

# Annual Financial Statements

BMO Harris Private Portfolios

December 31, 2013

**BMO Harris Diversified Yield Portfolio**

# Independent Auditor's Report

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## To the Unitholders of:

BMO Harris Canadian Money Market Portfolio  
BMO Harris Canadian Special Growth Portfolio  
BMO Harris U.S. Equity Portfolio  
BMO Harris International Equity Portfolio  
BMO Harris U.S. Growth Portfolio  
BMO Harris Canadian Income Equity Portfolio  
BMO Harris Canadian Short-Term Bond Portfolio  
BMO Harris Canadian Growth Equity Portfolio

BMO Harris Canadian Conservative Equity Portfolio  
BMO Harris Canadian Mid-Term Bond Portfolio  
BMO Harris Canadian Corporate Bond Portfolio  
BMO Harris Diversified Yield Portfolio  
BMO Harris Emerging Markets Equity Portfolio  
BMO Harris U.S. Special Equity Portfolio  
*(collectively the "Portfolios")*

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We have audited the accompanying financial statements of each of the Portfolios, which comprise the statement of investment portfolio as at December 31, 2013 and the statements of net assets as at December 31, 2013 and 2012 and the statements of operations and changes in net assets for the years then ended, and the related notes, which comprise a summary of significant accounting policies.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements of each of the Portfolios in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements of each of the Portfolios based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the

risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in each of our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements of each of the Portfolios present fairly, in all material respects, the financial position of each of the Portfolios as at December 31, 2013 and December 31, 2012 and the results of each of their operations and the changes in each of their net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants,  
Licensed Public Accountants  
Toronto, Ontario  
March 27, 2014

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF NET ASSETS

*(in thousands of Canadian dollars, except per unit data)*

As at	December 31, 2013	December 31, 2012
<b>Assets</b>		
Cash	34,695	61,671
Investments at fair value	1,441,435	1,395,396
Income receivable	4,144	5,145
Subscriptions receivable	2,325	667
<b>Total assets</b>	<b>1,482,599</b>	<b>1,462,879</b>
<b>Liabilities</b>		
Accrued expenses	119	95
Redemptions payable	733	433
<b>Total liabilities</b>	<b>852</b>	<b>528</b>
Net assets representing unitholders' equity	1,481,747	1,462,351
Net assets per unit	\$ 17.37	\$ 16.11

*The accompanying notes are an integral part of these financial statements.*

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF OPERATIONS

*(in thousands of Canadian dollars, except per unit data)*

For the periods ended	December 31, 2013	December 31, 2012
<b>Investment Income</b>		
Dividends	51,503	48,664
Interest	740	1,572
Distributions from investment trust units	5,432	3,173
	57,675	53,409
<b>Expenses</b>		
Sub-advisory fees	1,831	296
Audit fees	33	21
Independent Review Committee fees	4	3
Custodian fees	23	21
Legal and filing fees	79	69
Unitholder servicing fees (note 5)	430	407
Printing and stationery fees	21	16
Operating expenses absorbed by the Manager	(1,831)	(296)
Commissions and other portfolio transaction costs (note 5)	556	435
	1,146	972
Net investment income for the period	56,529	52,437
Realized gain on sale of investments	62,448	9,806
Realized gain (loss) on foreign exchange	120	(36)
Change in unrealized appreciation in value of investments	52,470	47,852
Increase in net assets from operations	171,567	110,059
Increase in net assets from operations per unit (note 2)	1.90	1.27

*The accompanying notes are an integral part of these financial statements.*

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF CHANGES IN NET ASSETS

*(in thousands of Canadian dollars)*

For the periods ended	December 31, 2013	December 31, 2012
Net assets – beginning of period	1,462,351	1,254,079
Increase in net assets from operations	171,567	110,059
<b>Unit Transactions:</b>		
Proceeds from sale of units	334,641	363,554
Reinvested distributions	60,645	55,620
Amounts paid on units redeemed	(484,235)	(263,028)
Total unit transactions	(88,949)	156,146
<b>Distributions to Unitholders from:</b>		
Net investment income	(58,320)	(50,676)
Return of capital	(4,902)	(7,257)
Total distributions paid to unitholders	(63,222)	(57,933)
Net assets – end of period	1,481,747	1,462,351

