

# Annual Management Report of Fund Performance

## BMO Harris Canadian Short-Term Bond Portfolio

For the period ended December 31, 2013

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 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.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 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.

#### Results of Operations

Effective January 25, 2013, the Portfolio's investment strategies changed to permit the sub-advisor to select fixed income securities in reference to the characteristics of a widely recognized Canadian short-term bond index. In conjunction with this change, the Portfolio's benchmark changed to the DEX Short Term Bond Index (100%) from its previous benchmark, which was made up of the DEX Short Term Bond Index (50%) and the DEX Mid Term Bond Index (50%) (the "blended benchmark"). In addition, the Portfolio's name changed from BMO Harris Canadian Bond Income Portfolio to its current name.

Over the 12-month period ended December 31, 2013, the Portfolio returned 1.37%, after expenses. The blended benchmark generated a 0.56% total return over the 12-month period. The DEX Short Term Bond Index's total return was 1.74% over the same 12-month period.

In the first half of the period, the U.S. Federal Reserve Board (the "Fed") indicated that it could begin to reduce its quantitative easing program (monetary policy used by the Fed to increase money supply). Bonds and dividend-paying equities declined as a result. The Canadian and U.S. yield curves steepened, and yields for bonds with a term to maturity of three years or longer rose. Broader equity markets also declined somewhat, but recovered and rose through the rest of the period. In December, the Fed indicated that the reduction would begin in January 2014. Investors took this as an indication that the economy was improving, and equity markets rallied, while fixed income markets continued to struggle.

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Meanwhile, equity market volatility and global macroeconomic risk remained low over the period, contributing to a further rise in bond yields. Corporate credit spreads (the incremental yield on corporate bonds versus Government of Canada bonds of similar maturity) in most areas of the Canadian bond market tightened as a result of the stronger macroeconomic environment. Both mid- and long-term provincial bond spreads also tightened, while short-term provincial bond spreads widened. Rising interest rates were also negative for bond markets, particularly for bonds with longer-term maturities. Given the improvement in macroeconomic conditions, corporate bonds outperformed government bonds, and given rising interest rates, shorter-term bonds outperformed longer-term bonds.

The Portfolio underperformed the DEX Short Term Bond Index over the period. The Portfolio's federal bond holdings detracted from performance. The Portfolio's corporate bond holdings contributed to performance. Securities purchased during the period reflected changes in the Canadian short-term bond market.

*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 corporate bonds will continue to outperform government bonds, and anticipates a further narrowing of credit spreads, should economic activity continue to improve. As a result, the sub-advisor favours corporate bonds over more interest-rate sensitive government bonds. The sub-advisor also expects the yield curve to steepen steadily, and shorter-term bonds to outperform mid- and long-term bonds. The sub-advisor believes that much of the effects of the Fed's reduction to its quantitative easing program have already been priced into the market. The sub-advisor therefore does not anticipate a sharp rise in bond yields unless the Fed increases the pace of this reduction, but believes that is unlikely, unless there is a significant decline in unemployment.

The sub-advisor believes the improving macroeconomic environment and an extended period of low equity market volatility could further challenge fixed income markets, as investors would continue to move toward

equities. This could cause bond yields to rise too quickly, in the sub-advisor's view. The sub-advisor will continue to position the Portfolio such that it reflects the characteristics of the Canadian short-term bond market.

### *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. As a result, 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").

The differences between the Portfolio's accounting policies under Canadian Generally Accepted Accounting Principles ("GAAP") and IFRS requirements will result in measurement and recognition differences on transition to IFRS. The net impact of these differences will be recorded in the increase/decrease in net assets attributable to redeemable unitholders.

### *Significant Accounting Changes Resulting from Our Adoption of IFRS*

The main accounting changes listed below should not be considered a comprehensive list of impacts of adopting IFRS, but rather the most significant of certain key changes.

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.

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While IFRS does not require interest income to be disclosed for debt instruments measured at Fair Value through Profit or Loss, when interest income is disclosed, IFRS requires that the effective interest rate method of calculating accrued interest be used rather than the straight-line amortization method. The Manager is assessing the impact of this change to the Portfolio's financial statements. The Manager has not identified any changes that will impact NAVPU as a result of the transition to IFRS.

