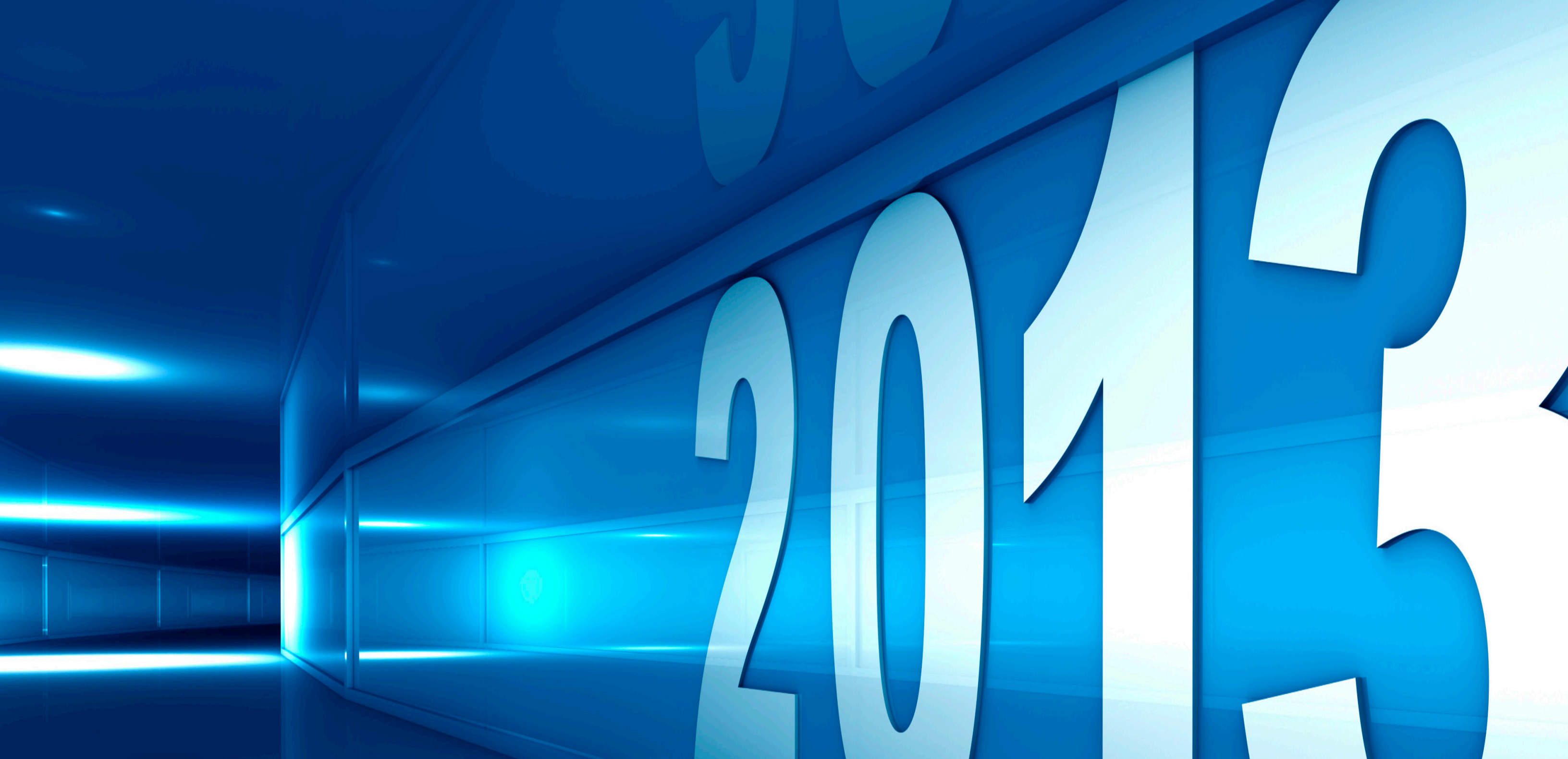


Top Investment Ideas of 2013

With close to five years since the 2008 financial crisis, almost a full market cycle under normalized conditions, investor confidence remains fragile as markets continue to be beset by a host of problems.

