

BMO Canadian Large Cap Equity Fund

Quantamental Investing – Combining the best of both worlds.

Investment Process Overview

This Fund uses a combination of fundamental security analysis and quantitative portfolio construction to find the optimal investment opportunities in the market. Through rigorous back-testing, the portfolio managers have developed unique proprietary valuation models specific to each industry sector in the Canadian market. The result is a high quality portfolio of large cap equities managed with a specific focus on controlling relative market risk.

Quantitative

- Consistency of process
- Broad opportunity set
- Portfolio construction focussed on rigorous risk management

“Quantamental”

- Consistent process based on deep economic insight
- Explicit risk management
- In-house research reveals new insights
- Focus on forward-looking metrics

Fundamental

- Deep economic insight
- Individual company analysis
- Focus on forward-looking metrics

Combining the best of both worlds

General Comparison of Quantitative and Fundamental Analysis

The high-level comparison of the quantitative and fundamental investments strategies shown below illustrates some of the strengths and weaknesses in each. In the manager’s view, drawing on the strengths of each strategy has the potential to:



Factor	Quantitative	Fundamental
Style	Objective	Subjective
Back-Testing	Yes	No
Approach	Backward Looking	Forward Looking
Analysis Capacity	Significant	Limited to Manager
Input	Statistics	Research Driven

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Fundamental Stock Selection Approach

Each industry sector has a unique set of key metrics that reflect the fundamental key success factors of a constituent business. Some examples include:

	Energy	Base Metals	Precious Metals	Financials
Valuation	After-cost value of reserves in ground, adjusted for asset mix.	Reserves are much easier to expand. Focus on cost efficient production.	Reserves are hard to find and costly to develop, and vary with the price of the commodity.	Intrinsic worth based on earnings and cash flow.
Growth	Ability to grow production and add assets in a cost effective manner. Manage finding & development costs.	Ability to control costs and manage production in a volatile price environment.	Ability to grow cost-effective reserves and get regulatory approval.	Future earnings growth and reinvestment rates.
Management Quality	Ability to grow production consistently, add reserves at a cost effective price. Capital expenditures sufficient to develop a proven resource.	Capital expenditures sufficient to develop a cost effective resource in a stable region.	Capital expenditures sufficient to develop a proven and cost effective resource in a stable region.	Sufficient loss reserves to weather a storm. Monitor for excessive capital expenditures.
Stability	# of fields, location, debt/equity, asset life	# of mines, locations	# of mines, locations, asset life	Interest coverage, debt/equity, need for external financing

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