

# Annual Management Report of Fund Performance

## BMO Harris Canadian Income Equity Portfolio

For the period ended December 31, 2014

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 1-800-361-1392, by e-mailing us at [contact.centre@bmo.com](mailto:contact.centre@bmo.com), by writing to us at BMO Private Investment Counsel Inc. (formerly BMO Harris Investment Management 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 proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

*BMO Harris Investment Management Inc. ("BHIMI" or the "Manager"), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of the BMO Harris Private Portfolios and has engaged BMO Asset Management Inc. ("BMO AM Inc." or the "sub-advisor") as the sub-advisor of BMO Harris Canadian Income Equity Portfolio (the "Portfolio").*

### Investment Objective and Strategies

The Portfolio's investment objective is to provide a higher than average income stream primarily from income, royalties and distributions or dividends of equity securities of Canadian issuers.

To seek to achieve the Portfolio's objectives, the sub-advisor employs bottom-up security selection to identify reasonable stock price valuations for its holdings that is based on quantitative and fundamental analyses, including assessment of the company's projected earnings, quality of management, and identification of reasonable stock price valuations relative to other companies in the same industry.

### Risk

No significant changes affecting the overall level of risk associated with investing in the Portfolio were made during the period. The risks of this Portfolio remain as discussed in the Portfolio's most recently filed simplified prospectus or its amendments.

## Results of Operations

Over the 12-month period ended December 31, 2014, the Portfolio returned 13.46%, after expenses. The Portfolio's benchmark is the S&P/TSX Composite Index ("S&P/TSX"), which generated a 10.55% total return over the same 12-month period.

Canadian equities, as represented by the S&P/TSX, had the second-best performance in the Morgan Stanley Capital International All Country World Index in 2014. The Canadian economy modestly exceeded expectations, with full-year gross domestic product growth likely at 2.3%, largely in line with U.S. economic performance. A lower Canadian dollar contributed to strength in consumer spending and improving export performance, which in turn helped Canada's economic growth.

The commodities-based sectors were the weakest performing sectors in the S&P/TSX during the year. The Energy and Materials sectors were the only sectors with negative returns, down 4.8% and 2.6%, respectively. The Energy sector rose in the first half of the year and then fell sharply in the second half, following the price of oil (as represented by the West Texas Intermediate (WTI) benchmark). Oil prices dropped both before and after the Organization of the Petroleum Exporting Countries' (OPEC) announcement in late November 2014 that it would not cut production. The performance of stocks with exposure to the U.S. was an area of strength in the S&P/TSX. Canadian companies that incur costs in Canadian dollars but earn revenues in U.S. dollars benefited significantly as the U.S. dollar appreciated meaningfully versus the Canadian dollar

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during the year. Finally, there was surprising strength in the performance of defensive sectors stocks, particularly those in the Consumer Staples sector, which was the top performing sector of the year. Defensive stocks benefitted from their “safe haven” status as investors avoided the volatile commodities-based sectors and favoured the greater earnings stability available in sectors such as Consumer Staples.

During the period, the Portfolio’s underweight positions in the Energy and Materials sectors and overweight positions in the Financials and Consumer Staples sectors contributed to the Portfolio’s performance. Stock selection also contributed to the Portfolio’s performance, specifically its large position in Tim Hortons Inc., which posted better-than-expected earnings and received a purchase offer from Burger King Worldwide, Inc. Holdings in Brookfield Asset Management Inc., Enbridge Inc. and Royal Bank of Canada also contributed to the Portfolio’s performance.

The Portfolio’s lack of exposure to the strong Health Care and Information Technology sectors detracted from its performance during the period. Significant individual detractors from the Portfolio’s performance included Crescent Point Energy Corp., which suffered from the decline in oil prices, Teck Resources Limited, which faced lower copper and coal pricing, and IGM Financial Inc., which underperformed the market after reducing fees on some of its funds.

During the period, the sub-advisor initiated a Portfolio position in PrairieSky Royalty Ltd., which has a unique royalty model that the sub-advisor believes may generate stable and growing cash flows with minimal capital expenditures. The purchase had a positive impact on the Portfolio’s performance, as did new positions in Alimentation Couche-Tard Inc., Gildan Activewear Inc. and Dollarama Inc. However, a new position in Stantec Inc. detracted from the Portfolio’s performance.

The sub-advisor increased the Portfolio’s weighting in several existing holdings during the period, including Crescent Point Energy Corp., as the company has an attractive valuation, a strong management team, high-quality assets, a solid track record of field execution and a clean balance sheet. However, the purchase detracted from the Portfolio’s performance. The Portfolio’s weighting in Bank of Nova Scotia was

increased, given its attractive valuation and excellent long-term growth prospects, and this purchase was neutral to performance. The Portfolio’s position in Canadian National Railway Company was increased, given its strong earnings growth and its solid franchise, and this holding had a positive impact on the Portfolio’s performance.

The sub-advisor sold several of the Portfolio’s holdings as a result of takeover offers during the period, namely Shoppers Drug Mart Corporation, Brookfield Canada Office Properties, Tim Hortons Inc. and Bell Aliant Inc.

