

# Semi-Annual Management Report of Fund Performance

## BMO Private Canadian Short-Term Bond Portfolio

For the period ended June 30, 2020

This semi-annual management report of fund performance contains financial highlights, but does not contain the semi-annual or annual financial statements of the Portfolio. If the semi-annual or annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-855-852-1026, by e-mailing us at [contactcentre@bmo.com](mailto:contactcentre@bmo.com), by writing to us at BMO Private Investment Counsel Inc., 1 First Canadian Place, 100 King St. W., 41st Floor, Toronto, Ontario, M5X 1A1 or by visiting our website at [www.bmoprivatebanking.com](http://www.bmoprivatebanking.com) or SEDAR at [www.sedar.com](http://www.sedar.com). You may also contact us using one of these methods to request a copy of the Portfolio's interim financial report, proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

*BMO Private Investment Counsel Inc. (“BPIC” or the “Manager”), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of the BMO Private Portfolios and has engaged BMO Asset Management Inc. (“BMO AM Inc.” or the “sub-advisor”) as sub-advisor of BMO Private Canadian Short-Term Bond Portfolio (the “Portfolio”).*

### Results of Operations

Over the six-month period ended June 30, 2020, the Portfolio returned 3.97%, after expenses. The Portfolio's benchmark is the FTSE Canada Short Term Overall Bond Index, which generated a 4.04% total return over the same six-month period.

For the six-month period ended June 30, 2020, the Bank of Canada (the “BoC”) cut its policy interest rate three times, by a total of 150 basis points, to help the economy recover from the impact of COVID-19. In addition to these changes, the central bank implemented a debt purchasing program, targeting maturities across the yield curve. As a result, the government bond yield curve shifted lower across all maturities. As the global pandemic began to spread deeper into developed economies and fear of economic recession weighed on expectations for business and consumer spending, inflation expectations and nominal yields continued to

feel pressure, which benefitted bonds. Despite some early signs of an economic recovery, such as a slight improvement in manufacturing and employment, the magnitude of the biggest drop in output on record will likely have a lasting impact, putting downward pressure on economic growth and mortgage demand. Overall, the FTSE Canada Short Term Overall Bond Index and the FTSE Canada Mid Term Overall Bond Index rose 4.04% and 8.25%, respectively, over the first half of 2020.

The Portfolio's corporate bond positions detracted from performance, as did exposure to the Energy sector. The Portfolio's short duration (interest rate sensitivity) positioning also detracted from performance. Allocation to BBB-rated corporate bonds was another detractor from the Portfolio's performance.

The Portfolio's exposure to provincial and federal bonds contributed to its performance during the period. Exposure to federal non-agency (i.e., not backed by a government agency) bonds contributed to performance. The Portfolio's A-rated corporate bond positions contributed to performance, as did exposure to the Communication sector.

*For information on the Portfolio's longer-term performance and composition, please refer to the Past Performance section and Summary of Investment Portfolio section of this report.*

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## Recent Developments

The economic outlook is uncertain amid fears of a second wave of cases in the COVID-19 pandemic. As such, governments will likely stagger the reopening of their economies, and it will take time to regain their strong footing. The sub-advisor believes that the BoC would spur economic growth by keeping interest rates at historically low levels, and that these interest rates will continue to be low well into the future.

If fears about a COVID-19 second wave come to fruition, the sub-advisor sees potential risk of federal bonds outperforming corporate bonds. As the economy recovers, and if it does so faster than expected, the Portfolio's exposure to corporate bonds may provide strong performance. Credit spreads (the difference in yield between two bonds of similar maturity but differing credit quality) continue to be wider than in 2019, and the sub-advisor believes that the Portfolio should benefit from further spread compression.

## Related Party Transactions

BMO Trust Company, an indirect, wholly-owned subsidiary of Bank of Montreal ("BMO"), is the trustee (the "trustee") and BPIC is the manager of the Portfolio. From time to time, BPIC may, on behalf of the Portfolio, enter into transactions or arrangements with or involving other members of BMO Financial Group, or certain other persons or companies that are related or connected to the Portfolio (each, a "related party" and collectively, the "related parties"). The purpose of this section is to provide a brief description of any transaction involving the Portfolio and a related party. In each instance where a conflict of interest is identified, it will be referred to the Portfolio's Independent Review Committee (the "IRC"). The primary focus of the IRC is to determine whether the proposed action of the Manager in respect of the conflict of interest matter achieves a fair and reasonable result for the Portfolio. The IRC has reviewed the related party relationships described below and has provided a positive recommendation that each relationship achieves a fair and reasonable result for the Portfolio.

## *Sub-advisor*

BPIC has hired BMO AM Inc., a related party, to provide investment advice and make investment decisions for the Portfolio's investment portfolio. BMO AM Inc. receives a sub-advisory fee based on assets under management, which is paid monthly. BMO AM Inc. is paid by BPIC.

