

# BMO Mutual Funds 2019

Semi-Annual Financial Statements

March 31, 2019

## BMO Preferred Share Fund

### NOTICE OF NO AUDITOR REVIEW OF THE SEMI-ANNUAL FINANCIAL STATEMENTS

BMO Investments Inc., the Manager of the Fund, appoints independent auditors to audit the Fund's Annual Financial Statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the Semi-Annual Financial Statements, this must be disclosed in an accompanying notice.

The Fund's independent auditors have not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada.

# BMO Preferred Share Fund

(unaudited)

## STATEMENT OF FINANCIAL POSITION

(All amounts in thousands of Canadian dollars, except per unit data)

As at	March 31 2019	September 30 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	1,540	21
Investments		
Non-derivative financial assets	320,104	401,363
Receivable for investments sold	7	—
Subscriptions receivable	2	1
Dividends receivable	652	745
Distribution receivable from investment trusts	33	32
<b>Total assets</b>	<b>322,338</b>	<b>402,162</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Payable for investments purchased	302	—
Redemptions payable	217	59
Accrued expenses	22	2
<b>Total liabilities</b>	<b>541</b>	<b>61</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>321,797</b>	<b>402,101</b>
<b>Net assets attributable to holders of redeemable units</b>		
Series A Units	6,595	8,607
Advisor Series Units	3,866	4,578
Series F Units	1,845	2,632
Series D Units	369	345
Series I Units	279,797	346,471
Series O Units	29,325	39,468
<b>Net assets attributable to holders of redeemable units per unit</b>		
Series A Units	\$ 7.82	\$ 9.06
Advisor Series Units	\$ 7.93	\$ 9.18
Series F Units	\$ 7.93	\$ 9.19
Series D Units	\$ 7.87	\$ 9.11
Series I Units	\$ 7.94	\$ 9.20
Series O Units	\$ 7.84	\$ 9.09

## STATEMENT OF COMPREHENSIVE INCOME

(All amounts in thousands of Canadian dollars, except per unit data)

For the periods ended	March 31 2019	March 31 2018
<b>INCOME</b>		
Interest income	104	46
Dividend income	8,545	9,903
Distributions received from investment trusts	177	199
Other changes in fair value of investments and derivatives		
Net realized loss	(12,013)	(211)
Change in unrealized depreciation	(42,770)	(2,495)
Net (loss) gain in fair value of investments and derivatives	(45,957)	7,442
Securities lending revenue (note 8)	2	6
Total other income	2	6
<b>Total (loss) income</b>	<b>(45,955)</b>	<b>7,448</b>
<b>EXPENSES</b>		
Management fees (note 6)	111	142
Fixed administration fees (note 6)	52	76
Independent review committee fees (note 6)	0	0
Interest expense	—	0
Fund facts fees	0	0
Commissions and other portfolio transaction costs (note 6)	123	160
Operating expenses absorbed by the Manager (note 6)	(17)	(24)
<b>Total expenses</b>	<b>269</b>	<b>354</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(46,224)</b>	<b>7,094</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>		
Series A Units	(1,066)	33
Advisor Series Units	(535)	33
Series F Units	(316)	170
Series D Units	(42)	3
Series I Units	(39,766)	6,084
Series O Units	(4,499)	771
<b>(Decrease) increase in net assets attributable to holders of redeemable units per unit (note 8)</b>		
Series A Units	(1.16)	0.03
Advisor Series Units	(1.08)	0.06
Series F Units	(1.15)	0.27
Series D Units	(1.03)	0.08
Series I Units	(1.11)	0.15
Series O Units	(1.12)	0.14

The accompanying notes are an integral part of these financial statements.

# BMO Preferred Share Fund

(unaudited)

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

(All amounts in thousands of Canadian dollars)

For the periods ended	March 31 2019	March 31 2018	For the periods ended	March 31 2019	March 31 2018
<b>Series A Units</b>			<b>Series F Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	8,607	8,178	<b>Net assets attributable to holders of redeemable units at beginning of period</b>	2,632	9,054
(Decrease) increase in net assets attributable to holders of redeemable units	(1,066)	33	(Decrease) increase in net assets attributable to holders of redeemable units	(316)	170
<b>Distributions to holders of redeemable units from:</b>			<b>Distributions to holders of redeemable units from:</b>		
Net investment income	(127)	(120)	Net investment income	(52)	(138)
Return of capital	(0)	(0)	Return of capital	(0)	(1)
<b>Total distributions to holders of redeemable units</b>	(127)	(120)	<b>Total distributions to holders of redeemable units</b>	(52)	(139)
<b>Redeemable unit transactions</b>			<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	1,136	2,191	Proceeds from redeemable units issued	184	429
Reinvestments of distributions to holders of redeemable units	119	114	Reinvestments of distributions to holders of redeemable units	35	85
Redemption of redeemable units	(2,074)	(1,460)	Redemption of redeemable units	(638)	(5,143)
<b>Net (decrease) increase from redeemable unit transactions</b>	(819)	845	<b>Net decrease from redeemable unit transactions</b>	(419)	(4,629)
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(2,012)	758	<b>Net decrease in net assets attributable to holders of redeemable units</b>	(787)	(4,598)
<b>Net assets attributable to holders of redeemable units at end of period</b>	6,595	8,936	<b>Net assets attributable to holders of redeemable units at end of period</b>	1,845	4,456
<b>Advisor Series Units</b>			<b>Series D Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	4,578	4,958	<b>Net assets attributable to holders of redeemable units at beginning of period</b>	345	374
(Decrease) increase in net assets attributable to holders of redeemable units	(535)	33	(Decrease) increase in net assets attributable to holders of redeemable units	(42)	3
<b>Distributions to holders of redeemable units from:</b>			<b>Distributions to holders of redeemable units from:</b>		
Net investment income	(68)	(74)	Net investment income	(7)	(7)
Return of capital	(0)	(0)	Return of capital	(0)	(0)
<b>Total distributions to holders of redeemable units</b>	(68)	(74)	<b>Total distributions to holders of redeemable units</b>	(7)	(7)
<b>Redeemable unit transactions</b>			<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	466	456	Proceeds from redeemable units issued	91	101
Reinvestments of distributions to holders of redeemable units	48	58	Reinvestments of distributions to holders of redeemable units	7	6
Redemption of redeemable units	(623)	(445)	Redemption of redeemable units	(25)	(104)
<b>Net (decrease) increase from redeemable unit transactions</b>	(109)	69	<b>Net increase from redeemable unit transactions</b>	73	3
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(712)	28	<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	24	(1)
<b>Net assets attributable to holders of redeemable units at end of period</b>	3,866	4,986	<b>Net assets attributable to holders of redeemable units at end of period</b>	369	373

The accompanying notes are an integral part of these financial statements.

# BMO Preferred Share Fund

(unaudited)

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (cont'd)

(All amounts in thousands of Canadian dollars)

