

Annual Management Report of Fund Performance

BMO Harris Diversified Yield 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, 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 or SEDAR at www.sedar.com. You may also contact us using one of these methods to request a copy of the Portfolio's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

Management Discussion of Fund Performance

BMO Harris Investment Management Inc. ("BHIMI" or the "manager"), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of the BMO Harris Private Portfolios and has engaged BMO Asset Management Inc. ("BMO AM Inc." or the "sub-advisor") as the sub-advisor of BMO Harris Canadian Diversified Yield Portfolio (the "Portfolio").

Investment Objective and Strategies

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

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

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

Risk

No significant changes affecting the overall level of risk associated with investing in the Portfolio were made during the period. The risks of this Portfolio remain as discussed in the Portfolio's most recently filed simplified prospectus or its amendments.

Results of Operations

For the 12-month period ended December 31, 2012, the Portfolio returned 8.22%, after expenses. The Portfolio's benchmark is the S&P/TSX Composite Index, which generated a 7.19% total return over the same 12-month period.

Investor concern over 2012 focused on economic and fiscal uncertainty in the eurozone, China and the United States. Despite these concerns, many of the world's equity markets, including Canada's, posted gains. In Canada, relatively defensive sectors such as Consumer Staples, Financials and Health Care generally outperformed. The Financials sector gained as a result of solid earnings reports from Canada's banks, combined with dividend increases and relatively attractive yields and valuations. The Materials and Energy sectors underperformed as investors moved their assets out of perceived "riskier" sectors and into those sectors generally perceived as "safer," as well as in response to the economic slowdown in China, Europe and the United States.

The Portfolio's overweight positions in the Financials and Industrials sectors, and its underweight position in Materials sector, contributed to its performance over

BMO Harris Diversified Yield Portfolio

the period. Significant individual contributors to Portfolio performance included Cineplex Inc., Inter Pipeline Fund, Enbridge Inc., Vermillion Energy Inc., Brookfield Asset Management Inc., Westshore Terminals Investment Corporation and Rogers Communications Inc. Shares of Cineplex Inc. gained in value as a result of strong earnings and cash flow growth. Inter Pipeline Fund and Enbridge Inc. posted gains as a result of strong demand for energy infrastructure, as well as the company's attractive growth prospects and dividend growth.

The Portfolio's positions in the Health Care, Consumer Discretionary and Energy sectors detracted from its performance over the period. Significant individual detractors from the Portfolio's performance included Baytex Energy Corp., Crescent Point Energy Corp., Bonavista Energy Corporation, SNC-Lavalin Group Inc. and IGM Financial Inc. Shares of Baytex Energy Corp. declined as a result of the company's exposure to heavy oil production, the prices of which fluctuated in response to issues in the North American pipeline system. IGM Financial Inc.'s share price was negatively affected by an investor preference for fixed income funds over equity funds during the period.

During the period, the sub-advisor took positions in The Toronto-Dominion Bank, Brookfield Office Properties Inc., Loblaw Companies Limited and Royal Bank of Canada. The sub-advisor believes that The Toronto-Dominion Bank's commercial loan growth, positive operating leverage and capital deployment make it an attractive investment opportunity. Brookfield Office Properties Inc. is currently being repositioned to focus on office space, which may lead to an increase in the company's stock price. The sub-advisor believes that Loblaw Companies Limited's ability to generate cash flow should increase significantly with the completion of a major infrastructure project. The sub-advisor purchased Royal Bank of Canada because of the company's ability to earn profits despite the challenging economic environment, and because of its recent dividend increase, which the sub-advisor believes is a sign the bank is confident in its future earnings.

For information on the Portfolio's longer-term performance and composition, please refer to the Past Performance section and Summary of Investment Portfolio section of this report.

Recent Developments

The sub-advisor believes that the Canadian equity market continues to be significantly tied to global macroeconomic developments, especially those in Europe, China and the United States. According to the sub-advisor, financial markets will likely be relatively stable over the medium term, but some risk of volatility remains. As a result, the sub-advisor will continue to position the Portfolio conservatively, investing in high-quality companies with a focus on dividends and dividend growth.

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

BMO Harris Diversified Yield Portfolio

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.

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 Inc. (“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

Related-Party Underwritings

During the period, BHIMI relied on an approval and standing instruction provided by the Portfolio’s Independent Review Committee (“IRC”) to enable the Portfolio to make an investment in a class of equity and/or non-government debt securities of an issuer during the period of distribution of those securities to the public and/or the 60-day period following the distribution period where BMO Nesbitt Burns Inc., an affiliate of BHIMI, acted as an underwriter in the distribution (each investment, a “Related Party Transaction”). In accordance with the IRC’s approval and standing instruction, in making a decision to cause the Portfolio to make a Related Party Transaction, BHIMI and the sub-advisor of the Portfolio are required to comply with BHIMI’s written policies and procedures governing the Related Party Transaction and report periodically to the IRC, describing each instance that BHIMI relied on the approval and standing instruction and its compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the Related Party Transaction (i) is made free from any influence of BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc., (ii) represents the business judgment of BHIMI, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

BMO Harris Diversified Yield Portfolio

Brokerage Commissions

The Portfolio pays standard brokerage commissions at market rates to BMO Nesbitt Burns Inc., an affiliate of the manager, for executing a portion of its trades. The brokerage commissions charged to the Portfolio during the period were as follows:

	2012 (\$000s)	2011 (\$000s)
Total Brokerage Commissions	436	710
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	70	68

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 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	293	290

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 Diversified Yield 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 ⁽¹⁾	Years ended December 31				
	2012	2011	2010	2009	2008
Net assets, beginning of period	\$ 15.51	15.05	13.25	10.34	14.45
Increase (decrease) from operations:					
Total revenue	\$ 0.62	0.64	0.65	0.69	0.80
Total expenses	\$ (0.01)	(0.02)	(0.02)	(0.02)	(0.03)
Realized gains (losses) for the period	\$ 0.11	0.02	0.11	(0.50)	(0.43)
Unrealized gains (losses) for the period	\$ 0.55	0.47	1.80	3.54	(4.35)
Total increase (decrease) from operations ⁽²⁾	\$ 1.27	1.11	2.54	3.71	(4.01)
Distributions:					
From income (excluding dividends)	\$ 0.03	0.08	0.26	0.36	0.56
From dividends	\$ 0.55	0.51	0.34	0.27	0.17
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.08	0.06	0.09	0.04	0.13
Total Annual Distributions ⁽³⁾	\$ 0.66	0.65	0.69	0.67	0.86
Net assets, end of period	\$ 16.11	15.51	15.05	13.25	10.34

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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) ⁽¹⁾	\$ 1,465,191	1,257,115	996,966	700,234	375,792
Number of units outstanding (000s) ⁽¹⁾	90,795	80,854	66,125	52,691	36,164
Management expense ratio ⁽²⁾	%	0.04	0.05	0.06	0.07
Management expense ratio before waivers					
or management absorptions	%	0.06	0.05	0.06	0.07
Trading expense ratio ⁽³⁾	%	0.03	0.06	0.06	0.09
Portfolio turnover rate ⁽⁴⁾	%	3.80	7.80	7.07	5.80
Net asset value per unit	\$ 16.14	15.55	15.08	13.29	10.39

⁽¹⁾ This information is provided as at December 31 of the period shown.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

⁽⁴⁾ The portfolio turnover rate indicates how actively the Portfolio's investment manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the Portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Portfolio.

BMO Harris Diversified Yield Portfolio

Past Performance

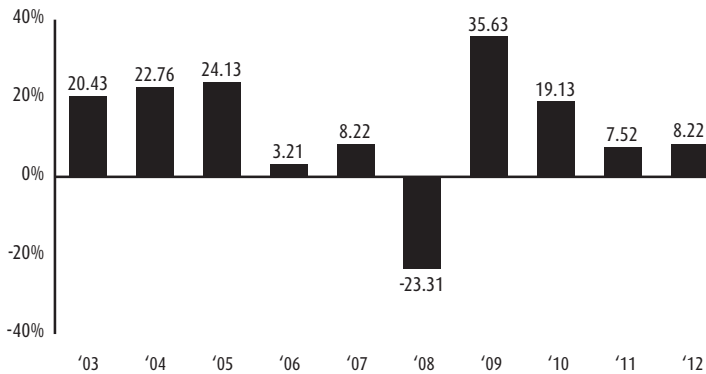
General

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.



Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the S&P/TSX Composite Index. The S&P/TSX Composite Index reflects the price movements of a floating list of companies on the Toronto Stock Exchange that meet Standard & Poor's criteria for inclusion in the index.

	1 yr %	3 yrs %	5yrs %	10yrs %
BMO Harris Diversified Yield Portfolio [‡]	8.22	11.50	7.59	11.45
S&P/TSX Composite Index	7.19	4.79	0.81	9.22

[‡]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 Diversified Yield Portfolio

Summary of Investment Portfolio

as at December 31, 2012

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Financials	26.5	Issuer	
Energy	21.1	Cash/Receivables/Payables	4.6
Preferred Shares – Fixed/Floaters	13.4	Toronto-Dominion Bank, The,	4.2
Preferred Shares – Straight	10.5	Keyera Corp.	3.3
Industrials	7.3	Vermilion Energy, Inc.	3.1
Consumer Discretionary	6.5	Royal Bank of Canada	2.7
Cash/Receivables/Payables	4.6	RioCan REIT	2.7
Preferred Shares – Retractable	2.5	Inter Pipeline Fund	2.5
Consumer Staples	2.4	Intact Financial Corporation	2.5
Telecommunication Services	2.2	Baytex Energy Corp.	2.5
Utilities	1.7	Enbridge Inc.	2.4
Other	1.3	Calloway REIT	2.2
Total portfolio allocation	100.0	Crescent Point Energy Corp.	2.2
		Cineplex Inc.	2.2
		Bank of Nova Scotia	2.1
		ARC Resources Ltd.	2.0
		Brookfield Asset Management Inc., Class A	2.0
		Loblaw Companies Limited	1.7
		Brookfield Renewable Energy Partners L.P.	1.7
		Canadian Apartment Properties REIT	1.5
		Aimia Inc.	1.5
		Progressive Waste Solutions Ltd.	1.5
		IGM Financial Inc.	1.3
		Rogers Communications Inc., Class B	1.3
		TransCanada Corporation	1.2
		Enbridge Inc., Series B, Cumulative, Fixed to Floating Rate Preferred, Redeemable, Jun 1, 2017, \$25.00	1.2
		Top holdings as a percentage of net asset value	56.1
		Total Net Asset Value	\$1,465,190,715

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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