*The accompanying notes are an integral part of these financial statements.*

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO

As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)

Security	Par Value (in thousands)	Cost (\$)	Fair Value (\$)
<b>Bonds &amp; Debentures</b>			
<i>Corporate Bonds &amp; Debentures – 0.3%</i>			
Churchill Corporation, The, Unsecured, Debentures, Unsubordinated, Convertible, 6.000% Jun 30, 2015	4,750	4,811	4,779
<b>Total Bonds &amp; Debentures – 0.3%</b>		<b>4,811</b>	<b>4,779</b>

Security	Number of Shares or Units	Cost <sup>+</sup> ** (\$)	Fair Value (\$)
<b>Preferred Shares</b>			
<i>Fixed/Floaters Preferreds – 13.7%</i>			
Aimia Inc., Series 1, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Mar 31, 2015, \$25.00	240,700	6,101	6,188
Bank of Nova Scotia, Series 20, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Oct 26, 2018, \$25.00	288,200	7,216	7,283
Bank of Nova Scotia, Series 22, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jan 26, 2014, \$25.00	320,200	8,130	8,111
BCE Inc., Series R, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2015, \$25.00	272,400	5,968	5,808
BCE Inc., Series Y, Cumulative, Convertible, 5-Year Rate Reset Preferred, Redeemable, Jan 27, 2014, \$25.50	178,300	3,885	3,816
Brookfield Asset Management Inc., Series 18, Class A, Cumulative, Preferred, Redeemable, Jun 30, 2014, \$25.50	667,300	12,641	12,652
Brookfield Asset Management Inc., Series 24, Class A, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 30, 2016, \$25.00	644,800	16,325	16,364
Brookfield Asset Management Inc., Series 9, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Nov 1, 2016, \$25.00	100,000	2,329	2,064
Brookfield Office Properties Inc., Series L, Class AAA, Cumulative, 5-Year Rate Reset Preferred, Exchangeable, Redeemable, Sep 30, 2014, \$25.00	401,800	10,259	10,190
Brookfield Office Properties Inc., Series P, Class AAA, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2017, \$25.00	491,800	12,326	11,543
Brookfield Renewable Power Preferred Equity Inc., Series 1, Class A, Cumulative, Preferred, Exchangeable, Perpetual, Redeemable, Apr 30, 2015, \$25.00	202,350	5,110	4,672
Canadian Imperial Bank of Commerce, Series 33, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jul 31, 2014, \$25.00	294,950	7,547	7,495

<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>\*</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>+</sup> ** (\$)	Fair Value (\$)
Enbridge Inc., Series B, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Jun 1, 2017, \$25.00	654,155	16,384	15,758
Enbridge Inc., Series D, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Mar 1, 2018, \$25.00	324,640	8,159	7,564
Enbridge Inc., Series P, Cumulative, 5-Year Rate Reset, Preferred, Redeemable, Mar 1, 2019, \$25.00	335,555	8,390	7,902
Intact Financial Corporation, Series 1, Class A, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Dec 31, 2017, \$25.00	399,800	10,060	9,683
Manulife Financial Corporation, Class 1, Series 1, Non-Cumulative, 5-Year Rate Reset, Preferred, Exchangeable, Redeemable, Sep 19, 2014, \$25.00	285,400	7,321	7,258
Manulife Financial Corporation, Class A, Series 4, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 19, 2014, \$25.00	394,700	10,175	10,073
Manulife Financial Corporation, Series 3, Non-Cumulative, 5-Year Rate Reset Preferred, Convertible, Redeemable, Jun 19, 2016, \$25.00	213,700	5,339	4,661
Royal Bank of Canada, Series AJ, Non-Cumulative, Fixed to Floating Rate Preferred, Redeemable, Feb 24, 2014, \$25.00	218,150	5,696	5,515
Royal Bank of Canada, Series AI, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 24, 2014, \$25.00	531,000	13,604	13,450
Royal Bank of Canada, Series AT, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2014, \$25.00	118,600	3,225	3,054
Toronto Dominion Bank, The, Series AC, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2014, \$25.00	283,000	7,313	7,160
Toronto Dominion Bank, The, Series AK, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2014, \$25.00	173,300	4,690	4,468
TransCanada Corporation, Series 7, Cumulative, 5-Year Rate Reset Preferred, Redeemable, Apr 30, 2019, \$25.00	410,390	10,260	10,276
		208,453	203,008
<b><i>Floating Perpetual Preferreds – 1.9%</i></b>			
Bank of Nova Scotia, Series 19, Non-Cumulative, Floating Rate, Perpetual, Preferred, Redeemable, Apr 28, 2018, \$25.00	197,000	5,083	5,106
BCE Inc., Series AD, Cumulative, Floating Rate, Perpetual, Preferred, Convertible, Redeemable, Feb 10, 2014, \$25.50	506,560	11,709	10,719
Brookfield Asset Management Inc., Series 13, Class A, Cumulative, Floating Rate, Preferred, Redeemable, Jan 27, 2014, \$25.00	150,200	2,491	2,666