For the periods ended	March 31 2019	March 31 2018	For the periods ended	March 31 2019	March 31 2018
<b>Series I Units</b>			<b>Total Fund</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	346,471	369,925	<b>Net assets attributable to holders of redeemable units at beginning of period</b>	402,101	442,520
(Decrease) increase in net assets attributable to holders of redeemable units	(39,766)	6,084	(Decrease) increase in net assets attributable to holders of redeemable units	(46,224)	7,094
<b>Distributions to holders of redeemable units from:</b>			<b>Distributions to holders of redeemable units from:</b>		
Net investment income	(7,951)	(8,818)	Net investment income	(9,053)	(10,286)
Return of capital	(21)	(23)	Return of capital	(23)	(27)
<b>Total distributions to holders of redeemable units</b>	<b>(7,972)</b>	<b>(8,841)</b>	<b>Total distributions to holders of redeemable units</b>	<b>(9,076)</b>	<b>(10,313)</b>
<b>Redeemable unit transactions</b>			<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	56,999	4,704	Proceeds from redeemable units issued	61,262	10,563
Reinvestments of distributions to holders of redeemable units	7,972	8,841	Reinvestments of distributions to holders of redeemable units	8,922	10,083
Redemption of redeemable units	(83,907)	(25,329)	Redemption of redeemable units	(95,188)	(40,172)
<b>Net decrease from redeemable unit transactions</b>	<b>(18,936)</b>	<b>(11,784)</b>	<b>Net decrease from redeemable unit transactions</b>	<b>(25,004)</b>	<b>(19,526)</b>
<b>Net decrease in net assets attributable to holders of redeemable units</b>	<b>(66,674)</b>	<b>(14,541)</b>	<b>Net decrease in net assets attributable to holders of redeemable units</b>	<b>(80,304)</b>	<b>(22,745)</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>279,797</b>	<b>355,384</b>	<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>321,797</b>	<b>419,775</b>
<b>Series O Units</b>					
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	39,468	50,031			
(Decrease) increase in net assets attributable to holders of redeemable units	(4,499)	771			
<b>Distributions to holders of redeemable units from:</b>					
Net investment income	(848)	(1,129)			
Return of capital	(2)	(3)			
<b>Total distributions to holders of redeemable units</b>	<b>(850)</b>	<b>(1,132)</b>			
<b>Redeemable unit transactions</b>					
Proceeds from redeemable units issued	2,386	2,682			
Reinvestments of distributions to holders of redeemable units	741	979			
Redemption of redeemable units	(7,921)	(7,691)			
<b>Net decrease from redeemable unit transactions</b>	<b>(4,794)</b>	<b>(4,030)</b>			
<b>Net decrease in net assets attributable to holders of redeemable units</b>	<b>(10,143)</b>	<b>(4,391)</b>			
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>29,325</b>	<b>45,640</b>			

The accompanying notes are an integral part of these financial statements.

# BMO Preferred Share Fund

(unaudited)

## STATEMENT OF CASH FLOWS

(All amounts in thousands of Canadian dollars)

For the periods ended	March 31 2019	March 31 2018
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(46,224)	7,094
Adjustments for:		
Net realized loss on sale of investments and derivatives	12,013	211
Change in unrealized depreciation of investments and derivatives	42,770	2,495
Decrease (increase) in dividends receivable	93	(345)
Increase in distribution receivable from investment trusts	(1)	0
(Increase) decrease in accrued interest on money market investments	(31)	10
Increase in accrued expenses	20	29
Purchases of investments	(77,136)	(79,646)
Proceeds from sale and maturity of investments	103,938	99,559
<b>Net cash from operating activities</b>	<b>35,442</b>	<b>29,407</b>
<b>Cash flows from financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(154)	(230)
Proceeds from issuances of redeemable units	61,241	10,533
Amounts paid on redemption of redeemable units	(95,010)	(41,862)
<b>Net cash from financing activities</b>	<b>(33,923)</b>	<b>(31,559)</b>
Net increase (decrease) in cash	1,519	(2,152)
Cash at beginning of period	21	3,580
<b>Cash at end of period</b>	<b>1,540</b>	<b>1,428</b>

### Supplementary Information

Interest received, net of withholding taxes*	73	56
Dividends received, net of withholding taxes*	8,638	9,558
Distributions received from investment trusts, net of withholding taxes*	176	199
Interest expense paid*	—	0

\*These items are from operating activities

The accompanying notes are an integral part of these financial statements.

# BMO Preferred Share Fund

(unaudited)

## SCHEDULE OF INVESTMENT PORTFOLIO

As at March 31, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

	Par Value (in thousands)	Cost (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
<b>MONEY MARKET INVESTMENTS</b>							
<b>Federal — 5.7%</b>							
Government of Canada, Treasury Bills, 1.643% Apr 18, 2019	5,000	4,977	4,996				
Government of Canada, Treasury Bills, 1.667% May 30, 2019	400	398	399				
Government of Canada, Treasury Bills, 1.651% May 30, 2019	4,000	3,980	3,989				
Government of Canada, Treasury Bills, 1.736% Aug 8, 2019	2,000	1,984	1,988				
Government of Canada, Treasury Bills, 1.653% Aug 8, 2019	7,000	6,951	6,959				
<b>Total Money Market Investments — 5.7%</b>		<b>18,290</b>	<b>18,331</b>				
	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
BCE Inc., Series AA, 3.610%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Sep 1, 2022, \$25.00	18,357	370	283				
BCE Inc., Series AC, 4.380%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Mar 1, 2023, \$25.00	28,135	563	459				
BCE Inc., Series AF, 3.110%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Feb 1, 2020, \$25.00	153,426	2,962	2,332				
BCE Inc., Series AI, 2.750%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Aug 1, 2021, \$25.00	66,765	1,168	1,001				
BCE Inc., Series AK, 2.954%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Dec 31, 2021, \$25.00	52,100	936	729				
BCE Inc., Series AM, 2.764%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Mar 31, 2021, \$25.00	47,900	947	692				
BCE Inc., Series AQ, 4.812%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Sep 30, 2023, \$25.00	46,500	1,140	922				
BCE Inc., Series R, 4.130%, Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Dec 1, 2020, \$25.00	96,184	1,899	1,486				
Brookfield Asset Management Inc., Series 24, 3.014%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2021, \$25.00	68,500	1,113	1,106				
Brookfield Asset Management Inc., Series 26, 3.471%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	120,300	2,387	1,955				
Brookfield Asset Management Inc., Series 32, 5.061%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2023, \$25.00	40,100	1,002	852				
Brookfield Asset Management Inc., Series 34, 4.437%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2024, \$25.00	67,645	1,575	1,283				
Brookfield Asset Management Inc., Series 38, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2020, \$25.00	101,606	2,474	1,805				
Brookfield Asset Management Inc., Series 40, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2019, \$25.00	226,209	5,622	4,379				
Brookfield Asset Management Inc., Series 42, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2020, \$25.00	227,027	5,612	4,402				
Brookfield Asset Management Inc., Series 46, 4.800%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	52,000	1,322	1,326				
Brookfield Asset Management Inc., Series 48, 4.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2022, \$25.00	80,200	1,985	1,925				
Brookfield Office Properties Inc., Series AA, 4.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2019, \$25.00	210,460	5,115	3,622				
Brookfield Office Properties Inc., Series GG, 4.850%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2022, \$25.00	110,100	2,751	2,190				

# BMO Preferred Share Fund

(unaudited)

## SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
Brookfield Office Properties Inc., Series N, 3.782%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2021, \$25.00.....	334,819.....	7,248.....	5,407	Enbridge Inc., Series 9, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2019, \$25.00 .....	88,830.....	2,190.....	1,481
Brookfield Office Properties Inc., Series P, 4.161%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00.....	125,951.....	2,761.....	2,023	Enbridge Inc., Series B, 3.415%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2022, \$25.00.....	294,160.....	6,311.....	4,424
Brookfield Office Properties Inc., Series R, 4.155%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2021, \$25.00.....	196,651.....	4,563.....	3,459	Enbridge Inc., Series D, 4.460%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2023, \$25.00 .....	217,016.....	5,107.....	3,548
Brookfield Office Properties Inc., Series T, 5.383%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2023, \$25.00.....	176,909.....	4,298.....	3,388	Enbridge Inc., Series N, 5.086%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2023, \$25.00 .....	42,531.....	944.....	783
Brookfield Renewable Partners L.P., Series 11, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2022, \$25.00 .....	26,900.....	673.....	580	Enbridge Inc., Series P, 4.379%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2024, \$25.00 .....	195,463.....	3,994.....	3,215
Brookfield Renewable Partners L.P., Series 7, 5.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2021, \$25.00 .....	197,756.....	4,939.....	4,881	Enbridge Inc., Series R, 4.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2019, \$25.00.....	103,016.....	1,931.....	1,614
Brookfield Renewable Partners L.P., Series 9, 5.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2021, \$25.00 .....	36,200.....	923.....	917	Husky Energy Inc., Series 3, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2019, \$25.00.....	81,315.....	2,007.....	1,490
Brookfield Renewable Power Preferred Equity Inc., Series 1, 3.355%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2020, \$25.00 .....	113,723.....	2,347.....	1,793	Husky Energy Inc., Series 5, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2020, \$25.00.....	147,099.....	3,638.....	2,883
Canadian Imperial Bank of Commerce, Series 39, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00 .....	280,809.....	6,757.....	5,223	Industrial Alliance Insurance and Financial Services Inc., Series G, 3.777%, Non-Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Jun 30, 2022, \$25.00 .....	42,200.....	936.....	884
Canadian Imperial Bank of Commerce, Series 41, 3.750%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2020, \$25.00 .....	171,000.....	3,926.....	3,046	Industrial Alliance Insurance and Financial Services Inc., Series I, 4.800%, Non-Cumulative, Fixed/ Floating Rate Preferred, Redeemable, Mar 31, 2023, \$25.00 .....	59,800.....	1,495.....	1,308
Canadian Imperial Bank of Commerce, Series 43, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2020, \$25.00 .....	175,185.....	4,095.....	3,541	Intact Financial Corporation, Series 3, 3.332%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2021, \$25.00 .....	6,300.....	140.....	120
Canadian Imperial Bank of Commerce, Series 45, 4.400%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2022, \$25.00 .....	161,000.....	4,028.....	3,677	Intact Financial Corporation, Series 7, 4.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2023, \$25.00.....	30,100.....	752.....	655
Canadian Imperial Bank of Commerce, Series 47, 4.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2023, \$25.00 .....	72,100.....	1,756.....	1,492	Kinder Morgan Canada Limited, Series 3, 5.200%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 15, 2023, \$25.00 .....	23,000.....	575.....	531
Canadian Western Bank, Series 5, 4.400%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2019, \$25.00 .....	156,756.....	3,806.....	2,985	Manulife Financial Corporation, Series 13, 4.414%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 19, 2023, \$25.00 .....	40,200.....	924.....	787
Canadian Western Bank, Series 7, 6.250%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2021, \$25.00 .....	86,800.....	2,196.....	2,244	Manulife Financial Corporation, Series 17, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 19, 2019, \$25.00.....	121,084.....	2,936.....	2,275
Element Fleet Management Corp., Series A, 6.933%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2023, \$25.00 .....	42,206.....	1,059.....	929	Manulife Financial Corporation, Series 1-7, 4.312%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 19, 2022, \$25.00 .....	80,200.....	1,885.....	1,826
Element Fleet Management Corp., Series C, 6.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2019, \$25.00 .....	107,442.....	2,656.....	2,289	Manulife Financial Corporation, Series 19, 3.800%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 19, 2020, \$25.00.....	60,700.....	1,422.....	1,107
Element Fleet Management Corp., Series G, 6.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2020, \$25.00 .....	52,301.....	1,279.....	1,171	Manulife Financial Corporation, Series 23, 4.850%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 19, 2022, \$25.00.....	102,200.....	2,555.....	2,566
Enbridge Inc., Series 11, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2020, \$25.00.....	214,206.....	5,123.....	3,543	Manulife Financial Corporation, Series 25, 4.700%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 19, 2023, \$25.00.....	116,600.....	2,913.....	2,439
Enbridge Inc., Series 13, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2020, \$25.00.....	34,700.....	618.....	576				

# BMO Preferred Share Fund

(unaudited)

## SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
Manulife Financial Corporation, Series 5, 3.891%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 19, 2021, \$25.00	113,200	2,730	2,381	Royal Bank of Canada, Series BM, 5.500%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2021, \$25.00	11,400	297	300
Manulife Financial Corporation, Series 9, 4.351%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 19, 2022, \$25.00	100,900	2,399	2,182	Royal Bank of Canada, Series BO, 4.800%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 24, 2024, \$25.00	17,900	394	395
National Bank of Canada, Series 30, 4.100%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 15, 2019, \$25.00	141,900	3,329	2,661	Sun Life Financial Inc., Series 12R, 3.806%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2021, \$25.00	61,500	1,348	1,296
National Bank of Canada, Series 32, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 15, 2020, \$25.00	180,000	3,952	3,240	Toronto-Dominion Bank, The, Series 1, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2019, \$25.00	235,313	5,823	4,393
National Bank of Canada, Series 34, 5.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 15, 2021, \$25.00	39,500	1,000	1,038	Toronto-Dominion Bank, The, Series 12, 5.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2021, \$25.00	61,700	1,556	1,618
National Bank of Canada, Series 38, 4.450%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 15, 2022, \$25.00	192,200	4,621	4,392	Toronto-Dominion Bank, The, Series 16, 4.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2022, \$25.00	88,500	2,174	2,040
National Bank of Canada, Series 42, 4.950%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 15, 2023, \$25.00	40,100	1,002	899	Toronto-Dominion Bank, The, Series 18, 4.700%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2023, \$25.00	67,000	1,622	1,501
Pembina Pipeline Corporation, Series 13, 5.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2021, \$25.00	700	18	18	Toronto-Dominion Bank, The, Series 20, 4.750%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2023, \$25.00	78,100	1,952	1,717
Pembina Pipeline Corporation, Series 17, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2024, \$25.00	20,100	480	385	Toronto-Dominion Bank, The, Series 3, 3.800%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00	161,057	3,623	2,992
Pembina Pipeline Corporation, Series 19, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2020, \$25.00	97,485	2,415	2,328	Toronto-Dominion Bank, The, Series 5, 3.750%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2020, \$25.00	264,642	6,065	4,994
Pembina Pipeline Corporation, Series 5, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2019, \$25.00	285,514	7,061	5,331	Toronto-Dominion Bank, The, Series 7, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2020, \$25.00	144,542	3,494	2,970
Pembina Pipeline Corporation, Series 7, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2019, \$25.00	205,033	5,061	3,723	Toronto-Dominion Bank, The, Series 9, 3.700%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2020, \$25.00	62,000	1,416	1,324
Pembina Pipeline Corporation, Series 9, 4.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2020, \$25.00	196,656	4,754	4,228	TransCanada Corporation, Series 15, 4.900%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 31, 2022, \$25.00	134,500	3,343	3,439
Power Financial Corporation, Series P, 2.306%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2021, \$25.00	102,950	1,622	1,450	TransCanada Corporation, Series 7, 4.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2019, \$25.00	41,000	954	704
Power Financial Corporation, Series T, 4.215%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2024, \$25.00	164,700	3,950	3,268	Westcoast Energy Inc., Series 12, 5.200%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 15, 2021, \$25.00	19,500	489	502
Royal Bank of Canada, Series AZ, 4.000%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2019, \$25.00	198,573	4,857	3,690		278,173		229,652
Royal Bank of Canada, Series BB, 3.900%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2019, \$25.00	304,603	7,473	5,772	<b>Preferred Shares - Straight — 19.9%</b>			
Royal Bank of Canada, Series BD, 3.600%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2020, \$25.00	228,170	5,624	4,664	Bank of Montreal, Series 35, 5.000%, Non- Cumulative, Preferred, Redeemable, Aug 25, 2020, \$26.00	125,206	3,052	3,143
Royal Bank of Canada, Series BF, 3.600%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 24, 2020, \$25.00	92,400	2,030	1,873	Brookfield Asset Management Inc., Series 18, 4.750%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00	140,910	2,958	2,941
Royal Bank of Canada, Series BK, 5.500%, Non- Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2021, \$25.00	11,900	299	313	Brookfield Asset Management Inc., Series 36, 4.850%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.75	65,414	1,517	1,404
				Brookfield Asset Management Inc., Series 37, 4.900%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$26.00	36,487	825	803



# BMO Preferred Share Fund

(unaudited)

## SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
Canadian Utilities Limited, Series EE, 5.250%, Cumulative, Preferred, Redeemable, Sep 1, 2020, \$26.00 .....	109,773	2,715	2,744	Power Financial Corporation, Series D, 5.500%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	16,300	405	410
George Weston Limited, Series I, 5.800%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	60,347	1,527	1,530	Power Financial Corporation, Series E, 5.250%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	31,892	773	778
George Weston Limited, Series III, 5.200%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	74,091	1,824	1,780	Power Financial Corporation, Series F, 5.900%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	70,487	1,779	1,815
George Weston Limited, Series IV, 5.200%, Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	60,400	1,462	1,459	Power Financial Corporation, Series H, 5.750%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	65,331	1,645	1,666
Great-West Lifeco Inc., Series F, 5.900%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	34,760	879	891	Power Financial Corporation, Series K, 4.950%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	72,297	1,725	1,668
Great-West Lifeco Inc., Series G, 5.200%, Non- Cumulative, Preferred, Redeemable, May 8, 2019, \$25.00 .....	53,330	1,348	1,280	Power Financial Corporation, Series L, 5.100%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	83,727	2,079	1,992
Great-West Lifeco Inc., Series H, 4.850%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	41,020	984	951	Power Financial Corporation, Series O, 5.800%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	61,097	1,544	1,567
Great-West Lifeco Inc., Series P, 5.400%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.50 .....	52,225	1,327	1,306	Power Financial Corporation, Series R, 5.500%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.75 .....	16,500	415	421
Great-West Lifeco Inc., Series Q, 5.150%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.75 .....	27,912	693	669	Power Financial Corporation, Series S, 4.800%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$26.00 .....	32,233	747	728
Great-West Lifeco Inc., Series R, 4.800%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.75 .....	44,257	1,049	1,032	Power Financial Corporation, Series V, 5.150%, Non-Cumulative, Preferred, Redeemable, Jul 31, 2022, \$26.00 .....	68,500	1,713	1,647
Great-West Lifeco Inc., Series S, 5.250%, Non- Cumulative, Preferred, Redeemable, Jun 30, 2019, \$26.00 .....	163,142	4,081	4,036	Royal Bank of Canada, Series BJ, 5.250%, Non- Cumulative, Preferred, Redeemable, Feb 24, 2021, \$26.00 .....	77,342	1,866	1,964
Intact Financial Corporation, Series 5, 5.200%, Non-Cumulative, Preferred, Redeemable, Jun 30, 2022, \$26.00 .....	38,700	968	927	Royal Bank of Canada, Series W, 4.900%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	27,600	684	690
Intact Financial Corporation, Series 6, 5.300%, Non-Cumulative, Preferred, Redeemable, Sep 30, 2022, \$26.00 .....	34,200	855	828	Sun Life Financial Inc., Series 1, 4.750%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	58,948	1,353	1,315
Loblaw Companies Limited, Series B, 5.300%, Cumulative, Preferred, Redeemable, Jun 30, 2020, \$26.00 .....	72,091	1,772	1,763	Sun Life Financial Inc., Series 2, 4.800%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	35,275	808	797
Manulife Financial Corporation, Series 2, 4.650%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	74,461	1,662	1,641	Sun Life Financial Inc., Series 4, 4.450%, Non- Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	21,754	493	462
Manulife Financial Corporation, Series 3, 4.500%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	72,199	1,569	1,549	Toronto-Dominion Bank, The, Series 11, 4.900%, Non-Cumulative, Preferred, Redeemable, Oct 31, 2020, \$26.00 .....	113,785	2,851	2,793
Power Corporation of Canada, Series A, 5.600%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	42,120	1,031	1,069	.....	.....	64,780	64,142
Power Corporation of Canada, Series B, 5.350%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	59,509	1,486	1,453	<b>Preferred Shares - Floating Perpetual — 0.1%</b>			
Power Corporation of Canada, Series D, 5.000%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.00 .....	188,752	4,401	4,266	Power Financial Corporation, Series Q, 3.250%, Non-Cumulative, Floating Rate Preferred, Redeemable, Jan 31, 2020, \$25.00 .....	19,600	428	278
Power Corporation of Canada, Series G, 5.600%, Non-Cumulative, Preferred, Redeemable, Apr 25, 2019, \$25.50 .....	153,358	3,915	3,964	<b>Total Preferred Shares — 91.4%</b> .....	<b>343,381</b>	<b>294,072</b>	

# BMO Preferred Share Fund

(unaudited)

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## SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at March 31, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

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	Number of Units	Cost (\$)	Fair Value (\$)
<b>HOLDINGS IN INVESTMENT FUNDS</b>			
BMO Laddered Preferred Share Index ETF <sup>^</sup> .....	761,095.....	8,361.....	7,701
<b>Total Holdings in Investment Funds — 2.4%</b> .....	<b>8,361.....</b>	<b>8,361.....</b>	<b>7,701</b>
<b>Total Investment Portfolio — 99.5%</b> .....	<b>370,032.....</b>	<b>320,104</b>	
Other Assets Less Liabilities — 0.5% .....			1,693
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS - 100.0%</b> .....			<b>321,797</b>

+ Where applicable, distributions received from holdings as a return of capital are used to reduce the adjusted cost base of the securities in the portfolio.

<sup>^</sup> The fund is managed or sub-advised by the manager.

# BMO Preferred Share Fund

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS

(All amounts in thousands of Canadian dollars, except per unit data)

March 31, 2019

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### 1. The Mutual Fund

BMO Preferred Share Fund (the “Fund”) is an open-ended mutual fund established under the laws of the province of Ontario by Declaration of Trust. The Master Declaration of Trust was amended on October 23, 2008 and November 3, 2009 to permit certain Funds to offer a multi-series structure. In addition to the existing Series A Units, certain Funds are permitted to offer Series A Hedged Units, Advisor Series Units, Advisor Series Hedged Units, ETF Series Units, Series T4 Units, Series T5 Units, Series T6 Units, Series T8 Units, Series M Units, Series F Units, Series F Hedged Units, Series F2 Units, Series F4 Units, Series F6 Units, Series D Units, Series G Units, Series I Units, Series N Units, Series NBA Units, Series O Units, Series L Units, Series R Units, Series S Units and/or Classic Series Units. Each series is intended for different kinds of investors and has different management fees and fixed administration fees. Refer to Note 8 for the series issued for this Fund as well as the management and administration fee rates for each series.

BMO Investments Inc. (the “Manager”) is the Manager and Trustee of the Fund. The Manager is a wholly owned subsidiary of Bank of Montreal. The address of the Fund’s registered office is 100 King Street West, Toronto, Ontario, M5X 1A1.

The Statement of Financial Position and related notes of each of the Funds are as at March 31, 2019 and September 30, 2018, as applicable. The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units, Statement of Cash Flows and related notes are for the period(s) ended March 31, 2019 and March 31, 2018, except for a Fund established during the period(s) which is presented from the date of inception (as noted in Note 8) to March 31 of the applicable period. Financial information provided for a series established during the period(s) is presented from the inception date as noted in Note 8 to March 31 of the applicable period.

These financial statements were authorized for issuance by the Board of Directors of the Manager on May 8, 2019.

These financial statements should be read in conjunction with the annual financial statements for the period ended September 30, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### 2. Basis of preparation and presentation

These unaudited interim financial statements have been prepared in accordance with IFRS and in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”).

### 3. Summary of significant accounting policies

#### Financial instruments

Investments include financial assets and financial liabilities such as equity and debt securities, investment funds and derivatives. These financial instruments are part of a group of financial instruments that are managed and their performance is evaluated on a fair value basis and in accordance with the Fund’s investment strategy.

The Fund classifies and measures financial instruments in accordance with IFRS 9 Financial Instruments (“IFRS 9”). Upon initial recognition, financial instruments are recorded at fair value. A financial instrument is recognized when the Fund becomes a party to the contractual requirements of the instrument and is derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date. Investments and derivatives are subsequently measured at fair value through profit and loss (“FVTPL”) with changes in fair value recognized in the Statement of Comprehensive Income as “Change in unrealized appreciation (depreciation)”.

All financial assets and financial liabilities are recognized in the Statement of Financial Position.

The Fund’s outstanding redeemable units, which are puttable instruments, are entitled to a contractual obligation of annual distribution of any net income and net realized capital gains by the Fund. This annual distribution can be in cash at the option of the unitholders, and therefore the ongoing redemption feature is not the redeemable units’ only contractual obligation. Also, the Fund has issued multiple series of redeemable units, which are equally subordinated but are not identical and consequently, do not meet the conditions to be classified as equity. As a result, the Fund’s obligations for net assets attributable to holders of redeemable units (“Net Assets”) are classified as financial liabilities and presented at the redemption amounts.

# BMO Preferred Share Fund

(unaudited)

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

March 31, 2019

### Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis, and excludes commissions and other portfolio transaction costs, which are reported separately in the Statement of Comprehensive Income. Realized gains and losses on disposition are determined based on the average cost of investments.

### Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For exchange-traded securities, close prices are considered to be fair value if they fall within the bid-ask spread. In circumstances where the close price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Procedures are in place to fair value equities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, fair value is determined as the last traded market price or close price, where the close price falls within the bid-ask spread of the security. Short-term investments, if any, are held at amortized cost, which approximates fair value due to their short-term nature.

