

# Semi-Annual Financial Statements

BMO Private Portfolios

June 30, 2018

**BMO Private Diversified Yield Portfolio**

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

BMO Private Investment Counsel Inc., the Manager of the Portfolios, appoints independent auditors to audit the Portfolio'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 Portfolio'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 Private Diversified Yield Portfolio

(unaudited)

### STATEMENT OF FINANCIAL POSITION

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

<b>As at</b>	<b>June 30 2018</b>	<b>December 31 2017</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	37,172	105,184
Investments		
Non-derivative financial assets	1,575,967	1,852,036
Subscriptions receivable	514	469
Dividends receivable	3,822	4,202
Distribution receivable from investment trusts	437	520
<b>Total assets</b>	<b>1,617,912</b>	<b>1,962,411</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Redemptions payable	1,857	1,222
Distributions payable	802	—
Accrued expenses	117	115
<b>Total liabilities</b>	<b>2,776</b>	<b>1,337</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>1,615,136</b>	<b>1,961,074</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>\$ 18.92</b>	<b>\$ 19.27</b>

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

## BMO Private Diversified Yield Portfolio

(unaudited)

### STATEMENT OF COMPREHENSIVE INCOME

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

<b>For the periods ended</b>	<b>June 30 2018</b>	<b>June 30 2017</b>
<b>Income</b>		
Interest income	2	—
Dividend income	26,299	26,809
Distributions received from investment trusts	4,121	3,661
Other changes in fair value of investments and derivatives		
Net realized gain	72,888	14,434
Change in unrealized (depreciation) appreciation	(108,927)	45,943
Net (loss) gain in fair value of investments and derivatives	(5,617)	90,847
Securities lending (note 8)	73	63
Foreign exchange gain (loss)	53	(188)
Total other income (loss)	126	(125)
<b>Total (loss) income</b>	<b>(5,491)</b>	<b>90,722</b>
<b>Expenses</b>		
Sub-advisory fees	941	952
Audit fees	6	8
Independent review committee fees	2	2
Withholding taxes	—	0
Custodian fees	19	10
Interest expense	2	—
Legal and filing fees	36	33
Unitholder servicing fees	247	245
Printing and stationery fees	9	8
Commissions and other portfolio transaction costs (note 6)	500	468
Operating expenses absorbed by the Manager	(941)	(952)
<b>Total expenses</b>	<b>821</b>	<b>774</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(6,312)</b>	<b>89,948</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units per unit (note 8)</b>	<b>(0.07)</b>	<b>0.95</b>

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## BMO Private Diversified Yield Portfolio

(unaudited)

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

*(All amounts in thousands of Canadian dollars)*

<b>For the periods ended</b>	<b>June 30 2018</b>	<b>June 30 2017</b>
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	1,961,074	1,653,263
(Decrease) increase in net assets attributable to holders of redeemable units	(6,312)	89,948
<b>Distributions to holders of redeemable units</b>		
From net investment income	(29,372)	(29,268)
Return of capital	(645)	(1,785)
<b>Total distributions paid to holders of redeemable units</b>	(30,017)	(31,053)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	132,662	194,093
Reinvestments of distributions to holders of redeemable units	28,318	29,328
Redemption of redeemable units	(470,589)	(106,867)
<b>Net (decrease) increase from redeemable unit transactions</b>	(309,609)	116,554
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(345,938)	175,449
<b>Net assets attributable to holders of redeemable units at end of period</b>	1,615,136	1,828,712

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## BMO Private Diversified Yield Portfolio

(unaudited)

### STATEMENT OF CASH FLOWS

(All amounts in thousands of Canadian dollars)

For the periods ended	June 30 2018	June 30 2017
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(6,312)	89,948
Adjustments for:		
Foreign exchange (gain) loss on cash	(111)	204
Net realized gain on sale of investments and derivatives	(72,888)	(14,434)
Change in unrealized depreciation (appreciation) of investments and derivatives	108,927	(45,943)
Decrease in dividends receivable	380	560
Decrease in distribution receivable from investment trusts	83	77
Increase in accrued expenses	2	6
Return of capital distributions received	795	1,969
Non-cash dividends	—	(183)
Purchases of investments	(127,187)	(319,671)
Proceeds from sale and maturity of investments	366,422	194,847
<b>Net cash from operating activities</b>	270,111	(92,620)
<b>Cash flows from financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(897)	(809)
Proceeds from issuances of redeemable units	132,617	192,980
Amounts paid on redemption of redeemable units	(469,954)	(106,243)
<b>Net cash from financing activities</b>	(338,234)	85,928
Foreign exchange gain (loss) on cash	111	(204)
Net decrease in cash	(68,123)	(6,692)
Cash at beginning of period	105,184	83,384
<b>Cash at end of period</b>	37,172	76,488
<b>Supplementary Information</b>		
Interest received, net of withholding taxes*	2	—
Dividends received, net of withholding taxes*	26,679	27,186
Distributions received from investment trusts, net of withholding taxes*	4,999	5,707
Interest expense paid*	2	—

