REPRINTED FROM APRIL 14, 2014

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Finding Attractive Yields in Financials, IT and Health Care

KENNETH M. CONRAD, PH.D., CFA, is a Portfolio Manager at BMO Global Asset Management. Dr. Conrad has provided research and managed portfolios for the BMO Custom Quantitative Solutions Group since 2008, with responsibility for both BMO Disciplined Dividend Income and BMO Disciplined Tax-Efficient Portfolio strategies. Dr. Conrad began his investment career in 2000 working with Comsys and PulseMetrics as a Consultant to Nasdaq. Prior to joining M&I Investment Management Corp., now a part of BMO Asset Management U.S, he was a Quantitative Analyst for MEMBERS Capital Advisors from 2005 through 2007, where he supported equity and fixed income mutual funds. He holds a Ph.D. in economics and an M.S. in operations research from George Mason University, and a B.A. in economics from Pomona College.

SECTOR — GENERAL INVESTING

TWST: Can you give us an overview of the philosophy and strategy for the BMO Dividend Income Fund?

Dr. Conrad: When talking about the strategy, it helps to have a little bit of history of our product. Back in 2002, we had some income-oriented investors come to us; bond yields were very low at the time, and they were interested in getting some equity market exposure. But, like I said, they were income-oriented, so they wanted higher yields than the S&P 500. So we aimed to have a portfolio that has a yield at least 1% above the S&P 500, made up of high-quality, attractively valued companies, companies that an investor can sleep at night holding.

As to our philosophy, we tend to believe that fundamentals drive stock prices in the long run. However in the short run there can be mispriced stocks due to behavioral biases. And so the best way to identify these mispriced stocks is using a quantitative framework, just because there is too much information out there these days and it helps you avoid emotional biases.

TWST: Can you give us a closer look at how you make investment decisions? What is the process for adding a holding to the portfolio?

Dr. Conrad: We start with the S&P 500 stocks, that's our investment universe, and then we limit it by those stocks that have a 1% yield or higher and that pass our proprietary quality screen. Then we use a quantitative stock-ranking model, an in-house model that looks at valuation, fundamental and investor sentiment factors, and ranks all the stocks from most attractive to least attractive. And then, recognizing that that model can't capture everything, we use a top-down overlay, which incorporates our views on the macro environment, what we hear from management teams and Wall Street.

We also use a tool — at least we've been using it in the last couple of years — it's called the Market Monitor, that helps us identify valuation dislocations, be it sectors, industries, whether they are cheap or expensive relative to history. It can also look at risk groups like high-beta stocks, low-beta stocks and high-dividend-yield stocks. Then using all that data, we build the best portfolio we can that meets our yield objective, while trying to manage risk by incorporating some sector weights and position-size limits.

TWST: Speaking of sectors, can you give us a view of what your heaviest sector weightings were in the past year, what they are now, and how that shifts around in the course of a year?

Dr. Conrad: Right now our biggest weights are in financials, IT and health care. But we actually have six sectors with weights of 9% or greater. In general, we try to stay within 5% of the S&P 500 sector weight, and that's to avoid sector-concentration risk and also to provide the market-like exposure that our clients have asked for. In some ways, this is one of the differentiating factors of our product from a lot of the products that we compete against. Some of them basically will have 25%, 30% in just one sector, whereas we try and spread out our exposure to avoid extreme sector concentration that works until it doesn't.

As to how that weighting might change, as I said, the weightings are plus or minus 5% of what the S&P is holding. Our sector weight decisions depend on the opportunities that we are seeing and how expensive or cheap the valuation of the sector is. I can give you an example. At the beginning of the 2013, Market Monitor was highlighting that defensive sectors, particularly utilities, were extremely expensive relative to their historical trading multiples. They had been doing fairly well, and so we trimmed that sector back quite a bit, which actually turned out to help us because shortly thereafter, the Federal Reserve talked about tapering their bond-buying program, which of course raised rates, and bond-proxy-like stocks, of which utilities would be considered, began to underperform.

Highlights

Kenneth M. Conrad shares his firm's investment strategy, which aims to have a portfolio with a yield at least 1% above the S&P 500. Dr. Conrad looks for high-quality, attractively valued companies, and uses his firm's Market Monitor tool to identify valuation disclocations in sectors and industries. Currently the portfolio's biggest weights are in financials, IT and health care. Dr. Conrad shares specific holdings within these sectors that exemplify the philosophy of the fund.

Companies discussed: Apple (AAPL); Comcast Corporation (CMCSA); Wells Fargo & Company (WFC); Pfizer (PFE); Merck & Co. (MRK); Time Warner Cable (TWC); LyondellBasell Industries NV (LYB); CenturyLink (CTL); Twitter (TWTR); Tesla Motors (TSLA) and Gilead Sciences (GILD).

"We try to stay within 5% of the S&P 500 sector weight, and that's to avoid sector-concentration risk and also to provide the market-like exposure that our clients have asked for. In some ways, this is one of the differentiating factors of our product from a lot of the products that we compete against."

