

Managed Futures Frequently Asked Questions

What are managed futures?

Managed futures are the systematic or discretionary trading of futures contracts by professional Commodity Trading Advisors (CTAs) who trade in global futures markets, as either buyers or sellers of contracts representing real assets such as gold, silver, wheat, corn, coffee, sugar and heating oil, as well as financial assets such as government bonds, equity market indices and currencies.

What are futures contracts?

Futures contracts are agreements made today to buy or sell a fixed quantity of an asset at a predetermined date in the future at a predetermined price. The futures market is largely comprised of commercial hedgers seeking to reduce their exposure to price volatility and speculators willing to accept risk as they seek profit. Exchange-traded futures contracts are typically extremely liquid and trade worldwide under regulations. They fall under a number of sub-types: commodity, fixed income, equity and currency.

How are managed futures used in an investment portfolio?

In moderation, managed futures may help reduce the overall risk of a portfolio. A prudent investor may ensure that at least a portion of a portfolio is allocated to an asset class that has the potential to perform well when other portions of the portfolio are underperforming.

Other potential benefits of managed futures may include:

- Historically competitive returns over the long term*
- Returns independent of traditional stock and bond markets*
- Access to global markets
- The unique implementation of traditional and non-traditional trading styles
- Potential exposure to as many as one hundred markets globally
- The contracts in which the CTAs trade typically have a high degree of liquidity

If suitable to a client's objectives, devoting five to fifteen percent of a typical portfolio to alternative investments has been shown to increase returns and lower volatility. Because alternative investments may not react in the same way as stocks and bonds to market conditions, they may be used to diversify investments over different asset classes, resulting in less volatility and less risk.*

(Prior to making any investment decision, investors should carefully consider associated risks. For more information, visit the Legal & Risk statement on our Web site at <http://www.bmoinvesting.com/altinvest>. Investors should also discuss using managed futures with their Investment Advisor.)

How can diversification through using managed futures help reduce risk?

During times of market volatility or declining stock and bond markets, managed futures may be an important part of your portfolio. The BMO Managed Futures CD product and the BDC Managed Futures product are structured financial products, which over time are designed to provide investors with exposure to a set of strategies with little correlation to the stock and bond markets.

In the event of a major, sustained downturn of the equity or fixed income markets, managed futures may potentially provide some protection for a client's overall portfolio. Increasingly sophisticated institutional investors such as pension funds, endowments, foundations, and family offices are allocating larger portions of their portfolios away from equity and fixed income into alternative investments. Managed futures are a sub-class of alternative investments.

How do managed futures compare to stocks and bonds?

Generally speaking, because managed futures have little correlation to stock and bond markets, it is extremely difficult to make a comparison. It may be common for investors to dissect the individual elements of their portfolio and expect them to compete with one another over every time period. However, effective and prudent asset allocation would suggest that:

- Managed futures cannot be looked at in isolation from the rest of the portfolio, nor should they be examined in relation to the stock market.
- It is very important to ensure investors have a balanced approach to investing, to understand the rationale behind allocating portions of assets to different investment classes, styles or instruments, and that they always keep their long-term goals in mind.
- Different instruments within their portfolio should complement each other, not compete with each other.

It is key to remember that different investments derive profitability from a variety of economic and market scenarios, and that investments will not all perform at the same time. Otherwise, all investments would make money together and all would lose money together.

What is a Commodity Trading Advisor?

Managed futures programs are traded by professional money managers (known as Commodity Trading Advisors, or CTAs) who provide investors with exposure to a variety of markets including, but not limited to: agricultural; currency; energy; interest rate; metals; and global equity indices. Unlike money managers who are restricted to long only investment positions and cannot use other skill based strategies or derivatives, managed futures offer a wide variety of investments, different styles and potential downside risk reduction, combined with upside potential.

BMO/BDC Managed Futures

Who manages the BMO and BDC Managed Futures products?

The Managed Futures products are being actively overseen and monitored on a regular basis by our team of dedicated professionals in Chicago, New York and Dublin.

- They continually perform the necessary due diligence to create and maintain a portfolio of industry recognized CTAs with a diversified set of trading styles and market coverage.
- They take active steps to eliminate CTAs who are underperforming and perform ongoing analysis to choose new CTAs with better performance.
- A monthly report on the performance of the CTAs is provided to Bank of Montreal Ireland's Sub-Committee of the Investment Committee, which then determines and approves any appropriate changes.

How is the performance of the managed futures program tracked?

Though managed futures are considered a longer-term investment, a daily Net Asset Value (NAV) is calculated for each program. In addition, monthly and annual reviews are issued to provide a broader, more detailed overview of performance. The NAV index on any business day is the aggregate value of all the assets held in connection with the Program less the aggregate value of the liabilities.

What's the difference (from an investor's perspective) between a sale and a redemption?

Prior to maturity, you may redeem on June 30 or December 31 of each year (December 31 only for the R-1 series) for a redemption price that depends entirely upon the Net Asset Value of the assets comprising the Program at the time of redemption. When you sell into the open market, you are likely to be selling at a discount to the NAV.

What are the redemption penalties?

On the BDC Managed Futures Notes Series N-1, a penalty fee of 3% is levied on redemptions prior to December 31, 2001. There are no penalties imposed on any of the BMO Managed Futures CDs Series R1-R4.

How many series are there?

BMO Series R-1, R-2, R-3, R-4 and BDC Series N-1.

When are these series redeemable?

December 31 each year for the R1 series. June 30 and Dec 31 each year for the remaining series.

Can the Managed Futures products be purchased or sold?

Yes, they are available on the secondary market. Contact the Toronto Retail Bond Trading Desk at (416) 359-7025.

Are they RRSP eligible?

Yes, and they do not constitute foreign property to an investor under the Income Tax Act (Canada).

Are they only BBS (book-based system) eligible or can they be held in certificate form?

They are BBS only.

*Sources: Managed Account Reports, Alternative Investment Management Association

For further information on the BMO Managed Futures CDs Series R1-R4 and the BDC Managed Futures Notes Series N-1, please consult the relevant Information Statement.