\*These items are from operating activities

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

## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Preferred Shares</b>			
<i>Fixed/Floaters Preferreds— 21.7%</i>			
AltaGas Ltd., Series I, 5.250%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2020, \$25.00	249,600	6,240	6,272
AltaGas Ltd., Series K, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	210,700	5,272	5,278
Bank of Nova Scotia, The, Series 38, 4.850%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 27, 2022, \$25.00	355,100	9,043	9,211
BCE Inc., Series AF, 3.110%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 1, 2020, \$25.00	91,400	1,188	1,821
BCE Inc., Series AQ, 4.250%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2018, \$25.00	128,800	3,150	3,152
BCE Inc., Series R, 4.130%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2020, \$25.00	287,810	5,918	5,952
Brookfield Asset Management Inc., Series 24, 3.014%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2021, \$25.00	515,300	13,026	10,497
Brookfield Asset Management Inc., Series 26, 3.471%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	83,200	1,695	1,705
Brookfield Asset Management Inc., Series 38, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2020, \$25.00	41,600	976	958
Brookfield Asset Management Inc., Series 40, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2019, \$25.00	310,340	7,758	7,588
Brookfield Asset Management Inc., Series 42, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2020, \$25.00	531,530	13,288	12,831
Brookfield Asset Management Inc., Series 44, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2020, \$25.00	145,500	3,637	3,773
Brookfield Asset Management Inc., Series 46, 4.800%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	62,400	1,555	1,617
Brookfield Asset Management Inc., Series 9, 2.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 1, 2021, \$25.00	79,880	1,857	1,515
Brookfield Office Properties, Inc., Series AA, 4.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2019, \$25.00	523,800	13,095	11,628
Brookfield Office Properties, Inc., Series CC, 6.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2021, \$25.00	169,900	4,247	4,385
Brookfield Office Properties, Inc., Series GG, 4.850%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2022, \$25.00	332,600	8,315	7,793
Brookfield Office Properties, Inc., Series N, 3.782%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2021, \$25.00	424,590	10,277	8,513
Brookfield Office Properties, Inc., Series P, 4.161%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2022, \$25.00	439,300	10,644	8,852
Brookfield Office Properties, Inc., Series R, 4.155%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2021, \$25.00	62,400	1,251	1,353
Brookfield Office Properties, Inc., Series T, 4.600%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 31, 2018, \$25.00	133,100	2,457	2,989
Brookfield Renewable Partners L.P., Series 11, 5.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2022, \$25.00	138,100	3,454	3,469
Brookfield Renewable Partners L.P., Series 7, 5.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2021, \$25.00	353,600	8,858	9,091

## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Brookfield Renewable Power Preferred Equity Inc., Series 1, 3.355%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2020, \$25.00	166,210	4,157	3,607
Canadian Imperial Bank of Commerce, Series 39, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00	406,370	9,667	9,464
Canadian Imperial Bank of Commerce, Series 41, 3.750%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2020, \$25.00	260,100	6,032	5,964
Canadian Imperial Bank of Commerce, Series 43, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2020, \$25.00	78,000	1,748	1,884
Canadian Imperial Bank of Commerce, Series 45, 4.400%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2022, \$25.00	303,300	7,587	7,564
Canadian Imperial Bank of Commerce, Series 47, 4.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2023, \$25.00	291,900	7,271	7,014
Canadian Western Bank, Series 5, 4.400%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2019, \$25.00	21,500	515	526
Canadian Western Bank, Series 7, 6.250%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2021, \$25.00	151,700	3,802	4,005
Element Fleet Management Corp., Series I, 5.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2022, \$25.00	200,000	5,000	4,000
Enbridge Inc., Series 17, 5.150%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2022, \$25.00	91,700	2,289	2,325
Enbridge Inc., Series 7, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2019, \$25.00	41,500	824	844
Enbridge Inc., Series 9, 4.400%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2019, \$25.00	263,900	6,597	5,381
Enbridge Inc., Series B, 3.415%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2022, \$25.00	439,685	10,716	8,112
Enbridge Inc., Series D, 4.460%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2023, \$25.00	238,700	5,831	4,678
Enbridge Inc., Series F, 4.689%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2023, \$25.00	141,500	2,667	2,830
Enbridge Inc., Series P, 4.000%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 1, 2019, \$25.00	309,685	7,384	6,194
Husky Energy Inc., Series 5, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2020, \$25.00	158,900	3,918	4,006
Industrial Alliance Insurance and Financial Services Inc., Series I, 4.800%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 31, 2023, \$25.00	93,300	2,332	2,351
Intact Financial Corporation, Series 7, 4.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 30, 2023, \$25.00	200,000	5,000	4,950
Kinder Morgan Canada Limited, Series 1, 5.250%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 15, 2022, \$25.00	206,800	5,172	5,158
Kinder Morgan Canada Limited, Series 3, 5.200%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Feb 15, 2023, \$25.00	166,400	4,160	4,142

## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Manulife Financial Corporation, Series 17, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 19, 2019, \$25.00	141,500	3,538	3,281
Manulife Financial Corporation, Series 19, 3.800%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 19, 2020, \$25.00	41,500	981	971
Manulife Financial Corporation, Series 21, 5.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 19, 2021, \$25.00	124,900	3,122	3,327
Manulife Financial Corporation, Series 23, 4.850%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Mar 19, 2022, \$25.00	130,200	3,259	3,375
Manulife Financial Corporation, Series 25, 4.700%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 19, 2023, \$25.00	149,400	3,735	3,662
Manulife Financial Corporation, Series 9, 4.351%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 19, 2022, \$25.00	33,100	828	823
National Bank of Canada, Series 30, 4.100%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 15, 2019, \$25.00	96,000	2,257	2,242
National Bank of Canada, Series 34, 5.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 15, 2021, \$25.00	173,300	4,342	4,566
National Bank of Canada, Series 38, 4.450%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 15, 2022, \$25.00	195,000	4,877	4,877
National Bank of Canada, Series 42, 4.950%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 15, 2023, \$25.00	150,000	3,750	3,748
Pembina Pipeline Corporation, Series 13, 5.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jun 1, 2021, \$25.00	16,500	431	434
Pembina Pipeline Corporation, Series 7, 4.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2019, \$25.00	225,300	5,635	5,349
Pembina Pipeline Corporation, Series 9, 4.750%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Dec 1, 2020, \$25.00	288,300	7,208	7,265
Royal Bank of Canada, Series AZ, 4.000%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2019, \$25.00	86,900	1,850	2,045
Royal Bank of Canada, Series BB, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2019, \$25.00	140,100	3,302	3,295
Royal Bank of Canada, Series BD, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2020, \$25.00	486,400	11,898	11,829
Royal Bank of Canada, Series BF, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Nov 24, 2020, \$25.00	64,900	1,525	1,574
Royal Bank of Canada, Series BK, 5.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 24, 2021, \$25.00	284,533	7,136	7,526
Royal Bank of Canada, Series BM, 5.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Aug 24, 2021, \$25.00	64,300	1,611	1,710
Sun Life Financial Inc., Series 10R, 2.842%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Sep 30, 2021, \$25.00	62,400	1,279	1,338
Toronto-Dominion Bank, The, Series 1, 3.900%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2019, \$25.00	410,500	9,724	9,597
Toronto-Dominion Bank, The, Series 12, 5.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2021, \$25.00	54,200	1,358	1,436
Toronto-Dominion Bank, The, Series 16, 4.500%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 31, 2022, \$25.00	190,700	4,769	4,806
Toronto-Dominion Bank, The, Series 18, 4.700%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Apr 30, 2023, \$25.00	97,900	2,448	2,467
Toronto-Dominion Bank, The, Series 3, 3.800%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2019, \$25.00	167,800	3,914	3,930



## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Toronto-Dominion Bank, The, Series 5, 3.750%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jan 31, 2020, \$25.00	402,100	9,072	9,365
Toronto-Dominion Bank, The, Series 7, 3.600%, Non-Cumulative, Fixed/Floating Rate Preferred, Redeemable, Jul 31, 2020, \$25.00	298,350	7,451	7,313
TransCanada Corporation, Series 13, 5.500%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 31, 2021, \$25.00	166,400	4,160	4,366
TransCanada Corporation, Series 15, 4.900%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, May 31, 2022, \$25.00	174,800	4,370	4,477
Westcoast Energy Inc., Series 12, 5.200%, Cumulative, Fixed/Floating Rate Preferred, Redeemable, Oct 15, 2021, \$25.00	83,200	2,080	2,135
		361,780	348,371
<b><i>Floating Perpetual Preferreds— 0.3%</i></b>			
BCE Inc., Series AD, 3.450%, Cumulative, Floating Rate Preferred, Redeemable, Aug 10, 2018, \$25.50	259,280	5,984	5,339
<b><i>Straight Preferreds— 6.2%</i></b>			
Brookfield Asset Management Inc., Series 17, 4.750%, Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	52,500	1,192	1,111
Brookfield Asset Management Inc., Series 18, 4.750%, Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	502,720	9,508	10,617
George Weston Limited, Series I, 5.800%, Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	75,300	1,886	1,925
George Weston Limited, Series IV, 5.200%, Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	85,500	2,093	2,043
Great-West Lifeco Inc., Series F, 5.900%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	89,300	2,260	2,311
Great-West Lifeco Inc., Series G, 5.200%, Non-Cumulative, Preferred, Redeemable, Aug 8, 2018, \$25.00	110,700	2,657	2,656
Great-West Lifeco Inc., Series H, 4.850%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	37,500	900	857
Great-West Lifeco Inc., Series L, 5.650%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.25	83,875	2,156	2,158
Great-West Lifeco Inc., Series M, 5.800%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.25	25,700	637	669
Intact Financial Corporation, Series 5, 5.200%, Non-Cumulative, Preferred, Redeemable, Jun 30, 2022, \$26.00	144,500	3,612	3,511
Intact Financial Corporation, Series 6, 5.300%, Non-Cumulative, Preferred, Redeemable, Sep 30, 2022, \$26.00	200,000	5,000	4,980
Loblaw Companies Limited, Series B, 5.300%, Cumulative, Preferred, Redeemable, Jun 30, 2020, \$26.00	91,800	2,268	2,300
Manulife Financial Corporation, Series 3, 4.500%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	55,500	1,203	1,185
Power Corporation of Canada, Series A, 5.600%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	164,670	4,006	4,125
Power Corporation of Canada, Series C, 5.800%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	115,100	2,904	2,952
Power Corporation of Canada, Series D, 5.000%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	238,240	5,284	5,475

## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Power Financial Corporation, Series E, 5.250%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	151,800	3,424	3,666
Power Financial Corporation, Series F, 5.900%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	359,710	8,829	9,245
Power Financial Corporation, Series H, 5.750%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	345,920	8,468	8,849
Power Financial Corporation, Series I, 6.000%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	168,500	4,255	4,361
Power Financial Corporation, Series K, 4.950%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	184,100	4,437	4,185
Power Financial Corporation, Series L, 5.100%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	7,500	177	178
Power Financial Corporation, Series V, 5.150%, Non-Cumulative, Preferred, Redeemable, Jul 31, 2022, \$26.00	200,000	5,000	4,746
Royal Bank of Canada, Series BJ, 5.250%, Non-Cumulative, Preferred, Redeemable, Feb 24, 2021, \$26.00	212,500	5,100	5,417
Sun Life Financial Inc., Series 1, 4.750%, Non-Cumulative, Preferred, Redeemable, Aug 2, 2018, \$25.00	124,300	2,888	2,822
Toronto-Dominion Bank, The, Series 11, 4.900%, Non-Cumulative, Preferred, Redeemable, Oct 31, 2020, \$26.00	341,325	8,533	8,543
		98,677	100,887
<b>Total Preferred Shares — 28.2%</b>		<b>466,441</b>	<b>454,597</b>

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Equities</b>			
<i>Consumer Discretionary — 2.2%</i>			
Dollarama Inc.	442,800	11,510	22,565
Restaurant Brands International Inc.	173,053	13,073	13,723
		24,583	36,288
<i>Consumer Staples — 3.3%</i>			
Alimentation Couche-Tard Inc., Class B	379,000	23,292	21,645
Loblaw Companies Limited	227,043	7,801	15,348
North West Company Inc., The,	545,592	12,133	15,997
		43,226	52,990
<i>Energy — 11.1%</i>			
ARC Resources Ltd.	916,096	19,403	12,441
Enbridge Inc.	754,041	22,217	35,440
Keyera Corp.	622,828	8,215	22,783
Parkland Fuel Corporation	536,242	16,567	17,321
Pembina Pipeline Corporation	459,300	19,270	20,912
Suncor Energy Inc.	602,700	24,899	32,244
TransCanada Corporation	374,848	17,410	21,321
Vermilion Energy Inc.	346,664	12,690	16,435
		140,671	178,897
<i>Financials — 22.9%</i>			
Bank of Nova Scotia, The,	1,008,196	61,532	75,050

## BMO Private Diversified Yield Portfolio

(unaudited)

### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
Brookfield Asset Management Inc., Class A	1,120,825	25,875	59,774
Industrial Alliance Insurance and Financial Services Inc.	242,100	13,607	12,286
Intact Financial Corporation	289,436	17,233	26,990
Manulife Financial Corporation	1,428,269	31,274	33,736
Royal Bank of Canada	724,994	53,299	71,767
Toronto-Dominion Bank, The,	1,183,764	48,525	90,073
		251,345	369,676
<i>Industrials — 9.0%</i>			
Canadian National Railway Company	406,286	24,523	43,688
Morneau Shepell Inc.	1,034,024	10,423	28,105
NFI Group Inc.	221,364	12,811	10,856
Waste Connections, Inc.	429,557	13,184	42,539
WSP Global Inc.	283,930	7,501	19,653
		68,442	144,841
<i>Materials — 3.9%</i>			
CCL Industries Inc., Class B	303,508	17,284	19,561
Franco-Nevada Corporation	168,600	14,621	16,177
Nutrien Ltd.	371,496	22,641	26,570
		54,546	62,308
<i>Real Estate — 7.4%</i>			
Allied Properties REIT	657,492	13,467	27,516
Brookfield Property Partners L.P.	679,179	19,387	16,959
Canadian Apartment Properties REIT	657,392	5,548	28,025
RioCan REIT	1,070,710	17,190	25,858
SmartCentres REIT	674,400	13,721	20,589
		69,313	118,947
<i>Telecommunication Services — 2.9%</i>			
Rogers Communications Inc., Class B	764,950	38,646	47,763
		38,646	47,763
<i>Utilities — 5.8%</i>			
Algonquin Power & Utilities Corp.	1,700,355	19,144	21,595
Brookfield Infrastructure Partners L.P.	733,649	17,312	37,005
Brookfield Renewable Partners L.P.	527,965	7,863	20,833
Fortis Inc.	360,304	15,054	15,140
		59,373	94,573
<b>Total Equities — 68.5%</b>		<b>750,145</b>	<b>1,106,283</b>

