BMO Dividend Fund
Quarterly Commentary

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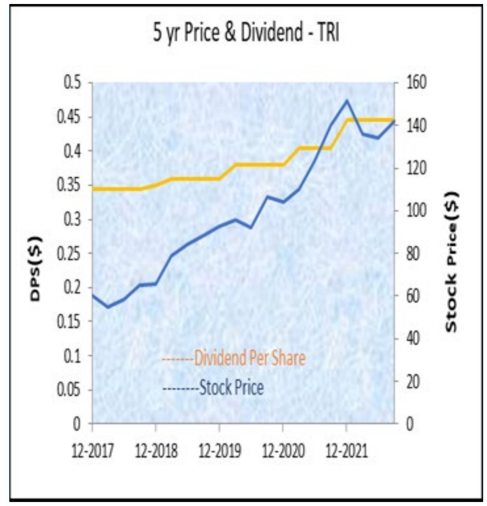
Recessions—Not All Dividends Are Created Equal!

Animal spirits have quite a grip on the markets these days with investors fearing the arrival, magnitude, and duration of the next recession along with its potential impact on asset prices. This may end up being one of the most forecasted recessions that we have seen in some time. While central banks have made it quite clear that they are willing to lean hard on the economy to cool inflation, we have no special insight into determining the ultimate path of the economy over the coming quarters and we think few investors do. The truth facing investors is that recessions are a natural part of the business cycle. Since the Great Depression, economic recessions have happened every decade or so. Yet, what is interesting to us is the way investors view every future recession as the next Armageddon even though stocks have tended to recover from every previous recession with time.

Instead of making decisions around recession predictions we are more concerned with looking for businesses and dividend streams that stand the test of time. Dividends are not created equally. Reliable and growing dividends provide a nice level of support during tough times and form the basis of wealth compounding while dividend cuts can be devastating to value creation. What will help investors through recessionary periods is holding a portfolio of quality franchises that are enhancing the value propositions to their customers, fortifying their economic moats, diversifying their end markets, bolstering their balance sheets, access to capital, and demonstrating smart, prudent and share holder friendly capital allocation.

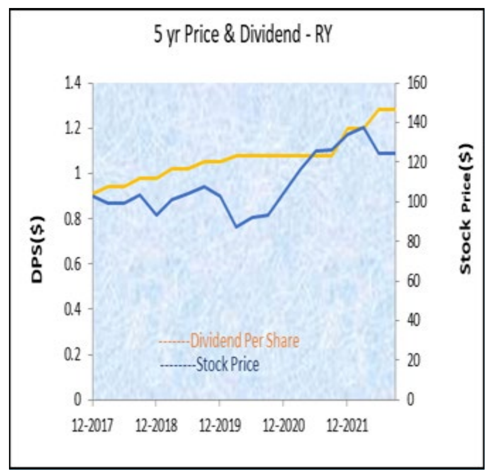
Thomson Reuters, Royal Bank, and Brookfield Asset Management are three high conviction holdings within the BMO Dividend Fund that are stronger businesses today than they were coming out of the Great Financial Crisis and the COVID-19 Pandemic. As a result, it's no coincidence that these companies have grown their dividends consistently through the ups and downs of the economic cycle versus being forced into value destroying cuts to their payouts.

Thomson Reuters Corp. (TRI) has undergone notable change over the past decade and today exemplifies the characteristics we look for in an uncertain economic environment. We are attracted to this business because its serves enterprise and SMB customers that operate in the Legal, Corporates, and Tax & Accounting markets. These end markets, where Thomson operates as the duopoly leader, have historically grown agnostic to the economy. Over the last several years, the company's scale and reputation for digital innovation have enhanced the company's growth profile – allowing the company to continually gain wallet share with customers and penetrate deeper into SMBs. While Thomson's "Big 3" businesses demonstrated remarkable resiliency and growth during the last financial crisis, we expect even better performance from Thomson going forward as the company has hit its stride on digitizing its customers and has divested its cyclical, underachieving non-core assets. With Woodbridge (the investment vehicle of the Thomson family) continuing to be a key shareholder of the company, we believe the company's long 29-year track record of dividend increases will remain a hallmark of the company irrespective of which direction the economy ultimately moves.