Speaking to opportunities, the one caveat I would add to our 5% sector weight bands historically is IT. Six years ago or so we didn't have any weight in IT. There were just too few candidates that had yields that we could really invest in. I think it was something like six stocks at the beginning of 2008 that had yields 2% or higher. Now it's about 21 or 22 stocks. And so we had no weight in IT, and now it's our second-largest sector weight.

TWST: Could we look at a specific technology holding that exemplifies the philosophy of the fund?

Dr. Conrad: Absolutely, how about **Apple** (AAPL)? **Apple** didn't have any yield two years ago. And then, since last year, it's a top 10 holding, has a 2.2% yield and about $20 billion in net cash. We expect that yield to increase over time, and it scores incredibly well in our model. I wouldn't say the valuation is very demanding; it's about 12 p/e. So it scores well in our model, the yield is appropriate, and fundamentally we think there are a lot of ways to win with the name.

They have a new form factor coming out for their phone; it's going to be a larger phone. It appears that they're revamping their Apple TV product. In fact, there was some news earlier this week about them and **Comcast** (CMCSA) in effect teaming up a bit. We're anticipating a wearable this year, kind of like an iWatch. And then there's plenty of ways that they can juice things up with the capital deployment. In the last year or so they've repurchased about $40 billion worth of stock out of their $60 billion authorization, and we wouldn't be surprised if they add a new buyback after that, plus we are expecting a dividend increase. The stock is generally inexpensive relative to IT and the S&P 500. So we like that name.

TWST: What about in financial services? I believe you said that is your largest sector holding.

Dr. Conrad: Wells Fargo (WFC) is our largest holding. That's another stock that fits the process quite well, scores very well in our model and is just generally a well-run bank. The Fed thought so if you saw the news yesterday. After yesterday's news they have a 2.8% yield — the Fed approved the capital plans of 25 bank holding companies participating in the Comprehensive Capital Analysis and Review, including **Wells Fargo**. They're just instituting a new buyback program of 350 million shares, which is roughly $17 billion. It's inexpensive relative to how it's historically traded versus financials, the S&P. Yes, we like it.

TWST: What about health care? What sectors are you finding particularly attractive there? Pfizer and Merck are some of your top holdings. Are the drug companies the play that you're particularly keen on in health care?

Dr. Conrad: Yes, we like both of them. **Merck** (MRK) is a great company, has a 3.3% yield. Again, it scores well in our model. It has a drug pipeline that we feel is underestimated by Wall Street, although Wall Street is starting to get more interested in the pipeline. Management is getting more shareholder friendly; last summer they instituted a $15 billion buyback. And then there is some opportunity for some divestments to add some value. They are potentially going to sell their consumer business, and there was also talk potentially of doing something with their animal health business.

1-Year Daily Chart of Apple

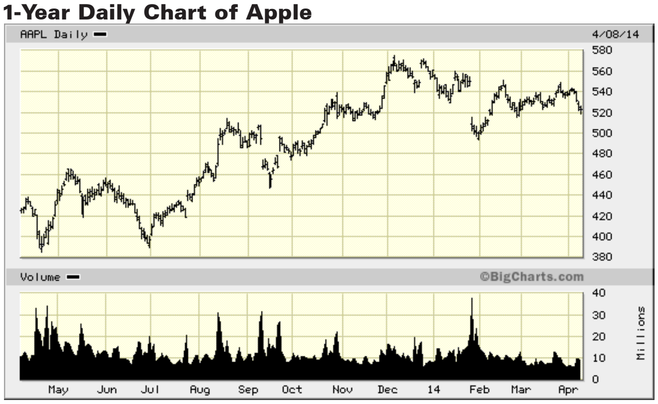

Chart provided by www.BigCharts.com

TWST: When it comes time to remove a company from your portfolio, what's that process like?

Dr. Conrad: There are some hard and fast rules in our sell discipline. For example, if a stock violates our low-quality screen, we sell it, or if a stock exits the S&P 500, and that's kind of rare but if it does happen, we would have to sell it. And if the yield is too low, we will sell it.

Otherwise, if the valuation looks stretched to us or if the scores have deteriorated and we see better opportunities, we will trade out of it. And then some times, something in the micro or macro environment could change that's really not captured in the model. That could be good news or bad news. I guess an example of good news would be, just recently, **Time Warner Cable** (TWC) agreed to be bought by **Comcast**, and we owned a large chunk of **Time Warner Cable**. The only thing with the buyout was that there was no breakup fee. So while there is still a little bit of premium left on the table, we felt that if the deal were to fail then the risk was asymmetric, and so we exited that position.

Another example would be, during the financial crisis, everything we were reading and what we were seeing going on in the bond market indicated that more bad news was coming within financials, and yet the stocks were still scoring very well in our models and their yields were attractive still. On a fundamental basis we chose to dramatically pare back our weights in financials, particularly in bank stocks. These are some of our general reasons why we would sell stocks.