## BMO Private Diversified Yield Portfolio

(unaudited)

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### SCHEDULE OF INVESTMENT PORTFOLIO (cont'd)

As at June 30, 2018 (All amounts in thousands of Canadian dollars, unless otherwise noted)

Security	Number of Shares or Units	Cost+ (\$)	Fair Value (\$)
<b>Holdings in Underlying Investment Funds — 0.9%</b>			
BMO Laddered Preferred Share Index ETF	1,301,069	13,465	15,087
<b>Total Holdings in Underlying Investment Funds — 0.9%</b>		<b>13,465</b>	<b>15,087</b>
<b>Total Investment Portfolio — 97.6%</b>		<b>1,230,051</b>	<b>1,575,967</b>
<b>Other Assets Less Liabilities — 2.4%</b>			<b>39,169</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS — 100.0%</b>			<b>1,615,136</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.

# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS

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

June 30, 2018

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### 1. The Portfolio

BMO Private Diversified Yield Portfolio (“the Portfolio”) is an open-ended mutual fund trust established by a Declaration of Trust under the laws of the Province of Ontario, most recently amended on July 8, 2016. BMO Private Investment Counsel Inc. (“the Manager”) is the Manager of the Portfolio. The address of the Portfolio’s registered office is 1 First Canadian Place, 41st Floor, Toronto, Ontario, M5X 1A1.

The Statement of Financial Position and related notes of each of the Portfolios are as at June 30, 2018 and December 30, 2017. 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 periods ended June 30, 2018 and June 30, 2017.

These financial statements were authorized for issuance by the Board of Directors of the Manager on August 14, 2018.

These financial statements should be read in conjunction with the annual financial statements for the period ended December 31, 2017, 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 in accordance with the Portfolio’s investment strategy.

The Portfolio classifies and measures financial instruments in accordance with IFRS 9 Financial Instruments (“IFRS 9”). Upon initial recognition, financial instruments are recorded at fair value through profit or loss (“FVTPL”). A financial instrument is recognized when the Portfolio 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 Portfolio has

transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date. Financial instruments are subsequently measured as 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 Portfolio’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 Portfolio. 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. Consequently, the units of the Portfolio do not meet the conditions to be classified as equity and therefore are classified as financial liabilities and presented at the redemption amounts.

#### 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 cost of the investment.

#### 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 represented by bid prices provided by independent security pricing

# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2018

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services. Short-term investments, if any, are held at amortized cost which approximates fair value.

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 Portfolio 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 Portfolio 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.

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. Cash is recorded at fair value. The carrying amount of cash approximates its fair value because it is short-term in nature.

### Other assets and other liabilities

Other assets and other liabilities generally include receivables and payables relating to investment transactions, unitholder subscriptions and redemptions, and other assets and other liabilities that are initially recorded at fair value. 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 Portfolio 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 Portfolio is an investment entity and as such, it accounts for subsidiaries, if any, at fair value. Joint ventures are those where the Portfolio exercises joint control through an agreement with other shareholders, and associates are investments in which the Portfolio exerts significant influence over operating, investing, and financing decisions (such as entities in which the Portfolio owns 20% - 50% of voting shares), all of which, if any, have been classified at FVTPL.

### Unconsolidated structured entities

During the periods, the Portfolio had no sponsored unconsolidated structured entities. The Manager has determined that the underlying funds in which the Portfolio 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 Portfolio. Similarly, investments in securitizations, asset-backed securities and mortgage-backed securities are determined to be interests in unconsolidated structured entities.

The Portfolio 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 created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans.

# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

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The Portfolio 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 Portfolio'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 on 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 Portfolio 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 Portfolio has no intention of settling on a net basis. There were no master netting agreements during the periods.

### 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 Portfolio will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par 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 Portfolio'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. Foreign exchange gains (losses) on completed 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 Portfolio may engage in securities lending pursuant to the terms of an agreement with BNY Mellon (the "security lending agent"). The aggregate market value of all securities loaned by the Portfolio cannot exceed 50% of the NAV of the Portfolio. The Portfolio 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 Portfolio's custodian, to the Portfolio for the defaults by borrowers.

