BMO Dividend Fund

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Avoiding Dangerous Dividends

"Do you know the only thing that gives me pleasure? Its to see my dividends coming in"—John D. Rockefeller.

So far this year there has been no shortage of macroeconomic noise to distract investors. In fact, volatility has been ripping though financial markets lately with many parallels to 2022 with sharp upswings in commodity pricing, heightened uncertainty over the timing and pace of central bank policy, growing fears over the ultimate economic landing, and enhanced bond yield volatility. This has led to shifting investor attitudes towards risk, sector leadership, and stock positioning . That said, when we take a step back and look at the market's experience of dealing with macro episodes, we see that investors tend to move past headlines, emotions, and narratives with time. What is important to remember is that equity market volatility does not always translate into dividend variability. S&P/TSX Composite dividends this year have not only been resilient but grown with very few cuts outside of a handful of events within the Materials, REIT, and Utility spaces. As we have said many times, investing is about being prepared for a variety of macro environments. Investing in businesses with high profitability measures, strong returns on capital, and flexible balance sheets, work to provide the financial cushions to handle macro surprises and periods of uncertainty like we are experiencing today.

TSX # of Dividend Hikes/ Cuts

	2022		2023		2024 YTD	
	Hikes	Cuts/Suspensions	Hikes	Cuts/Suspensions	Hikes	Cuts/Suspensions
TSX	**176**	**16**	**135**	**12**	**88**	**9**
Energy	43	2	23	0	17	1
Materials	18	6	10	8	11	4
Industrials	11	1	11	0	9	0
Discretionary	10	0	9	0	9	0
Staples	7	0	9	0	7	0
Health Care	0	0	0	0	0	0
Financials	39	4	26	0	18	0
Tech	2	0	2	0	1	0
Comm.	3	0	3	0	3	0
Utilities	8	0	8	1	5	1
Real Estate	2	1	7	1	8	3

Excluding special cash dividends. As at Jun 30, 2024.

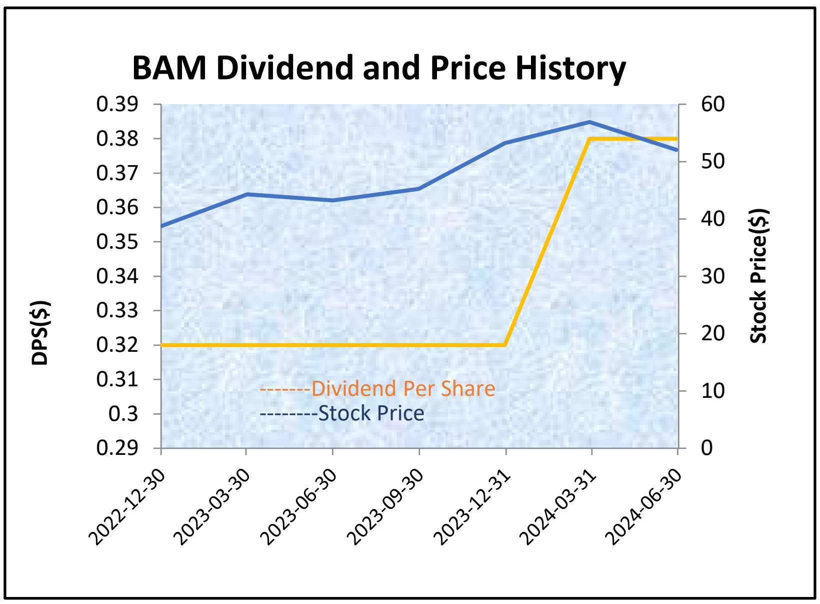
Source: Scotiabank GBM Portfolio Strategy, Bloomberg.