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 hold the investments at Fair Value through Profit or Loss regardless of whether those investments are controlled. If the Portfolio fair values the investments it controls, it may be required to make additional financial statement disclosures on its controlled investments in accordance with IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12"). IFRS 12 also requires additional disclosures if the Portfolio is determined to qualify as an investment entity without having all of the typical characteristics of an investment entity.

The criteria contained within IAS 32 Financial Instruments: Presentation ("IAS 32") will result in the classification of the unitholders' equity as a liability within the Portfolio's Statement of Net Assets, unless all conditions required for equity classification are met. The Manager is currently assessing the Portfolio's unitholder structure to determine classification under IAS 32.

Under IFRS, cash flows statement is one of the primary financial statements required to be presented. The Portfolio will therefore be presenting cash flows statement in its set of financial statements in accordance with the presentation requirements in IAS 7 Statement of Cash Flows.

### 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").

#### *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 that 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 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").

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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, 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 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. 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, 2013 (\$000s)</b>	<b>Period ended Dec. 31, 2012 (\$000s)</b>
Unitholder Services	256	255

### 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 Canadian Short-Term Bond 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				
	2013	2012	2011	2010	2009
Net assets, beginning of period	\$ 10.98	11.08	10.66	10.51	10.36
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.32	0.36	0.35	0.41	0.45
Total expenses	\$ (0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Realized gains (losses) for the period	\$ 0.31	(0.00)	(0.02)	0.05	0.01
Unrealized gains (losses) for the period	\$ (0.48)	(0.10)	0.46	0.10	0.11
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ 0.15</b>	<b>0.26</b>	<b>0.79</b>	<b>0.55</b>	<b>0.57</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ 0.32	0.36	0.35	0.41	0.46
From dividends	\$ —	—	—	—	—
From capital gains	\$ 0.25	—	—	—	—
Return of capital	\$ 0.03	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$ 0.60</b>	<b>0.36</b>	<b>0.35</b>	<b>0.41</b>	<b>0.46</b>
<b>Net assets, end of period</b>	<b>\$ 10.52</b>	<b>10.98</b>	<b>11.08</b>	<b>10.66</b>	<b>10.51</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				
	2013	2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 2,023,678	1,801,250	1,775,435	1,295,450	1,152,943
Number of units outstanding (000s) <sup>(1)</sup>	192,280	164,073	160,302	121,495	109,709
Management expense ratio <sup>(2)</sup>	%	0.03	0.03	0.03	0.03
Management expense ratio before waivers or management absorptions	%	0.15	0.06	0.03	0.03
Trading expense ratio <sup>(3)</sup>	%	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	%	156.33	5.29	1.82	34.85
Net asset value per unit	\$ 10.52	10.98	11.08	10.66	10.51

<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. 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.

<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 Canadian Short-Term Bond Portfolio

## Past Performance

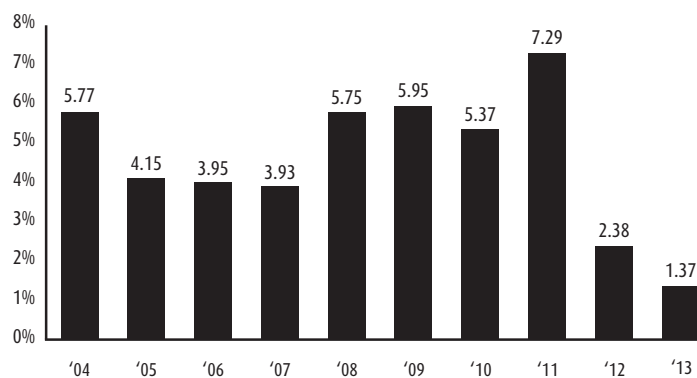
### General

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 DEX Short Term Bond Index (100%), the blended benchmark made up of the DEX Short Term Bond Index (50%) and the DEX Mid Term Bond Index (50%), and the DEX Universe Bond Index. The benchmark for the Portfolio has been changed from the blended benchmark to the DEX Short Term Bond Index to align with the Portfolio's current strategies. The DEX Short Term Bond Index is a measure of total return of Canadian bonds which have a term to maturity of one to five years, the DEX Mid Term Bond Index is a measure of total return of Canadian bonds which have a maturity of five to ten years, and the DEX 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 %	5yrs %	10yrs %
BMO Harris Canadian Short-Term Bond Portfolio**	1.37	3.65	4.45	4.58
DEX Short Term Bond Index (new)**	1.74	2.79	3.29	4.04
Blended benchmark**	0.56	3.83	4.63	4.91
DEX Universe Bond Index	-1.19	3.93	4.78	5.16