## *Buying and Selling Securities*

During the period, the Manager relied on standing instructions provided by the Portfolio's IRC for any of the following related party transactions that may have occurred in the Portfolio:

- (a) investments in securities of BMO, an affiliate of the Manager;
  - (b) investments in a class of non-government debt securities and/or equity securities of an issuer during the period of distribution of those securities to the public and/or the 60-day period following the distribution period where BMO Nesbitt Burns Inc., an affiliate of the Manager, or any other affiliate of the Manager acted as an underwriter in the distribution;
  - (c) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., or any other affiliate of the Manager, who is trading with the Portfolio as principal; and
  - (d) inter-fund trades;
- (each, a "Related Party Transaction").

In accordance with the IRC's standing instructions, in making a decision to cause the Portfolio to make a Related Party Transaction, the Manager and the sub-advisor of the Portfolio are required to comply with the Manager's written policies and procedures governing the Related Party Transaction and report periodically to the IRC, describing each instance that the Manager and/or the sub-advisor relied on the standing instructions and their compliance or non-compliance with the governing policies and procedures. The governing

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policies and procedures are designed to ensure that each Related Party Transaction (i) is made free from any influence of BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc., (ii) represents the business judgment of the Manager and/or the sub-advisor, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

### *Wealth Management Fee*

Units of the Portfolio are only available through the wealth management service offered by BMO Financial Group. The trustee, a related party, and the Manager receive an annual fee from each investor for the wealth management service offered by BMO Financial Group. A tiered schedule is applied to calculate the annual fee for this service. The fee schedule starts at 1.95% and declines to 0.20% (depending on the nature and size of the investor's investment portfolio), and is calculated as a percentage of the assets under management. The actual wealth management fee payable by each investor is set out in BPIC's *Investment Management Fee Schedule* that is provided to the investor when the investor enters into an investment management agreement with the trustee and BPIC. The wealth management fee is paid directly by the investor to the trustee and the Manager. The trustee may compensate financial institutions and securities registrants within BMO Financial Group for client referrals to the wealth management service.

### *Unitholder Services*

The Portfolio is provided with certain facilities and services by related parties. BPIC is the registrar of the Portfolio. The trustee and BPIC are paid by the Portfolio for fees relating to the custodial and administrative services they provide, respectively. Administrative services include fund accounting, record keeping and purchases/redemption order processing.

The fees charged to the Portfolio during the periods were as follows:

	Period ended June 30, 2020 (\$000s)	Period ended June 30, 2019 (\$000s)
Unitholder Services	130	130

### Management Fee

There is no management fee charged to the Portfolio. The trustee and the Manager receive an annual wealth management fee from investors for the wealth management service offered by BMO Financial Group.

## BMO Private Canadian Short-Term Bond Portfolio

### Financial Highlights

The following tables show selected key financial information about the Portfolio and are intended to help you understand the Portfolio's financial performance for the periods indicated.

The Portfolio's Net Assets Per Unit <sup>(1)</sup>	Six months ended June 30, 2020	Years ended December 31				
		2019	2018	2017	2016	2015
Net assets, beginning of period	\$ 10.13	10.06	10.12	10.38	10.55	10.56
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.10	0.20	0.18	0.17	0.18	0.20
Total expenses <sup>(2)</sup>	\$ (0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Realized gains (losses) for the period	\$ 0.04	0.00	(0.07)	(0.03)	0.02	0.04
Unrealized gains (losses) for the period	\$ 0.26	0.09	0.07	(0.14)	(0.10)	0.03
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ 0.40</b>	<b>0.29</b>	<b>0.18</b>	<b>(0.00)</b>	<b>0.10</b>	<b>0.26</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.12	0.24	0.25	0.26	0.27	0.28
From dividends	\$ —	—	—	—	—	—
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ —	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ 0.12</b>	<b>0.24</b>	<b>0.25</b>	<b>0.26</b>	<b>0.27</b>	<b>0.28</b>
<b>Net assets, end of period</b>	<b>\$ 10.41</b>	<b>10.13</b>	<b>10.06</b>	<b>10.12</b>	<b>10.38</b>	<b>10.55</b>

<sup>(1)</sup> This information is derived from the Portfolio's unaudited and audited financial statements.

<sup>(2)</sup> Includes commissions and other portfolio transaction costs and withholding taxes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>(4)</sup> Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

Ratios and Supplemental Data	Six months ended June 30, 2020	Years ended December 31				
		2019	2018	2017	2016	2015
Total net asset value (000s) <sup>(1)</sup>	\$ 2,437,892	2,617,452	2,034,129	2,308,722	2,668,824	2,698,527
Number of units outstanding (000s) <sup>(1)</sup>	234,163	258,339	202,240	228,095	257,104	255,804
Management expense ratio <sup>(2)</sup>	% 0.03	0.03	0.03	0.02	0.02	0.02
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	% 0.14	0.14	0.15	0.13	0.14	0.14
Trading expense ratio <sup>(3)</sup>	% —	—	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	% 24.23	49.26	41.98	57.73	36.03	39.55
Net asset value per unit	\$ 10.41	10.13	10.06	10.12	10.38	10.55

<sup>(1)</sup> This information is provided as at June 30 or December 31 of the period shown, as applicable.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. For all the financial periods listed, no commissions or portfolio transaction costs were incurred by the Portfolio. As a result, the trading expense ratio for each of the periods was zero.

