

# Semi-Annual Management Report of Fund Performance

## BMO Harris Diversified Yield Portfolio

For the period ended June 30, 2012

This semi-annual management report of fund performance contains financial highlights but does not contain semi-annual financial statements of the Portfolio. If the semi-annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the semi-annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by e-mailing us at [contact.centre@bmonb.com](mailto:contact.centre@bmonb.com), by writing to us at BMO Harris Investment Management Inc., 1 First Canadian Place, 100 King St. W., 41st Floor, Toronto, Ontario, M5X 1H3 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. ("BMO AM") as the sub-advisor (the "sub-advisor") of BMO Harris Canadian Diversified Yield Portfolio (the "Portfolio").*

*On March 26, 2012, BHIMI's investment research and Canadian equity portfolio management team joined BMO AM to form a centralized investment team in Canada. As a result, BMO AM is now the sub-advisor for the Portfolio, while BHIMI continues as the manager.*

### Results of Operations

For the six-month period ended June 30, 2012, the Portfolio returned 0.9%, after expenses.

The Portfolio's benchmark, the S&P/TSX Composite Index, generated a -1.5% total return over the same six-month period.

The volatility that characterized capital markets over the past few years continued during the first half of 2012. The Portfolio's benchmark rallied 4.4% in the first quarter based on strengthening economic conditions — positive labour market numbers in particular — and indications that European leaders were willing to fix the problems underlying the region's debt crisis. In the second quarter, the rally reversed quite dramatically (the benchmark lost 5.7%) after economic data started to turn negative across the globe, raising concerns of a

global recession. Conditions in Europe deteriorated as a pro-separatist movement in Greece gained popularity, Spain announced it needed help to support its banking sector and European authorities had to intervene to keep Italian interest rates low.

As could be expected in that environment, economically sensitive sectors such as Energy, Materials, and Information Technology decreased the most, while economically defensive sectors such as Consumer Staples, Industrials, and Financials performed well. The Portfolio's significant underweight position in the Materials sector and zero exposure to the Information Technology sector contributed to its relative outperformance.

The Portfolio's strong outperformance relative to its benchmark was the result of a significant portion of the Portfolio being invested in preferred equities, which had a total return of 2.2% for the first six months of 2012, as measured by the S&P/TSX Preferred Share Index, as well as a meaningful position in real estate investment trusts (REITs), which had a total return of 11.6%, as measured by the S&P/TSX Canadian REIT Index. Both preferred equities and REITs benefited from investors seeking yield in an environment of low interest rates.

Companies offering an attractive and stable dividend continued to perform well during the first six months of 2012 as investors sought to enhance the low yields offered by government bonds. The Portfolio benefited because of its concentration in these types of companies. Security selection within the Portfolio

## BMO Harris Diversified Yield Portfolio

---

contributed positively to performance, notably in Enbridge Inc., Brookfield Renewable Energy Partners, Brookfield Asset Management Inc., Morneau Shepell Inc., Canadian National Railway Company, and Cineplex Inc. Detracting from the Portfolio's performance were positions in the Energy sector, particularly natural gas producers, and holdings in SNC-Lavalin Group Inc., Genivar Inc., Keyera Corp., and IGM Financial Inc.

*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 Portfolio's sub-advisor expects continued volatility from equity markets in the near term, given the risks posed by Europe's sovereign debt problems and the potential dire consequences if there is no orderly resolution. Nevertheless, the sub-advisor believes local and world authorities will manage these problems prudently, which should be positive for equity markets. Despite recent U.S. economic data showing weakening labour markets and disappointing purchasing managers' surveys, the sub-advisor expects economic conditions in North America to improve at a moderate pace.

In light of the potential for future market volatility caused by sovereign debt issues in Europe, as well as the potential for shifting economic data, the sub-advisor believes the Portfolio is well positioned. The strategy for the Portfolio is to hold stocks of high-quality companies that offer strong fundamentals at good valuations and generate attractive, stable dividends.

