

# Semi-Annual Management Report of Fund Performance

## **BMO Private Canadian Core Equity Portfolio** (formerly, BMO Private Canadian Conservative 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 Core Equity Portfolio (the "Portfolio").*

### Results of Operations

Over the six-month period ended June 30, 2018, the Portfolio returned 2.79%, after expenses. The Portfolio's benchmark is the S&P/TSX Composite Index ("S&P/TSX"), which generated a 1.95% total return over the same six-month period.

The first quarter of 2018 was challenging for global equities, and Canadian equities were not immune to weak investor sentiment. In addition, the discount on Canadian oil widened as a result of pipeline constraints, which put further pressure on Canadian equities. As a result, the S&P/TSX, representing the performance of Canadian equities, declined over the first three months of 2018. However, Canadian equities posted gains over the second quarter of 2018 as higher prices for West Texas Intermediate crude oil and relatively better pricing of domestic oil supported the Energy sector. In addition, the Organization of Petroleum Exporting Countries' ("OPEC") most recent decision on oil production was well received by markets, lifting crude prices. Overall, the S&P/TSX rose 1.9%. Canadian

equities delivered mixed performance not only over the period but also across sectors. Information Technology sector stocks had particularly strong performance, making a significant contribution to the S&P/TSX. However, the Financials sector declined slightly given weaker sales activity in the housing market and recent regulatory changes in mortgage financing. In addition, the Bank of Canada kept its policy interest rate unchanged since its January increase, tempering market expectations regarding the pace of future interest rate increases. The Materials sector posted a small gain, which also supported the S&P/TSX.

The S&P 500 Index ("S&P 500"), representing the performance of U.S. equities, posted mixed performance in the first half of 2018. U.S. and global equities underperformed in early 2018. However, solid fundamentals and improved valuations lifted U.S. stocks in the second quarter. Overall, the S&P 500 gained 2.6% in U.S.-dollar terms and 7.7% in Canadian-dollar terms as the Canadian dollar underperformed. Energy-related stocks posted solid performance as oil prices rose after the recent OPEC meeting. Stocks in the Information Technology and Consumer Discretionary sectors maintained their position among leading equity sectors.

Security selection in real estate investment trusts ("REITs"), and within the Energy and Materials sectors contributed to the Portfolio's performance. Energy producers benefited from higher crude oil prices, while the Materials sector was up as the result of strong

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global demand for basic materials. Apartment REITs were able to achieve higher rentals as a result of strong demand and limited supply. Individual contributors to performance included a holding in Methanex Corp., a leading global producer of methanol. Prices remained higher than expected, leading to the company's high free cash flow, capital returns to shareholders and a record-high for its share price. Higher crude oil prices, which increases demand for methanol as a fuel substitute, also aided Methanex Corp.'s returns. CGI Group Inc. was another contributor to performance, benefiting from a weaker Canadian dollar. Its strong balance sheet should lead to better returns to shareholders, and the sub-advisor believes that the company will achieve higher margins with its move to more cloud-based services.

Security selection in the Industrials sector detracted from the Portfolio's performance. Within the Industrials sector, airline stocks were weaker amid higher oil prices, while railway stocks, in which the Portfolio holds an underweight allocation, rebounded after a challenging winter. Individual detractors from performance included Air Canada and an underweight allocation to Shopify Inc. Air Canada's shares were impacted by higher oil prices and investor concerns about higher costs and decreased margins. Shopify Inc.'s stock rose after it reported strong revenue growth.

The sub-advisor added a new position in West Fraser Timber Co. Ltd., North America's largest producer of lumber and a major producer of wood panels and market pulp. The multi-year outlook for lumber, wood panels and pulp are very positive with strong housing activity in the United States. The company has a long track record with a solid balance sheet and best-in-class margins. Even at lower lumber prices, the sub-advisor believes that the company should generate a significant amount of free cash flow and should be debt free by the end of 2018. A new holding was initiated in Constellation Software Inc., a diversified software holding company. Its current business is well diversified across public and private sectors, as well as geographies, with revenues coming from the United States, the U.K., Europe and Canada. Its strategy is to acquire small- to medium-sized software companies in specific vertical markets at attractive valuations and manage them in a decentralized organizational structure. The company has executed this strategy successfully over many years and continues to have a strong pipeline of acquisitions.

An existing position in Imperial Oil Ltd. was increased, as it is well positioned to benefit from geopolitical risk and higher oil prices. The company's management reported above-consensus cash flow and announced a share buyback and 19% dividend increase for the second quarter of 2018.

Holdings in PrairieSky Royalty Ltd. and Restaurant Brands International Inc. were eliminated from the Portfolio during the period. PrairieSky Royalty Ltd. reported weak first-quarter results with lower-than-expected volumes and higher-than-expected general and administrative expenses. The company's long-term prospects appear to lag those of its peers, particularly considering its high valuation. Restaurant Brands International Inc. continues to face deteriorating store economics partly as a result of the class-action lawsuit by Tim Hortons franchisees and competitive pressure. In addition, the sub-advisor reduced the Portfolio's investments in rail companies after a challenging winter, reallocating the proceeds to the Information Technology sector and to REITs, both of which should have better growth potential.

*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

While the Canadian economy is faring well, the potential slowdown and inflationary effects from a trade war could disrupt its current growth trajectory. The effects of such trade disputes are difficult to forecast with any precision. As such, the sub-advisor anticipates greater volatility from the commodity-oriented Canadian stock market in the coming period, but still believes there are selective investment opportunities. The sub-advisor believes the Portfolio's positioning in higher-quality, well managed companies that can perform through turbulent times should contribute positively to its performance.

