

# Annual Management Report of Fund Performance

## BMO Harris U.S. Equity Portfolio

For the period ended December 31, 2012

This annual management report of fund performance contains financial highlights but does not contain 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@bmonb.com](mailto:contact.centre@bmonb.com), by writing to us at BMO Harris Investment Management Inc., 1 First Canadian Place, 100 King St. W., 41st Floor, Toronto, Ontario, M5X 1H3. Electronic copies are available by visiting our website at [www.bmoharrisprivatebanking.com](http://www.bmoharrisprivatebanking.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 Corp. ("BMO AM Corp." or the "sub-advisor"), as the sub-advisor of BMO Harris U.S. Equity Portfolio (the "Portfolio").*

### Investment Objective and Strategies

The Portfolio's investment objective is to provide long term capital appreciation by investing primarily in larger capitalization U.S. equity securities.

To seek to achieve the Portfolio's objectives, the sub-advisor uses a disciplined investment process designed to maintain a diversified portfolio of equity securities of higher quality companies considered to be undervalued and that represent stronger than average growth characteristics.

### 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

For the 12-month period ended December 31, 2012, the Portfolio returned 11.75% in C\$ (14.45% in US\$), after expenses. The Portfolio's benchmark is the S&P 500

Index, which generated a 13.48% total return in C\$ (16.00% in US\$) over the same 12-month period.

U.S. equity markets posted gains over 2012 as low interest rates prompted investors to seek assets that they perceived as "higher risk." Equity markets were volatile later in the period as a result of uncertainty regarding the results of the U.S. presidential election and the "fiscal cliff," which many feared would lead to increased taxes and spending cuts in 2013. The Financials sector performed relatively well as investors believed the fundamentals of many large financial companies had improved.

The Portfolio underperformed the benchmark over the period. The Portfolio's underweight position in the Financials sector and its security selection in the Information Technology sector detracted from its performance. From an individual securities perspective, detractors from the Portfolio's performance included Dell Inc.; Humana Inc.; Intel Corporation; and Tyson Foods, Inc. Both Dell Inc. and Intel Corporation reported relatively poor results as a result of a slowdown in the desktop computer market.

The Portfolio's overweight positions in the Consumer Discretionary and Health Care sectors, and its security selection in the Energy sector, contributed to its performance over the period. In particular, the shares of a number of the oil refining companies held by the Portfolio posted gains as a result of the low costs and high profit margins of many U.S. oil refiners. From an individual securities perspective, contributors to

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Portfolio performance included Tesoro Corporation; Discover Financial Services; Time Warner Cable Inc.; Dillard's, Inc.; and CBS Corporation. In addition to benefiting from the strong fundamentals of the refining industry, Tesoro Corporation's share price gained in value as the company acquired a refinery from international oil and gas company BP plc during the period at a relatively low price.

During the period, the sub-advisor sold the Portfolio's positions in ConocoPhillips Company, Dell Inc., Freeport-McMoRan Copper & Gold Inc., General Electric Company and AGCO Corporation. The sub-advisor believed these companies' fundamental characteristics had weakened.

The sub-advisor took positions in Cisco Systems, Inc.; American International Group, Inc.; PPG Industries, Inc.; Lockheed Martin Corporation; and United Therapeutics Corporation. Cisco Systems, Inc., Lockheed Martin Corporation, and United Therapeutics were purchased as a result of the sub-advisor's belief that these companies' valuations were relatively attractive. PPG Industries, Inc. and American International Group, Inc. were purchased because the sub-advisor believed these companies' fundamental characteristics were relatively strong and improving.

*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 U.S economic growth will be relatively weak in the near term as a result of higher taxes, as well as lower government and consumer spending. The sub-advisor believes that equities are attractively valued, and believes that bonds appear unattractive as a result of their current yields. As such, the sub-advisor believes that investors will prefer equities over fixed income securities in the near term, and that equity markets will perform strongly as a result. The sub-advisor will continue to focus on investing in stocks that the sub-advisor believes are inexpensive and display strong fundamental characteristics, such as high expected growth and profitability.

### *Future Accounting Standards*

Canadian investment entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, for fiscal years beginning on or after January 1, 2014. For reporting periods commencing January 1, 2014, the Portfolio will adopt IFRS as the basis for preparing its financial statements. The Portfolio will report its financial results for the interim period ending June 30, 2014, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013 (transition date). A summary of the significant standards impacting the Portfolio under IFRS are outlined below.