### *Change to Expenses*

The Portfolio is responsible for the payment of all expenses relating to the operation of the Portfolio and the carrying on of its business. Currently, these expenses are capped and the trustee absorbs any expenses above this capped amount.

Effective October 1, 2012, the existing cap on the expenses of the Portfolio will be removed. Also, commencing on that date, any fees payable to the sub-advisor of the Portfolio over 0.15% (plus any applicable HST) will become an expense of the Portfolio.

### *Transition to International Financial Reporting Standards*

In March 2011, the Canadian Accounting Standards Board ("AcSB") amended its 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 years 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 standard. Under IFRS 10 Consolidated Financial Statements, 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 of their investments at fair value through profit or loss account. This exposure draft is still under review. Canadian Generally Accepted Accounting Principles ("GAAP") permits investment companies to fair value their investments regardless of whether those investments are controlled. The AcSB will continue to monitor the need to revise the IFRS changeover date for these entities.

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 ending 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.

BHIMI has not identified any changes that will impact net asset value per unit as a result of the changeover to IFRS. However, this determination is subject to change as BHIMI finalizes its assessment of potential IFRS differences and as new standards are issued by the

## BMO Harris Diversified Yield Portfolio

IASB prior to the Portfolio's adoption of IFRS. The criteria contained within the IFRS Financial Instruments: Presentation Standard may require unit-holders' equity to be classified as a liability within the Portfolio's Statement of Net Assets, unless certain conditions are met. BHIMI 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 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**

##### *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 BMO AM 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 their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are

designed to ensure the related party transaction (i) is made free from any influence 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.

#### *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	266	340
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	30	31

#### *Wealth Management Fee*

Units of the Portfolio are only available through the wealth management service offered through BMO Financial Group. The trustee, a related party, receives an annual fee from each investor for the wealth management service 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.

## BMO Harris Diversified Yield Portfolio

---

### *Unitholder Services*

The Portfolio is provided with certain facilities and services by related parties. BMO AM is the registrar of the Portfolio. The trustee 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>2012</b> <b>(\$000s)</b>	<b>2011</b> <b>(\$000s)</b>
Unitholder Services	149	143

### 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 through 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 <sup>(1)</sup>	Six months ended June 30, 2012	Years ended December 31				
		2011	2010	2009	2008	2007
Net assets, beginning of period	\$ 15.51	15.05	13.25	10.34	14.45	14.54
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.32	0.64	0.65	0.69	0.80	0.91
Total expenses	\$ (0.01)	(0.02)	(0.02)	(0.02)	(0.03)	(0.02)
Realized gains (losses) for the period	\$ 0.07	0.02	0.11	(0.50)	(0.43)	0.37
Unrealized gains (losses) for the period	\$ (0.25)	0.47	1.80	3.54	(4.35)	(0.16)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ 0.13</b>	<b>1.11</b>	<b>2.54</b>	<b>3.71</b>	<b>(4.01)</b>	<b>1.10</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.03	0.08	0.26	0.36	0.56	0.82
From dividends	\$ 0.27	0.51	0.34	0.27	0.17	0.03
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.02	0.06	0.09	0.04	0.13	0.31
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$ 0.32</b>	<b>0.65</b>	<b>0.69</b>	<b>0.67</b>	<b>0.86</b>	<b>1.16</b>
<b>Net assets, end of period</b>	<b>\$ 15.33</b>	<b>15.51</b>	<b>15.05</b>	<b>13.25</b>	<b>10.34</b>	<b>14.45</b>

<sup>(1)</sup> This information is derived from the Portfolio's audited annual financial statements and unaudited June 30, 2012, semi-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	Six months ended June 30, 2012	Years ended December 31				
		2011	2010	2009	2008	2007
Total net asset value (000s) <sup>(1)</sup>	\$ 1,348,295	1,257,115	996,966	700,234	375,792	307,096
Number of units outstanding (000s) <sup>(1)</sup>	87,712	80,854	66,125	52,691	36,164	21,158
Management expense ratio <sup>(2)</sup>	% 0.04	0.05	0.06	0.07	0.08	0.10
Management expense ratio before waivers or management absorptions	% 0.04	0.05	0.06	0.07	0.08	0.10
Trading expense ratio <sup>(3)</sup>	% 0.04	0.06	0.06	0.09	0.18	0.07
Portfolio turnover rate <sup>(4)</sup>	% 1.70	7.80	7.07	5.80	31.68	19.38
Net asset value per unit	\$ 15.37	15.55	15.08	13.29	10.39	14.51

<sup>(1)</sup> This information is provided as at June 30 or December 31 of the period shown.

