

# Semi-Annual Management Report of Fund Performance

## BMO Private Canadian Special Equity Portfolio

For the period ended June 30, 2018

This semi-annual management report of fund performance contains financial highlights, but does not contain the semi-annual or annual financial statements of the Portfolio. If the semi-annual or annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-855-852-1026, by e-mailing us at [contact.centre@bmo.com](mailto:contact.centre@bmo.com), by writing to us at BMO Private Investment Counsel Inc., 1 First Canadian Place, 100 King St. W., 41st Floor, Toronto, Ontario, M5X 1A1 or by visiting our website at [www.bmoprivatebanking.com](http://www.bmoprivatebanking.com) or SEDAR at [www.sedar.com](http://www.sedar.com). You may also contact us using one of these methods to request a copy of the Portfolio's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

*BMO Private Investment Counsel Inc. (“BPIC” or the “Manager”), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of the BMO Private Portfolios and has engaged BMO Asset Management Inc. (“BMO AM Inc.” or the “sub-advisor”) as the sub-advisor of BMO Private Canadian Special Equity Portfolio (the “Portfolio”).*

### Results of Operations

Over the six-month period ended June 30, 2018, the Portfolio returned 0.16%, after expenses. The Portfolio's benchmark is the S&P/TSX SmallCap Index, which generated a -1.66% total return over the same six-month period.

During the six-month period ended June 30, 2018, Canadian small-capitalization stock returns were down largely as a result of weakness in the Consumer Discretionary and Materials sectors. The majority of sectors posted negative returns during the period, but this was partially offset by outperformance from the Energy sector during the second quarter of 2018. The Materials sector, which represents the largest sector in the benchmark, was negatively impacted by weakness in lithium and base metals prices.

Stock selection and sector allocation contributed to the Portfolio's performance. Selection in the Consumer Discretionary, Industrials and Materials sectors contributed to performance. An underweight exposure

to the Materials sector was a relative contributor to performance, as were overweight allocations to the Information Technology and Real Estate sectors. Top individual contributors included Parex Resources Inc., Brookfield Business Partners L.P. and Boyd Group Income Fund. Parex Resources Inc. significantly outperformed as its management continued to execute on growth plans. Brookfield Business Partners L.P., a significant holding for the Portfolio, saw its share price rise materially as the company continued to deploy capital on several acquisitions. Boyd Group Income Fund announced two quarters of better-than-expected earnings and strong margins, and continued to acquire small independent operators.

Stock selection in the Real Estate and Information Technology sectors detracted from the Portfolio's performance. An underweight exposure to the Energy sector was another detractor from performance, as was stock selection in this sector, with weakness from a holding in CES Energy Solutions Corp. Individual detractors included positions in Real Matters Inc., Altus Group Ltd. and HudBay Minerals Inc. Real Matters Inc. underperformed as a result of lower-than-expected revenue and earnings results that were driven by a weakening end market and increased costs. Altus Group Ltd.'s share price was impacted by short-term moderation in revenue and the company's increased investment in product development. HudBay Minerals Inc. saw its share price decline amid investor concern over potential permitting and construction delays on the company's development project Rosemont.

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The sub-advisor added a new position in Morneau Shepell Inc. for its defensive business model and accelerating growth opportunities in the United States. A new holding in Trisura Group Ltd. was initiated as the sub-advisor was attracted to its top-tier underwriting performance and growth potential. Photon Control Inc. was purchased based on its ability to grow earnings, and to continue to compound capital returns at an exceptional rate. Savaria Corp. was added to the Portfolio based on its ability to continue to gain market share in the growing Health Care sector. A position in Badger Daylighting Ltd. was initiated for its multi-year revenue growth outlook. Existing holdings in Winpak Ltd. and ERO Copper Corp. were increased during the period. The sub-advisor believed that Winpak Ltd.'s share price was at an attractive level. ERO Copper Corp.'s ability to increase reserves and resources through its exploration program were viewed positively.