Based on the Portfolio's analysis to date, the more significant accounting changes that will result from its adoption of IFRS will be in the areas of fair valuation, cash flow presentation, consolidation of investments and classification of net assets representing unitholders' equity. The differences described in the sections that follow are based on Canadian generally accepted accounting principles ("Canadian GAAP") and IFRS that are in effect as of this date. This should not be considered a comprehensive list of the main accounting changes when the Portfolio adopts IFRS.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement, which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the net assets per unit for financial statement reporting purposes compared to current standards, and may also result in the elimination of the differences between the net asset per unit and Net Asset Value per Unit ("NAVPU") at the financial statement reporting date. The Manager has not identified any changes that will impact NAVPU as a result of the transition to IFRS.

## BMO Harris U.S. Equity Portfolio

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Where the Portfolio holds controlling interest in an investment, it is the Manager's expectation that the Portfolio will qualify as an Investment Entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Portfolio will not be required to consolidate its investments, but rather to fair value its investments regardless of whether those investments are controlled. However, where in certain circumstances the Portfolio does not have all the typical characteristics of an investment entity, even though it qualifies as an investment entity, it may be required to make additional financial statements disclosures on its investments in accordance with IFRS 12 Disclosure of Interests in Other Entities.

In addition to the financial statements currently presented for the Portfolio, Statement of Cash Flows will now be included in the financial statements in accordance with the requirement of IFRS 1 First-time Adoption of IFRS, and prepared in line with IAS 7 Statement of Cash Flows.

The criteria contained within IAS 32 Financial Instruments: Presentation may require unitholders' equity to be classified as a liability within the Portfolio's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Portfolio's unitholder structure to confirm classification.

### 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").

#### *Portfolio Manager*

BHIMI has hired BMO Asset Management Corp. ("BMO AM Corp.") a related party, to provide investment advice and make investment decisions for the Portfolio's investment portfolio. BMO AM Corp. receives an investment advisory fee based on assets under management that is paid quarterly. BMO AM Corp. is paid by BHIMI.

#### *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, receives 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 the BHIMI *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. 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 Asset Management Inc. ("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:

	2012 (\$000s)	2011 (\$000s)
Unitholder Services	272	273

### Management Fee

There is no management fee charged to the Portfolio. The trustee receives an annual fee from investors for the wealth management service offered by BMO Financial Group.

## BMO Harris U.S. 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					
	2012	2011	2010	2009	2008	
Net assets, beginning of period	\$	11.22	10.65	9.82	9.79	13.09
<b>Increase (decrease) from operations:</b>						
Total revenue	\$	0.22	0.17	0.13	0.15	0.20
Total expenses	\$	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)
Realized gains (losses) for the period	\$	0.02	0.53	0.05	(1.12)	(2.28)
Unrealized gains (losses) for the period	\$	1.08	0.04	0.80	1.27	(1.25)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$</b>	<b>1.30</b>	<b>0.72</b>	<b>0.96</b>	<b>0.27</b>	<b>(3.36)</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$	0.00	0.00	—	—	—
From dividends	\$	0.19	0.17	0.11	0.13	0.20
From capital gains	\$	—	—	—	—	—
Return of capital	\$	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$</b>	<b>0.19</b>	<b>0.17</b>	<b>0.11</b>	<b>0.13</b>	<b>0.20</b>
<b>Net assets, end of period</b>	<b>\$</b>	<b>12.35</b>	<b>11.22</b>	<b>10.65</b>	<b>9.82</b>	<b>9.79</b>

<sup>(1)</sup> This information is derived from the Portfolio's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for Portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</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>(3)</sup> Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

Ratios and Supplemental Data	Years ended December 31					
	2012	2011	2010	2009	2008	
Total net asset value (000s) <sup>(1)</sup>	\$	738,655	620,756	586,020	442,912	320,379
Number of units outstanding (000s) <sup>(1)</sup>		59,827	55,317	55,010	45,097	32,708
Management expense ratio <sup>(2)</sup>	%	0.06	0.08	0.09	0.09	0.08
Management expense ratio before waivers or management absorptions	%	0.14	0.08	0.09	0.09	0.08
Trading expense ratio <sup>(3)</sup>	%	0.07	0.09	0.12	0.21	0.13
Portfolio turnover rate <sup>(4)</sup>	%	38.03	64.95	64.11	83.27	70.64
Net asset value per unit	\$	12.35	11.22	10.65	9.82	9.80

<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 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.

