

# BMO U.S. Dollar Equity Index Fund (the "Fund")

For the period ended September 30, 2012 • Manager: BMO Investments Inc.

Portfolio manager: Harris Investment Management, Inc., Chicago, Illinois

## Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. If the annual financial statements of the Fund 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 1-800-665-7700, by writing to us at BMO Investments Inc., 77 King Street West, 42nd Floor, Toronto, Ontario, M5K 1J5 or by visiting our website at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) 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 Fund's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

**All figures in U.S. currency.**

### MANAGEMENT DISCUSSION OF FUND PERFORMANCE

#### Investment Objective and Strategies

The Fund's objective is to track the performance of the Standard & Poor's 500 Total Return Index ("S&P500").

The portfolio manager invests primarily in U.S. government treasury bills and other high-quality, U.S. money market instruments, while holding options, futures and forward contracts based on the S&P 500. The portfolio manager may also invest directly in equities that comprise the S&P 500.

#### Risk

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

#### Results of Operations

Over the 12-month period ended September 30, 2012 (the "period"), Series A units of the Fund returned 27.50%.

During the period, U.S. equities enjoyed a strong rally, with a brief pull back in May 2012, when markets became increasingly concerned with the European sovereign debt crisis. The U.S. market continued to benefit from improved corporate balance sheets, and the accommodative stimulus provided by the U.S. Federal Reserve Board (the "Fed"). Towards the end of the period, the Fed decided to maintain its interest rate target of 0% to 0.25% until the middle of 2015, and announced a third round of quantitative easing (i.e., monetary policy used by central banks to increase money supply). In addition, improving employment levels also helped to fuel the recovery, and bolster equity market returns.

All 10 sectors of the S&P 500 Total Return Index had positive returns over the period. One of the strongest contributing sectors was Information Technology, which returned 32.4%. This sector was led by the strong performance of large technology companies such as Apple Inc., Google Inc., Visa Inc., and Ebay Inc. The highest sector return belonged to Consumer Discretionary at 36.6%. The lowest sector return was Utilities at 12.9%.

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

#### Recent Developments

The Fed has extended their pledge to keep the federal funds rate near 0% through to the middle of 2015 and as such, the U.S. markets reacted favourably to this initiative. Further positive performance will hinge in part on the ability of the U.S. to repair and grow its economy. The unemployment rate continues to decrease, although the economy still needs to add about 4 million jobs to attain pre-crisis levels.

U.S. equity markets are also highly connected to the state of the global economy, and are particularly impacted by the European sovereign debt crisis. The European Central Bank announced that they would take strong measures to preserve the European Union and its currency. U.S. equity market returns going forward may be impacted by European economic stability. Other risks to the global economy include continuing demand and economic growth in China, and the political stability in the Middle East, which may impact U.S. equity markets.

BMO  Mutual Funds®

Making money make sense®

# BMO U.S. Dollar Equity Index Fund (in US\$)

---

## *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 (“IASB”), for fiscal years beginning on or after January 1, 2014. For reporting periods commencing October 1, 2014, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will report its financial results for the interim period ending March 31, 2015, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at October 1, 2013 (transition date). A summary of the significant standards impacting the Fund under IFRS are outlined below.

Based on the Fund’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 (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 Fund 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 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 Fund holds controlling interest in an investment, it is the Manager’s expectation that the Fund will qualify as an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Fund 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 Fund 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 Fund, Statement of Cash Flows will now be included in the financial statements in accordance with the requirement of IFRS 1 First-time adoption of International Financial Reporting Standards, 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 Fund’s Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund’s unitholder structure to confirm classification.

## RELATED PARTY TRANSACTIONS

BMO Investments Inc. (“BMOII”), an indirect, wholly-owned subsidiary of Bank of Montreal, is the Manager of the Fund. From time to time, the Manager may, on behalf of the Fund, 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 Manager (each a “Related Party”). The purpose of this section is to provide a brief description of any transaction involving the Fund and a Related Party.

## Portfolio Manager

The Fund’s portfolio manager is Harris Investment Management, Inc. (“HIM”), an affiliate of the Manager. HIM provides portfolio management services to the Fund. HIM receives a management fee based on assets under management, calculated daily and payable quarterly.