Several holdings were also eliminated from the Portfolio. Imvescor Restaurant Group Inc. was sold as it was acquired by MTY Food Group Inc. Positions in Torex Gold Resources Inc., Lundin Gold Inc. and Osisko Mining Inc. were exited in order to shift Portfolio weightings towards investments with more favourable risk/reward potential. Dirt Environmental Solutions Ltd. and ECN Capital Corp. were eliminated given the sub-advisor's lower level of confidence in the companies' respective management teams. MedReleaf Corp. was sold after its share price rose significantly. A holding in The Westaim Corp. was reduced in favour of better risk-reward opportunities, while HudBay Minerals Inc. was trimmed after continued permitting delays on its next development project and uncertainty surrounding its optimization plans in Manitoba.

### *Risk Rating Change*

The risks associated with an investment in the Portfolio remain as disclosed in the Portfolio's most recent simplified prospectus or any amendments and fund facts. Effective May 4, 2018, the risk rating of the Portfolio was reduced from "High" to "Medium to High" to better align with the Portfolio's risk level. The investment objectives, investment strategies and management of the Portfolio did not change as a result of this risk rating change.

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

### **Recent Developments**

The sub-advisor believes that the current economic environment should allow for companies to continue growing their businesses. However, the sub-advisor is mindful that the current economic expansion has been lengthy by historical standards, interest rates are rising and there is much uncertainty regarding global trade policy. Given the potential for geopolitical or monetary policy turbulence to the financial system and global markets, the sub-advisor has prioritized investment in companies with strong free cash flows to fund growth, robust balance sheets and resilient end markets. This allows the companies to continue growing and also positions them to weather any economic or market-based challenges that may arise.

### *International Financial Reporting Standard 9 (IFRS 9) Implementation:*

Effective January 1, 2018, the Portfolio retrospectively adopted IFRS 9. The new standard requires assets to be carried at either amortized cost, fair value through profit and loss ("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 judgments 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.

Upon transition to IFRS 9, financial assets and financial liabilities in the Portfolio's investment portfolio were classified as FVTPL. This 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.

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## Related Party Transactions

BMO Trust Company, an indirect, wholly-owned subsidiary of Bank of Montreal (“BMO”), is the trustee (the “trustee”) and BPIC is the manager of the Portfolio. From time to time, BPIC may, on behalf of the Portfolio, enter into transactions or arrangements with or involving other members of BMO Financial Group, or certain other persons or companies that are related or connected to the Portfolio (each, a “related party” and collectively, the “related parties”). The purpose of this section is to provide a brief description of any transaction involving the Portfolio and a related party. In each instance where a conflict of interest is identified, it will be referred to the Portfolio’s independent review committee (the “IRC”). The primary focus of the IRC is to determine whether the proposed action of the Manager in respect of the conflict of interest matter achieves a fair and reasonable result for the Portfolio. The IRC has reviewed the related party relationships described below and has provided a positive recommendation that each relationship achieves a fair and reasonable result for the Portfolio.

### *Sub-advisor*

BPIC has hired BMO AM Inc., a related party, to provide investment advice and make investment decisions for the Portfolio’s investment portfolio. BMO AM Inc. receives a sub-advisory fee based on assets under management, which is paid monthly. BMO AM Inc. is paid by BPIC.

### **Buying and Selling Securities**

#### *Related-Party Underwritings*

During the period, the Manager relied on an approval and standing instruction provided by the Portfolio’s IRC with respect to the following related party transactions:

- (a) investments in a class of non-government debt securities and/or equity securities of an issuer during the period of distribution of those securities to the public and/or the 60-day period following the distribution period where BMO Nesbitt Burns Inc., an affiliate of the Manager, acted as an underwriter in the distribution

(each, a “Related Party Transaction”).

