

Annual Management Report of Fund Performance

BMO Private Canadian Short-Term Bond Portfolio

For the period ended December 31, 2020

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Portfolio. If the annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-855-852-1026, by e-mailing us at 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 or SEDAR at 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”).

Investment Objective and Strategies

The Portfolio's investment objectives are to produce a high level of interest income, and to preserve the capital invested. The Portfolio invests primarily in high-quality fixed income securities such as bonds and debentures issued by governments and corporations in Canada that mature in more than one year.

To achieve the Portfolio's objectives, the sub-advisor selects fixed income securities in reference to the characteristics of a widely recognized Canadian short-term bond index (which includes bonds with remaining effective terms greater than one year and less than or equal to five years), and invests primarily in securities which will provide a steady stream of annual income.

Risk

The risks associated with an investment in the Portfolio remain as disclosed in the Portfolio's most recent simplified prospectus or any amendments thereto and fund facts. During the period there were no changes to the Portfolio that materially affected the overall risk

level associated with an investment in the Portfolio. On May 7, 2020, the Manager reviewed the Portfolio using the standardized investment risk classification methodology prescribed by National Instrument 81-102 *Investment Funds* and determined that the risk rating of the Portfolio had not changed. The Manager reviews the Portfolio's investment risk level and reference index, if any, at least annually.

Results of Operations

Over the 12-month period ended December 31, 2020, the Portfolio returned 5.27%, after expenses. The Portfolio's benchmark is the FTSE Canada Short Term Overall Bond Index, which generated a 5.29% total return over the same 12-month period.

For the 12-month period ended December 31, 2020, the spread of COVID-19 and the resulting economic downturn resulted in unprecedented monetary policy support from governments and central banks. The Bank of Canada cut its policy interest rate by a total of 150 basis points and offered a quantitative easing program with large-scale asset purchases. As a result, the government bond yield curve shifted lower. Corporate spreads widened in early 2020 as default risks rose before falling later in the year. Corporate spreads ended 2020 close to pre-pandemic levels. Near-term inflation expectations remained firmly anchored at low levels. The FTSE Canada Universe Bond Index rose 8.7% in 2020. The FTSE Canada Short Term Overall Bond Index and the FTSE Canada Mid Term Overall Bond Index rose 5.3% and 10.1%, respectively.

BMO Private Canadian Short-Term Bond Portfolio

The Portfolio's allocation to shorter-duration bonds (bonds with lower interest rate sensitivity) detracted from relative performance as longer-term bonds outperformed. The Portfolio's allocation to federal bonds also detracted from performance. An allocation to the Infrastructure industry detracted from the Portfolio's performance, as did allocations to corporate bonds rated AAA/AA.

Over the period, corporate bonds outperformed federal and provincial bonds. The Portfolio's allocation to A-rated corporate bonds was the largest contributor to relative performance. The Portfolio's allocation to provincial bonds also contributed to performance, as did Portfolio allocations to the Industrials and Communication sectors.

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.

Recent Developments

Looking ahead, the sub-advisor expects to see further turbulence in the economy until the COVID-19 vaccine is fully distributed. That turbulence will encourage central banks globally to continue to purchase bonds in unprecedented amounts and keep interest rates at historically low levels. The Portfolio maintains a short-duration positioning and the sub-advisor believes that it may not be well suited to an environment where longer-duration bonds outperform. If distribution of the vaccine is slower than expected, or is less successful than expected, corporate bonds may be negatively affected, according to the sub-advisor. If such a situation were to arise, the sub-advisor believes that the Portfolio's allocation to federal bonds may provide some degree of protection.

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 equity securities and/or non-government debt securities of an issuer during the distribution period of those securities and/or the 60-day period following the completion of 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 of those securities;
 - (c) trades in over-the-counter debt securities in the secondary market with BMO Nesbitt Burns Inc., or any other affiliate of the Manager, acting as principal in the Canadian debt securities market; and
 - (d) inter-fund trades;
- (each, a "Related Party Transaction").

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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 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 subadvisor, 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 Dec. 31, 2020 (\$000s)	Period ended Dec. 31, 2019 (\$000s)
Unitholder Services	264	267

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 ⁽¹⁾	Years ended December 31				
	2020	2019	2018	2017	2016
Net assets, beginning of period	\$ 10.13	10.06	10.12	10.38	10.55
Increase (decrease) from operations:					
Total revenue	\$ 0.19	0.20	0.18	0.17	0.18
Total expenses ⁽²⁾	\$ (0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Realized gains (losses) for the period	\$ 0.06	0.00	(0.07)	(0.03)	0.02
Unrealized gains (losses) for the period	\$ 0.28	0.09	0.07	(0.14)	(0.10)
Total increase (decrease) from operations ⁽³⁾	\$ 0.53	0.29	0.18	(0.00)	0.10
Distributions:					
From income (excluding dividends)	\$ 0.24	0.24	0.25	0.26	0.27
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.00	0.00	0.00	0.00	0.00
Total Annual Distributions ⁽⁴⁾	\$ 0.24	0.24	0.25	0.26	0.27
Net assets, end of period	\$ 10.42	10.13	10.06	10.12	10.38

⁽¹⁾ This information is derived from the Portfolio's audited financial statements.

⁽²⁾ Includes commissions and other portfolio transaction costs and withholding taxes.

⁽³⁾ 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.