*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**

The sub-advisor expects equity market volatility to remain elevated over the next few quarters. Sharp decreases in oil prices in 2015 are expected to create short-term challenges for oil producers, while also providing an economic benefit to consumers of oil globally. The sub-advisor expects the major developed economies to take diverging paths, with Europe struggling to avoid a recession while the United States experiences steady economic growth. The European Central Bank is likely to provide stimulus to revive economic activity, and markets anticipate that the U.S. Federal Reserve Board (the “Fed”) will be in a position to raise the federal funds rate sometime in the middle of 2015. The actual timing and, more importantly, the pace of Fed rate increases could increase volatility over the coming months. The U.S. 10-year Treasury yield remained surprisingly low in 2014, and the sub-advisor believes that, although it will likely trend higher over the next year, it may remain at or below 3%.

The sub-advisor has been taking advantage of market volatility over the last quarter of 2014 to add to the Portfolio’s holdings. Given the relatively low interest rate environment and supportive economic environment, the sub-advisor will continue to look for opportunities to purchase high-quality, dividend-paying companies at attractive prices over the coming months. The sub-advisor continues to focus on companies that are able to increase their dividends in an improving economic environment.

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## *Name Changes*

Effective February 2, 2015, BMO Harris Investment Management Inc. is named BMO Private Investment Counsel Inc., and BMO Harris Private Banking is named BMO Private Banking. Effective February 2, 2015, the Portfolio is named BMO Private Canadian Income Equity Portfolio. These name changes are the result of a rebranding initiative by BMO Financial Group.

## *Significant Accounting Changes*

### *Resulting from our Adoption of IFRS*

Effective January 1, 2014, the Portfolio adopted International Financial Reporting Standards (“IFRS”) as its basis of accounting. The annual financial statements for the year ended December 31, 2014 are the first set of annual financial statements prepared on an IFRS basis. The adjustments made to reflect the impact of the change from Canadian generally accepted accounting principles (“Canadian GAAP”) to IFRS are presented in note 8 to the financial statements.

Key changes to the financial statements as a result of the implementation of IFRS are:

- Statement of Financial Position replaced the former Statement of Net Assets:
  - The Portfolio’s unitholders investments in the units of the Portfolio did not qualify for equity classification under IFRS and have been classified as a financial liability for financial reporting purposes.
  - Classification of financial instruments: derivatives and short positions have been classified as held for trading while all other financial instruments have been designated as fair valued through profit and loss. Following adoption of IFRS by the Portfolio for financial reporting purposes the Portfolio now fair values its investment securities traded on an exchange at close price, which is determined as the price within the bid ask range that represents the best estimate of fair value.
- Statement of Comprehensive Income replaced Statement of Operations:
  - The Portfolio accounts for interest income using the effective interest rate method, rather than the coupon method previously used under Canadian GAAP.
- Statement of Changes in Net Assets Attributable to Holders of Redeemable Units replaced the Statement of Changes in Net Assets and the Portfolio now presents a Statement of Cash Flows.

- Other notable changes to the financial statement notes include additional or enhanced information in the notes to the financial statements including a more detailed note and reconciliation on the Portfolio’s transition from Canadian GAAP to IFRS.

## Related Party Transactions

BMO Trust Company, an indirect, wholly-owned subsidiary of Bank of Montreal, is the trustee (the “trustee”) and BHIMI is the manager of the Portfolio. From time to time, BHIMI 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”).

### *Sub-advisor*

BHIMI 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 an investment advisory fee based on assets under management, which is paid monthly. BMO AM Inc. is paid by BHIMI.

### *Brokerage Commissions*

The Portfolio pays standard brokerage commissions at market rates to BMO Nesbitt Burns Inc., an affiliate of the Manager, for executing a portion of its trades. The brokerage commissions charged to the Portfolio during the period were as follows:

	Period ended Dec. 31, 2014 (\$000s)	Period ended Dec. 31, 2013 (\$000s)
Total Brokerage Commissions	255	224
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	22	7

### *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

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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 BHIMI's *Investment Management Fee Schedule* that has been provided to the investor when the investor enters into an investment management agreement with the trustee and BHIMI. 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. BMO AM Inc. is the registrar of the Portfolio. The trustee and BMO AM Inc. 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 period were as follows:

	<b>Period ended Dec. 31, 2014 (\$000s)</b>	<b>Period ended Dec. 31, 2013 (\$000s)</b>
Unitholder Services	173	178

### 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 Harris Canadian Income Equity 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>	Years ended December 31				
	2014	2013	2012	2011	2010
Net assets, beginning of period	\$ 7.55	6.59	6.23	6.44	5.87
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.25	0.23	0.21	0.19	0.18
Total expenses <sup>(2)</sup>	\$ (0.00)	(0.00)	(0.01)	(0.00)	(0.00)
Realized gains (losses) for the period	\$ 0.36	(0.01)	(0.01)	0.09	0.02
Unrealized gains (losses) for the period	\$ 0.41	0.96	0.36	(0.27)	0.57
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ 1.02</b>	<b>1.18</b>	<b>0.55</b>	<b>0.01</b>	<b>0.77</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ —	0.00	0.00	0.00	0.01
From dividends	\$ 0.25	0.23	0.19	0.18	0.17
From capital gains	\$ —	—	—	—	—
Return of capital	\$ —	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ 0.25</b>	<b>0.23</b>	<b>0.19</b>	<b>0.18</b>	<b>0.18</b>
<b>Net assets, end of period</b>	<b>\$ 8.31</b>	<b>7.55</b>	<b>6.59</b>	<b>6.23</b>	<b>6.44</b>