In accordance with the IRC’s approval and standing instruction, in making a decision to cause the Portfolio to make a Related Party Transaction, the Manager and the sub-advisor of the Portfolio are required to comply with the Manager’s written policies and procedures governing the Related Party Transaction and report periodically to the IRC, describing each instance that the Manager and/or the sub-advisor relied on the approval and standing instruction and their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the Related Party Transaction (i) is made free from any influence of BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO, BMO Nesbitt Burns Inc. or an associate or affiliate of BMO and/or BMO Nesbitt Burns Inc., (ii) represents the business judgment of the Manager and/or the sub-advisor, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

### *Brokerage Commissions*

The Portfolio pays standard brokerage commissions at market rates to BMO Nesbitt Burns Inc., an affiliate of the Manager, for executing a portion of its trades. The brokerage commissions charged to the Portfolio during the periods were as follows:

	Period ended June 30, 2018 (\$000s)	Period ended June 30, 2017 (\$000s)
Total Brokerage Commissions	257	470
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	11	11

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### *Wealth Management Fee*

Units of the Portfolio are only available through the wealth management service offered by BMO Financial Group. The trustee, a related party, and the Manager receive an annual fee from each investor for the wealth management service offered by BMO Financial Group. A tiered schedule is applied to calculate the annual fee for this service. The fee schedule starts at 1.95% and declines to 0.20% (depending on the nature and size of the investor's investment portfolio), and is calculated as a percentage of the assets under management. The actual wealth management fee payable by each investor is set out in BPIC's *Investment Management Fee Schedule* that is provided to the investor when the investor enters into an investment management agreement with the trustee and BPIC. The wealth management fee is paid directly by the investor to the trustee and the Manager. The trustee may compensate financial institutions and securities registrants within BMO Financial Group for client referrals to the wealth management service.

### *Unitholder Services*

The Portfolio is provided with certain facilities and services by related parties. BPIC is the registrar of the Portfolio. The trustee and BPIC are paid by the Portfolio for fees relating to the custodial and administrative services they provide, respectively. Administrative services include fund accounting, record keeping and purchases/redemption order processing.

The fees charged to the Portfolio during the periods were as follows:

	<b>Period ended June 30, 2018 (\$000s)</b>	<b>Period ended June 30, 2017 (\$000s)</b>
Unitholder Services	69	61

### Management Fee

There is no management fee charged to the Portfolio. The trustee and the Manager receive an annual wealth management fee from investors for the wealth management service offered by BMO Financial Group.

## BMO Private Canadian Special Equity Portfolio

### Financial Highlights

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

The Portfolio's Net Assets Per Unit <sup>(1)</sup>	Six months ended June 30, 2018	Years ended December 31				
		2017	2016	2015	2014	2013
Net assets, beginning of period	\$ 74.68	70.07	65.02	69.12	63.71	45.85
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.50	0.94	0.82	0.93	0.79	0.65
Total expenses <sup>(2)</sup>	\$ (0.09)	(0.26)	(0.29)	(0.21)	(0.27)	(0.27)
Realized gains (losses) for the period	\$ 0.64	2.82	4.41	2.63	11.31	4.32
Unrealized gains (losses) for the period	\$ (0.53)	1.90	1.48	(5.91)	(2.60)	13.63
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ 0.52</b>	<b>5.40</b>	<b>6.42</b>	<b>(2.56)</b>	<b>9.23</b>	<b>18.33</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	0.03	—	—	—	—
From dividends	\$ —	0.93	0.86	0.71	0.72	0.50
From capital gains	\$ —	—	1.68	1.14	3.00	—
Return of capital	\$ —	0.01	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ —</b>	<b>0.97</b>	<b>2.54</b>	<b>1.85</b>	<b>3.72</b>	<b>0.50</b>
<b>Net assets, end of period</b>	<b>\$ 74.80</b>	<b>74.68</b>	<b>70.07</b>	<b>65.02</b>	<b>69.12</b>	<b>63.71</b>

<sup>(1)</sup> This information is derived from the Portfolio's unaudited and audited financial statements.

<sup>(2)</sup> Includes commissions and other portfolio transaction costs and withholding taxes.