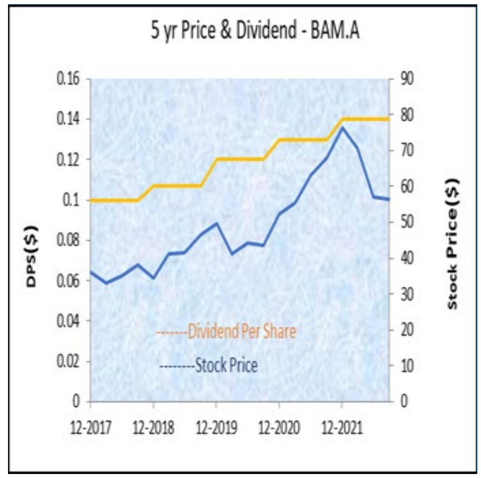
Source – Morningstar Direct.
Data as of September 30, 2022

Royal Bank of Canada (RY) is Canada's largest bank sitting at a market cap of $170Bn and operates a global franchise across retail banking, commercial banking, capital markets, and wealth management. We believe RY is positioned advantageously against peers supported by management quality, franchise quality, and capital philosophy. RY management is thoughtful in maintaining underwriting discipline through a cycle with management unwilling to chase growth if returns do not meet internal ROI thresholds; although this can lead to lower levels of relative growth in certain periods, this has paid off through a cycle with below-industry levels of provisions for credit losses (PCLs) and lower net operating losses in specific lines of business (i.e., consumer, credit cards). This philosophy permeates into RY's capital allocation discipline as the team doesn't pursue M&A unless there is 100% strategic alignment at a reasonable valuation; this has led management to not chase M&A coming out of the pandemic as multiples quickly re-rated, resulting in the bank's current position of having a favorable excess capital in the face of profound economic uncertainty. Additionally, RY's industry leading scale and technology advantages have compounded over time culminating in a strong deposit franchise, which positions the bank favorably in a rapidly rising rate environment. Although there is less bifurcation between peers in a benign rate environment, a low-cost deposit franchise insulates the firm from the rising cost and shrinking availability of more expensive funding sources, producing a more predictable margin cadence. These factors culminate to illustrate the resilience and durability of RY's business model through an economic cycle; although recessions can prove to be a challenging environment, the company did not cut their dividend in either the Great Financial Crisis of 2008 or the COVID-19 pandemic, both which did see global banking peers materially cut their own capital return programmes.



Source – Morningstar Direct.
Data as of September 2022

Brookfield Asset Management (BAM.A)



Source – Morningstar Direct.
Data as of September 30, 2022

While the BAM share price drop has been unnerving it has not come as a surprise as the company has proven to be quite sensitive to periods of dramatic interest rate change. That said, we view BAM as one of the highest quality companies within both the portfolio and Canada for that matter. BAM continues to focus its efforts on real assets that generate inflation-protected, stable, resilient, and growing cash flows which we have confidence will perform well across various economic cycles. More importantly, BAM has been delivering - operationally, financially, and strategically. BAM has made tremendous progress on its capital raising with over $67Bln of new fee bearing capital added over the past year. Also, year-to-date, it has closed on its first Energy Transition Fund with $15Bln in AUM, sold down its real estate portfolio at above expected valuations, announced plans to spin out its fee related business to unlock further value for shareholders, and increased its dividend by over 8%. BAM continues to push its business forward during a challenging time and is showcasing its ability to use its global scale, reach, expertise, and counter-cyclical bias to capitalize on the ongoing demand for alternative asset management and take advantage of investment opportunities. The company remains tied to several multi-decade themes such as demographics, infrastructure, urbanization, big data, and energy transition to name a few, and this provides visibility to our growth expectations. The company's balance sheet continues to be strong with ample liquidity placing the company on track to deliver on its 5-year growth plan of doubling the size of the fee bearing capital business and NAV per share.

BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc. and BMO Investments Inc.

The portfolio holdings are subject to change without notice and only represent a small percentage of portfolio holdings. They are not recommendations to buy or sell any particular security.

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.

Commissions, trailing commissions (if applicable), management fees and expenses all may be associated with mutual fund investments. Please read the fund facts or prospectus of the relevant mutual fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Distributions are not guaranteed and are subject to change and/or elimination.

For a summary of the risks of an investment in BMO Mutual Funds, please see the specific risks set out in the prospectus.

BMO Mutual Funds are managed by BMO Investments Inc., which is an investment fund manager and a separate legal entity from Bank of Montreal.