

Annual Management Report of Fund Performance

BMO Harris Canadian Short-Term Bond 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, 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 or SEDAR at 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 sub-advisor of BMO Harris 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 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 focuses primarily on securities that will provide a steady stream of annual income.

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 3.07%, after expenses. The Portfolio's benchmark is the FTSE TMX Canada Short Term Bond Index, which generated a 3.06% total return over the same 12-month period.

During the first quarter of 2014, weak economic data from Canada and the United States kept interest rates low, and despite the expectation of interest rate increases later in the year, they remained low. In the last quarter of 2014, the U.S. Federal Reserve Board (the "Fed") ended its quantitative easing program and indicated its intent to raise interest rates in 2015. The Bank of Canada (the "BoC") indicated that it would attempt to balance the impact of an interest rate hike by the Fed with the various impacts of declining oil prices and potentially lower Canadian government tax revenues.

Over the last year, Canadian bonds posted positive returns across all maturities and sectors, but bonds with longer-dated maturities generated higher total returns than short-dated bonds. From a sector perspective, provincial bonds had the highest returns at 12.18%, followed by corporate bonds at 7.58%, and Government of Canada bonds at 6.91%.

Short-dated federal, provincial and corporate bonds all contributed to the Portfolio's performance during the period. Corporate bonds were the best-performing segment, returning 3.57% versus federal bonds at 2.51% and provincial bonds at 3.50%. From a sector

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perspective, Industrials and Energy issues contributed most to the Portfolio's performance, returning 4.20% and 3.73%, respectively.

The Portfolio's shorter duration detracted from performance, as longer-term bonds significantly outperformed shorter-term bonds. The Portfolio's large exposure to federal bonds also detracted from performance as they underperformed their provincial and corporate bond counterparts. The Securitization and Financials sectors were the weakest performing corporate sectors during the period, with returns of 2.95% and 3.46%, respectively.

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 that the Canadian and U.S. economies will continue their positive momentum in 2015 as a result of further job gains and continued strength in business and consumer spending. Interest rates will likely rise slightly in the coming year with a tightening of monetary policy by the Fed. Eventually, the BoC is expected to follow the Fed's lead with respect to interest rates, albeit at a much slower pace. The sub-advisor believes that the Portfolio, with its positioning in shorter-duration bonds, is strongly positioned to experience gains and outperform longer-term bonds as interest rates rise in 2015. In addition, the Portfolio's corporate bond exposure should provide some credit protection.

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 Short-Term Bond 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 ("BMO"), 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").

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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.

Buying and Selling Securities

Investing in BMO Debt Securities in the Secondary Market, Investing in Equity and/or Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc., Trading in Debt Securities with BMO Nesbitt Burns Inc., Trading as Principal, and Inter-fund Trades

During the period, the Manager relied on an approval and standing instruction provided by the Portfolio's Independent Review Committee ("IRC") with respect to the following related party transactions:

- (a) investments in debt securities issued by BMO, or an issuer related to BMO, in the secondary market;
- (b) investments in a class of equity and/or non-government debt 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, acted as an underwriter in the distribution;
- (c) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., who is trading with the Portfolio as principal; and
- (d) inter-fund trades (each, a "Related Party Transaction").

In accordance with the IRC's approval and standing instruction, 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 the sub-advisor relied on the approval and standing instruction and their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the Related Party Transaction (i) is made free from any influence by an entity related to the Manager or any associate or affiliate of the Manager and without taking into account any consideration relevant to the

Manager or any associate or affiliate of the Manager, (ii) represents the business judgement of the Manager or sub-advisor, as the case may be, 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 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:

	Period ended Dec. 31, 2014 (\$000s)	Period ended Dec. 31, 2013 (\$000s)
Unitholder Services	253	256

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.

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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				
	2014	2013	2012	2011	2010
Net assets, beginning of period	\$ 10.52	10.98	11.08	10.66	10.51
Increase (decrease) from operations:					
Total revenue	\$ 0.18	0.19	0.36	0.35	0.41
Total expenses ⁽²⁾	\$ (0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Realized gains (losses) for the period	\$ 0.02	0.31	(0.00)	(0.02)	0.05
Unrealized gains (losses) for the period	\$ 0.11	(0.35)	(0.10)	0.46	0.10
Total increase (decrease) from operations ⁽³⁾	\$ 0.31	0.15	0.26	0.79	0.55
Distributions:					
From income (excluding dividends)	\$ 0.28	0.32	0.36	0.35	0.41
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	0.25	—	—	—
Return of capital	\$ 0.00	0.03	0.00	0.00	0.00
Total Annual Distributions ⁽⁴⁾	\$ 0.28	0.60	0.36	0.35	0.41
Net assets, end of period	\$ 10.56	10.52	10.98	11.08	10.66

⁽¹⁾ 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.

