund targets low volatility, it has purchased some of the highest-quality names in the country. As such, it has put up impressive returns over the long term.

The fund's strategy is relatively simple. It analyzes large-cap Canadian holdings with low betas. It adds the ones it feels will outperform moving forward to the portfolio. Beta is simply a metric utilized to get an idea of stock volatility. A company with a beta of 2 would be considered highly volatile. In contrast, a company with a beta of under 1 is generally considered low-volatility.

A stock with a beta of 2 would move twice as much as the market, meaning if the market gains 1% on the day, you can expect the stock to gain 2%. The reverse is also true. A stock with a beta of 0.5 is expected to be half as volatile as the overall market. When the market gains 1%, it is expected to gain 0.5%. If the market loses 1%, it is expected to only lose 0.5%.

It is important to understand that beta is measured over a long period and does not guarantee daily market movements.

RISKS OF THIS ETF

The primary risk with this fund is its exposure to the Canadian economy. It is a pure-play Canadian fund, targeting mostly blue-chip options in Canada. If the Canadian economy were to struggle, there is little doubt this fund would also struggle. It may still be able to outperform the broader TSX Index, but there could be an opportunity cost when we consider investing in a global or US ETF over something like this.

Sector Risk	**LOW**
Concentration Risk	**MED**
Geographical Risk	**HIGH**
Liquidity Risk	**LOW**

Another added risk is that the portfolio does not contain exposure to our technology or energy sectors. It does contain some tech exposure, but at under 5%, it is relatively small. In terms of the energy sector, it includes no exposure. This makes sense, as the energy sector is volatile, and many of the names in the industry, despite being exceptional in terms of quality, just don't fit the underlying objective of the fund.

Although the overall concentration risk is low compared to other Canadian ETFs, which often have allocations in excess of 40%+ when it comes to the financial sector, it still concentrates heavily in the financial (20%+) and consumer defensive (18%) sectors.

Overall, I would classify this fund as a relatively low-risk option for those looking for a high-quality basket of Canadian stocks, all of which are cash-flow-positive mature businesses. The key risks here are geographical.

HOLDINGS

Top Ten Holdings	Allocation
Loblaw (L)	4.5%
Metro (MRU)	3.9%
Waste Connections (WCN)	3.5%
Hydro One (H)	3.5%
Thomson Reuters (TRI)	3.3%
TMX Group (X)	3%
Agnico Eagle Mines (AEM)	3%
Intact Financial (IFC)	3%
Empire (EMP.A)	2.8%
Fortis (FTS)	2.9%

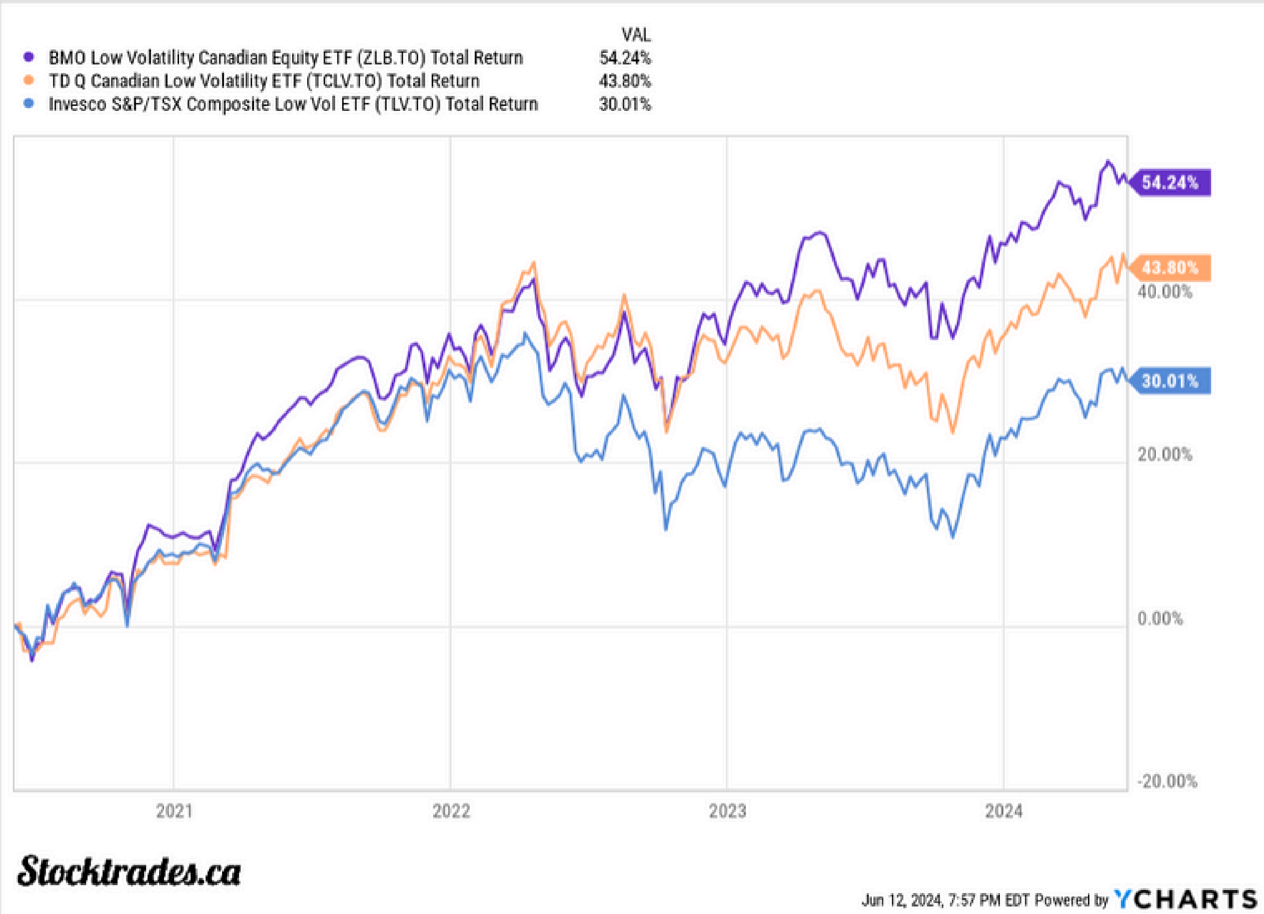
The low volatility nature of this fund is certainly apparent in its top 10 holdings. We can see numerous grocers, utilities, financial companies, and even a waste disposal company like Waste Connections.