<sup>(4)</sup> The portfolio turnover rate indicates how actively the Portfolio's sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a portfolio.

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## Past Performance

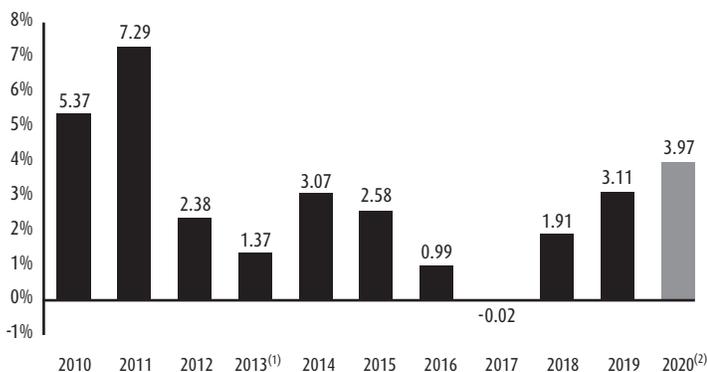
### General

The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were reinvested in additional units of the Portfolio and is based on the net asset value of the Portfolio.

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Portfolio has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the performance for each of the financial years and for the six-month period ended June 30, 2020 shown and illustrates how the performance has changed from year to year. The bar chart shows in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.



<sup>(1)</sup> On January 25, 2013, the Portfolio's investment strategies and benchmark were changed. Accordingly, the Portfolio's performance prior to this date would have been different under the current investment strategies and benchmark.

<sup>(2)</sup> For the six-month period ended June 30, 2020.

## BMO Private Canadian Short-Term Bond Portfolio

### Summary of Investment Portfolio

as at June 30, 2020

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings Issuer	% of Net Asset Value
Government Bonds	44.2	Government of Canada, 2.250% Jun 1, 2025	3.4
Corporate Bonds	32.3	Government of Canada, Unsecured, 1.000% Sep 1, 2022	3.1
Provincial Bonds	20.5	Government of Canada, 1.750% Mar 1, 2023	2.7
Supranational Bonds	1.4	Province of Ontario, Unsecured, 2.600% Jun 2, 2025	2.7
Cash/Receivables/Payables	0.5	Government of Canada, Unsecured, 0.750% Sep 1, 2021	2.4
Municipal Bonds	0.8	Canada Housing Trust, Mortgage Bonds, Series 48, Secured, 2.400% Dec 15, 2022	2.3
Asset-Backed Securities	0.3	Government of Canada, Unsecured, 0.500% Mar 1, 2022	2.2
<b>Total portfolio allocation</b>	<b>100.0</b>	Canada Housing Trust, Mortgage Bonds, Series 58, Secured, 2.900% Jun 15, 2024	2.1
		Canada Housing Trust, Mortgage Bonds, Series 83, Secured, 2.350% Jun 15, 2023	1.7
		Government of Canada, 2.000% Sep 1, 2023	1.7
		Government of Canada, 1.250% Mar 1, 2025	1.6
		Government of Canada, 2.250% Mar 1, 2024	1.6
		Province of Ontario, Unsecured, 2.850% Jun 2, 2023	1.6
		Canada Housing Trust, Mortgage Bonds, Series 78, Secured, 1.750% Jun 15, 2022	1.6
		Government of Canada, 1.500% Sep 1, 2024	1.5
		Government of Canada, 1.250% Nov 1, 2021	1.5
		Government of Canada, 1.500% Feb 1, 2022	1.5
		Province of Ontario, Unsecured, 3.500% Jun 2, 2024	1.5
		Canada Housing Trust, Mortgage Bonds, Series 86, Secured, 2.550% Dec 15, 2023	1.4
		Government of Canada, 2.750% Jun 1, 2022	1.3
		Canada Housing Trust, Mortgage Bonds, Series 52, Secured, 2.350% Sep 15, 2023	1.3
		Canada Housing Trust, Mortgage Bonds, Series 45, Secured, 2.650% Mar 15, 2022	1.1
		Government of Canada, 2.500% Jun 1, 2024	1.1
		Province of Quebec, Unsecured, 4.250% Dec 1, 2021	1.1
		Province of Ontario, Unsecured, 3.150% Jun 2, 2022	1.1
		<b>Top holdings as a percentage of total net asset value</b>	<b>45.1</b>
		<b>Total Net Asset Value</b>	<b>\$2,437,891,745</b>

*The summary of investment portfolio may change due to the Portfolio's ongoing portfolio transactions. Updates are available quarterly.*

**Manager**

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