

# Semi-Annual Management Report of Fund Performance

## BMO Harris U.S. Equity 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 Corp. (formerly Harris Investment Management Inc.), as the sub-advisor (the "sub-advisor") of BMO Harris U.S. Equity Portfolio (the "Portfolio").*

### Results of Operations

For the six-month period ended June 30, 2012, the Portfolio returned 8.3% in C\$ (8.4% in US\$), after expenses.

The Portfolio's benchmark is the S&P 500 Index, which generated a 9.7% in C\$ (9.5% in US\$) total return for the same six-month period.

Equity markets generated solid returns in the first quarter of 2012, the best first quarter since 1998. Investor sentiment indicators were up and market volatility had subsided significantly. Stocks continued to rally at the end of the first quarter, as returns increased more than 12% (measured by the benchmark) over the first three months of the year.

During the first quarter of 2012, the U.S. economy continued to make significant gains as economic activity expanded. The numbers for the early part of 2012 were reasonably good as retail and auto sales also

climbed. There was also a marked improvement in the stability of the banking sector, with a notable increase in commercial bank lending. While discretionary spending was sustained, the U.S. Federal Reserve made the case for additional easing should the pace of job growth slow. Corporate earnings maintained a nice pace of growth compared to their lows in 2008, although improving profit margins rather than sales growth accounted for much of this progress. Profit margins now stand at historic highs, but are expected to slow in coming quarters.

In the second quarter, however, equity markets became volatile in response to softening global economic data and uncertainty in the European political climate and debt situation. Against this backdrop, the major U.S. large-capitalization equity indices fell over 3% in the second quarter. Following several quarters of bullish economic activity, disappointing economic reports drove this poor performance. Employment reports that were weaker than expected weighed heavily on investor sentiment. April and May figures showed new job creation came in below expectations and was lower than it had been in the first quarter of 2012. The effect of these economic reports trickled through to the equity market as analysts lowered earnings estimates. By the end of June, however, a more promising picture began to emerge. Energy prices fell significantly from recent peaks and pending home sales posted the strongest numbers in two years. In Europe, investor sentiment started to improve as European leaders agreed on additional measures aimed at reducing borrowing costs for Spain and Italy.

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For the six-month period ended June 30, 2012, the Portfolio modestly underperformed the benchmark. Even though the generally negative economic tone impacted the Portfolio's second quarter results, the strong absolute return it generated during the first quarter materially benefited the Portfolio. The sub-advisor added value primarily by stock selection within the Energy and Materials sectors; one of the Portfolio's top performers, CVR Energy Inc., was the recipient of a takeover offer. In the Materials sector, fertilizer producer CF Industries Holdings, Inc. was a strong contributor and benefited from robust agricultural demand. The Portfolio's stock selection within Consumer Discretionary was modestly positive, with holdings in companies such as Wal-Mart Stores, Inc. and Petsmart Inc. adding to performance. Within the Information Technology sector, Apple Inc. remained the Portfolio's largest holding and largest contributor to return. Detracting from performance were holdings such as Western Digital Corp., Advance Auto Parts Inc., Cummins Inc., and Cisco Systems Inc, as softer earnings outlooks for these companies, coupled with weaker consumer and global growth, weighed on results.

*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

Equity market valuation (as represented by price-to-earnings multiples) remains reasonable; the S&P 500 Index is valued at 12.7 times 2012 earnings, which is well within historical norms. On the other hand, the sub-advisor expects that several factors will weigh on upcoming earnings reports and could potentially drive estimates lower for the remainder of 2012. Those factors are outright recession in Europe, slower growth in China and ongoing economic weakness in the United States. The sub-advisor also believes that more turbulence from eurozone sovereign debt problems will re-emerge in coming months. The U.S. federal budget also poses a risk to economic growth, as current law mandates an increase in taxes and a sharp reduction in government spending for 2013. Nevertheless, the sub-advisor believes the combination of record-low bond yields, coordinated central-bank liquidity injections and the relative safe-haven status of the United States make the U.S. equity market a fairly attractive option for investors. Despite political uncertainty, investors

should continue to benefit from owning companies that are delivering superior earnings with compelling valuations.

The sub-advisor maintains focus on quality companies that exhibit improving financial attributes, attractive valuations and positive investor interest. The sub-advisor remains confident that the consistent application of a disciplined investment process will continue to produce positive results for the Portfolio over the long term.

### *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

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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 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 Asset Management Corp. (“BMO AM U.S.”) a related party, to provide investment advice and make investment decisions for the Portfolio’s investment portfolio. BMO AM U.S. receives an

investment advisory fee based on assets under management that is paid quarterly. BMO AM U.S. is paid by BHIMI and not by the Portfolio.