These companies typically have lower volatility due to their consistent earnings. The economic moats these companies have developed in the industries they operate in have led to consistent cash flows and fewer surprises when it comes to earnings. As a result, retail and institutional investors rarely sell these holdings off, and their share prices remain steady.

The portfolio is relatively well-rounded, with the top holding making up only 4.5% of the portfolio. You are certainly getting a diverse mix of high-quality Canadian options in this ETF without the concentration risk that many other Canadian ETFs have. Most indexes are market-cap weighted, which means the larger company = larger allocations. Given that our financial institutions, particularly the Big 5 Banks, are some of the largest companies in the country, Canadian ETFs tend to be financial-heavy. This is not the case with ZLB. ZLB is much more well-rounded than the vast majority of Canadian-focused ETFs.

Overall, you're getting exposure to some of the largest businesses in the country, ones that have been around for a long time and have provided decades of historical earnings and free cash flow growth. The low volatility nature of the holdings is simply the cherry on top.

COMPETING FUNDS



	ZLB	TCLV	TLV
Returns	✅		
Diversification	✅		
Fees	✅		
Tax Efficiency	✅	✅	✅
Distribution			✅

The two best funds to compare ZLB to are the TD Bank Low Volatility Canadian ETF, TCLV, and the Invesco Low Volatility Canadian ETF, TLV.

On nearly all fronts, outside of the distribution, ZLB reigns supreme. On a return front, as you can tell by the chart above, ZLB has performed much better over the last few years. The primary reason for this is the lower exposure to financial holdings. TCLV and TLV contain much more banking exposure inside of the top 10 holdings, which ultimately resulted in them being outpaced by ZLB during the banking drawdown in late 2022 and 2023. Whether or not this continues moving forward depends on the success of the Big 5

Banks. For me, I believe Canadian funds are too concentrated in Canada's big banks. I prefer to mitigate financial exposure where I can, so the 20%~ exposure to financials versus nearly 30% in both TCLV and TLV is a benefit to me.

This nicely leads to the diversification aspect of the funds. Because of that lower financial exposure, I feel ZLB is the more diversified fund. Although the holdings are relatively the same number-wise across all funds (between 49-52), ZLB's overall holdings are spread across more sectors.

For the tax efficiencies, because these are all Canadian holdings, one will benefit from the eligible dividends received, so they're practically a wash.

The only advantage I would give is the fact that TLV has a much higher yield, closer to 4%, while ZLB is around 2.5%. However, the performance of ZLB makes me lean towards the fund, even for someone who is looking for income.

DISTRIBUTION ANALYSIS

Although there is a small mix of different distributions with ZLB, the vast majority of it is going to be either eligible dividends or capital gains. In 2023, the fund paid out a total of $2.30 in distributions, $1.06 of it was eligible dividends and $1.21 in capital gains. However, in 2022, it was pretty much the reverse, with it paying out the bulk in dividends and a smaller portion in capital gains.

The difference between the makeups of the distributions would be dependent on market conditions. When the markets are doing well, the fund will likely pay out more in capital gains, whereas when the markets are weaker, you will likely see more eligible dividends and possibly even return of capital to keep the yield relatively stable.

Ultimately, the distribution is tax-friendly for Canadians and at a 2.5% yield, it is solid for income as well.

OUR OVERALL OPINION

It just so happens that the stocks with the lowest volatility in Canada happen to be the best performing. This is likely due to the fact we have many niche sectors in Canada that operate oligopolies, meaning there are few major players in the space and little competition. We can think of the grocers in Loblaw, Empire, and Metro as a prime example. Or alternatively, we can think of waste collection companies like Waste Connections. These companies have been able to grow cash flows at a strong pace over the decades because few competitors can enter the space. As investors, companies like this have typically been strong ones to own.

I like the diversified element of the fund and the lack of concentration in financials. I am a big fan of Canada's financial institutions. Still, I find that many funds over-allocate to them in a big way, which leads to a bit of concentration risk.

Overall, this is a niche fund that provides exposure to a high-quality basket of Canadian stocks for a reasonable fee.

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