<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>\*</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>++</sup> (\$)	Fair Value (\$)
Toronto Dominion Bank, The, Series T, Non-Cumulative, Floating Rate, Preferred, Perpetual, Redeemable, Jul 31, 2018, \$25.00	377,150	9,721	9,485
		29,004	27,976
<b><i>Retractable Preferreds – 2.5%</i></b>			
Brookfield Office Properties Inc., Series K, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Dec 13, 2014, \$25.33	455,400	10,105	11,758
Brookfield Office Properties Inc., Series N, Class AAA, Cumulative Exchangeable, Retractable Preferred, Redeemable, Jun 30, 2016, \$25.00	441,100	11,162	11,116
Canadian Imperial Bank of Commerce, Series 26, Non-Cumulative, Retractable Preferred, Redeemable, Jan 27, 2014, \$25.00	376,500	9,246	9,488
Manulife Financial Corporation, Series 1, Non-Cumulative, Soft Retractable Preferred, Redeemable, Jul 19, 2014, \$25.25	207,700	5,316	5,298
		35,829	37,660
<b><i>Straight Preferreds – 7.3%</i></b>			
Bank of Nova Scotia, Series 14, Non-Cumulative, Preferred, Redeemable, Apr 26, 2014, \$25.50	503,300	13,043	12,859
Bank of Nova Scotia, Series 15, Non-Cumulative, Preferred, Redeemable, Jul 29, 2014, \$25.50	651,800	15,259	16,641
Bank of Nova Scotia, Series 17, Non-Cumulative, Preferred, Redeemable, Apr 26, 2014, \$25.75	599,500	15,061	15,803
Power Corporation of Canada, Series A, Non-Cumulative, Preferreds, Redeemable, Jan 27, 2014, \$25.00	227,700	5,548	5,622
Power Corporation Of Canada, Series D, Non-Cumulative, Preferred, Perpetual, Redeemable, Oct 31, 2014, \$25.00	218,100	4,702	4,870
Power Financial Corporation, Series F, Non-Cumulative, Preferred, Redeemable, Mar 10, 2014, \$25.00	491,600	12,085	12,408
Power Financial Corporation, Series H, Non-Cumulative, First Preferred, Perpetual, Redeemable, Mar 10, 2014, \$25.00	364,000	8,921	9,100
Power Financial Corporation, Series I, Non-Cumulative First Preferred, Perpetual, Redeemable, Mar 10, 2014, \$25.00	181,000	4,570	4,603
Royal Bank of Canada, Series AB, Non-Cumulative, First Preferred, Perpetual, Redeemable, Aug 24, 2014, \$25.25	531,500	11,575	13,585
Toronto-Dominion Bank, The, Class A, Series R, Non-Cumulative, Preferred, Redeemable, Apr 29, 2014, \$25.75	492,300	12,364	12,923
		103,128	108,414
<b>Total Preferred Shares – 25.4%</b>		<b>376,414</b>	<b>377,058</b>

<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>++</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.