#### *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.

#### *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:

	2012 (\$000s)	2011 (\$000s)
Unitholder Services	138	135

### 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.

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### 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	\$ 11.22	10.65	9.82	9.79	13.09	14.61
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.10	0.17	0.13	0.15	0.20	0.21
Total expenses	\$ (0.01)	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)
Realized gains (losses) for the period	\$ 0.18	0.53	0.05	(1.12)	(2.28)	0.11
Unrealized gains (losses) for the period	\$ 0.64	0.04	0.80	1.27	(1.25)	(1.74)
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>\$ 0.91</b>	<b>0.72</b>	<b>0.96</b>	<b>0.27</b>	<b>(3.36)</b>	<b>(1.44)</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	0.00	—	—	—	—
From dividends	\$ —	0.17	0.11	0.13	0.20	0.18
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ —	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(3)</sup></b>	<b>\$ —</b>	<b>0.17</b>	<b>0.11</b>	<b>0.13</b>	<b>0.20</b>	<b>0.18</b>
<b>Net assets, end of period</b>	<b>\$ 12.15</b>	<b>11.22</b>	<b>10.65</b>	<b>9.82</b>	<b>9.79</b>	<b>13.09</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>	\$ 710,401	620,756	586,020	442,912	320,379	451,961
Number of units outstanding (000s) <sup>(1)</sup>	58,464	55,317	55,010	45,097	32,708	34,481
Management expense ratio <sup>(2)</sup>	% 0.07	0.08	0.09	0.09	0.08	0.06
Management expense ratio before waivers or management absorptions	% 0.07	0.08	0.09	0.09	0.08	0.06
Trading expense ratio <sup>(3)</sup>	% 0.08	0.09	0.12	0.21	0.13	0.10
Portfolio turnover rate <sup>(4)</sup>	% 23.77	64.95	64.11	83.27	70.64	42.44
Net asset value per unit	\$ 12.15	11.22	10.65	9.82	9.80	13.11

<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 sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the Portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Portfolio.

# BMO Harris U.S. Equity Portfolio

## Past Performance

### General

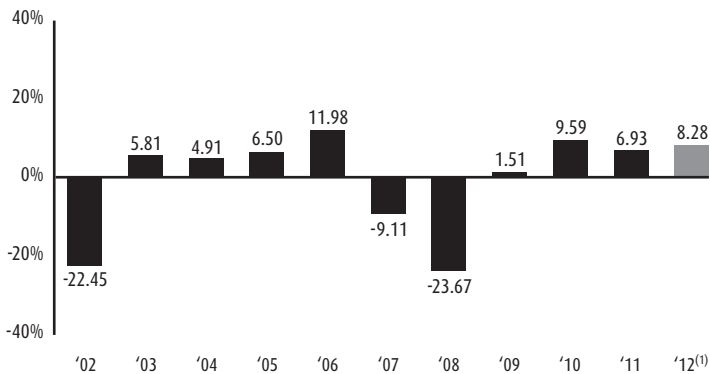
The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were used to purchase additional units of the Portfolio and is based on the net asset value of the Portfolio.

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

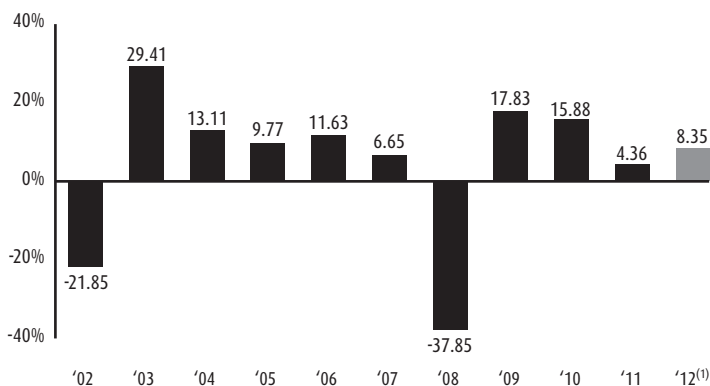
The following bar chart(s) show the performance for each of the financial years and for the six-month period ended June 30, 2012 shown. The chart(s) show in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of the financial year.

#### BMO Harris U.S. Equity Portfolio (C\$)



<sup>(1)</sup> For the six-month period ended June 30, 2012.

#### BMO Harris U.S. Equity Portfolio (US\$)



<sup>(1)</sup> For the six-month period ended June 30, 2012.

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### Summary of Investment Portfolio

as at June 30, 2012

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings	% of Net Asset Value
Information Technology	21.3	Apple Inc.	4.8
Health Care	14.3	Exxon Mobil Corporation	4.5
Consumer Discretionary	14.2	Chevron Corporation	3.3
Energy	12.0	Cash/Receivables/Payables	3.3
Consumer Staples	10.1	Philip Morris International Inc.	3.3
Financials	9.9	Microsoft Corporation	3.2
Industrials	5.5	Pfizer Inc.	3.0
Materials	5.2	International Business Machines Corporation	2.8
Utilities	4.2	Intel Corporation	2.8
Cash/Receivables/Payables	3.3	Cisco Systems, Inc.	2.3
		Amgen Inc.	2.2
		Lockheed Martin Corporation	2.2
		UnitedHealth Group Incorporated	2.2
		Eli Lilly and Company	2.2
		Wal-Mart Stores, Inc.	2.2
		CF Industries Holdings, Inc.	2.2
		Time Warner Cable	2.1
		AES Corporation, The	2.0
		DIRECTV, Class A	2.0
		CBS Corporation, Class B	2.0
		Discover Financial Services	2.0
		ConocoPhillips	2.0
		Travelers Companies Inc., The	1.8
		Alliance Data Systems Corp.	1.7
		Kroger Co., The	1.7
		<b>Top holdings as a percentage of net asset value</b>	<b>63.8</b>
		<b>Total Net Asset Value</b>	<b>\$710,400,552</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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