The BoC raised its benchmark overnight lending rate by 25 basis points — from 1.25% to 1.50% — on July 11, 2018.

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### *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.

### 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.

### *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	59	139
Brokerage Fees paid to BMO Nesbitt Burns Inc.	17	58

### *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

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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 Core 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	\$ 18.66	16.84	14.69	16.15	15.05	13.71
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.21	0.39	0.36	0.43	0.44	0.41
Total expenses <sup>(2)</sup>	\$ (0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.03)
Realized gains (losses) for the period	\$ 0.49	0.94	0.70	0.15	0.44	0.25
Unrealized gains (losses) for the period	\$ (0.12)	0.88	1.49	(1.53)	0.72	1.05
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ 0.57</b>	<b>2.20</b>	<b>2.53</b>	<b>(0.96)</b>	<b>1.59</b>	<b>1.68</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	—	—	—	—	0.01
From dividends	\$ —	0.38	0.39	0.46	0.45	0.45
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ —	0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ —</b>	<b>0.38</b>	<b>0.39</b>	<b>0.46</b>	<b>0.45</b>	<b>0.46</b>
<b>Net assets, end of period</b>	<b>\$ 19.18</b>	<b>18.66</b>	<b>16.84</b>	<b>14.69</b>	<b>16.15</b>	<b>15.05</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>	\$ 828,376	764,875	705,259	620,904	730,729	710,836
Number of units outstanding (000s) <sup>(1)</sup>	43,191	40,985	41,874	42,263	45,239	47,227
Management expense ratio <sup>(2)</sup>	% 0.03	0.03	0.04	0.04	0.04	0.06
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	% 0.15	0.14	0.15	0.16	0.16	0.18
Trading expense ratio <sup>(3)</sup>	% 0.02	0.02	0.11	0.03	0.03	0.05
Portfolio turnover rate <sup>(4)</sup>	% 11.98	26.29	50.09	13.17	12.74	15.23
Net asset value per unit	\$ 19.18	18.66	16.84	14.69	16.15	15.05

<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 investment manager 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 Core Equity Portfolio

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## Past Performance

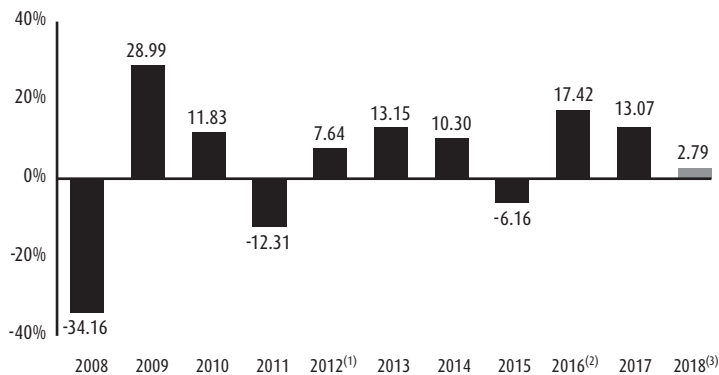
### General

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> On March 26, 2012, BMO AM Inc. became the sub-advisor of the Portfolio.

<sup>(2)</sup> On July 8, 2016, BMO Private Canadian Growth Equity Portfolio merged into the Portfolio, which changed its name to BMO Private Canadian Core Equity Portfolio at the time of the merger.

<sup>(3)</sup> For the six-month period ended June 30, 2018.

## BMO Private Canadian Core 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
Financials	29.6	Toronto-Dominion Bank, The,	8.2
Energy	19.0	Royal Bank of Canada	6.5
Industrials	11.3	Manulife Financial Corporation	5.2
Materials	11.1	Canadian Natural Resources Limited	4.7
Information Technology	6.6	CGI Group Inc., Class A	4.5
Consumer Discretionary	6.1	TransCanada Corporation	3.9
Consumer Staples	4.0	Franco-Nevada Corporation	3.9
Cash/Receivables/Payables	3.4	Canadian National Railway Company	3.8
Real Estate	3.2	Cash/Receivables/Payables	3.4
Telecommunication Services	3.2	Suncor Energy Inc.	3.3
Utilities	2.5	Magna International Inc.	3.2
<b>Total portfolio allocation</b>	<b>100.0</b>	Rogers Communications Inc., Class B	3.2
		Bank of Nova Scotia, The,	3.1
		Cenovus Energy Inc.	3.0
		Dollarama Inc.	3.0
		Onex Corporation	2.9
		Waste Connections, Inc.	2.6
		Imperial Oil Limited	2.6
		Teck Resources Limited, Class B	2.6
		Methanex Corporation	2.2
		Air Canada	2.1
		Brookfield Asset Management Inc., Class A	2.0
		FirstService Corporation	1.7
		Canadian Pacific Railway Limited	1.7
		Power Financial Corporation	1.6
		<b>Top holdings as a percentage of total net asset value</b>	<b>84.9</b>
		<b>Total Net Asset Value</b>	<b>\$828,376,121</b>

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

**Manager**

BMO Private Investment Counsel Inc.  
1 First Canadian Place  
100 King St. W., 41st Floor  
Toronto, Ontario M5X 1A1

**Trustee**

BMO Trust Company  
1 First Canadian Place  
100 King St. W., 41st Floor  
Toronto, Ontario M5X 1A1

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For more information please call 1-855-852-1026

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