For those Portfolios participating in the program, aggregate values of securities on loan and the collateral held as at June 30, 2018 and December 31, 2017, 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 Portfolio may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Portfolio and is included in "Short-term trading penalty fees" in the Statement of Comprehensive Income.

# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2018

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### **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” in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units (“Net Assets”) divided by the weighted average number of units outstanding during the period.

### **Taxation**

The Portfolio 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 Portfolio will not be subject to income tax. As a result, the Portfolio 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 Portfolio 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.

### **4. Critical accounting judgements and estimates**

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

#### **Accounting judgements:**

##### **Functional and presentation currency**

The Portfolio’s unitholders are mainly Canadian residents, with the subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The Portfolio invests in Canadian and U.S. dollars and other foreign denominated securities, as applicable. The performance of the Portfolio 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 Portfolio’s functional and presentation currency.

##### **Classification and measurement of financial instruments**

Effective January 1, 2018, the Portfolio 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 Portfolio’s business model for managing financial assets and the contractual cash flow characteristic of the financial assets. In classifying and measuring financial instruments held by the Portfolio, the Manager is required to make significant judgements in determining the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Portfolio’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 Portfolio’s investment portfolio. Further information related to the Portfolio’s transition to IFRS 9 is detailed in Note 9.

##### **Accounting estimates:**

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

The Portfolio 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 Portfolio’s assets and liabilities are believed to be appropriate as at the reporting date.

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

### **5. Units and unit transactions**

The redeemable units of the Portfolio 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 Portfolio’s NAV. The Portfolio is required to pay distributions in an amount not less than the amount necessary to ensure the Portfolio will not be liable for income taxes on realized capital gains, dividends and interest. The Portfolio has no restrictions or specific capital requirements on the subscriptions and redemptions of units except



# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2018

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as disclosed in Note 8. The relevant movements in redeemable units are shown on 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 Portfolio 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 Portfolio are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit. The NAV per unit for the purposes of subscription or redemption is computed by dividing the NAV of the Portfolio (that is, the total fair value of the assets less the liabilities) by the total number of units of the Portfolio outstanding at such time on each Valuation Date, in accordance with Part 14 of National Instruments (“NI”) 81-106 Investment Fund Continuous Disclosure for the purpose of unitholder transactions. Net Assets are determined in accordance with IFRS and may differ to the Portfolio’s NAV. Where the Portfolio’s NAV is not equal to its Net Assets, a reconciliation is shown in Note 8.

## 6. Related party transactions

### (a) Management fees

The Manager is responsible for the day-to-day management of the Portfolio, including managing or arranging for the management of the Portfolio’s investment portfolio as well as providing and arranging for the provision of administrative services to the Portfolio such as valuation services, fund accounting and unitholder records. The Manager does not receive a fee from the Portfolio for its services. Instead, unitholders pay an investment management fee directly to BMO Trust Company and the Manager as arranged between the unitholder, BMO Trust Company and the Manager.

### (b) Unitholder servicing, sub-advisory commissions and other portfolio transaction costs

The Portfolio is provided with certain facilities and services by affiliates of the Manager. Expenses incurred in the administration of the Portfolio were paid to BMO Trust Company (“the Trustee”) and to BMO Asset Management Inc. (“the Registrar”) and charged to the Portfolio. These expenses are included in “Unitholder

servicing fees” in the Statement of Comprehensive Income.

The sub-advisors (including affiliates of the Manager, where applicable) engaged by the Manager provide investment advice and make investment decisions for the Portfolio’s investment portfolio. For these services the sub-advisors receive sub-advisory fees. These fees are paid monthly by the Manager on behalf of the Portfolio. These expenses are included in “Sub-advisory fees” in the Statement of Comprehensive Income. Any sub-advisory fees less than or equal to 0.15% of the NAV of the Portfolio are absorbed by the Manager.

### (c) Portfolio expenses

The Portfolio also pays certain operating expenses directly, 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.

### (d) Commissions and other portfolio transaction costs

The Portfolio 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 Portfolio during the periods ended June 30, 2018 and June 30, 2017.

### (e) Other related party transactions

From time to time, the Manager may on behalf of the Portfolio, 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 Portfolio. These transactions or arrangements may include transactions or arrangements with or involving subsidiaries and affiliates of Bank of Montreal, BMO Asset Management Inc., BMO Trust Company, BMO Nesbitt Burns Inc., BMO InvestorLine Inc., BMO Private Investment Counsel Inc., BMO Asset Management Corp., Pyrford International Limited, or other investment funds offered by Bank of Montreal, and may involve the purchase or sale of portfolio securities through or from a subsidiary or affiliates of Bank of Montreal, the purchase or sale of securities issued or guaranteed by subsidiaries or affiliates of Bank of Montreal, entering into forward contracts with subsidiaries or affiliates of Bank of Montreal acting as

# BMO Private Diversified Yield Portfolio

(unaudited)

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## NOTES TO FINANCIAL STATEMENTS (cont'd)

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

June 30, 2018

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counterparty, the purchase or redemption of units of other Bank of Montreal affiliated investment funds or the provision of services to the Manager.