# BMO Harris U.S. Equity Portfolio

## Past Performance

### General

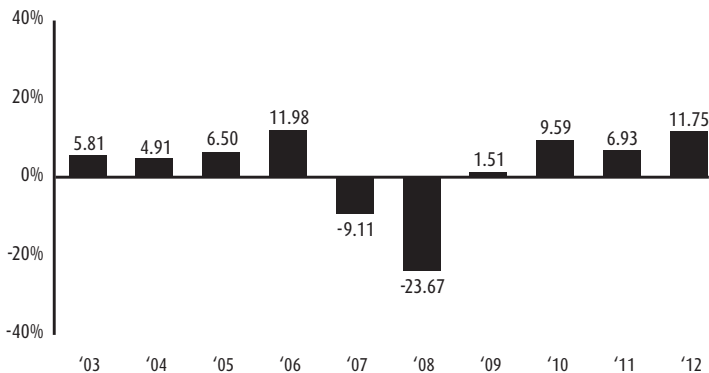
The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were reinvested in additional units of the Portfolio and is based on the net asset value of the Portfolio.

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.

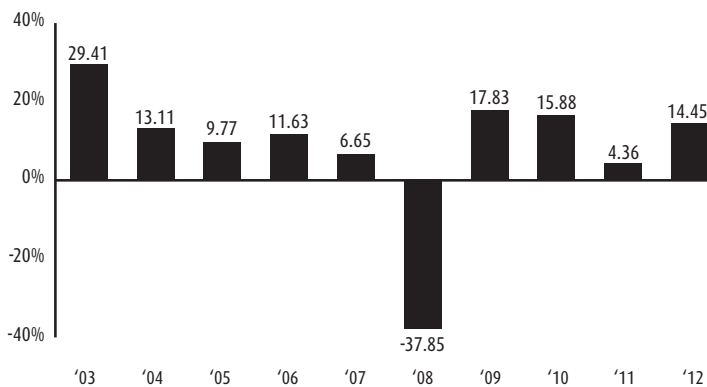
### Year-by-Year Returns

The following bar chart(s) show the performance for each of the financial years shown and illustrates how the performance has changed from year to year. The bar chart(s) show 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.

#### BMO Harris U.S. Equity Portfolio (C\$)



#### BMO Harris U.S. Equity Portfolio (US\$)



### Annual Compound Returns

These charts compare the historical annual compound returns of the Portfolio with the S&P 500 Composite Index, which reflects changes in the performance of 500 widely-held U.S. common stocks.

	1 yr %	3 yrs %	5yrs %	10yrs %
BMO Harris U.S. Equity Portfolio <sup>†</sup>	11.75	9.40	0.29	2.02
S&P 500 Index (C\$)	13.48	9.02	1.80	2.26

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

	1 yr %	3 yrs %	5yrs %	10yrs %
BMO Harris U.S. Equity Portfolio <sup>†</sup> (US\$)	14.45	11.44	0.27	6.84
S&P 500 Index (US\$)	16.00	10.87	1.66	7.10

<sup>†</sup>The Portfolio's return is after the deduction of expenses, while the benchmarks do 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.*

## BMO Harris U.S. Equity Portfolio

### Summary of Investment Portfolio

as at December 31, 2012

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Information Technology	16.9	<b>Issuer</b>	
Financials	15.7	Exxon Mobil Corporation	4.5
Health Care	15.1	Apple Inc.	4.2
Consumer Discretionary	13.8	Chevron Corporation	3.7
Energy	11.8	Pfizer Inc.	3.2
Consumer Staples	8.8	Microsoft Corporation	3.1
Industrials	5.7	Philip Morris International Inc.	2.9
Materials	5.5	International Business Machines Corporation	2.7
Utilities	3.8	Cash/Receivables/Payables	2.5
Cash/Receivables/Payables	2.5	Amgen Inc.	2.5
Other	0.4	Cisco Systems, Inc.	2.5
<b>Total portfolio allocation</b>	<b>100.0</b>	Eli Lilly and Company	2.4
		CBS Corporation, Class B	2.2
		American International Group, Inc.	2.2
		Time Warner Cable	2.2
		CF Industries Holdings, Inc.	2.1
		Tesoro Corporation	2.1
		Discover Financial Services	2.1
		PPG Industries, Inc.	2.0
		Wal-Mart Stores, Inc.	2.0
		DIRECTV	2.0
		Ameriprise Financial, Inc.	1.9
		UnitedHealth Group Incorporated	1.9
		Travelers Companies Inc., The,	1.9
		Symantec Corporation	1.9
		Lockheed Martin Corporation	1.8
		<b>Top holdings as a percentage of net asset value</b>	<b>62.5</b>
		<b>Total Net Asset Value</b>	<b>\$738,655,251</b>

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

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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 BMO Harris Private Portfolios’ simplified prospectus. 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 Harris Investment Management 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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