

# Annual Management Report of Fund Performance

## BMO Harris Canadian Total Return Bond Portfolio

For the period ended December 31, 2011

This annual management report of fund performance contains financial highlights but does not contain annual financial statements of the Portfolio. If the annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by e-mailing us at [contact.centre@bmonb.com](mailto:contact.centre@bmonb.com), by writing to us at BMO Harris Investment Management Inc., 1 First Canadian Place, 100 King St. W., 9th Floor, Toronto, Ontario, M5X 1H3 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"), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of BMO Harris Private Portfolios and has engaged BMO Asset Management Inc. as the sub-advisor of the BMO Harris Canadian Total Return Bond Portfolio (the "Portfolio").*

#### Investment Objective and Strategy

The Portfolio's investment objective is to produce superior returns through a combination of interest income and capital growth while also pursuing capital preservation. 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 a variety of investment maturities based on the interest rate outlook and seeks to determine the best potential investments for the Portfolio by analyzing the credit ratings of various issuers. The Portfolio may also undertake shifts in duration and composition in anticipation of interest rate movements to protect or enhance capital value.

#### 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 recent simplified prospectus or its amendments.

#### Results of Operations

For the 12-month period ended December 31, 2011, the BMO Harris Canadian Total Return Bond Portfolio returned 8.9%, after expenses.

The Portfolio's benchmark is the DEX Universe Bond Index, which generated a 9.7% total return over the same 12-month period.

Bonds issued by the U.S. government (U.S. Treasury bonds) lost their AAA credit rating in 2011. Large sums of outstanding debt and an inability on the part of the U.S. government to properly address government spending prompted credit rating agencies to remove the "risk-free" status of U.S. Treasury bonds. Despite losing their AAA credit rating, U.S. Treasury bonds continued to rally as their prices went higher and their yields went lower. Whatever concerns the market had over the U.S. government's ability to make its debt payments, the market had much bigger concerns about the economic and financial outlook for European Union countries, particularly Portugal, Ireland, Italy, Greece and Spain.

During the year, the concerns over Europe's massive debt load and softening economy prompted a flight-to-quality, where investors sold what they perceived as risky European debt and purchased the less-risky debt of countries like the United States and Canada. As a result, despite starting the year at a low level, bond yields in Canada dropped over the course of 2011. The sub-advisor was concerned that investors would feel that they were not being adequately compensated (i.e.,

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yields were not high enough on Government of Canada bonds and investors would, on balance, be sellers of bonds issued by the Canadian government). This, in turn, would force Government of Canada bond prices down and their yields up. Based on this belief, the Portfolio had been positioned for a rising yield environment, with its duration less than that of its benchmark. When interest rates went lower during the course of the year, however, the Portfolio's relative performance was negatively impacted.

Another area where the sub-advisor believed that investors were not being properly compensated for risk was in the provincial and corporate sectors of the bond market. The sub-advisor felt that the amount of spread (the amount of additional yield an issuer must offer above the Government of Canada yield to attract investors to buy its debt) being offered by provincial and corporate bond issuers was too narrow. Therefore, this warranted a defensive posture in credit within the Portfolio. To ensure the Portfolio was defensively positioned, the Portfolio maintained a weighting in provincial and corporate bonds that was less than that of its benchmark. The flight-to-quality considerations that drove Government of Canada bond yields lower also put upward pressure on credit spreads, and provincial and corporate bonds underperformed their Government of Canada benchmarks. As a result, the Portfolio's defensive posture was positive for relative performance.

*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 low interest rates across the yield curve will limit the upside potential for bond returns in 2012. The North American economy is expected to remain stable enough that investors will gradually reduce their bond holdings as the flight-to-quality effects experienced in 2011 abate in 2012. Such a reduction in bond holdings would be expected to put downward pressure on bond prices and upward pressure on their yield.

The sub-advisor believes the upward pressure on rates will be modest, but expects to maintain the Portfolio's duration under that of its benchmark. While interest rates have some room to move higher, the sub-advisor believes that in light of the global uncertainties, particularly in Europe, central banks will be reluctant to increase the interest rate for overnight money (the interest rate they administer). A combination of longer-term interest rates rising and overnight rates remaining relatively fixed would be expected to lead to a steepening yield curve. As a result, the sub-advisor will overweight bonds with terms to maturity of seven, 10 and 20 years, relative to the Portfolio's benchmark.

While investors have seen provincial and corporate credit spreads widen this year, the sub-advisor expects further widening in the coming year. The spread on provincial and corporate bonds remains at a level where the sub-advisor believes that caution is warranted and that investors are not being adequately compensated for the increased credit risk of provincial and corporate debt. The sub-advisor will position the Portfolio so that it is underweight these two sectors relative to its benchmark and the provincial or corporate holdings in the Portfolio will have a higher average credit rating than the benchmark (for example, the Portfolio will favour bonds with a credit rating of A over bonds with a credit rating of BBB).