Mutual fund units held as investments are valued at their respective Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading), as these values are the most readily and regularly available.

The Fund may enter into forward currency contracts for hedging purposes either directly or indirectly or for non-hedging purposes. The fair value of forward currency contracts entered into by the Fund is recorded as the difference between the fair value of the contract on the Valuation Date and the fair value on the date the contract originated.

For the Series A Hedged Units, Advisor Series Hedged Units and Series F Hedged Units (the "Hedged Series"),

the Fund enters into forward currency contracts to hedge against foreign currency exposure and as a result the Hedged Series will be subject to less currency risk than the other series of the Fund because their foreign currency exposure is hedged. However, the hedging strategy may not achieve a perfect hedge of the foreign currency exposure for the Hedged Series.

The Fund may engage in option contract transactions by purchasing (long positions) or writing (short positions) call or put option contracts. These contracts have different risk exposures for the Fund, whereas the risk for long positions will be limited to the premium paid to purchase the option contracts, the risk exposure for the short positions are potentially unlimited until closed or expired.

The premium paid for purchasing an option is recorded as an asset in the Statement of Financial Position. The option contract is valued on each Valuation Date at an amount equal to the fair value of the option that would have the effect of closing the position. The change in the difference between the premium and the fair value is shown as "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

When a purchased option expires, the Fund will realize a loss equal to the premium paid. When a purchased option is closed, the gain or loss the Fund will realize will be the difference between the proceeds and the premium paid. When a purchased call option is exercised, the premium paid is added to the cost of acquiring the underlying security. When a purchased put option is exercised, the premium paid is subtracted from the proceeds from the sale of the underlying security that had to be sold.

The premium received from writing a call or put option is recorded as a liability in the Statement of Financial Position.

When a written option expires, the Fund will realize a gain equal to the premium received. When a written option is closed, the Fund will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received. When a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. When a written put option is exercised, the premium received will be subtracted from the cost of the underlying investment the Fund had to purchase.

# BMO Preferred Share Fund

(unaudited)

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

March 31, 2019

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The gain or loss that the Fund realizes when a purchased or written option is expired or closed is recorded as "Net realized gain (loss)" in the Statement of Comprehensive Income.

Futures contracts are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date. Futures contracts are valued at the gain or loss that would arise as a result of closing the position at the Valuation date. Any difference between the notional value on each Valuation Date is recorded as "Net realized gain (loss)" in the Statement of Comprehensive Income. Treasury bills or cash are held as margin against futures contracts.

A credit default swap contract is an agreement to transfer credit risk from one party, a buyer of protection, to another party, a seller of protection. The Fund, as a seller of protection, would be required to pay a notional or other agreed upon value to the buyer of protection in the event of a default by a third-party. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations.

In connection with the agreement, securities or cash may be identified as collateral or margin in accordance with the terms of the agreement to provide assets of value in the event of default or bankruptcy/insolvency.

The Fund, as a buyer of protection, would receive a notional or other agreed upon value from the seller of protection in the event of a default by a third-party. In return, the Fund would be required to pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs.

Credit default swap contracts are fair valued daily based upon quotations from independent security pricing sources. Premiums paid or received, if any, are included in "Net realized gain (loss)" in the Statement of Comprehensive Income. Net periodic payments are accrued daily and recorded as "Interest income" in the Statement of Comprehensive Income. When credit default swap contracts expire or are closed out, gains or losses are recorded as "Net realized gain (loss)" in the Statement of Comprehensive Income.

Interest rate swap contracts are agreements between two parties to exchange periodic interest payments

based on a notional principal amount. The net periodic payments received or paid from interest rate swap contracts are recorded as "Interest income" in the Statement of Comprehensive Income. Payments received or paid when the Fund enters into the contract are recorded as a liability or asset in the Statement of Financial Position. When the contract is terminated or expires, the payments received or paid are recorded as "Net realized gain (loss)" in the Statement of Comprehensive Income. Payments received or paid upon early termination are recorded as "Net realized gain (loss)" in the Statement of Comprehensive Income.

Interest rate swap agreements are valued based upon quotations from independent sources. The change in value is included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

The Fund enters into interest rate swap agreements to manage the exposure to interest rates.

Unlisted warrants, if any, are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Manager may determine another value which it considers to be fair and reasonable, or use a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies, NAV (for exchange-traded funds) and other applicable rates or prices. These estimation techniques include discounted cash flows, internal models that utilize observable data or comparisons with other securities that are substantially similar. In limited circumstances, the Manager may use internal models where the inputs are not based on observable market data.

### Cash

Cash is comprised of cash and deposits with banks which include bankers' acceptances and overnight demand deposits. The carrying amount of cash approximates its fair value because it is short-term in nature.

# BMO Preferred Share Fund

(unaudited)

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)

March 31, 2019

### Other assets and other liabilities

Other assets and other liabilities generally include receivables for investments sold, subscription receivable, interest receivable, dividend receivable, distribution receivable from investment trusts, payable for investments purchased, redemption payable, distributions payable and accrued expenses. These financial assets and financial liabilities are short-term in nature and are subsequently measured at amortized cost, which approximates their fair value.

### Investments in subsidiaries, joint ventures and associates

Subsidiaries are entities over which the Fund has control through its exposure or rights to variable returns from its investment and has the ability to affect those returns through its power over the entity. The Manager has determined that the Fund is an investment entity and as such, it accounts for subsidiaries, if any, at fair value. Joint ventures are investments where the Fund exercises joint control through an agreement with other shareholders, and associates are investments in which the Fund exerts significant influence over operating, investing, and financing decisions (such as entities in which the Fund owns 20% - 50% of voting shares), all of which, if any, have been classified at FVTPL.

### Unconsolidated structured entities

The Manager has determined that the underlying funds in which the Fund may invest are unconsolidated structured entities. This determination is based on the fact that decision making about the underlying funds is not governed by the voting right or other similar right held by the Fund. Similarly, investments in securitizations, asset-backed securities and mortgage-backed securities are determined to be interests in unconsolidated structured entities.

The Fund may invest in underlying funds whose investment objectives range from achieving short-term to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives and as permitted by Canadian securities regulatory authorities. Underlying funds finance their operations by issuing redeemable units which are puttable at the holders' option and entitles the holder to a proportionate stake in the respective fund's Net Assets. The change in fair value of each of the underlying funds during the periods is included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans and student loans.

The Fund does not provide and has not committed to providing any additional significant financial or other support to the unconsolidated structured entities other than its investment in the unconsolidated structured entities.

Additional information on the Fund's interest in unconsolidated structured entities, where applicable, is provided in Note 8.

### Offsetting of financial assets and financial liabilities

Financial instruments are presented at net or gross amounts in the Statement of Financial Position depending on the existence of intention and legal right to offset opposite positions of such instruments held with the same counterparties. Amounts offset in the Statement of Financial Position are transactions for which the Fund has legally enforceable rights to offset and intends to settle the positions on a net basis. Amounts not offset in the Statement of Financial Position relate to transactions where a master netting arrangement or similar agreement is in place with a right to offset only in the event of default, insolvency or bankruptcy, or where the Fund has no intention of settling on a net basis.

### Income recognition

Dividend income and distributions received from investment trusts are recognized on the ex-dividend and ex-distribution date, respectively.

Interest income from interest bearing investments is recognized in the Statement of Comprehensive Income using the effective interest rate. Interest receivable shown in the Statement of Financial Position is accrued based on the interest bearing investments' stated rates of interest.

Interest on inflation-indexed bonds is paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is recognized as part of interest income in the Statement of Comprehensive Income. If held to maturity, the Fund will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Date based on the inflation adjusted par value at that time and is included in "Interest income" in the Statement of Comprehensive Income.

### Foreign currency translation

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Fund's functional currency at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Realized foreign exchange gains (losses) on investment transactions are included in "Net realized gain (loss)" in the Statement of Comprehensive Income and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income. Foreign exchange gains (losses) relating to cash, receivables and payables are included in "Foreign exchange gain (loss)" in the Statement of Comprehensive Income.

