

Annual Management Report of Fund Performance

BMO Harris Diversified Yield 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 the sub-advisor of BMO Harris Diversified Yield Portfolio (the "Portfolio").

Investment Objective and Strategies

The Portfolio's investment objective is to provide income by investing primarily in a diversified portfolio of Canadian securities.

To seek to achieve the Portfolio's objectives, the sub-advisor employs bottom-up security selection that is based on fundamental analyses that consider each company's projected earnings and cash flow growth, payout ratios, business fundamentals, balance sheet strength, credit ratings, relative valuation considerations and management quality. In order to help ensure the Portfolio is not overly sensitive to a particular line of business, the Portfolio will be diversified across various industries.

The Portfolio may invest in, but is not limited to investing in, common equities, preferred equity, income trusts, royalty trusts, real estate investment trusts, convertible debentures, and fixed income securities. The Portfolio may use derivative instruments, primarily options, to attempt to generate income in the Portfolio.

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 8.97%, 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

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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 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 available in sectors such as Consumer Staples.

Canada's S&P/TSX Capped REIT Index, representing the real estate investment trust ("REIT") marketplace, returned 10.4% during the year, almost matching the S&P/TSX. The gradual decline in bond yields was quite supportive of the REIT market from several perspectives. Specifically, low rates are positive for corporate funding and the yield offered by REITs is an attractive alternative for those seeking a yield component to their investment portfolio.

Canadian preferred equities, as measured by the S&P/TSX Preferred Share Index, returned 6.8%, underperforming the S&P/TSX. Almost all the positive returns in this asset class were delivered during the first half of the year when interest rate sensitive securities, including preferred shares, were up sharply. Despite the widespread expectation that bond yields would gradually increase during the year, rates actually declined. As a result, the more interest rate sensitive sub-components of the preferred share market, such as straight perpetual preferred shares, performed substantially better than the less interest rate sensitive floating preferred shares.

The Portfolio's preferred share holdings detracted from the Portfolio's performance as they underperformed equity markets over the period. Stock selection, primarily in the Consumer Discretionary and Industrials sectors, also detracted from the Portfolio's performance. Significant individual detractors included Baytex Energy Corp., which experienced a significant drop in its share price as a result of falling energy prices, and

Aimia Inc., which had slower-than-expected growth. Additionally, the Portfolio's relative performance suffered because it did not hold Valeant Pharmaceuticals International, Inc., which performed strongly and has a large weight in the S&P/TSX.

Contributing to the Portfolio's performance during the period was stock selection in the Energy and Financials sectors and a significantly underweight allocation to the Materials sector. Significant individual contributors to performance included Inter Pipeline Ltd. and Keyera Corp., both of which benefited from greater-than-expected project announcements. The Portfolio's performance also benefited from not investing in Barrick Gold Corporation securities, as the stock faced weak gold prices and various operational challenges.

During the period, the sub-advisor eliminated the Portfolio's positions in Brookfield Office Properties Inc. and Corus Entertainment Inc. New positions were initiated in preferred shares of Enbridge Inc., Brookfield Asset Management Inc., Canadian Imperial Bank of Commerce, Manulife Financial Corporation and Pembina Pipeline Corporation. The sub-advisor also increased the Portfolio's existing holdings in Brookfield Asset Management Inc., Thomson Reuters Corporation and Brookfield Infrastructure Partners L.P. over the period.

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 believes that the world's major economies are still struggling with deleveraging and deflation, which is hampering overall economic recovery. Despite concerns about sharp declines in oil prices, decreasing global bond yields and various geopolitical tensions, the sub-advisor maintains a positive outlook for 2015 and expects positive returns for Canadian stocks. Economic growth in the United States is expected to continue, led by stronger consumer and corporate spending and accommodative monetary policy from the U.S. Federal Reserve Board. The sub-advisor expects that the Canadian economy will benefit from a weaker Canadian dollar and its trade ties to a strengthening U.S. economy, but declining oil prices

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are expected to weigh on equity earnings. The sub-advisor believes that market volatility will continue in the coming year, but low growth, stable inflation and low interest rates should be supportive of dividend stocks. With respect to preferred shares, the Portfolio is positioned to take advantage of any moderate rise in interest rates.

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 Diversified Yield 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.

Buying and Selling Securities

Investing in Equity and/or Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc.