It is important for investors to realize that the current slump is the aftermath to one of the largest credit bubbles of our generation and that the market is still recovering. As such, patience will be one of the keys in being successful in this market over the next three to five years as traditional monetary and fiscal policies alone will not be enough to right the market. With central banks remaining focused on unconventional measures, constructing core portfolios for a low rate, slow growth and volatile environment will continue to be the main focus in 2013. Below we highlight some central themes that we favour for the coming year that will reward a patient investor who is looking for long term growth.

BMO Global Asset Management

Preferred Shares

Preferred Shares have gained significant appeal since the financial crisis given they exhibit many attributes that are favourable to investors. In addition to having a higher yield than their equivalent common stock, their distributions are also more tax efficient than those of fixed income, given they are taxed as dividends. Furthermore, as preferred shares have a par value, they exhibit low volatility in normalized market conditions. It is also important to consider the low correlation of preferred shares to both equities and bonds which make them an ideal diversifier in the asset allocation process of an investor.

For more discussion on the opportunity of preferred shares in 2013 please refer to page 3; 2013 opportunity: Preferred Shares

Emerging Market Debt

Despite a brighter economic picture in the developed markets as a whole, the balance sheets of many of these sovereigns remain in disarray. Many of the emerging market nations on the other hand have come a long way over the previous decade, now exhibiting lower debt to gross domestic product (GDP) ratios than countries such as the U.S. and Japan. As many emerging markets have not had to rely on accommodative monetary policies, given that their economies have been much more stable, the yield to their sovereign bonds has been comparatively higher than those of developed nations. Emerging market bonds have thus become a source of yield and portfolio diversification.

For more discussion on the opportunity of Emerging Market debt in 2013 please refer to page 4; 2013 opportunity: Emerging Market debt

North American Energy

We believe commodities in general will continue to face higher volatility in 2013, one area that we believe offers attractive opportunities, however, is the energy sector, particularly those in the natural gas area. In North America, gas prices have remained depressed over the last several years as fracking technology has led to an abundant supply of the commodity. With the U.S. economy slowly recovering and continued geo-political tension in the Middle East oil prices will likely remain elevated, making natural gas a low cost alternative to crude. North American gas companies currently offer attractive valuations, especially with the underlying commodity recently gaining momentum. Furthermore, gas prices in North America trade at a discount to their prices overseas.

For more discussion on the opportunity of North American energy in 2013 please refer to page 5; 2013 opportunity: North American Energy

Canadian Dividends

With the U.S. Federal Reserve Board, continuing to suppress the yield curve, the Bank of Canada will also likely have to maintain lower rates or risk a sharp rise in the Canadian dollar. Although we believe interest rates will rise much sooner in Canada compared to the U.S., lower bond yields will lead dividend related equities to trade at a premium as investors look to other assets to make up for their yield shortfall. Moreover, as emerging markets look to move away from infrastructure spending and more to internal consumer spending to support their economy, this could place continued headwinds on the material related sectors, which tend not to pay dividends.

For more discussion on the opportunity of Canadian dividends in 2013 please refer to page 6; 2013 opportunity: Canadian Dividends

2013 Opportunity: **Preferred Shares**

"In addition to having a higher yield than their equivalent common stock, their distributions are also more tax efficient than those of fixed income, given they are taxed as dividends."

Alfred Lee, lead portfolio manager for the BMO S&P/TSX Laddered Preferred Share Index ETF, has provided his insights for the preferred shares category in 2013.

Overview

1) The size of the preferred share market has grown substantially in the last several years. Why is there such a demand for preferred shares?
   - Over the past few years investors have sought preferred shares to provide the low volatility and higher yields that their portfolios need.
   - Furthermore, a broader range of companies have issued preferred shares over the last several years, providing the asset class with much greater industry diversification.

2) What is the main risk to the asset class this coming year?
   - A key risk to preferred share is the negative impact of rising interest rates in the near future.
   - The U.S. Federal Reserve pledging to lower interest rates until the jobless level eases to 6.5% will undoubtedly handcuff the Bank of Canada in terms of its interest rate policy. However, it is our expectation that interest rates will rise much sooner in Canada, eventually placing pressure on rate sensitive assets such as straight perpetual preferred shares.