### Securities lending

A Fund may engage in securities lending pursuant to the terms of agreements with State Street and BNY Mellon (the "security lending agent" and the "former security lending agent", respectively). BNY Mellon was the security lending agent until December 3, 2018, when State Street became the lending agent. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the NAV of the Fund. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of obligations of or guarantee by the Government of Canada or a province thereof, or by the United States government or its agencies, but it may include obligations of other governments with appropriate credit ratings. Further, the program entered into provides for 100% indemnification by the securities lending agent and parties related to the Fund's custodian, to the Fund for any defaults by borrowers.

For those Funds participating in the program, aggregate values of securities on loan, the collateral held as at March 31, 2019 and September 30, 2018, where applicable, and information about the security lending income earned by the Fund are disclosed in Note 8.

Income from securities lending, where applicable, is included in the Statement of Comprehensive Income and is recognized when earned. The breakdown of the securities lending income is disclosed in Note 8, where applicable.

### Short-term trading penalty

To discourage excessive trading, the Fund may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Fund and is included in "Short-term penalty fees" in the Statement of Comprehensive Income.

### Increase or decrease in net assets attributable to holders of redeemable units per unit

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" of a series in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units of the series divided by the weighted average number of units of the series outstanding during the period. Refer to Note 8 for details.

### Taxation

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders so that the Fund will not be subject to income tax. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statement of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statement of Financial Position.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and capital gains are recorded on a gross basis with the related withholding taxes shown as a separate expense in the Statement of Comprehensive Income.

### Fund mergers

The Manager has adopted the purchase method of accounting for certain fund mergers which occurred during the periods. Under this method, one of the Funds in each merger is identified as the acquiring fund, and is referred to as the "Continuing Fund", and the other Fund involved in the merger is referred to as the "Terminated Fund". This identification is based on the comparison of the relative NAV of the funds as well

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as consideration of the continuation of such aspects of the Continuing Fund as: investment advisors, investment objectives and practices, type of portfolio securities, and management fees and expenses. Where applicable, refer to Note 8 for the details of the merger transactions.

### 4. Critical accounting judgements and estimates

The preparation of financial statements requires the use of judgement in applying the Fund's accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgements and estimates that the Manager has made in preparing the Fund's financial statements.

#### Accounting judgements:

##### Functional and presentation currency

The Fund's unitholders are mainly Canadian residents, with the subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The Fund invests in Canadian and U.S. dollars and other foreign denominated securities, as applicable. The performance of the Fund is measured and reported to the investors in Canadian dollars. The Manager considers the Canadian dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency.

##### Classification and measurement of investment portfolio

Effective October 1, 2018, the Fund retrospectively adopted IFRS 9. The new standard requires assets to be carried at either amortized cost, FVTPL, or fair value through other comprehensive income ("FVOCI"), based on an assessment of the Fund's business model for managing financial instruments and the contractual cash flow characteristics of the financial assets. In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgements in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business model with respect to the manner in which financial assets and financial liabilities are managed as a group and performance is evaluated on a fair value basis, and has concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Fund's investment portfolio. The

collection of principal and interest is incidental to the fair value business model. Further information related to the Fund's transition to IFRS 9 is detailed in Note 9.

#### Accounting estimates:

##### Fair value measurement of securities not quoted in an active market

The Fund has established policies and control procedures that are intended to ensure these estimates are well controlled, independently reviewed, and consistently applied from period to period. The estimates of the value of the Fund's assets and liabilities are believed to be appropriate as at the reporting date.

The Fund may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by the Fund for the estimates used in determining fair value.

### 5. Units and unit transactions

The redeemable units of the Fund are classified as liabilities. The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Fund's NAV. The Fund is required to pay distributions in an amount not less than the amount necessary to ensure the Fund will not be liable for income taxes on realized capital gains, dividends and interest. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8. The relevant movements in redeemable units are shown in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units.

In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Fund endeavours to invest the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

Redeemable units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit of a series for the purposes of subscription or redemption is computed by dividing the NAV of the Fund attributable to the series (that is, the total fair value of the assets attributable to the series less the liabilities attributable to the series)



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by the total number of units of the series of the Fund outstanding at such time on each Valuation Date, in accordance with Part 14 of National Instrument ("NI") 81-106 Investment Fund Continuous Disclosure for the purpose of processing unitholder transactions. Net Assets are determined in accordance with IFRS and may differ to the Funds' NAV. Where a Funds' NAV is not equal to its Net Assets, a reconciliation is shown in Note 8.

Expenses directly attributable to a series are charged to that series. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each series based upon the relative NAV of each series. The gain (loss) of certain forwards in Funds with Hedged Series is allocated only to the hedged series.

### 6. Related party transactions

#### (a) Management fees

The Manager is responsible for the day-to-day management of the Fund and its investment portfolio in compliance with the Fund's constating documents. The Manager provides key management personnel to the Fund, monitors and evaluates the performance of the Fund, pays for the investment management services of the investment advisors and provides all related administrative services required by the Fund.

The management fees for the ETF Series includes costs related to the administration expenses and other operating expenses, other than the fund expenses.

As compensation for its services, the Manager is entitled to receive a fee payable monthly, calculated at the maximum annual rates included in Note 8.

#### (b) Fixed administration fees

The Manager pays certain operating expenses of each Fund except for BMO Ascent Income Portfolio, BMO Ascent Conservative Portfolio, BMO Ascent Balanced Portfolio, BMO Ascent Growth Portfolio, BMO Ascent Equity Growth Portfolio, BMO FundSelect Balanced Portfolio (Series NBA only), BMO FundSelect Growth Portfolio (Series NBA only), BMO FundSelect Equity Growth Portfolio (Series NBA only), BMO Covered Call Canadian Banks ETF Fund, BMO Covered Call U.S. High Dividend ETF Fund, BMO Covered Call Europe High Dividend ETF Fund, BMO Fossil Fuel Free Fund, BMO Tactical Global Asset Allocation ETF Fund, BMO Tactical Global Growth ETF Fund, BMO Women in Leadership Fund, BMO International Equity Fund, BMO Japan Fund, BMO Covered Call Canada High

Dividend ETF Fund, BMO Concentrated Global Equity Fund, BMO Crossover Bond Fund, BMO Global Multi-Sector Bond Fund, BMO U.S. Small Cap Fund, BMO Multi-Factor Equity Fund, BMO SIA Focused Canadian Equity Fund and BMO SIA Focused North American Equity Fund (the "Variable Operating Expense Series"), including audit and legal fees and expenses; custodian and transfer agency fees; costs attributable to the issue, redemption and change of securities, including the cost of the securityholder record keeping system; expenses incurred in respect of preparing and distributing prospectuses, financial reports and other types of reports, statements and communications to securityholders; fund accounting and valuation costs; filing fees, including those incurred by the Manager (collectively the "Administration Expenses"). In return, the Fund pays a fixed administration fee to the Manager. The fixed administration fee is calculated daily as a fixed annual percentage of the average NAV of the Fund. Refer to Note 8 for the fixed administration fee rates charged to the Fund, where applicable.

#### (c) Fund expenses

The Fund also pays certain operating expenses directly ("Fund Expenses"), including expenses incurred in respect of preparing and distributing fund facts; interest or other borrowing expenses; all reasonable costs and expenses incurred in relation to compliance with NI 81-107, including compensation and expenses payable to Independent Review Committee ("IRC") members and any independent counsel or other advisors employed by the IRC, the costs of the orientation and continuing education of IRC members and the costs and expenses associated with IRC meetings; taxes of all kinds 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.

The Manager may, in some years and in certain cases, absorb a portion of management fees, fixed administration fees or certain specified expenses of the Fund or series of the Fund. The decision to absorb these expenses is reviewed periodically and determined at the discretion of the Manager, without notice to unitholders.

#### (d) Variable administration fees

The Variable Operating Expense Series pay all of its operating expenses directly. These expenses include Administration Expenses and Fund Expenses.

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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### **(e) Commissions and other portfolio transaction costs**

The Fund may execute trades with and through BMO Nesbitt Burns Inc., an affiliate of the Manager, based on established standard brokerage agreements at market prices. These fees are included in “Commissions and other portfolio transaction costs” in the Statement of Comprehensive Income. Refer to Note 8 for related party fees charged to the Fund during the period(s) ended March 31, 2019 and March 31, 2018, where applicable.