## BMO Harris Diversified Yield Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>+</sup> ** (\$)	Fair Value (\$)
<b>Equities</b>			
<i>Consumer Discretionary – 6.8%</i>			
Aimia Inc.	1,457,800	18,278	28,427
Cineplex Inc.	860,365	15,995	37,899
Corus Entertainment Inc., Class B	554,800	11,185	14,247
Thomson Reuters Corporation	487,700	18,264	19,586
		63,722	100,159
<i>Consumer Staples – 2.3%</i>			
Loblaw Companies Limited	580,300	19,971	24,588
North West Company Inc., The,	372,300	7,409	9,549
		27,380	34,137
<i>Energy – 21.0%</i>			
ARC Resources Ltd.	1,034,800	21,430	30,547
Baytex Energy Corp.	776,000	24,209	32,220
Bonavista Energy Corporation	803,105	18,886	11,155
Crescent Point Energy Corp.	883,480	26,613	36,417
Enbridge Inc.	799,200	20,499	37,059
Inter Pipeline Ltd.	1,321,800	12,432	34,142
Keyera Corp.	641,479	14,673	40,837
Peyto Exploration & Development Corp.	490,914	14,702	15,906
TransCanada Corporation	417,500	16,543	20,240
Trinidad Drilling Ltd.	1,322,900	9,693	13,031
Vermilion Energy, Inc.	632,100	21,282	39,392
		200,962	310,946
<i>Financials – 26.6%</i>			
Allied Properties REIT	503,400	8,506	16,476
Artis REIT	552,500	5,231	8,199
Bank of Nova Scotia	794,410	43,448	52,773
Brookfield Asset Management Inc., Class A	734,940	21,758	30,206
Brookfield Office Properties Inc.	821,900	11,076	16,800
Calloway REIT	446,380	7,616	11,213
Canadian Apartment Properties REIT	794,152	9,079	16,852
Dundee REIT	508,882	16,173	14,646
H&R REIT	514,700	8,114	10,989
IGM Financial Inc.	414,000	16,277	23,209
Intact Financial Corporation	503,005	28,308	34,857
Manulife Financial Corporation	899,600	18,474	18,847
RioCan REIT	1,276,500	18,287	31,581

<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>\*</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Diversified Yield Portfolio

### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost <sup>+</sup> ** (\$)	Fair Value (\$)
Royal Bank of Canada	594,000	31,465	42,400
Toronto-Dominion Bank, The,	651,600	48,869	65,218
		292,681	394,266
<i>Industrials – 8.9%</i>			
Canadian National Railway Company	275,600	8,673	16,685
Finning International Inc.	498,500	12,781	13,514
GENIVAR Inc.	549,075	13,431	17,318
Morneau Shepell Inc.	1,202,300	11,307	18,311
Progressive Waste Solutions Ltd.	1,081,900	22,216	28,400
SNC-Lavalin Group Inc.	337,800	14,147	16,120
Westshore Terminals Investment Corporation	615,500	14,982	21,296
		97,537	131,644
<i>Materials – 0.7%</i>			
Teck Resources Limited, Class B	362,500	13,013	10,009
<i>Telecommunication Services – 2.1%</i>			
BCE Inc.	294,900	9,095	13,565
Rogers Communications Inc., Class B	367,200	12,696	17,652
		21,791	31,217
<i>Utilities – 3.2%</i>			
Brookfield Infrastructure Partners L.P.	567,500	22,141	23,625
Brookfield Renewable Energy Partners L.P.	848,145	15,069	23,595
		37,210	47,220
<b>Total Equities – 71.6%</b>		<b>754,296</b>	<b>1,059,598</b>
<b>Total Investment Portfolio – 97.3%</b>		<b>1,135,521</b>	<b>1,441,435</b>
<b>Other Assets Less Liabilities – 2.7%</b>			<b>40,312</b>
<b>NET ASSETS – 100.0%</b>			<b>1,481,747</b>

<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>\*</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

## BMO Harris Diversified Yield Portfolio

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### STATEMENT OF INVESTMENT PORTFOLIO (cont'd)

*As at December 31, 2013 (in thousands of Canadian dollars, unless otherwise noted)*

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**The Portfolio's Investment Portfolio is concentrated in the following segments as at:**