### 7. Financial instruments risks

The Portfolio'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 Portfolio's risk management practice outlines the monitoring of compliance to investment guidelines.

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

#### (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 Portfolio, 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 Portfolio's functional currency in determining fair value. The Portfolio may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. The Portfolio'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 Portfolio's interest bearing investments will fluctuate due to changes in market interest rates. The Portfolio'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 Portfolio's 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 Portfolio'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 Portfolio'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 Portfolio's exposure to credit risk, if any, is further discussed in Note 8.

The Portfolio 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 Portfolio must be at least 102% of the fair value of securities loaned, as disclosed in Note 8, where applicable.

#### (e) Liquidity risk

The Portfolio's exposure to liquidity risk is concentrated in the daily cash redemptions of units. The Portfolio primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Portfolio retains sufficient cash and cash equivalent positions to maintain liquidity. The Portfolio 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 on the Schedule of Investment Portfolio. The proportion of illiquid securities to the NAV of the Portfolio 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 Portfolio's financial obligations.

# BMO Private Diversified Yield Portfolio

(unaudited)

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

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

June 30, 2018

### 8. Portfolio specific information

#### (a) Portfolio information and change in units

The Portfolio's inception date was November 1, 2002.

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

For the periods ended (in thousands of units)	Jun. 30, 2018	Jun. 30, 2017
Units issued and outstanding, beginning of period	101,762	91,567
Issued for cash	7,063	10,437
Issued on reinvestment of distributions	1,518	1,573
Redeemed during the period	(24,973)	(5,746)
Units issued and outstanding, end of period	85,370	97,831

#### (b) Reconciliation of NAV to Net Assets

As at June 30, 2018 and December 31, 2017, there were no differences between the Portfolio's NAV per unit and its Net Assets per unit calculated 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 for the periods ended June 30, 2018 and June 30, 2017 is calculated as follows:

For the periods ended	Jun. 30, 2018	Jun. 30, 2017
(Decrease) increase in net assets attributable to holders of redeemable units	(6,312)	89,948
Weighted average units outstanding during the period (in thousands of units)	88,143	94,331
<b>(Decrease) increase in net assets attributable to holders of redeemable units per unit</b>	<b>(0.07)</b>	<b>0.95</b>

#### (d) Income taxes

As at the tax year-ended December 2017, the Portfolio had the following capital and non-capital losses available for income tax purposes:

Total Capital Losses (\$)	Total Non-Capital Losses (\$)	Non-Capital Losses That Expire in		
		2028 (\$)	2029 (\$)	2030 and thereafter (\$)
76,902	—	—	—	—

#### (e) Related party transactions

##### Unitholder servicing

The related party fees charged for unitholder servicing fees are as follows:

For the periods ended	Jun. 30, 2018	Jun. 30, 2017
Unitholder servicing (\$)	145	136

##### 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 Portfolio for the periods are as follows:

For the periods ended	Jun. 30, 2018	Jun. 30, 2017
Total brokerage amounts paid (\$)	500	468
Total brokerage amounts paid to related parties (\$)	102	31

The Manager may select brokers who charge a commission in "soft dollars" if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized.

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

#### (f) Financial instruments risks

The Portfolio's objective is to provide income by investing primarily in a diversified portfolio of Canadian securities.

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

##### Currency risk

As at June 30, 2018 and December 31, 2017, the Portfolio did not have any significant exposure, directly and through its investment in the underlying fund, to currency risk.

##### Interest rate risk

As at June 30, 2018 and December 31, 2017, the Portfolio did not have any significant exposure, directly and through its investment in the underlying fund, to interest rate risk.

# BMO Private Diversified Yield Portfolio

(unaudited)

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

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

June 30, 2018

### Other market risk

The Portfolio has a significant exposure to other market risk arising from its investment in equity securities. Using historical correlation between the Portfolio's return and the return of its benchmark, if the benchmark, S&P/TSX Composite Index, had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Portfolio would have increased or decreased, respectively, by \$113,063 (December 31, 2017 — \$132,726). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

### Credit risk

The Portfolio's exposure to credit risk, grouped by credit ratings, is summarized in the following table:

Credit Rating	As a % of Net Assets as at	
	Jun. 30, 2018	Dec. 31, 2017
P2	10.9	9.0
P2 High	2.7	3.0
P2 Low	4.3	4.2
P3	7.2	6.9
P3 High	3.1	3.5
<b>Total</b>	<b>28.2</b>	<b>26.6</b>

