

Fund Update

July 2020

The COVID-19 pandemic has had a significant impact – affecting financial markets, along with families and societies across the globe. In light of this unprecedented situation, we wanted to update you on our team’s investment approach in managing the Educators Dividend Fund (“the Fund”) along with our outlook.

By the end of June 2020, we saw many encouraging signs. These included decreasing infection rates, in Canada and many other nations, along with indications that major economies were re-opening and investor sentiment was turning more positive. Risk factors remain, of course, including the possibility of a second wave of COVID-19; however, we’re generally pleased to see economies and markets showing resilience in the face of one of our greatest challenges in recent memory. With that, we would like to begin by expressing our gratitude for your continued support and commitment during these uncertain times.

Remember, **markets are resilient**, so stay the course!

What Has Our Investment Team Been Doing in this Environment?

The simple answer is we’re operating in much the same way as we always have. We may be examining scenarios that are considerably different than in 2019, but just as in more normalized conditions, we are still applying our unwavering investment discipline:



Focusing on the long-term fundamentals of companies – Our analysis examines what a given company could look like 5 to 10 years from now. By contrast, analyzing short-term forecasts is of limited use even at the best of times. During times of crisis or heightened volatility, these short-term forecasts are even less reliable.



Constructing concentrated portfolios – Focusing on the long-term drivers of success gives us the confidence in our holdings to build concentrated portfolios of high-quality businesses in which we have the most conviction.

Portfolio Managers



Lutz Zeitler, CFA, MBA

Managing Director & Head of
Canadian Fundamental Equities



Phillip Harrington, CFA, M.Fin.

Director & Portfolio Manager,
Canadian Fundamental Equities

Day to day portfolio management duties are carried out by Lutz Zeitler and Phil Harrington. They are members of, and supported by, BMO Global Asset Management’s Canadian Fundamental Equities Team:

- 4 Portfolio Managers
- 5 Analysts
- 3 Traders
- 18 years average industry experience



We seek only investments in strong businesses – We are meeting with the management teams of all our holdings to better understand how this crisis is impacting their business, staff and decision-making processes. As investors, this is important for us to gain a better understanding of each company's strength, resilience of their business model, balance sheet and competitive advantages.



Risk management is inherent in our process – We ensure we have a full understanding of risk well before the unexpected happens. We spend a significant portion of our company analysis thinking about how an investment could go wrong.

Every business model has been affected by today's unprecedented environment. However, some companies will be more impacted than others. As a result, in cases where we believe an investment may be structurally impaired or an opportunity exists to upgrade the overall quality of the portfolio, we will make changes to ensure the Fund only holds companies with the highest probabilities of success in generating long-term value.

The bottom line is, we are committed to our discipline to own strong companies that can responsibly and sustainably add significant value for our investors over the next several years.

How Has the Fund Performed?

The Fund reflects the quality of the business models of the companies we invest in. Given the considerable market volatility we have experienced, some holdings are being negatively impacted more than they deserve to be; however, this has created tremendous opportunities for us as long-term investors. We are seeing attractive valuations for some of our holdings that we thought we might never see.

Our core investment philosophy is that, over the long-term, stock prices follow company fundamentals. Fundamentally strong companies are able to grow their cash flow, earnings and asset value in a socially and environmentally responsible manner while maintaining strong governance structures. Such companies will outperform over the long-term. The Educators Dividend Fund has exemplified this investment principle with significant outperformance against representative benchmarks and peers over the years.

Throughout this crisis so far, market movements and stock prices have not necessarily reflected fundamentals. Consequently, we believe our shorter-term performance is a testament to the quality

of companies we invest in. When markets accelerate off the bottom, it is not unusual for lower-quality companies to outperform. This phenomenon is usually short lived. Furthermore, it is important to remember that one of the most serious investment risks is of a company's inability to generate revenue, resulting in earnings being impaired. We do not invest in companies exhibiting high levels of this risk, as it signals some probability that they may not make it through tough times. We have the highest confidence in our ability to generate long-term wealth for our investors and, as a result, are content to avoid low-quality rallies and accept short-term underperformance in exchange for long-term success.