3) The BMO Laddered Preferred Share Index ETF (ZPR) comprises of rate reset preferred shares only. How is this beneficial to investors?
   - Rate resets have a dividend that adjusts to the current interest rate level plus a pre-specified spread typically every five years.
   - In a rising rate environment, this allows for an upward adjustment in its dividend rate.

4) This ETF also utilizes a laddered structure, how does this further mitigate interest rate risk?
   - By grouping preferred shares with the same reset year, in the same term bucket and then equally weighting each of the term buckets the ETF is able to spread out interest rate risk, similar to a bond or GIC ladder.
   - The ETF utilizes a five year ladder, thus 20% of the portfolio will adjust to the current level of interest rates or be called back by the issuer every year.

Preferred Share Index

1) How is the S&P/TSX Preferred Share Laddered Index constructed?
   - Holdings must meet a minimum in terms of size, liquidity and credit quality.
   - Quarterly reconstitution and rebalancing.
   - Issues resetting in the same reset year are grouped together with each of those term buckets making up equal portions of the portfolio.

2) Can investors construct a similar portfolio on their own?
   - It would be difficult for even the well capitalized investor to attain the same level of diversification.
   - Diversification in the portfolio helps mitigate issuer risk as well as liquidity risk.
   - The index that our ETF tracks includes close to 100 different high quality, liquid issues, which is extremely difficult to achieve as an individual investor.

How do I invest in Preferred Shares?

Mutual Funds: BMO Guardian Monthly Dividend Fund Ltd.

Fund Codes	SC	LL	DSC	F
Mutual	GGF588	GGF909	GGF188	
F				GGF720

ETFs: BMO S&P/TSX Laddered Preferred Share Index ETF

Ticker Symbol
ZPR

2013 Opportunity: **Emerging Market Debt**

"As many emerging markets have not had to rely on accommodative monetary policies, given that their economies have been much more stable, the yield to their sovereign bonds has been comparatively higher than those of developed nations."

Curtis A Mewbourne is the portfolio manager of the BMO Guardian Global Strategic Bond Fund, and has provided his insights for the emerging market debt category in 2013.

Overview

1) What area within emerging market debt do you think provide the greatest potential in 2013?
   - Quasi-sovereign corporate issuers in high quality countries such as Brazil, Mexico and Russia offer the attractive growth dynamics of emerging market countries at an incremental spread increase.
2) What is the main factor that tells you that this area will perform well in 2013?
   - Relative to the developed world, emerging market countries offer compelling growth prospects due to better balance sheets and demand from an expanding middle class.
3) What are the most important events or metrics that you are monitoring for the sector right now?
   - Negative growth in Europe and a deceleration of growth in China is a headwind for commodity demand, and will negatively impact bonds in the raw materials and energy sectors.
4) How are you positioning the portfolio for 2013?
   - We have positioned the portfolio in higher-quality emerging market countries with strong credit fundamentals.
   - The portfolio is overweight Brazil and Russia with a focus on quasi-sovereign corporate bonds such as Petrobras, Gazprom, and SBERBank.
   - Continued underweight of U.S. interest rate duration in favour of emerging market local duration for higher real yields.

Holding Example

1) What is your favourite company holding in the portfolio right now?
   - Gazprom
2) What metrics are leading you to this conclusion?
   - Attractive spread above the Russian sovereign bonds.
   - Net debt/EBITDA* of 0.6x shows a strong balance sheet.
   - Cash flow positive as low as $50/barrel oil, due to low-cost legacy production.
3) What is the main risk of the issue?
   - Exposure to strategic influence of the Russian government which is not always in line with bondholder interests.
4) What are the most important metrics that you are monitoring for the holding right now?
   - Impact of capital expenditure, working capital outlays and potential strategic acquisitions on cash flow generation.

*Earnings Before Interest, Taxes, Debt, and Amortization

How do I invest in Emerging Market Debt?

Mutual Funds: BMO Global Strategic Bond Fund

Fund Code
GGF70736

ETFs: Emerging Markets Bond Hedged to CAD Index ETF

Ticker Symbol
ZEF

2013 Opportunity: **North American Energy**

"With the U.S. economy slowly recovering and continued geo-political tension in the Middle East oil prices will likely remain elevated, making natural gas a low cost alternative to crude."