### **(f) Initial investments**

In order to establish a new Fund, the Manager makes an initial investment in the Fund. Pursuant to the policies of the Canadian Securities Administrators, an initial investor cannot redeem its investments until an additional \$500 has been received from other investors with respect to the same class of units. Refer to Note 8 for the investment in units of the Fund held by the Manager as at March 31, 2019 and September 30, 2018, where applicable.

### **(g) Other related party transactions**

From time to time, the Manager may on behalf of the Fund enter into transactions or arrangements with or involving subsidiaries and affiliates of Bank of Montreal or certain other persons or companies that are related or connected to the Manager of the Fund. These transactions or arrangements may include transactions or arrangements with or involving subsidiaries and affiliates of Bank of Montreal, BMO Investments Inc., BMO Nesbitt Burns Inc., BMO Asset Management Corp., BMO Private Investment Counsel Inc., BMO Asset Management Inc., BMO InvestorLine Inc., Pyrford International Limited, LGM Investments Limited, BMO Trust Company, BMO Asset Management Limited, BMO Global Asset Management (Asia) Limited, Taplin, Canida & Habacht LLC, BMO Capital Markets Corp., or other investment funds offered by Bank of Montreal, and may involve the purchase or sale of portfolio securities through or from subsidiaries or affiliates of Bank of Montreal, the purchase or sale of securities issued or guaranteed by subsidiaries or affiliates of Bank of Montreal, the purchase or redemption of units or shares of other Bank of Montreal investment funds or the provision of services to the Manager.

### **7. Financial instruments risks**

The Fund's activities expose it to a variety of risks associated with the financial instruments, as follows: market risk (including currency risk, interest rate risk

and other market risk), credit risk and liquidity risk. The concentration table groups securities by asset type, geographic location and/or market segment. The Fund's risk management practice outlines the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's positions, market events and diversify investment portfolios within the constraints of the investment guidelines.

Where the Fund invests in other investment fund(s), it may be indirectly exposed to the financial instruments risks of the underlying fund(s), depending on the investment objectives and the type of securities held by the underlying fund(s). The decision to buy or sell an underlying fund is based on the investment guidelines and positions, rather than the exposure of the underlying fund(s).

### **(a) Currency risk**

Currency risk is the risk that the fair value of financial instruments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value. The Fund may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, the Manager monitors the exposure on all foreign currency denominated assets and liabilities. The Fund's exposure to currency risk, if any, is further disclosed in Note 8.

### **(b) Interest rate risk**

Interest rate risk is the risk that the fair value of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market investments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Fund's

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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exposure to interest rate risk, if any, is further discussed in Note 8.

### **(c) Other market risk**

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, as such they are not subject to other market risk. The Fund's exposure to other market risk, if any, is further discussed in Note 8.

### **(d) Credit risk**

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Fund's exposure to credit risk, if any, is further discussed in Note 8.

The Fund may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Fund must be at least 102% of the fair value of securities loaned, as disclosed in Note 8, where applicable.

### **(e) Liquidity risk**

The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units, and other liabilities. The Fund primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. The Fund may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified in the Schedule of Investment Portfolio. The proportion of

illiquid securities to the NAV of the Fund is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Fund's financial obligations.

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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### 8. Fund specific information

#### (a) Fund and Series information and change in units

The Fund is authorized to issue an unlimited number of units in each of Series A Units, Advisor Series Units, Series F Units, Series D Units, Series I Units and BMO Private Preferred Share Fund Series O Units ("Series O Units"), which are redeemable at the unitholders' option.

Series	Inception date
Series A Units	August 7, 2013
Advisor Series Units	August 7, 2013
Series F Units	August 7, 2013
Series D Units	April 7, 2014
Series I Units	August 7, 2013
Series O Units	September 20, 2013

Series A Units are offered on a no-load basis and are available to all investors.

Advisor Series Units are available to all investors through authorized dealers and brokers.

Series F Units are available for purchase by investors who are enrolled in dealer-sponsored wrap programs or flat fee accounts. Instead of paying a commission on each transaction, these investors pay an annual fee to the Manager based on the value of their assets.

Series D Units are available to investors who have an account with a discount brokerage. A reduced trailing commission is paid to discount brokerages in respect to Series D Units which means a lower management fee can be charged.

Series I Units are available only to institutional investors and other investment funds as determined by the Manager from time to time and on a case-by-case basis, and who have entered into an agreement with the Manager. No management fees and fixed administration fees are charged to the Fund in respect of the Series I Units as each investor or dealer negotiates a separate fee with the Manager.

Series O Units are available to investors who have entered into an investment management agreement with BMO Private Investment Counsel Inc. or have entered into an investment agreement with BMO Nesbitt Burns Inc. and have received the Manager's consent. There are no sales charges applicable on a purchase of Series O Units. Investors pay a wealth management fee directly to BMO Trust Company and to BMO Private Investment Counsel Inc. or directly to BMO Nesbitt Burns Inc., as applicable. A fund may not pay a management fee on Series O Units because Series O investors pay a separate fee directly to the dealer, a portion of which may be paid to the Manager by the dealer. The Series O fee is set by the dealer.

The number of units of each series that have been issued and are outstanding are shown in the table below.

For the periods ended (in thousands of units)	Mar. 31, 2019	Mar. 31, 2018
<b>Series A Units</b>		
Units issued and outstanding, beginning of period	950	899
Issued	138	237
Issued on reinvestment of distributions	14	13
Redeemed during the period	(259)	(159)
Units issued and outstanding, end of period	843	990
<b>Advisor Series Units</b>		
Units issued and outstanding, beginning of period	498	538
Issued	60	49
Issued on reinvestment of distributions	6	6
Redeemed during the period	(76)	(48)
Units issued and outstanding, end of period	488	545
<b>Series F Units</b>		
Units issued and outstanding, beginning of period	286	973
Issued	21	46
Issued on reinvestment of distributions	5	9
Redeemed during the period	(79)	(543)
Units issued and outstanding, end of period	233	485

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For the periods ended (in thousands of units)	Mar. 31, 2019	Mar. 31, 2018
<b>Series D Units</b>		
Units issued and outstanding, beginning of period	38	41
Issued	11	11
Issued on reinvestment of distributions	1	1
Redeemed during the period	(3)	(12)
Units issued and outstanding, end of period	47	41

<b>Series I Units</b>		
Units issued and outstanding, beginning of period	37,641	40,018
Issued	7,148	500
Issued on reinvestment of distributions	960	949
Redeemed during the period	(10,521)	(2,708)
Units issued and outstanding, end of period	35,228	38,759

<b>Series O Units</b>		
Units issued and outstanding, beginning of period	4,344	5,478
Issued	299	290
Issued on reinvestment of distributions	90	106
Redeemed during the period	(991)	(836)
Units issued and outstanding, end of period	3,742	5,038

## (b) Reconciliation of NAV to Net Assets

As at March 31, 2019 and September 30, 2018, there were no differences between the Fund's NAV per unit and its Net Assets per unit calculated for each series in accordance with IFRS.

## (c) Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated as follows:

For the periods ended	Mar. 31, 2019	Mar. 31, 2018
<b>Series A Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(1,066)	33
Weighted average units outstanding during the period (in thousands of units)	919	943
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.16)	0.03
<b>Advisor Series Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(535)	33
Weighted average units outstanding during the period (in thousands of units)	495	548
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.08)	0.06
<b>Series F Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(316)	170
Weighted average units outstanding during the period (in thousands of units)	276	641
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.15)	0.27
<b>Series D Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(42)	3
Weighted average units outstanding during the period (in thousands of units)	41	43
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.03)	0.08

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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For the periods ended	Mar. 31, 2019	Mar. 31, 2018
<b>Series I Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(39,766)	6,084
Weighted average units outstanding during the period (in thousands of units)	35,937	39,255
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.11)	0.15
<b>Series O Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(4,499)	771
Weighted average units outstanding during the period (in thousands of units)	4,016	5,359
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.12)	0.14

### (d) Income taxes

As at the tax year-ended December 2018, the Fund had the following capital and non-capital losses for income tax purposes:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses That Expire in		
		2030 (\$)	2031 (\$)	2032 and thereafter (\$)
123,210	—	—	—	—

### (e) Related party transactions

#### Management fees

The Manager is entitled to receive the following fees payable monthly, calculated at the following maximum annual rates:

Series	Management Fees (%)	Fixed Administration Fees (%)
Series A Units	1.550	0.200
Advisor Series Units	1.550	0.200
Series F Units	0.600	0.200
Series D Units	0.850	0.200
Series I Units	*	*
Series O Units	0.025	0.200

\* Negotiated and paid by each Series I investor directly to the Manager.