How Do We Add Value?

Our disciplined research process finds companies that we believe can create value for shareholders over the next 5 to 10 years. We then allow those companies to do the hard work in creating that value. Our focus on risk is predicated on the quality of the business models of the companies we invest in, which enables the Fund to protect investors on the downside while benefitting from the potential success of our underlying holdings in normal environments.

It is important to point out that the strong performance that the Fund has experienced over the past several years is a result of our disciplined commitment to our philosophy. By the same token, we anticipate future outperformance will be made possible because of the decisions we make today.

The Importance of Culture

We have long believed that culture is one of the more underappreciated qualities that determine which companies achieve success, and the same principle applies to our investment team. We place tremendous importance on our organization's culture and believe it is responsible for much of our success.

The global health crisis and resultant economic uncertainty have put pressure on workplaces across the world. During these challenging times, we've been pleased with how our team has continued to work hard for our investors, reinforcing our principles of collaboration, respect, thoughtfulness, healthy debate and accountability. We have met, and will continue to meet, the challenges of identifying and analyzing investment opportunities in an uncertain world to position our investors for strong, long-term returns.

Looking Forward

Despite the market disruption resulting from COVID-19, global oil pricing, civil unrest and geopolitical tensions, global equity markets have proven resilient and stock markets have partially rebounded from the March lows, with the S&P/TSX Composite up approximately 40% since that time.

A market environment that includes volatility, uncertainty and the potential for expansive growth and rebuilding makes it even more critical to remain disciplined and to adhere to our investment approach. As previously mentioned, we seek to invest in dividend growers, also known as dividend compounders. We do not believe in market timing, but rather stick to a long-term view driven by company fundamentals. Short-term price moves are unpredictable, and poor decision-making in the current emotionally-charged environment can lead to costly mistakes. Selling out of equity markets during times of volatility means you'll likely miss some of the best times as well, when markets recover and regain ground. Missing these best days of a recovery can have a material impact on long-term wealth creation.

As we head into the remainder of 2020 and beyond, it's also important to interpret the daily news in a longer-term context. Often, headlines would have us believe that the only options for companies to regain ground from the pandemic is to suspend, halt or cut dividends. However, note that many companies facing current dividend challenges were already facing other challenges before the pandemic. These challenges may have included debt levels that were too high or current levels of free cash flow that might have appeared attractive, but that were not supported by the company's longer-term revenue outlooks and costs. By virtue of our sincerely held investment philosophy, these have not been and are not the companies we invest in.

What we do invest in are companies that have flexibility in their business models and strategies, which have allowed them to not only keep operating during the pandemic, but to deliver exceptional value to customers and shareholders when the global economy gets back

on track. We have taken advantage of the ups and downs in markets to buy into quality companies at a discount to their intrinsic value, especially in situations where other investors appear to be mistakenly assuming that today's weakness means weakness in the future. Our positioning is part and parcel of our long-term view as investors.

No one can be certain what the path to recovery will look like or how long it will take. A "return to normal" may be some ways off, as there has been nothing normal about the situation the world has found itself in. Significant risks remain and market sensitivity will continue to be high for some time. While recent economic data have been improving alongside the slow easing of the lockdown, the staying power of the stock market will be driven by longer-term considerations such as the success and pace of economic re-opening, the development of a reliable medical solution to COVID-19 and, most importantly, the actions of policymakers to protect citizens and support the economy and financial markets.

Our Commitment to You

At BMO we invest with a purpose – to boldly grow the good. Our focus is simple: to help our clients meet their investment goals, while also building a more sustainable and secure future for us all.

Thank you for your continued support and
we hope you and your families are safe and well.



Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

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