†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 DEX Short Term Bond Index (100%), and prior to January 25, 2013 it was a blend of 50% DEX Short Term Bond Index and 50% DEX 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.*

## BMO Harris Canadian Short-Term Bond Portfolio

### Summary of Investment Portfolio

as at December 31, 2013

Portfolio Allocation	% of Net Asset Value
Government Bonds	48.2
Corporate Bonds	35.2
Provincial Bonds	12.9
Asset Backed Securities	2.2
Other	0.9
Cash/Receivables/Payables	0.6
<b>Total portfolio allocation</b>	<b>100.0</b>

Top 25 Holdings	% of Net Asset Value
<b>Issuer</b>	
Government of Canada, 1.500% Aug 1, 2015	4.6
Government of Canada, 1.250% Feb 1, 2016	4.2
Government of Canada, 1.500% Mar 1, 2017	4.2
Government of Canada, 1.250% Sep 1, 2018	3.8
Canada Housing Trust, Mortgage Bonds, Series 43, Secured, 1.850% Dec 15, 2016	3.1
Government of Canada, 1.000% Feb 1, 2015	2.7
Government of Canada, 1.500% Feb 1, 2017	2.7
Government of Canada, 4.500% Jun 1, 2015	2.7
Government of Canada, 2.000% Jun 1, 2016	2.6
Canada Housing Trust, Mortgage Bonds, Series 33, Secured, 2.950% Mar 15, 2015	2.5
Government of Canada, 1.000% Aug 1, 2016	2.2
Province of Ontario, 4.300% Mar 8, 2017	2.0
Canada Housing Trust, Mortgage Bonds, Series 49, Secured, 1.700% Dec 15, 2017	2.0
Canada Housing Trust, Mortgage Bonds, Series 39, Secured, 2.750% Dec 15, 2015	2.0
Canada Housing Trust, Mortgage Bonds, Series 56, Secured, 2.350% Dec 15, 2018	1.9
Canada Housing Trust, Mortgage Bonds, Series 46, Secured, 2.050% Jun 15, 2017	1.8
Province of Quebec, Unsecured, 5.000% Dec 1, 2015	1.6
Canada Housing Trust, Mortgage Bonds, Series 54, Secured, 2.050% Jun 15, 2018	1.5
Province of Quebec, Unsecured, Debentures, 4.500% Dec 1, 2016	1.5
Province of Ontario, Unsecured, 1.900% Sep 8, 2017	1.5

Top 25 Holdings	% of Net Asset Value
<b>Issuer</b>	
Canada Housing Trust, Mortgage Bonds, Series 23, Secured, 4.100% Dec 15, 2018	1.3
Province of Ontario, Unsecured, 2.100% Sep 8, 2018	1.2
Canada Housing Trust, Mortgage Bonds, Series 51, Secured, 1.750% Jun 15, 2018	1.1
Government of Canada, Unsecured, 1.000% May 1, 2015	1.0
Municipal Finance Authority of British Columbia, Series DQ, Unsecured, Debentures, 5.100% Nov 20, 2018	0.9
<b>Top holdings as a percentage of net asset value</b>	<b>56.6</b>
<b>Total Net Asset Value</b>	<b>\$2,023,677,622</b>

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

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®“BMO (M-bar roundel symbol) Harris Private Banking” is a registered trade-mark of Bank of Montreal, used under licence. BMO Harris Private Banking is comprised of Bank of Montreal, BMO Harris Investment Management Inc., and BMO Trust Company. Banking services are offered through Bank of Montreal. Investment management services are offered through BMO Harris Investment Management Inc., an indirect subsidiary of Bank of Montreal. Estate, trust, planning, administration and custodial services are offered through BMO Trust Company, a wholly owned subsidiary of Bank of Montreal.

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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