Rob Taylor, the portfolio manager of the BMO Guardian Resource Fund and the BMO Guardian Global Energy Class, has provided his insights for the North American energy category in 2013.

Overview

1) What area within North American energy do you think provides the greatest potential in 2013?
   - Natural gas companies – Both natural gas weighted exploration and production companies as well as service companies including drillers and fracturing companies.

2) What is the main factor that tells you that this area will perform well in 2013?
   - Warmer weather conditions have caused activity levels to be below normal and we could see a surge in the price of natural gas in the next 12 months.

3) What are the most important events or metrics that you are monitoring for the sector right now?
   - There are several potential macro headwinds that could impact the sector including: the unresolved debt crisis in Europe; economic headwinds associated with higher taxes in the U.S.; the looming U.S. debt ceiling discussions; decelerating growth in China.
   - Middle East tensions continue to mount which could result in major oil supply disruptions.

4) How are you positioning the portfolio for 2013?
   - Higher weight toward the natural gas theme and relatively underweight oil weighted stocks.
   - Relatively defensive in our positioning which includes high quality, growth-oriented companies.
   - The portfolio is focused primarily in mid-cap names with large resource potential.

Holding Example

1) What is your favourite stock in the portfolio right now?
   - Paramount Resources.

2) What is leading you to this conclusion?
   - Paramount holds above average-assets and possesses one of the best growth profiles relative to its peer group.

3) What is the main risk of the stock?
   - Paramount maintains above average leverage levels which poses a risk as to whether they can keep their debt within a safe range and continue to grow.

4) What is the most important event/metric that you are monitoring for the stock right now?
   - The metric that we are watching closely is the company's production level.
   - The company has the ability to grow its current production level over the longer term which is not currently reflected in the stock price.

How do I invest in North American Energy?

Mutual Fund: BMO Resource Fund

Fund Code
GGF70137

Mutual Fund: BMO Global Energy Class

Fund Code
GGF70236

ETF: BMO S&P/TSX Equal Weight Oil & Gas Index ETF

Ticker Symbol
ZEO

ETF: BMO Energy Commodities Index ETF

Ticker Symbol
ZCE

2013 Opportunity: **Canadian Dividends**

"Interest rates will rise much sooner in Canada compared to the U.S., lower bond yields will lead dividend related equities to trade at a premium as investors look to other assets to make up for their yield shortfall."

Lutz Zeitler and **Phil Harrington** the portfolio managers for the BMO Guardian Dividend Fund, have provided their insights for the Canadian Dividend category in 2013.

Overview

1) What area within Canadian dividends do you think provide the greatest potential in 2013?
   - Banks –underappreciated yield vehicles; the concern over the slowing housing market and net interest margins (NIM) shrinking is overstated.
   - Stricter mortgage rules within the Canadian market place will help Canada avoid a U.S.-type housing bubble from occurring.
   - Expect interest rates to slowly move higher starting in 2013 which is a positive for the banking sector as NIM pressure is relieved and expected economic expansion would help improve loan growth.
   - Yield theme unlikely to abate as demographics, equity volatility, and continued low bond yields continue.
2) What is the main factor that tells you that this area will perform well in 2013?
   - Employment and loan growth, as these will give us a good indication of economic conditions and will strengthen our conviction of slowly rising bond yields in 2013.
3) What are the most important events or metrics that you are monitoring for the sector right now?
   - The spread between the prime rate and government bond yields is a good indicator of bank margins.
   - Eurozone outcome is also important as it will affect the sentiment of not only the broad equity markets but the banking sector specifically.
4) How are you positioning the portfolio for 2013?
   - We are overweight banks, especially those that will benefit from NIM expansion with a high retail deposit base and strong potential for both retail and commercial loan growth.

Holding Example

1) What is your favourite stock in the portfolio right now?
   - Bank of Nova Scotia
2) What is leading you to this conclusion?
   - Focusing on growth in markets which have favourable demographics and are "underbanked" offer good growth potential.
   - Acquisition of ING Direct helps lower funding costs and provides cross-selling opportunities.
3) What is the main risk of the stock?
   - Weakening economic conditions can compress NIMs and hurt profitability.
4) What is the most important event/metric that you are monitoring for the stock right now?
   - loan losses as they could signal the move to weakening economic conditions.