<sup>(3)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

<sup>(4)</sup> Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

Ratios and Supplemental Data	Six months ended June 30, 2018	Years ended December 31				
		2017	2016	2015	2014	2013
Total net asset value (000s) <sup>(1)</sup>	\$ 300,357	272,154	287,520	316,045	292,662	246,791
Number of units outstanding (000s) <sup>(1)</sup>	4,016	3,644	4,103	4,861	4,234	3,874
Management expense ratio <sup>(2)</sup>	%	0.08	0.08	0.09	0.08	0.13
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	%	0.20	0.19	0.20	0.20	0.26
Trading expense ratio <sup>(3)</sup>	%	0.18	0.28	0.35	0.21	0.37
Portfolio turnover rate <sup>(4)</sup>	%	13.19	43.53	60.55	42.94	57.26
Net asset value per unit	\$ 74.80	74.68	70.07	65.02	69.12	63.71

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

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

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

<sup>(4)</sup> The portfolio turnover rate indicates how actively the Portfolio's sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a portfolio.

# BMO Private Canadian Special Equity Portfolio

## Past Performance

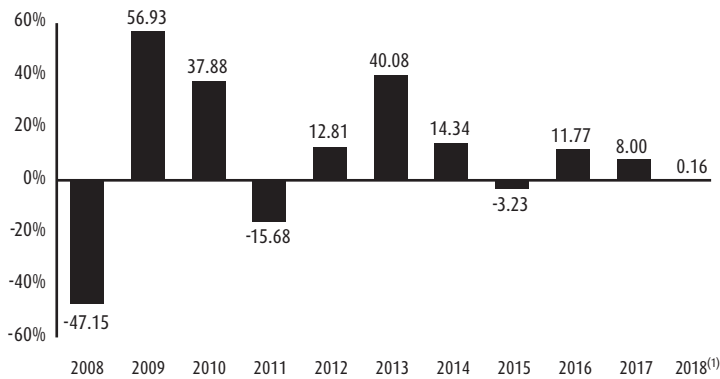
### General

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

The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Portfolio has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the performance for each of the financial years and for the six-month period ended June 30, 2018 shown and illustrates how the performance has changed from year to year. The bar chart shows in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.



<sup>(1)</sup> For the six-month period ended June 30, 2018.

## BMO Private Canadian Special Equity Portfolio

### Summary of Investment Portfolio

as at June 30, 2018

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings Issuer	% of Net Asset Value
Industrials	18.6	Tricon Capital Group Inc.	4.3
Energy	16.5	Altus Group Limited	4.0
Materials	15.6	Winpak Ltd.	4.0
Real Estate	15.1	Brookfield Business Partners L.P.	3.9
Information Technology	10.5	Boyd Group Income Fund	3.9
Consumer Discretionary	8.8	StorageVault Canada Inc.	3.3
Money Market Investments	3.8	People Corporation	3.2
Financials	3.2	Parkland Fuel Corporation	3.0
Consumer Staples	2.7	Descartes Systems Group Inc.	2.8
Health Care	2.6	Parex Resources Inc.	2.5
Utilities	2.6	Premium Brands Holdings Corporation	2.4
Cash/Receivables/Payables	0.0	Park Lawn Corporation	2.3
<b>Total portfolio allocation</b>	<b>100.0</b>	NFI Group Inc.	2.2
		Canadian Western Bank	2.2
		Knight Therapeutics Inc.	2.2
		Enerflex Ltd.	2.1
		Stingray Digital Group Inc.	2.0
		FirstService Corporation	2.0
		Kinaxis Inc.	2.0
		CES Energy Solutions Corp.	2.0
		Boralex Inc., Class A	1.9
		Solium Capital Inc.	1.9
		Storm Resources Ltd.	1.7
		AirBoss of America Corp.	1.7
		Real Matters Inc.	1.7
		<b>Top holdings as a percentage of total net asset value</b>	<b>65.2</b>
		<b>Total Net Asset Value</b>	<b>\$300,356,959</b>

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



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