One way we manage through the noise is to stay focussed on the stability and growth of the dividends of our businesses - avoiding investments in dangerous companies and staying focussed on the ability of our companies to manage dividends through business cycles and to stay on course for value creation for many years to come. Dividend cuts are massive wealth destroyers. What makes a company dangerous? Over the years we have come to link higher risk dividends with businesses having:

- Poor customer value propositions which lead to zero loyalty or pricing power.
- Thin and variable profit margins
- High operating leverage business models
- Too much debt relative to the variability of revenues and cash flows.
- Low free cash flow conversion ratios[i]
- Short term focused management teams
- Poor capital allocation practices
- Ongoing capital needs
- Higher dividend payout ratios

Great businesses held within the BMO Dividend Fund include:

Brookfield Asset Management (BAM)



Brookfield Asset Management is a fast-growing alternative asset manager that was separated from Brookfield Corporation (BN) in December of 2022. and it consists of 2,400 investment and asset management professionals around the world that manage a variety of core strategies , focused on infrastructure, renewable energy, private equity, credit and real estate. In total, BAM currently manages over $900 billion of capital on behalf of more than 2,000 global institutional clients. Given the great long-term performance of its different strategies and its solid reputation, BAM has managed to attract increasing sums of capital, growing its AUM at double-digit percentage points over the years, which translates into a growing and predictable stream of cash flows in the form of recurring management and advisory fees. Due to its asset-light nature with de minimis capital expenditures, BAM generates operating margins in excess of 50% and has high free cash flow conversion, distributing virtually the entirety of its earnings in the form of quarterly dividends, which were just increased by 19%.[1] It is also worth noting that BAM currently has no debt. Finally, BAM can further add capabilities and expand its product portfolio by partnering or acquiring other asset managers, similarly to the successful acquisition of the control of Oaktree Capital Management in 2019.

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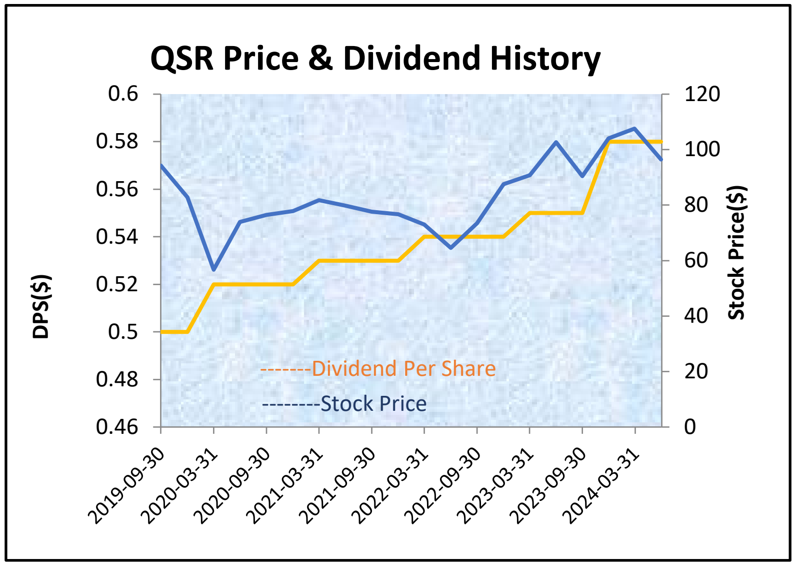
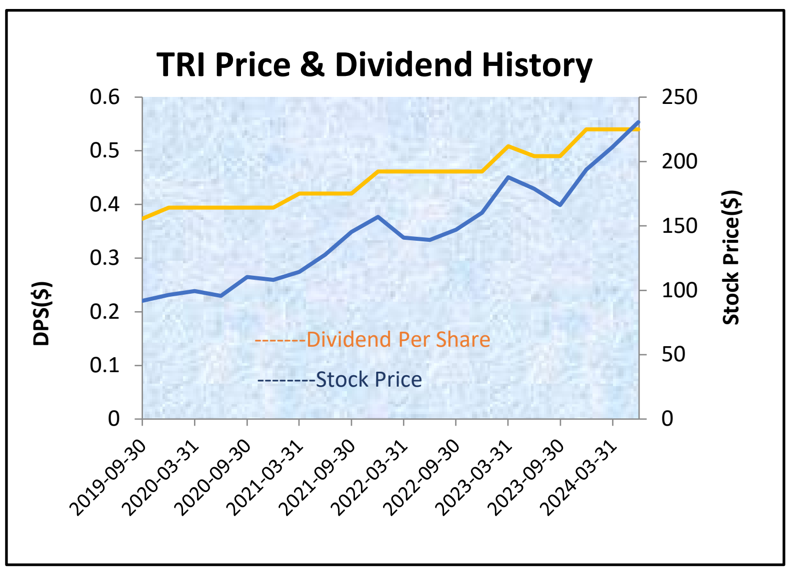
[1] Source: Bloomberg. As of March 31, 2024.