	December 31, 2013	December 31, 2012
<b>Bonds &amp; Debentures</b>		
Corporate	0.3%	0.3%
<b>Equities</b>		
Consumer Discretionary	6.8%	6.5%
Consumer Staples	2.3%	2.4%
Energy	21.0%	21.0%
Financials	26.6%	26.5%
Industrials	8.9%	7.3%
Materials	0.7%	0.9%
Preferred Shares	25.4%	26.6%
Telecommunication Services	2.1%	2.2%
Utilities	3.2%	1.7%
<b>Other Assets Less Liabilities</b>	<b>2.7%</b>	<b>4.6%</b>
	<b>100.0%</b>	<b>100.0%</b>

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<sup>+</sup>Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>\*</sup>For the purpose of the Statement of Investment Portfolio, cost includes commissions and other portfolio transaction costs (note 2). The accompanying notes are an integral part of these financial statements.

# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS

*(all amounts in thousands of Canadian dollars, except per unit data)*

*December 31, 2013*

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### 1. The Portfolio

BMO Harris Diversified Yield Portfolio [“the Portfolio”] is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on September 18, 2007. BMO Harris Investment Management Inc. (“the Manager”) is the Manager of the Portfolio.

The information provided in these audited financial statements is for the periods ended December 31, 2013 and 2012.

### 2. Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), including estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results could differ from estimates.

#### Valuation of investments

Canadian GAAP requires the use of bid prices for long positions and ask prices for short positions in the fair valuation of investments traded in an active market, rather than the use of closing prices currently used for the purpose of determining Net Asset Value (“NAV”). For investments that are not traded in an active market, Canadian GAAP requires the use of valuation techniques, incorporating factors that market participants would consider in setting a price.

The NAV is the fair value of the total assets of a Portfolio less the fair value of its total liabilities at a Valuation Date (“the Valuation Date” is each day on which the Toronto Stock Exchange is open for trading) determined in accordance with Part 14 of National Instrument 81-106 – Investment Portfolio Continuous Disclosure (“NI 81-106”) for the purpose of processing unitholder transactions. For financial statement purposes, valuations are determined in accordance with Canadian GAAP. This may result in a difference between the net assets per unit and the NAV per unit. Refer to Note 7(b) for the details of the comparison between NAV per unit and net assets per unit.

Investments are deemed to be held for trading.

Investments are recorded at their fair value with the change between this amount and average cost being recorded as unrealized appreciation (depreciation) in value of investments in the Statement of Operations.

Securities listed on a recognized public securities exchange in North America are valued for financial statement purposes at their bid prices for long positions and ask prices for short positions. Procedures are in place to fair value securities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, the fair value represents the bid price provided by independent security pricing services. Short-term investments, if any, are included in the Statement of Investment Portfolio at their fair value. Unlisted warrants, if any, are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

When the price of a security held in a Portfolio is unavailable, unreliable or not considered to reflect the current value, the Manager may determine another value which it considers to be fair and reasonable using the services of third-party valuation service providers, or using a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies and other applicable rates or prices.

#### Investment transactions

Investment transactions are accounted for on the trade date. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) in the value of investments are calculated with reference to the average cost of the related investments which exclude brokerage commissions and other trading expenses. All net realized gains (losses), unrealized appreciation

# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

*(all amounts in thousands of Canadian dollars, except per unit data)*

*December 31, 2013*

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(depreciation) in value, and transaction costs are attributable to investments and derivative instruments which are deemed held for trading, and are included in the Statement of Operations.

Client brokerage commissions, where applicable, are used as payment for order execution services or research services. The portfolio advisers or Managers may select brokers, including their affiliates, who charge a commission in excess of that charged by other brokers ("soft dollars") if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. It is the Manager's objective that over time, all clients receive benefits from client brokerage commissions.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Portfolio are expensed and included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

### **Cost of investments**

The cost of investments represents the amount paid for each security and is determined on an average cost basis.

### **Income recognition**

Interest income is recognized on accrual basis. Dividend income and distributions from investment trust units are recognized on the ex-dividend and ex-distribution date, respectively.

Interest on inflation-indexed bonds will be paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Operations. If held to maturity, the Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Day based on the inflation adjusted par value at that time and is included in "Interest" in the Statement of Operations.

