

BMO Dividend Fund



Philip Harrington, CFA
Director & Portfolio Manager
Fundamental Canadian Equities
BMO Asset Management Inc.



Lutz Zeitler, CFA
Managing Director & Portfolio Manager
Fundamental Canadian Equities
BMO Asset Management Inc.

Dividend Lessons From Charlie Munger

"It is hard for a stock to compound at rates higher than the returns on the underlying business."—Charlie Munger

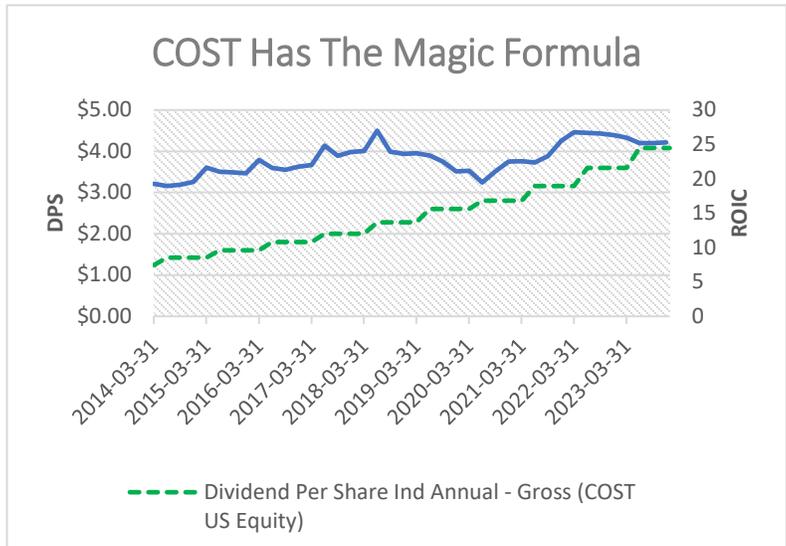
Of the many stories that shaped the investment world in 2023 the passing of Charlie Munger, easily recognized as one of the sharpest investment minds of all time, had to be one of the more significant. His writings, quotes, interviews, and investment principles have had a profound effect on generations of investors. His thoughts on the key elements of successful investing which centered around picking quality companies, thinking like owners, being patient, doing your homework, and letting the magic of compounding do the heavy, lifting remain timeless and quite relevant to dividend investing. Interestingly enough, Berkshire Hathaway has never paid a dividend. But it does collect a wall of growing dividends from its underlying businesses--over US\$6bn last year.

Healthy dividends are the outcome of investing in companies that have differentiated business models with strong competitive barriers capable of generating sustainable growth at high returns on capital. These attributes lend themselves to free cash generation and to capital return to shareholders via dividends.

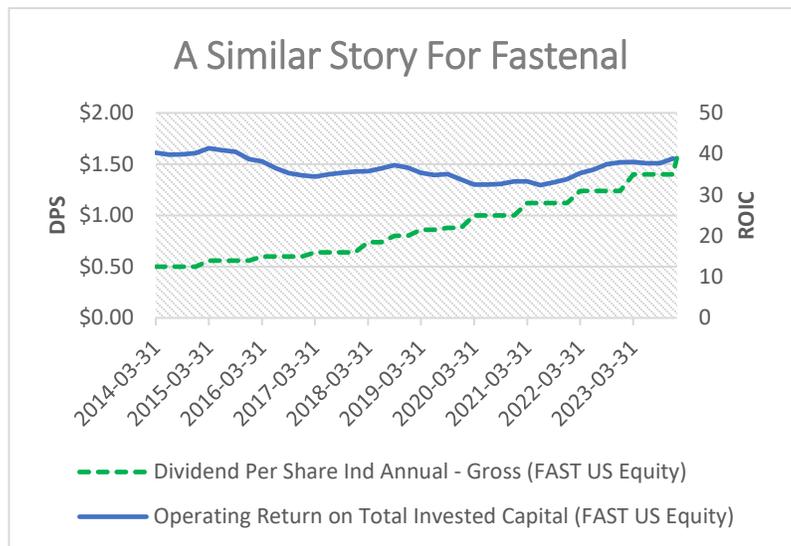
A few of the business models that Munger found ideal for compounding wealth were those focused on creating 'shared economies' and 'win-win partnerships' with customers as they tend to be very difficult to disrupt, enhancing predictability. At their core is the powerful notion that building above average customer value creates durable success. This comes via creating products and services that customers simply 'must have' to solve key problems, make life easier, and of course to save money. Locking in happy, loyal customers with high touch, high value offerings which enhance their own ecosystems and profitability ultimately increases the risk and pain associated with leaving for a competitor. These companies are the exception rather than the rule so when we uncover them, we tend to hold for long periods of time.