# BMO U.S. Dollar Equity Index Fund (in US\$)

## Administration Fees

The Fund pays a fixed administration fee to the Manager. The Manager in return pays the operating expenses of the Fund, other than certain specified expenses that are paid directly by the Fund ("Fund Expenses"). Fund Expenses include interest or other borrowing expenses, costs and expenses related to the operation of the Fund's Independent Review Committee ("IRC"), including fees and expenses of IRC members, taxes to which the Fund is or might be subject, and costs associated with compliance with any new governmental or regulatory requirement introduced after December 1, 2007 (e.g., cost associated with the production of Fund Facts, filed in compliance with the relevant amendments to NI 81-101). The fixed administration fee is calculated as a fixed annual percentage of the average net assets of the Fund and, for the most part, replaces the previous cost recovery method under which operating expenses were charged or allocated to the Fund. Further details about the fixed administration fee and/or Fund Expenses can be found in the Fund's most recent simplified prospectus at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) or [www.sedar.com](http://www.sedar.com).

## Distribution Services

The Manager markets and distributes the Fund directly through Bank of Montreal branches and through registered dealers and brokers, including BMO InvestorLine Inc. and BMO Nesbitt Burns Inc., both affiliates of the Manager. The Manager pays to these affiliates on an ongoing basis annual service or trailing commissions based on the average daily value of the units that are held in investor accounts.

## Management Fees

The Manager is responsible for the day-to-day management of the business and operations of the Fund. The Manager monitors and evaluates the Fund's performance, pays for the investment advice provided by the Fund's portfolio manager and provides certain administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a management fee payable monthly, calculated based on the daily NAV of the Fund at the maximum annual rate set out in the table below.

	Maximum Annual Management Fee Rate %	As a Percentage of Management Fees	
		Dealer Compensation %	General Administration, Investment Advice and Profit %
Series A Units	0.85	8	92

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated.

### The Fund's Net Assets per Unit<sup>(1)</sup>

#### Series A

		2012	Periods ended Sep. 30			2008
			2011	2010	2009	
Net assets, beginning of period	\$	8.09	8.08	7.46	8.16	10.96
<b>Increase (decrease) from operations:</b>						
Total revenue	\$	2.39	0.03	0.70	-0.65	-2.27
Total expenses	\$	-0.11	-0.10	-0.09	-0.07	-0.11
Realized gains (losses) for the period	\$	—	—	—	—	—
Unrealized gains (losses) for the period	\$	—	—	—	—	—
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	\$	2.28	-0.07	0.61	-0.72	-2.38
<b>Distributions:</b>						
From income (excluding dividends)	\$	—	—	—	—	0.45
From dividends	\$	—	—	—	—	—
From capital gains	\$	—	—	—	—	—
Return of capital	\$	—	—	—	—	0.01
<b>Total Annual Distributions<sup>(3)</sup></b>	\$	—	—	—	—	0.46
<b>Net assets, end of period</b>	\$	10.32	8.09	8.08	7.46	8.16

<sup>(1)</sup> This information is derived from the Fund's audited financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's 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 either paid in cash or reinvested in additional units of the Fund, or both.

## Ratios and Supplemental Data

### Series A

		2012	Periods ended Sep. 30			2008
			2011	2010	2009	
Total net asset value (000's) <sup>(1)</sup>	\$	15,827	13,837	12,903	10,934	11,829
Number of units outstanding (000's) <sup>(1)</sup>		1,534	1,710	1,596	1,466	1,450
Management expense ratio <sup>(2)</sup>	%	1.17	1.16	1.13	1.10	1.13
Management expense ratio before waivers or absorptions	%	1.17	1.18	1.13	1.10	1.17
Trading expense ratio <sup>(3)</sup>	%	0.01	0.01	0.01	0.02	0.01
Portfolio turnover rate <sup>(4)</sup>	%	—	—	—	—	—
Net asset value per unit	\$	10.32	8.09	8.08	7.46	8.16

<sup>(1)</sup> This information is provided as at September 30 of the period shown, as applicable.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transactions 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 Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund 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 fund. For all the financial periods listed, no purchases or sales of portfolio securities were made by the Fund. As a result, the portfolio turnover rate for all the periods was zero.