### **Translation of foreign currencies**

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Portfolio's functional currency at the rates of exchange prevailing at the year-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in "Realized gain (loss) on sale of investments" and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation) in value of investments" in the Statement of Operations. Realized and unrealized foreign exchange gains (losses) on assets (other than investments) and liabilities are included in "Realized gain (loss) on foreign exchange" in the Statement of Operations.

### **Forward currency contracts**

A forward currency contract is an agreement between two parties (the Portfolio and the counterparty) to purchase or sell a currency against another currency at a set price on a future date. The Portfolio may enter into forward currency contracts for hedging purposes which can include the hedging of all or a portion of the currency exposure of an investment or group of investments, either directly or indirectly. The Portfolio may also enter into these contracts for non-hedging purposes which can include increasing the exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another.

The value of forward currency contracts entered into by the Portfolio is recorded as the difference between the value of the contract on the Valuation Date and the value on the date the contract originated.

Changes in the value of open forward currency contracts at each Valuation Date are recognized in the Statement of Operations as "Change in unrealized appreciation (depreciation) in value of forward currency contracts."

Amounts realized at the close of the contracts are recorded as "Realized gain (loss) on forward currency contracts" in the Statement of Operations.

# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

*(all amounts in thousands of Canadian dollars, except per unit data)*

*December 31, 2013*

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### Securities lending

A Portfolio may engage in securities lending pursuant to the terms of an agreement which includes restrictions as set out in Canadian securities legislation. Collateral held is government Treasury Bills and qualified Notes.

Income from securities lending, where applicable, is included in the Statement of Operations and is recognized when earned. The securities on loan continue to be displayed in the Statement of Investment Portfolio. The market value of the securities loaned and collateral held is determined daily. Aggregate values of securities on loan and related collateral held in trust as at December 31, 2013 and December 31, 2012, where applicable, are disclosed in Note 7(h).

### Increase or decrease in net assets from operations per unit

“Increase (decrease) in net assets from operations per unit” in the Statement of Operations represents the increase (decrease) in net assets from operations divided by the weighted average number of units outstanding during the period.

### Short-term trading penalty

To discourage excessive trading, the Portfolio may, at the Manager’s sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in “Interest” in the Statement of Operations.

### Other assets and liabilities

Income receivable, subscriptions receivable and due from broker are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to broker, redemptions payable and accrued expenses are designated as financial liabilities and reported at amortized cost. Other assets and liabilities are short-term in nature, and are carried at cost or amortized cost which approximates fair value.

### 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 (“IFRS 13”), 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.

# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

*(all amounts in thousands of Canadian dollars, except per unit data)*

*December 31, 2013*

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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 ("IAS 7").

### 3. Unit valuation

Units of the Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less its liabilities) by the total number of units outstanding at such time. This amount may be different from the Net Asset per unit which is presented on the Statement of Net Assets. Generally, any differences are due to valuing actively traded securities at bid prices for Canadian GAAP purposes while NAV typically utilizes closing price to determine fair value for the purchase and redemption of units. See Note 7(b) for the comparison between NAV per unit and Net Assets per unit.

### Capital

The capital of the Portfolio is represented by issued and redeemable units with no par value. The units are entitled to distributions, if any, and to payment of a proportionate share based on the Portfolio's NAV per unit upon redemption. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 7(a), if any. The relevant movements in capital are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 6, the Portfolio endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2013

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### 4. Income taxes

The Portfolio qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders. Part of the Portfolio's net income and net realized capital gains not paid or payable, is subject to income tax. It is the intention of the Portfolio to distribute all of its income and sufficient net realized capital gains so that the Portfolio will not be subject to income tax. Income tax on net realized capital gains not paid or payable is generally recoverable by virtue of refunding provisions contained in tax legislation, as redemptions occur.

Non-capital losses that arose in 2004 and 2005 are available to be carried forward for ten years and applied against future taxable income. Non-capital losses that arose in 2006 and thereafter are available to be carried forward for twenty years. Capital losses for income tax purposes may be carried forward indefinitely and applied against capital gains realized in future years.

The Portfolio's estimated non-capital and capital losses for income tax purposes as of the tax year-ended December 2013 are included in Note 7(c), if applicable.