Great examples of these models in the BMO Dividend Fund are:

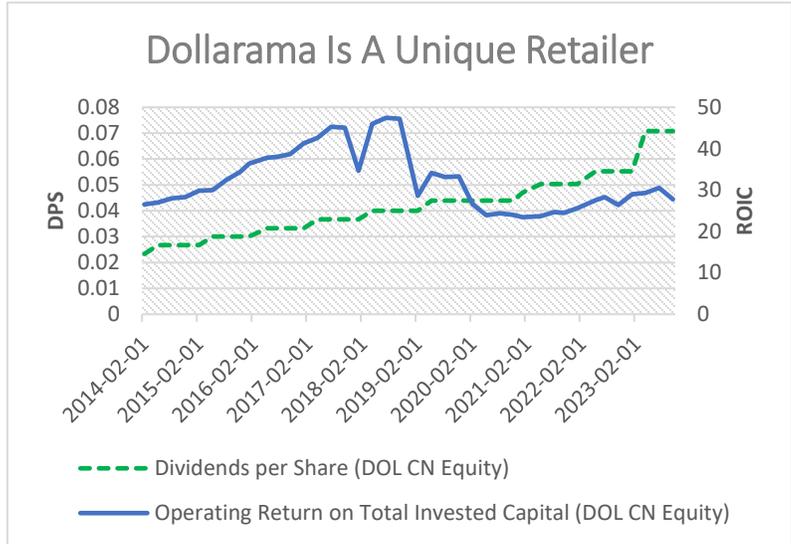
Costco Wholesale (COST): Munger sat on the board of Costco for over 26 years overseeing its remarkable evolution into a chain of 830 membership-only big box retail stores across 12 countries with most of its revenue generated in the U.S and Canada. While Costco originally began as a B2B wholesaler of goods, it quickly expanded to the retail channel and has grown to become the 3rd largest retailer in the U.S on a well entrenched reputation for its excellent value both in terms of price and quality. Costco operates under a unique business model within retail that is focused on sharing scale efficiencies with their customers. Costco typically marks up products ~15% but after paying for employees and warehousing costs, profits from products sales are de-minimis and instead, Costco generates most of its profits from a recurring membership fee. This model leads to rock-bottom prices for customers driving incredible demand and sales volume to their stores with any incremental savings from scale being passed down in the form of lower prices. While most companies pursue scale efficiencies, very few share them as it takes intense discipline and long-term vision to put your customer ahead of maximizing short term profits.



Fastenal(FAST): Is a company that exemplifies what having a strong culture based on a maniacal focus on serving the customer can do for business success. FAST is a distribution company supplying mission critical industrial supplies (i.e. hardware, fasteners, safety items, tools) to the manufacturing economy. What is unique about the company is that it has taken its motto of "Growth through Customer Service" to a whole new level in that it uses its scale to integrate deeper and deeper into their customer's workflows and supply chain - providing value well beyond the supply of goods. An important part of the Fastenal playbook involves locating kiosks (with personnel) and specialized vending machines right in the plants and facilities of its customers, creating a very integrated, 'just in time' inventory management system. This saves its customers on inventory, working capital, and personnel needs while increasing critical item availability. Fastenal has proven to be quite skilled at executing on ways to grow wallet share while helping its customers win. Whether our economy falls into a recession or not, we believe Fastenal's strong customer value proposition will provide many more years of market share gains in an otherwise large, highly fragmented industry. In turn, we see attractive long-term returns to shareholders that are bolstered by Fastenal's strong commitment of capital returns via dividends and buybacks.



Dollarama(DOL): This is a company that we have been invested in since its IPO and over that time it has built itself into the leading discount retailer in Canada with over 1400+ stores across the country . The company has done an exemplary job as an organization navigating macro events over the years using its resources, competencies, and people to drive out competitors and move the franchise forward. The company’s focus on low priced consumable, general merchandise, and seasonal items, enables it to deliver unmatched value to the consumer on commonly used goods. Dollarama has made extensive use of in store technologies to build merchandising and inventory systems with an eye to enhancing overall operational efficiency and optimizing the mix of SKUs available to the customer. This value proposition becomes even more attractive to consumers today who are facing the burden of higher inflation and interest rates across their household budget. As a result of Dollarama offering the best price and value on items, the company is well positioned to leverage its scale and shared economies model to continue to gain market share from other retailers during this challenging period and to drive robust capital returns.



Fund Codes and Fees

FundSERV Codes	Front End [*]	MER (%)	Low Load [†]	Deferred Sales Charge [†]
Advisor	BM099146	1.80	BM098146	BM097146
F (Fee Based)	BM095146	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 December 31, 2023. Bloomberg.

IMPORTANT DISCLAIMERS

BMO Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate.

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.

The viewpoints expressed by the Portfolio Manager represents their assessment of the markets at the time of publication. Those views are subject to change without notice at any time. The information provided herein does not constitute a solicitation of an offer to buy, or an offer to sell securities nor should the information be relied upon as investment advice. Past performance is no guarantee of future results. This communication is intended for informational purposes only.

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.

®/™Registered trademarks/trademark of Bank of Montreal, used under licence.