The outstanding accrued management fees due to the Manager are included in “Accrued expenses” in the Statement of Financial Position and as at March 31, 2019 amounted to \$14 (September 30, 2018 — \$1).

The outstanding accrued fixed administration fees due to the Manager are included in “Accrued expenses” in the Statement of Financial Position and as at March 31, 2019 amounted to \$8 (September 30, 2018 — \$1).

#### Expenses

The Manager pays the administration and operating expenses of the Series I Units.

#### Brokerage commissions and soft dollars

Brokerage commissions paid (excluding transaction costs) on security transactions and amounts paid to related parties of the Manager for brokerage services provided to the Fund for the periods are as follows:

For the periods ended	Mar. 31, 2019 (\$)	Mar. 31, 2018 (\$)
Total brokerage amounts paid	123	160
Total brokerage amounts paid to related parties	22	34

There were no ascertainable soft dollars paid or payable to dealers by the Fund during the periods.

#### Units held by the Manager

The Manager held the following units of the Fund:

#### As at Mar. 31, 2019

Series	Number of Units	Value of Units (\$)
Series I Units	18	0
Series O Units	12	0

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As at Sep. 30, 2018

Series	Number of Units	Value of Units (\$)
Series I Units	18	0
Series O Units	12	0

## (f) Financial instruments risks

The Fund's objective is to generate steady income and achieve capital preservation and appreciation by investing primarily in preferred shares of Canadian companies and other types of securities that are expected to distribute income.

No changes affecting the overall level of risk of investing in the Fund were made during the period.

### Currency risk

As at March 31, 2019 and September 30, 2018, the Fund did not have significant exposure, directly and through its investment in the underlying fund to currency risk.

### Interest rate risk

As at March 31, 2019 and September 30, 2018, the Fund did not have significant exposure, directly and through its investment in the underlying fund to interest rate risk.

### Other market risk

The Fund has a significant exposure to other market risk arising from its investment in equity securities. Using historical correlation between the Fund's return and the return of its benchmark, if the benchmark, S&P/TSX Preferred Share Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Fund would have increased or decreased, respectively, by \$31,791 (September 30, 2018 — \$34,872). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

### Credit risk

The Fund's direct credit risk exposure grouped by credit ratings is listed in the following table:

Credit Rating	As a % of Net Assets as at	
	Mar. 31, 2019	Sep. 30, 2018
R-1 High	5.7	3.7
P2	46.6	35.9
P2 High	9.8	8.7
P2 Low	7.1	12.1
P3	18.5	23.9
P3 High	9.4	13.2
<b>Total</b>	<b>97.1</b>	<b>97.5</b>

As at March 31, 2019 and September 30, 2018, the Fund was also exposed to indirect credit risk to the extent that the underlying fund invested in debt instruments, preferred securities and derivatives.

### Securities lending

The Fund had assets involved in securities lending transactions outstanding as at March 31, 2019 and September 30, 2018 as follows:

	Aggregate value of securities on loan (\$)	Aggregate value of collateral received for the loan (\$)
<b>Mar. 31, 2019</b>	5,297	5,665
<b>Sep. 30, 2018</b>	13,482	14,158

The table below is a reconciliation of the gross amount generated from securities lending transactions to the security lending revenue for the periods ended March 31, 2019 and March 31, 2018:

For the periods ended	Mar. 31, 2019		Mar. 31, 2018	
	Amount	% of Gross Securities Lending Revenue	Amount	% of Gross Securities Lending Revenue
Gross securities lending revenue	3	100.0	9	100.0
Withholding taxes	—	—	—	—
	3	100.0	9	100.0
Payment to securities lending agents	1	29.4	3	30.0
Net securities lending revenue	2	70.6	6	70.0

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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### Concentration risk

The Fund's concentration risk is summarized in the following table:

As at	Mar. 31, 2019	Sep. 30, 2018
<b>Money Market Investments</b>		
Federal	5.7%	3.7%
<b>Preferred Shares</b>		
Preferred Shares - Fixed/Floaters	71.4%	76.4%
Preferred Shares - Floating Perpetual	0.1%	0.1%
Preferred Shares - Straight	19.9%	17.3%
<b>Holdings in Investment Funds</b>	2.4%	2.3%
<b>Other Assets Less Liabilities</b>	0.5%	0.2%
	<b>100.0%</b>	<b>100.0%</b>

### (g) Fair value hierarchy

The Fund classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on observable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The tables below show the relevant disclosure.

#### As at Mar. 31, 2019

Financial assets	Level 1	Level 2	Level 3	Total
Debt Securities	—	18,331	—	18,331
Preferred Securities	294,072	—	—	294,072
Investment Funds	7,701	—	—	7,701
<b>Total</b>	<b>301,773</b>	<b>18,331</b>	<b>—</b>	<b>320,104</b>

#### As at Sep. 30, 2018

Financial assets	Level 1	Level 2	Level 3	Total
Debt Securities	—	14,950	—	14,950
Preferred Securities	377,053	—	—	377,053
Investment Funds	9,360	—	—	9,360
<b>Total</b>	<b>386,413</b>	<b>14,950</b>	<b>—</b>	<b>401,363</b>

### Transfers between levels

There were no transfers between the levels during the periods.

### (h) Unconsolidated structured entities

Information on the carrying amount and the size of the investments in structured entities is shown in the following tables:

As at Mar. 31, 2019	Carrying amount	Carrying amount as a % of the underlying fund's Net Assets
<b>Securities</b>		
BMO Laddered Preferred Share Index ETF	7,701	0.4
<b>Total</b>	<b>7,701</b>	

As at Sep. 30, 2018	Carrying amount	Carrying amount as a % of the underlying fund's Net Assets
<b>Securities</b>		
BMO Laddered Preferred Share Index ETF	9,360	0.4
<b>Total</b>	<b>9,360</b>	

### 9. IFRS 9 transition

Upon transition to IFRS 9, financial assets and financial liabilities in the Fund's investment portfolio were classified as FVTPL. The classification for financial assets and financial liabilities differs from the classification under the previous IAS 39. However, there were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9. The tables below show the reconciliation of the financial assets and financial liabilities balances as at October 1, 2018, the IFRS 9 transition date.



# BMO Preferred Share Fund

(unaudited)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
 (All amounts in thousands of Canadian dollars, except per unit data)  
 March 31, 2019

## As at Oct. 1, 2018

Financial Assets	Held for Trading	Designated as FVTPL	Loans and Receivables**	FVTPL
Opening balance - under IAS 39	—	401,363	778	—
On the basis of change from IAS 39 to IFRS 9:				
- reclassification of investments to FVTPL*	—	(401,363)	—	401,363
Total change on transition to IFRS 9	—	(401,363)	—	401,363
Opening balance - under IFRS 9	—	—	778	401,363

\* These are financial instruments (including derivatives) classified as held for trading and others designated as FVTPL under IAS 39.

\*\* These are other financial assets classified as loans and receivables under IAS 39, now classified as amortized cost under IFRS 9.

## As at Oct. 1, 2018

Financial Liabilities	Held for Trading	Other Financial Liabilities**	FVTPL
Opening balance - under IAS 39	—	61	—
On the basis of change from IAS 39 to IFRS 9:			
- reclassification of securities sold short and derivatives*	—	—	—
Total change on transition to IFRS 9	—	—	—
Opening balance - under IFRS 9	—	61	—

\* These are financial liabilities (such as securities sold short and derivatives) classified as held for trading under IAS 39.

\*\* These were classified as other financial liabilities under IAS 39, now classified as amortized cost under IFRS 9.

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If you have any questions, please give us a call as follows:

- If you purchased BMO Mutual Funds through a BMO Bank of Montreal branch or BMO Online Banking, please call 1-800-665-7700.
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