TWST: Looking back over the last year, was there any real upside surprise in your holdings?

Dr. Conrad: The **Time Warner Cable** deal was probably one of the best upside surprises for sure. Other than that, maybe **Lyondell** (LYB) was a nice one. That was a stock that had already done fairly well, and we were a little hesitant to purchase it since it already moved quite a bit, but the model was suggesting that it merited some investigation.

When we looked into it, it's a very attractive stock. We learned that they're the chief beneficiary of the shale gas boom in the U.S.; it uses cheap natural gas liquids as its primary input in their processes, and so it was earning abnormally high profits. It looks like these abnormal profits are going to last until 2017, 2018, just because there are not enough plants that are coming online before then. So that performed incredibly well last year. It was one of our top contributors.

TWST: What about on the flip side, any real disappointments in the last year?

Dr. Conrad: We had a telecom position in **CenturyLink** (CTL). It has a very strong management team, had a high yield with a reasonable payout ratio. And then unexpectedly they reduced their dividend yield and instituted a very aggressive stock buyback, and that really surprised us and Wall Street. And when they cut their dividend they fell a fair amount, and so the yields ended up still being fairly nice. We continue to like the stock. We liked the buybacks that they were instituting, but we ended up having to sell it because shortly afterward; they ended up failing in our quality screen.

TWST: When you look ahead a bit in the short term, what risks do you see in the market that you think investors should be aware of?

Dr. Conrad: Basically, I'm always worried about China slowing down further. If China were to slow down materially, like to 5%, that would be a problem. There is obviously a lot of geopolitical risk right now with Russia and how that might affect Europe is concerning. Those would probably be the main risks.

TWST: Are there any domestic risks that you are paying close attention to?

Dr. Conrad: Yes, certainly the Fed and the interest rate. If interest rates were to rise rapidly, that would be something that we'd be very worried about, particularly given our product.

TWST: Are there any companies with breakthrough technologies that are on your radar?

Dr. Conrad: No. We tend to have more mature companies. To pay a dividend, you have to be a more mature company that has visible cash flows. Those companies tend to not have as many breakthrough technologies. We're not going to own **Twitter** (TWTR), **Tesla** (TSLA) or **Gilead** (GILD).

TWST: How do you think the U.S. economy is going to look over the next year? Are you concerned about inflation in 2014?

Dr. Conrad: No, we are not concerned about inflation. I think the economy is fine. I think the market is fine. The market's valuation is in a normal range. I think we have had this bad weather spell that has probably taken down economic indicators a little bit more than it would have otherwise, but that typically leads to a bounce back. And I think that's what we are going to see. So we are pretty positive on the economy and the market.

TWST: What's the most valuable investment advice you've ever received that perhaps you could share with others?

Dr. Conrad: I'd bring it back to our model. In general, you want to buy inexpensive stocks that have improving fundamentals and improving investor sentiment. If you just look for cheap stocks, you can end up in value traps. And that's an issue that a lot of people have.

TWST: Thank you. (EP)

KENNETH M. CONRAD, PH.D, CFA
Portfolio Manager
BMO Global Asset Management
111 E. Kilbourn Ave.
Suite 200
Milwaukee, WI 53202
(312) 461-5370
www.bmo.com

All investments involve risk, including the possible loss of principal.

As of March 31, 2014 the BMO Dividend Income Fund held the following percentage weights: Apple (ticker: AAPL; 2.45% ending weight), Comcast (CMCSA;1.44%), Wells Fargo & Company (WFC; 3.27%), Pfizer (PFE;3.08%), Merck & Co (MRK; 2.91%), LyondellBasell Industries NV (LYB; 2.29%). Portfolio composition is subject to change. The percentages are based on net assets at the close of business at quarter end and may not necessarily reflect adjustments that are routinely made when presenting net assets for formal financial statement purposes.

The S&P 500® is an unmanaged index of large-cap common stocks.

Investments cannot be made in an index.

Funds that have a higher concentration of investments in a specific industry or sector may be subject to a higher degree of market risk than funds whose investments are more diversified.

You should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. For a prospectus, which contains this and other information about the BMO Funds, call 1-800-236-3863. Please read it carefully before investing.

BMO Global Asset Management is the brand name for various affiliated entities of BMO Financial Group that provide investment management, retirement, and trust and custody services. Certain of the products and services offered under the brand name BMO Global Asset Management are designed specifically for various categories of investors in a number of different countries and regions and may not be available to all investors. Products and services are only offered to such investors in those countries and regions in accordance with applicable laws and regulations. BMO Financial Group is a service mark of Bank of Montreal (BMO).

BMO Asset Management Corp. is the investment adviser to the BMO Funds. **M&I Distributors LLC is the distributor**. BMO Funds are not marketed or sold outside of the United States.

Investment products are: **NOT FDIC INSURED — NO BANK GUARANTEE — MAY LOSE VALUE**.

BMO Global Asset Management