# BMO U.S. Dollar Equity Index Fund (in US\$)

## PAST PERFORMANCE

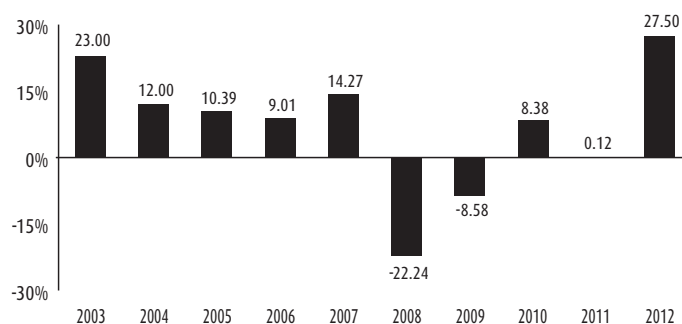
The Fund's performance information assumes that all distributions made by the Fund in the periods shown were used to purchase additional units or shares of the Fund and is based on the net asset value of the Fund.

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 that how the Fund has performed in the past does not indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the performance of the Fund for each of the financial years shown. The chart shows 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.

#### Series A



### Annual Compound Returns

This table compares the historical annual compound returns of the Fund with its benchmark, the Standard & Poor's 500 Total Return Index ("S&P 500") (US\$), a broad-based index.

The S&P 500 (US\$) reflects changes in the performance of 500 widely held U.S. common stocks.

#### Series A

		1 year	3 years	5 years	10 years	Since Inception
BMO U.S. Dollar Equity Index Fund	%	27.50	11.43	-0.33	6.42	
S&P 500 (US\$)	%	30.20	13.20	1.05	8.01	

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

# BMO U.S. Dollar Equity Index Fund (in US\$)

## SUMMARY OF INVESTMENT PORTFOLIO

As at September 30, 2012

<b>Portfolio Allocation</b>	<b>% of Net Asset Value</b>
Information Technology	20.1
Financials	14.6
Health Care	12.0
Energy	11.3
Consumer Discretionary	11.0
Consumer Staples	10.9
Industrials	9.8
Utilities	3.5
Materials	3.5
Telecommunication Services	3.3
<b>Total Portfolio Allocation</b>	<b>100.0</b>

<b>Top 25 Holdings<sup>+</sup></b>	<b>% of Net Asset Value</b>
<b>Issuer</b>	
Apple Inc.	4.9
Exxon Mobil Corp.	3.3
General Electric Co.	1.9
Chevron Corp.	1.8
Microsoft Corp.	1.7
International Business Machines Corp.	1.7
AT&T Inc.	1.7
Google Inc. Cl A	1.6
Procter & Gamble Co.	1.5
Johnson & Johnson	1.5
Pfizer Inc.	1.4
Wells Fargo & Co.	1.3
Berkshire Hathaway Inc. Cl B	1.3
JPMorgan Chase & Co.	1.2
Philip Morris International Inc.	1.2
Coca-Cola Co.	1.1
Merck & Co Inc	1.1
Verizon Communications Inc.	1.0
Wal-Mart Stores Inc.	1.0
Oracle Corp.	0.9
Intel Corp.	0.9
PepsiCo Inc.	0.9
Abbott Laboratories	0.8
QUALCOMM Inc.	0.8
Cisco Systems Inc.	0.8
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>37.3</b>
<b>Total Net Asset Value</b>	<b>\$15,827,095</b>

<sup>+</sup>The Fund obtains its exposure to U.S. markets primarily through investments in derivatives and money market securities. The listed holdings represent the Fund's exposure as a result of these derivative holdings.

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

[www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds)

**BMO Investments Inc.**  
**77 King Street West, Suite 4200**  
**Toronto, Ontario M5K 1J5**

**For more information please call 1-800-665-7700**



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 Fund may invest in and the risks detailed from time to time in BMO Mutual Funds' 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 Fund, 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 Investments 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.

® Registered trade-marks of Bank of Montreal, used under licence.

BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate legal entity from Bank of Montreal.