

Quality cashflow in volatile markets

BMO AM Dividend Equity Portfolio

Invest in dividend growers

In recent years, inflation, heightened geopolitical tension, elevated interest rates, and the possibility of a recession have all contributed to market volatility. One method to achieve a smoother ride? Investing in stable, dividend-paying companies that have weathered different market cycles over the long term.

The **BMO AM Dividend Equity Portfolio** does just that, focusing on investing in **high-quality, sustainable businesses** with **safe and growing dividend streams**.¹ Regardless of the momentum or sentiment that routinely sway markets, our Fundamental Equities portfolio management team believes that fundamental performance from individual securities is ultimately what drives returns over time. Good corporate governance, financial management and earnings are the engine of a company's performance and represent the determinants of sustained business success through economic cycles.

Key features

- Steady **cashflow**
- Potential capital **appreciation**
- Focus on **Canadian equities**
- Regular and sustainable **dividend growth**
- Managed by **BMO GAM's Fundamental Equities Team**

The 7 effective habits of dividend compounders

1. Build real competitive advantages that win profitable market share
2. Compete to be differentiated and build true customer value
3. Have loyal customers
4. Enjoy pricing power and recurring revenues
5. Dare to take offensive risks at opportune moments
6. Lead on product and service innovation in an effort to reduce disruption risks
7. Deploy capital in value-enhancing ways

The portfolio managers believe that the companies selected for the BMO AM Dividend Equity Portfolio exemplify these traits.

¹Dividends are not guaranteed and may fluctuate. Past performance is not indicative of future results.

Raising the bar for quality

“The goal of BMO GAM’s Fundamental Equities team is to identify businesses that can generate more predictable cash flow streams, earn sustainably higher returns on capital, and create a variety of profitable growth avenues.”

– Lutz Zeitler, Head, Fundamental Equities

As the interest rate tide turns, now may be the time for dividend stocks

So far this year, there has been no shortage of macroeconomic noise to distract investors. In fact, volatility has been ripping through financial markets lately with many parallels to 2020, including 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.

The rapid rise in interest rates over the past few years has not been the friend of dividend-focused stocks. With the tide turning on interest rates, the appeal for dividend-yielding stocks is expected to improve.

That said, we need to stay focused on the stability and growth of the dividends of our businesses—avoiding investments in higher-yielding risky companies, and staying

focused on the ability of our companies to manage dividends through business cycles and stay on course for value creation for many years to come.

Dividend cuts are massive wealth-destroyers. What makes a company more risky? Over the years we have come to link higher-risk dividends with businesses having:

- Poor customer value propositions, which led 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 cashflow conversion ratios
- Short-term-focused management teams
- Poor capital allocation practices
- Ongoing capital needs
- Higher dividend payout ratios

A consistent and rigorous process for finding dividend growth

The process employed by BMO GAM’s Fundamental Equities team is predicated on four principles:



Sustainable
business
model

Long-term
value creation
(growth of the
dividend)

Risk
management
(the importance
of downside risk
protection)

Concentrated
portfolios

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