As at June 30, 2018 and December 31, 2017, the Portfolio 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 Portfolio had assets involved in securities lending transactions outstanding as at June 30, 2018 and December 31, 2017 as follows:

	Aggregate Value of Securities on Loan (\$)	Aggregate Value of Collateral Received for the Loan (\$)
June 30, 2018	91,876	96,571
December 31, 2017	129,098	135,641

The table below is a reconciliation of the gross amount generated from securities lending transactions to the security lending revenue for the periods ended June 30, 2018 and June 30, 2017:

For the periods ended	Jun. 30, 2018		Jun. 30, 2017	
	Amount	% of Gross Securities Lending Revenue	Amount	% of Gross Securities Lending Revenue
Gross securities lending revenue	104	100.0	90	100.0
Withholding taxes	—	—	—	—
	104	100.0	90	100.0
Payment to securities lending agents	31	30.0	27	30.0
Net securities lending revenue	73	70.0	63	70.0

### Concentration risk

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

As at	Jun. 30, 2018	Dec. 31, 2017
<b>Equities</b>		
Consumer Discretionary	2.2%	3.4%
Consumer Staples	3.3%	3.4%
Energy	11.1%	10.9%
Financials	22.9%	21.6%
Industrials	9.0%	7.1%
Materials	3.9%	3.5%
Real Estate	7.4%	7.2%
Telecommunication Services	2.9%	2.7%
Utilities	5.8%	7.1%
<b>Preferred Shares</b>		
Fixed/Floaters Preferreds	21.7%	18.5%
Floating Perpetual Preferreds	0.3%	0.3%
Preferred Shares - Retractable	—%	0.8%
Straight Preferreds	6.2%	7.0%
<b>Investment Funds</b>	0.9%	0.9%
<b>Other Assets Less Liabilities</b>	2.4%	5.6%
	<b>100.0%</b>	<b>100.0%</b>

# BMO Private Diversified Yield Portfolio

(unaudited)

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

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

June 30, 2018

### (g) Fair value hierarchy

The Portfolio 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 Jun. 30, 2018

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,106,283	—	—	1,106,283
Investment Funds	15,087	—	—	15,087
Preferred Securities	454,597	—	—	454,597
<b>Total</b>	<b>1,575,967</b>	<b>—</b>	<b>—</b>	<b>1,575,967</b>

As at Dec. 31, 2017

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,311,792	—	—	1,311,792
Investment Funds	18,398	—	—	18,398
Preferred Securities	521,846	—	—	521,846
<b>Total</b>	<b>1,852,036</b>	<b>—</b>	<b>—</b>	<b>1,852,036</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 Jun. 30, 2018	Carrying amount	Carrying amount as a % of the underlying fund's Net Assets
<b>Securities</b>		
BMO Laddered Preferred Share Index		
ETF	15,087	0.7
<b>Total</b>	<b>15,087</b>	

As at Dec. 31, 2017	Carrying amount	Carrying amount as a % of the underlying fund's Net Assets
<b>Securities</b>		
BMO Laddered Preferred Share Index		
ETF	18,398	0.8
<b>Total</b>	<b>18,398</b>	

### 9. IFRS 9 transition

Upon transition to IFRS 9, financial assets and financial liabilities in the Portfolio's investment portfolio were classified as FVTPL. The classification differs from the classification under the previous IAS 39 for the financial assets and financial liabilities that were previously classified as held for trading; therefore there were changes in the categorization of financial assets and financial liabilities upon transition to IFRS 9. 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 January 1, 2018, the IFRS 9 transition date.

As at Jan. 1, 2018

Financial Assets	Held for Trading	Designated as FVTPL	Loans and Receivables**	FVTPL
Opening balance - under IAS 39	—	1,852,036	5,191	—
On the basis of change from IAS 39 to IFRS 9:				
- reclassification of investments to FVTPL*	—	(1,852,036)	—	1,852,036
<b>Total change on transition to IFRS 9</b>	<b>—</b>	<b>(1,852,036)</b>	<b>—</b>	<b>1,852,036</b>
<b>Opening balance - under IFRS 9</b>	<b>—</b>	<b>—</b>	<b>5,191</b>	<b>1,852,036</b>

\* These are financial instruments (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.

## BMO Private Diversified Yield Portfolio

(unaudited)

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

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

June 30, 2018

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As at Jan. 1, 2018

Financial Liabilities	Held for Trading	Amortized Cost**	FVTPL
Opening balance - under IAS 39	—	1,337	—
On the basis of change from IAS 39			
to IFRS 9:			
- reclassification of shorts and other derivatives*	—	—	—
<b>Total change on transition to IFRS 9</b>	—	—	—
<b>Opening balance - under IFRS 9</b>	—	<b>1,337</b>	—

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

\*\* These are other financial liabilities that continue to be classified as amortized cost.

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