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

⁽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				
	2014	2013	2012	2011	2010
Total net asset value (000s) ⁽¹⁾	\$ 2,537,808	2,023,678	1,801,250	1,775,435	1,295,450
Number of units outstanding (000s) ⁽¹⁾	240,355	192,280	164,073	160,302	121,495
Management expense ratio ⁽²⁾	%	0.03	0.03	0.03	0.03
Management expense ratio before waivers or management absorptions	%	0.15	0.15	0.06	0.03
Trading expense ratio ⁽³⁾	%	—	—	—	—
Portfolio turnover rate ⁽⁴⁾	%	44.60	156.33	5.29	1.82
Net asset value per unit	\$ 10.56	10.52	10.98	11.08	10.66

⁽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

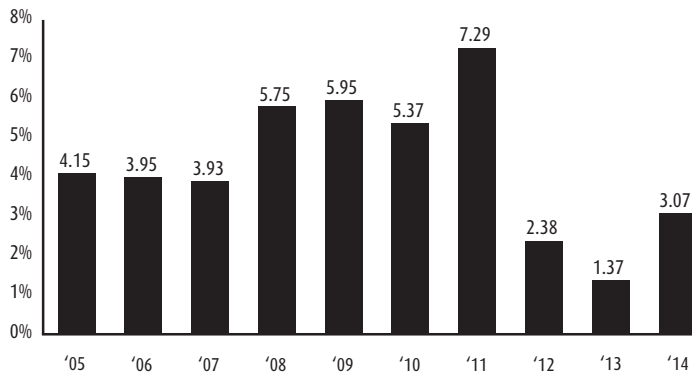
General

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.



Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the FTSE TMX Canada Short Term Bond Index and the FTSE TMX Canada Universe Bond Index. The FTSE TMX Canada Short Term 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 TMX 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 Harris Canadian Short-Term Bond Portfolio ^{†*}	3.07	2.27	3.88	4.31
FTSE TMX Canada Short Term Bond Index ^{**}	3.06	2.27	3.00	3.84
FTSE TMX Canada Universe Bond Index	8.79	3.65	5.45	5.32

[†]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 TMX Canada Short Term Bond Index (100%), and prior to January 25, 2013 it was a blend of 50% FTSE TMX Canada Short Term Bond Index and 50% FTSE TMX Canada Mid Term 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.

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Summary of Investment Portfolio

as at December 31, 2014

Portfolio Allocation	% of Net Asset Value
Government Bonds	46.3
Corporate Bonds	35.1
Provincial Bonds	15.3
Asset-Backed Securities	1.8
Cash/Receivables/Payables	0.9
Other	0.6
Total portfolio allocation	100.0

Top 25 Holdings	% of Net Asset Value
Issuer	
Government of Canada, 1.250% Sep 1, 2018	3.2
Canada Housing Trust, Mortgage Bonds, Series 41, Secured, 2.750% Jun 15, 2016	2.9
Government of Canada, 1.250% Feb 1, 2016	2.8
Government of Canada, 1.500% Feb 1, 2017	2.5
Government of Canada, 1.500% Mar 1, 2017	2.2
Canada Housing Trust, Mortgage Bonds, Series 59, Secured, 1.950% Jun 15, 2019	2.2
Government of Canada, 2.000% Jun 1, 2016	2.0
Government of Canada, Unsecured, 1.750% Sep 1, 2019	2.0
Government of Canada, 1.000% Aug 1, 2016	1.9
Canada Housing Trust, Mortgage Bonds, Series 49, Secured, 1.700% Dec 15, 2017	1.9
Government of Canada, 3.750% Jun 1, 2019	1.9
Government of Canada, 1.750% Mar 1, 2019	1.7
Government of Canada, 1.000% May 1, 2016	1.7
Government of Canada, 1.500% Sep 1, 2017	1.6
Province of Ontario, 4.300% Mar 8, 2017	1.6
Canada Housing Trust, Mortgage Bonds, Series 43, Secured, 1.850% Dec 15, 2016	1.5
Canada Housing Trust, Mortgage Bonds, Series 46, Secured, 2.050% Jun 15, 2017	1.5
Canada Housing Trust, Mortgage Bonds, Series 54, Secured, 2.050% Jun 15, 2018	1.4
Canada Housing Trust, Mortgage Bonds, Series 51, Secured, 1.750% Jun 15, 2018	1.4
Province of Quebec, Unsecured, Notes, 4.500% Dec 1, 2019	1.3

Top 25 Holdings	% of Net Asset Value
Issuer	
Canada Housing Trust, Mortgage Bonds, Series 56, Secured, 2.350% Dec 15, 2018	1.3
Province of Ontario, 4.400% Jun 2, 2019	1.2
Government of Canada, 2.750% Sep 1, 2016	1.2
Canada Housing Trust, Mortgage Bonds, Series 61, Secured, 2.000% Dec 15, 2019	1.2
Canada Housing Trust, Mortgage Bonds, Series 23, Secured, 4.100% Dec 15, 2018	1.1
Top holdings as a percentage of total net asset value	45.2
Total Net Asset Value	\$2,537,807,884

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

Manager

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This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Portfolio may invest and the risks detailed from time to time in the simplified prospectus of the BMO Private Portfolios (formerly the BMO Harris Private Portfolios). We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Portfolio, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Private Investment Counsel Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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