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

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

<sup>(4)</sup> The portfolio turnover rate indicates how actively the Portfolio's 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

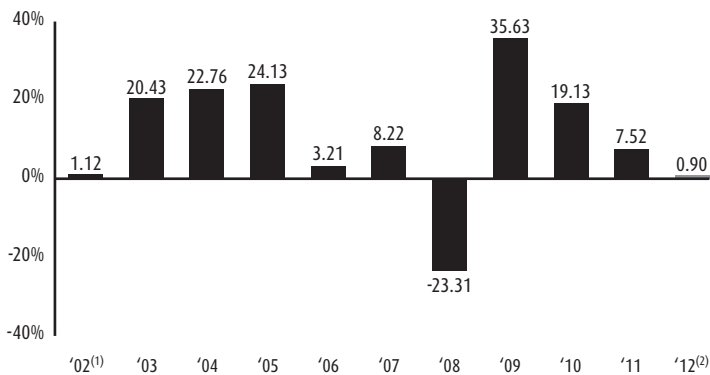
### General

The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were 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 and for the six-month period ended June 30, 2012 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.



<sup>(1)</sup> Return from November 1, 2002 to December 31, 2002.

<sup>(2)</sup> For the six-month period ended June 30, 2012.

## BMO Harris Diversified Yield Portfolio

### Summary of Investment Portfolio

as at June 30, 2012

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Financials	25.2	Brookfield Asset Management Inc.	5.0
Energy	20.8	Bank of Nova Scotia	4.7
Preferred Shares – Fixed/Floaters	12.8	Enbridge Inc.	4.2
Preferred Shares – Straight	10.5	RioCan REIT	3.2
Consumer Discretionary	6.7	Toronto-Dominion Bank, The	3.2
Industrials	6.7	Keyera Corp.	3.1
Money Market Investments	3.7	Vermilion Energy, Inc.	2.9
Cash/Receivables/Payables	2.9	Cash/Receivables/Payables	2.9
Preferred Shares – Retractable	2.6	Manulife Financial Corporation	2.7
Telecommunication Services	2.1	Baytex Energy Corp.	2.7
Consumer Staples	2.1	National Bank of Canada, Bearer Deposit Notes, 1.118% Sep 12, 2012	2.6
Utilities	1.6	Royal Bank of Canada	2.6
Corporate Bonds & Debentures	1.3	Crescent Point Energy Corp.	2.4
Other	1.0	Calloway REIT	2.4
		Cineplex Inc.	2.3
		Inter Pipeline Fund	2.2
		ARC Resources Ltd.	2.1
		BCE Inc.	1.9
		Intact Financial Corporation	1.9
		Aimia Inc.	1.8
		Brookfield Renewable Energy Partners LP	1.6
		IGM Financial Inc.	1.6
		Loblaw Companies Limited	1.5
		Progressive Waste Solutions Ltd.	1.4
		Canadian Apartment Properties REIT	1.4
		<b>Top holdings as a percentage of net asset value</b>	<b>64.3</b>
		<b>Total Net Asset Value</b>	<b>\$1,348,295,155</b>

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

**Manager**

BMO Harris Investment  
Management Inc.  
1 First Canadian Place  
100 King St. W., 41st Floor  
Toronto, Ontario M5X 1H3

**Trustee**

BMO Trust Company  
1 First Canadian Place  
100 King St. W., 41st Floor  
Toronto, Ontario M5X 1H3

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

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

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

(06/12)