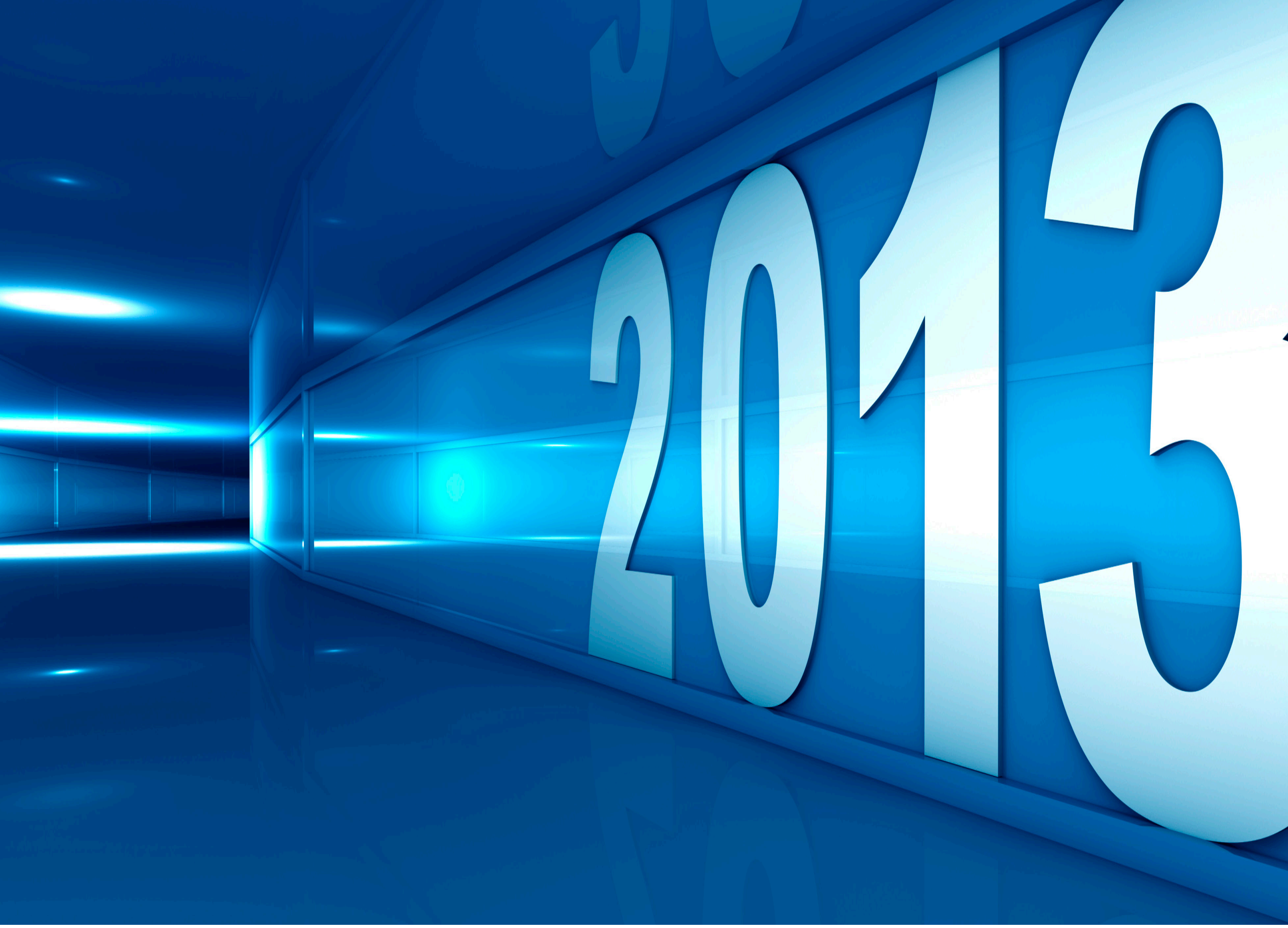
How do I invest in Canadian Dividends?

Mutual Fund: BMO Dividend Fund

Fund Code
GGF70146

ETF: BMO Canadian Dividend ETF

Ticker Symbol
ZDV



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