### 5. Related party transactions

#### (a) Unitholder servicing, sub-advisory commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company (the Trustee) and to BMO Asset Management Inc. (the Registrar) and charged to the Portfolio. These expenses are included in "Unitholder servicing fees" in the Statement of Operations.

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the Portfolio's investment portfolio. For these services the sub-advisors receive sub-advisory fees that are paid monthly by the Manager and, effective October 26, 2012, charged to the Portfolio. These expenses are included in

"Sub-advisory fees" in the Statement of Operations. Any sub-advisory fees less than or equal to 0.15% of the net asset value of the Portfolio are absorbed by the Manager.

The Portfolio may execute trades with and or through BMO Nesbit Burns Inc., an affiliate of the Manager based on established standard brokerage agreements at market prices. These fees are included in "Commissions and other portfolio transaction costs" in the Statement of Operations.

Refer to Note 7(d) for related party fees charged to the Portfolio for the periods ended December 31, 2013 and 2012.

#### (b) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio enter into transactions or arrangements with or involving other members of Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to the Manager of the Portfolio. These transactions or arrangements may include transactions or arrangements with or involving Bank of Montreal Group of Companies, BMO Trust Company, BMO Nesbitt Burns Inc., Harris Investment Management Inc., BMO Asset Management Inc., BMO Investments Inc., Pyrford International Ltd, Lloyd George Management Inc. or other investment funds offered by BMO, and may involve the purchase or sale of portfolio securities through or from a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal Group of Companies, the purchase or sale of securities issued or guaranteed by a member of Bank of Montreal group of Companies, entering into forward contracts with a member of Bank of Montreal Group of Companies acting as counterparty, the purchase or redemption of units of other BMO Harris Private Portfolios or the provision of services to the Manager.

### 6. Financial instrument risk

The Portfolio may be exposed to a variety of financial risks that are concentrated in its investment holdings, including derivative instruments. The Statement of Investment Portfolio groups securities by asset type, geographic region and/or market segment. The Portfolio's risk management practice includes the monitoring of compliance to investment guidelines.



# BMO Harris Diversified Yield Portfolio

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2013

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The Manager manages the potential effects of these financial risks on the Portfolio's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Portfolio's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

### (a) Currency risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Portfolio, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Portfolio's functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio's exposure to currency risk, if any, is further discussed in Note 7(f).

### (b) Interest rate risk

Interest rate risk is the risk that the fair value of the Portfolio's interest-bearing investments will fluctuate due to changes in market interest rates. The Portfolio's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market instruments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Portfolio's exposure to interest rate risk, if any, is further discussed in Note 7(f).

### (c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, and as such they are not subject to other market risk. The Portfolio's exposure to other market risk, if any, is further discussed in Note 7(f).

### (d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Portfolio's unrealized gain (loss) of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Portfolio's exposure to credit risk, if any, is further discussed in Note 7(f).

The Portfolio may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Portfolio must be at least 102% of the fair value of securities loaned, if any, as disclosed in Note 7(h).

### (e) Liquidity risk

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified on the Statement of Investment Portfolio. The proportion of illiquid securities to NAV of the Portfolio is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Portfolio's financial obligations.

# BMO Harris Diversified Yield Portfolio

## NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)

December 31, 2013

### 7. Portfolio specific information

#### (a) Portfolio information and change in units

The Portfolio's inception date was November 1, 2002.

The number of units that have been issued and are outstanding are disclosed in the table below.

For the periods ended (in thousands of units)	Dec. 31, 2013	Dec. 31, 2012
Units issued and outstanding, beginning of period	90,795	80,854
Issued for cash	20,102	23,130
Issued on reinvestment of distributions	3,645	3,537
Redeemed during the period	(29,226)	(16,726)
Units issued and outstanding, end of period	85,316	90,795

#### (b) Comparison of NAV per unit to Net Assets per unit

Dec. 31, 2013		Dec. 31, 2012	
NAV per unit	Net Assets per unit	NAV per unit	Net Assets per unit
17.39	17.37	16.14	16.11

#### (c) Income taxes

As at the tax year-ended December 2013, the Portfolio had the following estimated capital and non-capital losses available for income tax purposes:

Total capital losses (\$)	Total non- capital losses (\$)	Non-capital losses that expire in 2026 and thereafter		
		2014 (\$)	2015 (\$)	(\$)
32,459	—	—	—	—

