The Portfolio Managers of BMO Concentrated Global Equity Fund understand that when managing a concentrated portfolio, each holding takes on a higher level of importance. As a result, they set an incredibly high bar for entry into the portfolio. For inclusion into this select group, each holding is screened through the below three criteria:

**Valuation Discipline**
- Discounted cash flow
- Terminal PE model

**Growth Criteria**
- Proven track record of quality growth
- Industry secular growth tailwind
- Sustainable competitive advantage
- High, preferably rising, ROIC
- Proven management

**Quality Criteria**
- Business maturity
- Little or no leverage
- Strong cash generation
- Foundations for sustainable growth
- Business diversification

**Valuation matters**

A Closer Look at Quality: Mastercard Inc vs Visa Inc

- Both have dominant positions in the cashless payment market
- Both have difficult to replicate payment networks
- Both will benefit from the global shift to a cashless society (i.e. even in highly developed countries like Germany, daily spending like taking taxis have yet to adopt cashless payments)

Despite similar performance and business models, the team favours Mastercard Inc.

**Quality beyond financial results. Mastercard...**

- Has more international exposure, accounting for about 68% of their sales (55% for Visa). They are set to benefit even more as the bulk of these countries are not cashless yet. (i.e. debit transactions only just exceeded cash in the UK for the first time last year)
- Offers superior services that are set to allow financial institutions and merchants to extract more value—biometric authentication and better data analytics to detect fraud in a timely manner.
- Invests more of its earnings, a plus for the team’s objective of long-term growth
- Is the known number two, which is actually an advantage in the eyes of the team. It makes them hungrier to surpass Visa Inc.

Source: Morningstar Direct as at February 28, 2019.
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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.

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