Restaurant Brands International (QSR)



QSR's franchised business model is a high-quality, capital-light, growing annuity that generates high-margin brand royalty fees from its four leading brands: Burger King, Tim Hortons, Popeyes, and Firehouse Subs. Starting last year, QSR's various initiatives are leading to a more consistent level of growth across each of its brands, as demonstrated by its industry leading same store sales across core brands and improving franchisee profitability. We believe that the addition of Patrick Doyle, the industry veteran from Domino's, as Executive Chair of the company has already made a material contribution to the company's operating trajectory. Under Patrick's leadership, QSR has seen material improvements in its franchisee profitability across the portfolio. This is particularly demonstrated by Burger King US (BKUS) which improved its franchisee profitability by 46% (from 140k/unit to 205k/unit). Management is confident in further improving that number into 300k/unit. In the most recent quarter, BKUS outperformed its largest US competitor McDonald's by 130bps on same store sales. We expect BKUS to carry forward this positive momentum as the brand continues to revamp 85-90% of its store base into a modern image. Tim Hortons Canada, a brand that has 70% market share in hot beverages, continues to gain market share. We believe Tim Hortons is gaining more market share in day food and cold beverage categories through its strong brand presence and everyday value offering in the home market. Smaller brands, such as Popeyes and Firehouse Sub, are in high growth categories with a long global growth runway. Bakery & sandwich and chicken category are growing at 6% and 7% CAGR[ii] for the next five years. We believe QSR can grow its restaurant count at a mid-single-digit rate for the foreseeable future, with management committing to unit growth accelerating to 5% in 2025. We expect QSR to generate strong shareholder returns fueled by its 3.3% current dividend yield[2] and its superior cash generating capability.

Thomson Reuters (TRI)



Thomson Reuters is an information services company focused on its Legal, Tax & Accounting, and Corporates businesses. Thomson has #1 or #2 leadership positions across its segments in stable recession-resistant markets, which provide it strong and growing cash flows across market cycles. Its customer base is well-diversified with ~500,000 customers, with the largest customer being only 5% of revenue. Thomson's competitive moat comes from its leadership position with deeply embedded products in customer workflows, continued product innovation, and proprietary data sets, all of which has resulted in 91% revenue retention rates with 80% of total revenue being recurring. The company has a strong capital allocation track record and has grown its dividend for 31 consecutive years while buying back shares, improving its organic growth rates to 6%, and increasing EBITDA margins to ~38%. We believe Thomson is well positioned

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[2] Source: Bloomberg. As of June 30, 2024.

for high-single-digits organic growth going forward, driven by the rise of regulatory complexity as well as the application of genAI offerings onto Thomson's proprietary content and distribution footprint. Thomson supplements its organic growth with strategic M&A, and will be able to capitalize on its strong balance sheet and $8B of capital capacity by 2026 that it can deploy on M&A.

Fund Codes and Fees

FundSERV Codes	Front End*	MER (%)	Low Load†	Deferred Sales Charge†
Advisor	BMO99146	1.80	BMO98146	BMO97146
F (Fee Based)	BMO95146	0.70	-	-

* Sales Charge. † Low Load and DSC purchase options are no longer available for sale.
MER as of September 30, 2022.
* All charts are as of July 29, 2024. Bloomberg.

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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.

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[i] Free Cash Flow Conversion is a liquidity ratio that measures a company's ability to convert its operating profits into free cash flow (FCF) in a given period. By comparing a company's available free cash flow to an operating metric, the FCF conversion rate helps evaluate the quality of a company's cash flow generation.

[ii] The compound annual growth rate (CAGR) is the mean annual growth rate of an investment over a period longer than one year. It's one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything that can rise or fall in value over time.