### *Transition to International Financial Reporting Standards*

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended their mandatory requirement for all Canadian publicly accountable enterprises to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), permitting investment companies, which includes mutual funds, to defer the adoption of IFRS. On December 12, 2011, the AcSB decided to extend by one year the deferral from fiscal year beginning on or after January 1, 2013 to January 1, 2014.

The deferral of the mandatory IFRS changeover date to January 1, 2014 is to prevent Canadian investment companies and segregated accounts of life insurance enterprises from having to change their current accounting treatment for controlled investees while the IASB finalizes its proposed investment entities

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standard. The AcSB will continue to monitor the need to revise the IFRS changeover date for these entities. Under the current IFRS guidance, investment companies are required to consolidate their controlled investments. The IASB has issued an exposure draft that will exempt entities that qualify as investment entities from consolidating their controlled investments, and requires such entities to record, with very limited exceptions, all their investments at fair value through profit or loss account. This exposure draft is still under review. Canadian GAAP permits investment companies to fair value their investments regardless of whether those investments are controlled.

The Portfolio has not elected to early adopt IFRS, therefore it will adopt IFRS effective January 1, 2014. The Portfolio expects to report its financial results for the six month period ended June 30, 2014 prepared on an IFRS basis. The Portfolio will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013. Further revisions by the AcSB to the IFRS adoption date for investment companies are possible.

The Manager has not identified any changes that will impact NAV per unit as a result of the changeover to IFRS. However, this determination is subject to change as the Manager finalizes its assessment of potential IFRS differences and as new standards are issued by the IASB prior to the Portfolio's adoption of IFRS. The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) 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 while 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 (a "related party").

### *Portfolio Manager*

BHIMI has hired BMO Asset Management Inc. ("BMO AM"), a related party, to provide investment advice and make investment decisions for the Portfolio's investment portfolio. BMO AM receives an investment advisory fee based on assets under management that is paid monthly. BMO AM is paid by BHIMI and not by the Portfolio.

### **Buying and Selling Securities**

*Investing in Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc. and Trading in Debt Securities with BMO Nesbitt Burns Inc., Trading as Principal*  
During the period, BHIMI 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 a class of 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 period of distribution where BMO Nesbitt Burns Inc., an affiliate of BHIMI, acted as an underwriter in the distribution of those securities, and
- (b) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., an affiliate of BHIMI, who is trading with the Portfolio as principal (each, 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 investment manager of the Portfolio are required to comply with BHIMI's policies and procedures governing the related party transaction and report periodically to the IRC, describing each instance that BHIMI and the investment manager relied on the IRC's standing instruction and their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to, among other things, ensure the related party transaction (i) is made free from any influence of BMO Nesbitt Burns Inc. or its associates or affiliates and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or its associates or affiliates, (ii) represents the business judgment of the investment manager, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

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### *Wealth Management Fee*

Units of the Portfolio are only available through the wealth management service offered through BMO Financial Group. BMO Trust Company (the “trustee”), a related party, receives an annual fee from each investor for the wealth management services offered through 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 investment management fee payable by each investor is set out in the BHIMI Investment Management Fee Schedule that has been provided to the investor in conjunction with the investment management agreement between the investor, the trustee and BHIMI. This 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 Servicing*

The Portfolio is provided with certain facilities and services by related parties. BMO Trust Company is the trustee while BMO AM is the registrar of the Portfolio. BMO Trust Company and BMO AM 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>2011</b> <b>(\$000s)</b>	<b>2010</b> <b>(\$000s)</b>
Unitholder Servicing	233	218

### Management Fee

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

## BMO Harris Canadian Total Return 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				
	2011	2010	2009	2008	2007
Net assets, beginning of period	\$ 10.74	10.49	10.34	10.49	10.59
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.42	0.43	0.48	0.52	0.52
Total expenses	\$ (0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Realized gains (losses) for the period	\$ (0.04)	0.06	(0.10)	0.05	(0.11)
Unrealized gains (losses) for the period	\$ 0.57	0.20	0.20	(0.19)	0.03
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ 0.94</b>	<b>0.69</b>	<b>0.58</b>	<b>0.38</b>	<b>0.44</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ 0.41	0.44	0.48	0.53	0.48
From dividends	\$ —	—	—	—	—
From capital gains	\$ —	—	—	—	—
Return of capital	\$ 0.00	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$ 0.41</b>	<b>0.44</b>	<b>0.48</b>	<b>0.53</b>	<b>0.48</b>
<b>Net assets, end of period</b>	<b>\$ 11.27</b>	<b>10.74</b>	<b>10.49</b>	<b>10.34</b>	<b>10.49</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				
	2011	2010	2009	2008	2007
Total net asset value (000's) <sup>(1)</sup>	\$ 1,042,204	946,888	1,036,184	814,147	892,278
Number of units outstanding (000's) <sup>(1)</sup>	92,487	88,131	98,810	78,723	85,066
Management expense ratio <sup>(2)</sup>	0.04	0.04	0.04	0.04	0.03
Management expense ratio before waivers or management absorptions	0.04	0.04	0.04	0.04	0.03
Trading expense ratio <sup>(3)</sup>	—	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	32.74	41.91	48.24	27.31	57.31
Net asset value per unit	\$ 11.27	10.74	10.49	10.34	10.49

<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 all 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.