<sup>(1)</sup> This information is derived from the Portfolio's audited annual financial statements. The financial information presented for the years ended December 31, 2014 and December 31, 2013 is derived from the financial statements determined in accordance with IFRS. Information for years prior to January 1, 2013 is derived from prior period financial statements prepared in accordance with Canadian GAAP. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</sup> Includes commissions and portfolio transaction costs. Prior to 2013, withholding taxes were not included in expenses as they were included in revenue.

<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	Years ended December 31				
	2014	2013	2012	2011	2010
Total net asset value (000s) <sup>(1)</sup>	\$ 1,381,291	1,177,790	913,357	725,339	659,818
Number of units outstanding (000s) <sup>(1)</sup>	166,286	156,070	138,266	116,205	102,335
Management expense ratio <sup>(2)</sup>	%	0.03	0.03	0.04	0.04
Management expense ratio before waivers or management absorptions	%	0.15	0.16	0.06	0.04
Trading expense ratio <sup>(3)</sup>	%	0.02	0.02	0.04	0.03
Portfolio turnover rate <sup>(4)</sup>	%	9.20	4.06	2.40	6.44
Net asset value per unit	\$ 8.31	7.55	6.61	6.24	6.45

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

<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.

<sup>(4)</sup> The portfolio turnover rate indicates how actively the Portfolio's investment manager 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.

# BMO Harris Canadian Income Equity Portfolio

## Past Performance

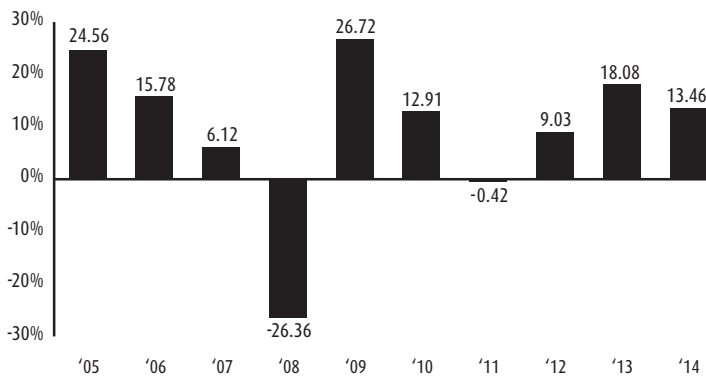
### General

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.



### Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the S&P/TSX Composite Index. The S&P/TSX Composite Index reflects the price movements of a floating list of companies on the Toronto Stock Exchange that meet Standard & Poor's criteria for inclusion in the index.

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Harris Canadian Income Equity Portfolio <sup>†</sup>	13.46	13.46	10.43	8.90
S&P/TSX Composite Index	10.55	10.22	7.53	7.60

<sup>†</sup>The Portfolio's return is after the deduction of expenses, while the benchmark does not include any costs of investing.

*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.*

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### Summary of Investment Portfolio

as at December 31, 2014

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Financials	45.0	<b>Issuer</b>	
Energy	19.1	Toronto-Dominion Bank, The,	6.9
Industrials	7.5	Royal Bank of Canada	6.5
Telecommunication Services	7.1	Bank of Nova Scotia	6.3
Consumer Staples	5.0	Enbridge Inc.	4.8
Consumer Discretionary	4.8	Canadian National Railway Company	4.6
Utilities	4.2	National Bank of Canada	4.6
Cash/Receivables/Payables	3.4	Brookfield Asset Management Inc., Class A	4.5
Materials	3.2	Manulife Financial Corporation	4.0
Other	0.7	Sun Life Financial Inc.	3.8
<b>Total portfolio allocation</b>	<b>100.0</b>	BCE Inc.	3.6
		IGM Financial Inc.	3.4
		Cash/Receivables/Payables	3.4
		Suncor Energy Inc.	3.2
		Alimentation Couche-Tard Inc., Class B	3.0
		TELUS Corporation	2.8
		TransCanada Corporation	2.7
		Intact Financial Corporation	2.7
		Brookfield Infrastructure Partners L.P.	2.4
		Crescent Point Energy Corp.	2.2
		Loblaw Companies Limited	2.1
		Thomson Reuters Corporation	2.1
		Fortis Inc.	1.8
		Dollarama Inc.	1.8
		Canadian Imperial Bank of Commerce	1.2
		Canadian Western Bank	1.2
		<b>Top holdings as a percentage of total net asset value</b>	<b>85.6</b>
		<b>Total Net Asset Value</b>	<b>\$1,381,290,670</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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