#### (d) Related party transactions

The related party fees charged for unitholder servicing fees are as follows:

	Dec. 31, 2013	Dec. 31, 2012
Unitholder servicing (\$)	287	293

#### (e) Brokerage commissions and soft dollars

Brokerage commissions paid on securities transactions and amounts paid to related parties of the Manager for brokerage services provided to the Portfolio for the periods are as follows:

	Dec. 31, 2013	Dec. 31, 2012
Total brokerage amounts paid (\$)	556	435
Total brokerage amounts paid to related parties (\$)	32	70

There were no ascertainable soft dollars paid or payable to dealers by the Portfolio during the periods.

#### (f) Financial instrument risk

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

No changes affecting the overall level of risk of investing in the Portfolio were made during the period.

#### Currency risk

As at December 31, 2013 and December 31, 2012, the Portfolio did not have any significant exposure to currency risk.

#### Interest rate risk

As at December 31, 2013 and December 31, 2012, the Portfolio did not have any significant exposure to interest rate risk.

#### Other market risk

As at December 31, 2013, 97.0% (December 31, 2012 – 95.1%) of the Portfolio's Net Assets were traded on respective stock exchanges. If equity prices on respective stock exchanges had increased or decreased by 10% as at the periods ended, with all other factors remaining constant, Net Assets could possibly have increased or decreased, respectively, by approximately \$143,666 (December 31, 2012 – \$139,047). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

## BMO Harris Diversified Yield Portfolio

### NOTES TO FINANCIAL STATEMENTS (cont'd)

(all amounts in thousands of Canadian dollars, except per unit data)  
December 31, 2013

#### Credit risk

The Portfolio's credit risk exposure grouped by credit ratings is listed in the following table:

Credit rating	As a % of Net Assets	
	Dec. 31, 2013	Dec. 31, 2012
A	1.8	12.3
BBB	18.5	8.9
BB	5.1	5.4
Unrated	0.3	0.3
<b>Total</b>	<b>25.7</b>	<b>26.9</b>

#### (h) Securities lending

There were no assets involved in securities lending transactions as at December 31, 2013 and December 31, 2012.

#### (g) Fair value hierarchy

The Portfolio classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on the quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on unobservable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The table below shows the relevant disclosure.

##### As at December 31, 2013

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	1,059,598	—	—	1,059,598
Preferred securities	377,058	—	—	377,058
Debt securities	4,779	—	—	4,779
<b>Total</b>	<b>1,441,435</b>	<b>—</b>	<b>—</b>	<b>1,441,435</b>

##### As at December 31, 2012

Financial assets	Level 1	Level 2	Level 3	Total
Equity securities	1,001,807	—	—	1,001,807
Preferred securities	388,661	—	—	388,661
Debt securities	4,928	—	—	4,928
<b>Total</b>	<b>1,395,396</b>	<b>—</b>	<b>—</b>	<b>1,395,396</b>

#### Significant transfers

There were no significant transfers between the levels during the period.

## Management's Responsibility for Financial Reporting

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The accompanying financial statements have been prepared by an affiliate of the Manager and approved by the Board of Trustees of the Portfolios. Management is responsible for the information and representations contained in these financial statements.

The affiliate of the Manager maintains appropriate processes to ensure that relevant and reliable information is produced. The financial statements have been prepared in accordance with the accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the Portfolio are described in Note 2 of the financial statements. The Trustee (BMO Trust Company) is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements of the Portfolios, adequacy of the internal controls, the audit process and financial reporting with management and external auditors.

PricewaterhouseCoopers LLP is the external auditor of the Portfolios. The auditor has been appointed by Board of the Manager and of the Trustees and cannot be changed without the prior approval for the Independent Review Committee and 60 days notice to the Unitholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.



**Richard Mason**  
Chief Executive Officer  
BMO Harris Investment Management Inc.  
March 17, 2014



**Robert J. Schauer**  
Chief Financial Officer  
BMO Harris Private Portfolios  
March 17, 2014

**Manager**

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[www.bmoharrisprivatebanking.com](http://www.bmoharrisprivatebanking.com)

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