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## Past Performance

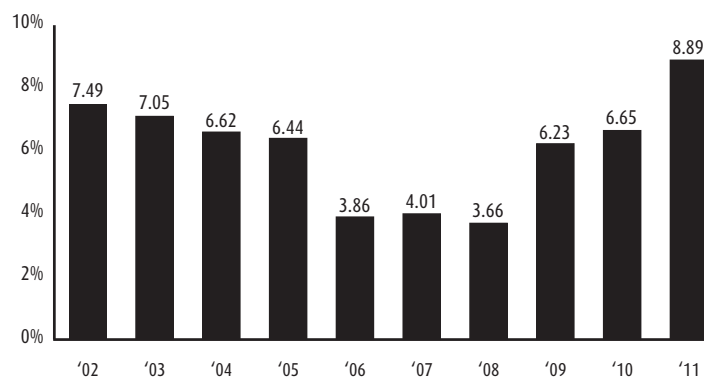
### General

The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were used to purchase 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 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. The 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 the financial year.



### Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the DEX Universe Bond Index, which 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 Total Return Bond Portfolio <sup>†</sup>	8.89	7.25	5.87	6.08
DEX Universe Bond Index	9.67	7.26	6.37	6.49

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

*A commentary on the market and/or information regarding the relative performance of the Portfolio as compared to its benchmark can be found under the Results of Operations section of this report.*

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### Summary of Investment Portfolio

as at December 31, 2011

Portfolio Allocation	% of Net Asset Value
Government Bonds	52.3
Provincial Bonds	23.2
Corporate Bonds	15.5
Money Market Investments	8.3
Cash/Receivables/Payables	0.7

Top 25 Holdings	% of Net Asset Value
Government of Canada, 3.500% Jun 1, 2020	16.6
Government of Canada, 3.000% Jun 1, 2014	10.1
Government of Canada, Series A55, 8.000% Jun 1, 2023	6.5
Province of Ontario, Unsecured, Debentures, 5.600% Jun 2, 2035	5.6
Government of Canada, 3.750% Jun 1, 2019	5.1
Province of Quebec, Senior, Unsecured, Notes, 5.500% Dec 1, 2014	4.4
Alberta Capital Finance Authority, Notes, 4.350% Jun 15, 2016	4.3
Government of Canada, 4.250% Jun 1, 2018	4.0
Government of Canada, Series WL43, 5.750% Jun 1, 2029	3.4
Bank of Nova Scotia, Fixed to Floating, Unsecured, Notes, Subordinated, Callable, 4.990% Mar 27, 2018	3.1
Government of Canada, 4.000% Jun 1, 2041	2.5
Greater Toronto Airports Authority, Series 2000-1, Medium Term Notes, Senior, Secured, 7.050% Jun 12, 2030	1.8
Canadian Wheat Board, Medium Term Notes, 4.750% Dec 1, 2014	1.7
Province of Ontario, Treasury Bills, 0.959% Feb 22, 2012	1.6
Hydro-Quebec, Series 19, 6.500% Feb 15, 2035	1.4
Government of Canada, 4.000% Jun 1, 2016	1.1
Sun Life Financial Inc., Series A, Medium Term Notes, Fixed to Floating, Senior, Unsecured, Callable, 4.800% Nov 23, 2035	1.1
Province of Quebec, Series OS, Unsecured, Debentures, 6.000% Oct 1, 2029	1.1
Province of Ontario, Treasury Bills, 0.967% Feb 1, 2012	1.0
Province of Quebec, Treasury Bills, 0.946% Mar 16, 2012	1.0

Top 25 Holdings	% of Net Asset Value
Province of Quebec, Medium Term Notes, 4.500% Dec 1, 2017	0.9
Province of Ontario, 5.850% Mar 8, 2033	0.9
Hydro One Inc., Series 4, Medium Term Notes, Unsecured, Callable, 6.350% Jan 31, 2034	0.9
Royal Bank of Canada, Deposit Notes, Senior, Unsecured, Unsubordinated, 5.200% Aug 15, 2012	0.8
Great-West Lifeco Inc., Debentures, Callable, 6.670% Mar 21, 2033	0.7
<b>Top holdings as a percentage of net asset value</b>	<b>81.6</b>
<b>Total Net Asset Value</b>	<b>\$1,042,204,359</b>

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

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This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Portfolio may invest and the risks detailed from time to time in BMO Harris Private Portfolios’ simplified prospectus. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Portfolio, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Harris Investment Management Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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