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

Ratios and Supplemental Data	Years ended December 31				
	2020	2019	2018	2017	2016
Total net asset value (000s) ⁽¹⁾	\$ 2,483,205	2,617,452	2,034,129	2,308,722	2,668,824
Number of units outstanding (000s) ⁽¹⁾	238,367	258,339	202,240	228,095	257,104
Management expense ratio ⁽²⁾	0.03	0.03	0.03	0.02	0.02
Management expense ratio before waivers or management absorptions ⁽²⁾	0.14	0.14	0.15	0.13	0.14
Trading expense ratio ⁽³⁾	—	—	—	—	—
Portfolio turnover rate ⁽⁴⁾	40.98	49.26	41.98	57.73	36.03
Net asset value per unit	\$ 10.42	10.13	10.06	10.12	10.38

⁽¹⁾ This information is provided as at December 31 of the period shown.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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

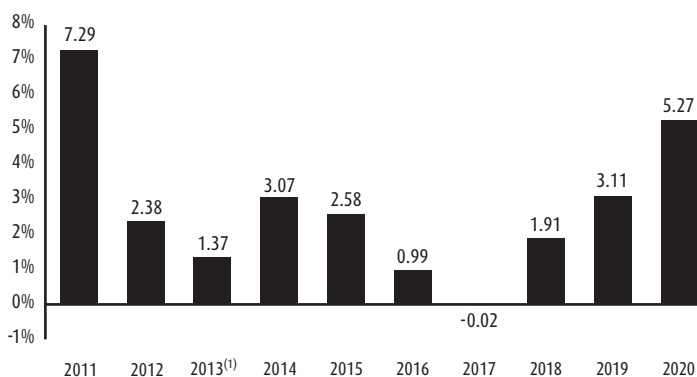
General

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 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.



⁽¹⁾ 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.

Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the FTSE Canada Short Term Overall Bond Index and the FTSE Canada Universe Bond Index. The FTSE Canada Short Term Overall Bond Index is a measure of total return of Canadian bonds which have a term to maturity of one to five years, and the FTSE Canada Universe Bond Index is a broad measure of the total return of all marketable Canadian bonds that mature in more than one year.

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Private Canadian Short-Term Bond Portfolio ^{‡*}	5.27	3.42	2.24	2.78
FTSE Canada Short Term Overall Bond Index ^{**}	5.29	3.42	2.26	2.54
FTSE Canada Universe Bond Index	8.68	5.61	4.19	4.49

[‡]The Portfolio's return is after the deduction of expenses, while the benchmarks do not include any costs of investing.

^{*}On January 25, 2013, the Portfolio's investment strategies and benchmark were changed.

^{**}The Portfolio's benchmark is the FTSE Canada Short Term Overall Bond Index (100%), and prior to January 25, 2013, it was a blend of 50% FTSE Canada Short Term Overall Bond Index and 50% FTSE Canada Mid Term Overall Bond Index.

A commentary on the market and/or information regarding the relative performance of the Portfolio as compared to its benchmark can be found under the Results of Operations section of this report.

BMO Private Canadian Short-Term Bond Portfolio

Summary of Investment Portfolio

as at December 31, 2020

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings Issuer	% of Net Asset Value
Federal Bonds	46.8	Government of Canada, 2.250% Jun 1, 2025	3.3
Corporate Bonds	29.9	Government of Canada, Unsecured, 1.000% Sep 1, 2022	3.0
Provincial Bonds	20.4	Province of Ontario, Unsecured, 2.600% Jun 2, 2025	2.6
Supranational Bonds	1.3	Government of Canada, 1.750% Mar 1, 2023	2.6
Cash/Receivables/Payables	0.5	Government of Canada, 0.500% Sep 1, 2025	2.5
Municipal Bonds	0.9	Canada Housing Trust, Mortgage Bonds, Series 48, Secured, 2.400% Dec 15, 2022	2.3
Asset-Backed Securities	0.2	Government of Canada, Unsecured, 0.500% Mar 1, 2022	2.2
Total portfolio allocation	100.0	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
		Province of Ontario, Unsecured, 2.850% Jun 2, 2023	1.6
		Canada Housing Trust, Mortgage Bonds, Series 67, Secured, 1.950% Dec 15, 2025	1.6
		Government of Canada, 1.250% Mar 1, 2025	1.6
		Government of Canada, 2.250% Mar 1, 2024	1.6
		Canada Housing Trust, Mortgage Bonds, Series 78, Secured, 1.750% Jun 15, 2022	1.5
		Canada Housing Trust, Mortgage Bonds, Series 52, Secured, 2.350% Sep 15, 2023	1.5
		Government of Canada, 0.250% Aug 1, 2022	1.5
		Government of Canada, 1.500% Sep 1, 2024	1.5
		Canada Housing Trust, Mortgage Bonds, Series 86, Secured, 2.550% Dec 15, 2023	1.4
		Government of Canada, 1.500% Feb 1, 2022	1.4
		Government of Canada, Series 1, 1.500% Jun 1, 2023	1.3
		Government of Canada, 2.750% Jun 1, 2022	1.3
		Province of Ontario, Unsecured, Notes, 1.750% Sep 8, 2025	1.2
		Canada Housing Trust, Mortgage Bonds, Series 93, Secured, 0.950% Jun 15, 2025	1.1
		Province of Ontario, Unsecured, 3.500% Jun 2, 2024	1.1
		Top holdings as a percentage of total net asset value	45.2
		Total Net Asset Value	\$2,483,205,319

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

Manager

BMO Private Investment Counsel Inc.
1 First Canadian Place
100 King Street West, 41st Floor
Toronto, Ontario M5X 1A1

Trustee

BMO Trust Company
1 First Canadian Place
100 King Street West, 41st Floor
Toronto, Ontario M5X 1A1

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