During the period, the Manager relied on an approval and standing instruction provided by the Portfolio’s Independent Review Committee (“IRC”) to enable the Portfolio to make an investment 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.,

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an affiliate of the Manager, acted as an underwriter in the distribution (each investment, 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 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 of BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc., (ii) represents the business judgement of the Manager, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

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	235	556
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	18	32

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	268	287

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	\$ 17.39	16.11	15.51	15.05	13.25
Increase (decrease) from operations:					
Total revenue	\$ 0.68	0.64	0.62	0.64	0.65
Total expenses ⁽²⁾	\$ (0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Realized gains (losses) for the period	\$ 0.35	0.69	0.11	0.02	0.11
Unrealized gains (losses) for the period	\$ 0.56	0.57	0.55	0.47	1.80
Total increase (decrease) from operations ⁽³⁾	\$ 1.58	1.89	1.27	1.11	2.54
Distributions:					
From income (excluding dividends)	\$ 0.03	0.03	0.03	0.08	0.26
From dividends	\$ 0.64	0.62	0.55	0.51	0.34
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.04	0.06	0.08	0.06	0.09
Total Annual Distributions ⁽⁴⁾	\$ 0.71	0.71	0.66	0.65	0.69
Net assets, end of period	\$ 18.23	17.39	16.11	15.51	15.05

⁽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⁾	\$ 1,586,670	1,483,501	1,465,191	1,257,115	996,966
Number of units outstanding (000s) ⁽¹⁾	87,017	85,316	90,795	80,854	66,125
Management expense ratio ⁽²⁾	%	0.03	0.04	0.04	0.05
Management expense ratio before waivers or management absorptions	%	0.15	0.16	0.06	0.05
Trading expense ratio ⁽³⁾	%	0.01	0.04	0.03	0.06
Portfolio turnover rate ⁽⁴⁾	%	7.72	15.42	3.80	7.80
Net asset value per unit	\$ 18.23	17.39	16.14	15.55	15.08

⁽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.

⁽⁴⁾ 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.

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Past Performance

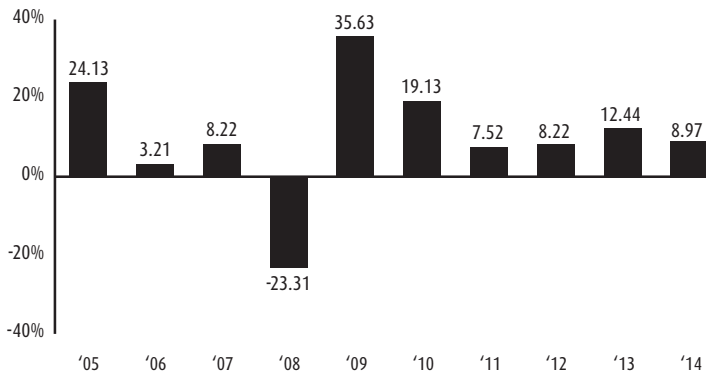
General

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 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 Diversified Yield Portfolio [†]	8.97	9.86	11.18	9.37
S&P/TSX Composite Index	10.55	10.22	7.53	7.60

[†]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	26.1	Issuer	
Energy	18.1	Cash/Receivables/Payables	4.7
Preferred Shares – Fixed/Floaters	13.7	Toronto-Dominion Bank, The,	4.4
Industrials	8.8	Bank of Nova Scotia	3.8
Preferred Shares – Straight	7.4	Brookfield Asset Management Inc., Class A	3.6
Consumer Discretionary	6.6	Keyera Corp.	3.0
Cash/Receivables/Payables	4.7	Enbridge Inc.	2.9
Utilities	4.6	Inter Pipeline Ltd.	2.9
Telecommunication Services	3.1	Royal Bank of Canada	2.8
Consumer Staples	3.0	Brookfield Infrastructure Partners L.P.	2.8
Preferred Shares – Floating Perpetual	2.2	Thomson Reuters Corporation	2.8
Preferred Shares – Retractable	1.0	Intact Financial Corporation	2.7
Other	0.7	Cineplex Inc.	2.3
Total portfolio allocation	100.0	Progressive Waste Solutions Ltd.	2.3
		Loblaw Companies Limited	2.2
		Vermilion Energy Inc.	2.2
		BCE Inc.	2.1
		RioCan REIT	1.9
		Brookfield Renewable Energy Partners L.P.	1.8
		ARC Resources Ltd.	1.6
		Aimia Inc.	1.5
		Crescent Point Energy Corp.	1.4
		Manulife Financial Corporation	1.3
		Canadian National Railway Company	1.3
		TransCanada Corporation	1.3
		Morneau Shepell Inc.	1.3
		Top holdings as a percentage of total net asset value	60.9
		Total Net Asset Value	\$1,586,669,866

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

Manager

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