Semi-Annual Management Report of Fund Performance

BMO Private Diversified Yield 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**, 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** or SEDAR at **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 Diversified Yield Portfolio (the "Portfolio").

Results of Operations

Over the six-month period ended June 30, 2018, the Portfolio returned 0.01%, 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 the Energy sector, and by extension 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, led by the Energy sector which was helped by higher prices for crude oil driven by healthy global demand combined with supply constraints from various regions around the world. Overall, the S&P/TSX rose 1.9%. Canadian equities delivered mixed performance not only over the period but also across sectors. Information Technology and Health Care sectors stocks performed particularly well, making a significant contribution to the S&P/TSX. The Materials sector posted a small gain, which also supported 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.

While both bonds and equities posted relatively weak returns over the first quarter of 2018, Canadian real estate investment trusts ("REITs") performed well. Canadian REITs registered particularly strong performance in the second quarter of 2018, gaining 4.7% but nevertheless underperforming the broader Canadian equity market as measured by the S&P/TSX.

The Portfolio underperformed its benchmark largely as a result of sector allocation in common equities and REITs, as well as security selection. Within common equities, an overweight exposure to the Utilities sector and lack of exposure to the Information Technology and Health Care sector detracted from its performance. Individual detractors included overweight exposures to Cineplex Inc. and The Bank of Nova Scotia. Cineplex Inc. experienced continued volatility in its box office performance, which has impacted its concession and media businesses. In addition, the potential disruption risk from premium video-on-demand services continues to impact sentiment on the exhibition industry. The Bank of Nova Scotia's recent acquisition of MD Financial Management was completed at a premium price, which has put pressure on the company's stock valuation. However, the sub-advisor believes that the long-term strategic value of the acquisition outweighs the near-term share price weakness.

An underweight allocation to preferred shares, which underperformed the benchmark, contributed to the Portfolio's performance. An overweight exposure to common shares also contributed to performance. Individual contributors included overweight exposures to Morneau Shepell Inc. and Waste Connections Inc. Morneau Shepell Inc. shares performed well after the company delivered strong earnings results that featured higher-than-expected margin expansion. Waste Connections Inc. posted better-than-expected earnings as it continued to benefit from its scale as the third-largest waste company in North America.

The sub-advisor added a new holding in Shaw Communications Inc., one of the major cable companies in Canada operating primarily in Western Canada. In the sub-advisor's view, the company has the potential to disrupt the wireless market through its brand, Freedom Mobile. Shaw Communications Inc. has more financial flexibility than its peers, with lower debt levels and a balance sheet that is ready to support future investments needed to grow its platforms.

Existing holdings in Waste Connection Inc. and Rogers Communications Inc. were increased. Waste Connections Inc.'s focus on exclusive and secondary markets allows it to secure higher-margin contracts, which results in a recurring revenue stream, industry-leading earnings and high cash flow conversion. Rogers Communications Inc. makes approximately two-thirds of its earnings in the wireless segment, which is currently growing at above the industry average. Its chief executive officer has recently promised to emphasize efficiency gains and margin improvements.

BCE Inc. and Canadian Imperial Bank of Commerce were both eliminated from the Portfolio during the period. While BCE Inc. continues to exhibit good wireless growth, approximately two-thirds of its business remains exposed to the wireline segment, which is facing a secular decline. In the sub-advisor's view, growth in wireless will not be able to fully compensate for the decline in these business lines. Canadian Imperial Bank of Commerce was sold amid concerns over the bank's relatively large exposure to the Canadian residential market and its recent expensive acquisition of PrivateBancorp Inc., both of which factors could impact its earnings growth outlook.

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 "Medium" to "Low to Medium" 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

North American equity markets moved past the volatility earlier in the year with robust performance in the second quarter. In fact, Canadian equities rose to new all-time highs driven by a domestic economy that has been supported by stronger U.S. demand, ongoing oil price recovery, a low jobless rate and decent earnings growth. As a result of the strength in the domestic economic conditions, as well as inflation within the Bank of Canada's target range, the BoC raised interest rates for the fourth time over the past 12-month period. That said, the outlook for the Canadian equity market has become more uncertain with rising trade tensions and rising interest rates. Outside of these risks, the sub-advisor believes that the return expectation for domestic stocks remains positive but modest, driven in large part by earnings growth and dividend yield. The Canadian economy continues to be well supported and the risk of recession remains low given the fiscal policy backing and the cautious path to interest rate normalization that the BoC is navigating.

Reflecting this outlook, the Portfolio remains biased toward high-quality businesses in the Financials, Information Technology and Consumer-related sectors, which are able to grow free cash flow and dividend streams. The sub-advisor believes that investing in companies with lower earnings variability and solid business models works to mitigate overall equity risk through the economic cycle. In the sub-advisor's view, the prospect of higher North American interest rates should not bring an end to the strong market for dividend stocks, which will likely remain attractive to investors searching for quality business models and yield.

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	500	468
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	102	31

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:

	Period ended June 30, 2018 ($000s)	**Period ended June 30, 2017 ($000s)**
Unitholder Services	145	136

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.

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 (1)		Six months ended June 30, 2018	Years ended December 31 2017	2016	2015	2014	2013
Net assets, beginning of period	$	19.27	18.06	16.19	18.23	17.39	16.14
Increase (decrease) from operations:							
Total revenue	$	0.35	0.65	0.65	0.68	0.68	0.64
Total expenses (2)	$	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Realized gains (losses) for the period	$	0.83	0.21	0.39	(0.43)	0.35	0.69
Unrealized gains (losses) for the period	$	(1.24)	1.02	1.52	(1.56)	0.56	0.57
Total increase (decrease) from operations (3)	$	(0.07)	1.87	2.55	(1.32)	1.58	1.89
Distributions:							
From income (excluding dividends)	$	0.03	0.03	0.03	0.03	0.03	0.03
From dividends	$	0.31	0.58	0.61	0.64	0.64	0.62
From capital gains	$	—	—	—	—	—	—
Return of capital	$	0.01	0.04	0.06	0.05	0.04	0.06
Total Annual Distributions (4)	$	0.35	0.65	0.70	0.72	0.71	0.71
Net assets, end of period	$	18.92	19.27	18.06	16.19	18.23	17.39

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

(2) Includes commissions and other portfolio transaction costs and withholding taxes.

(3) 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.

(4) 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) (1)	$	1,615,136	1,961,074	1,653,263	1,375,435	1,586,670	1,483,501
Number of units outstanding (000s) (1)		85,370	101,762	91,567	84,935	87,017	85,316
Management expense ratio (2)	%	0.04	0.04	0.04	0.04	0.03	0.04
Management expense ratio before waivers or management absorptions (2)	%	0.16	0.15	0.16	0.15	0.15	0.16
Trading expense ratio (3)	%	0.06	0.03	0.04	0.03	0.01	0.04
Portfolio turnover rate (4)	%	7.79	12.19	12.54	13.41	7.72	15.42
Net asset value per unit	$	18.92	19.27	18.06	16.19	18.23	17.39

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

(2) 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.

(3) 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.

(4) 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.

Past Performance

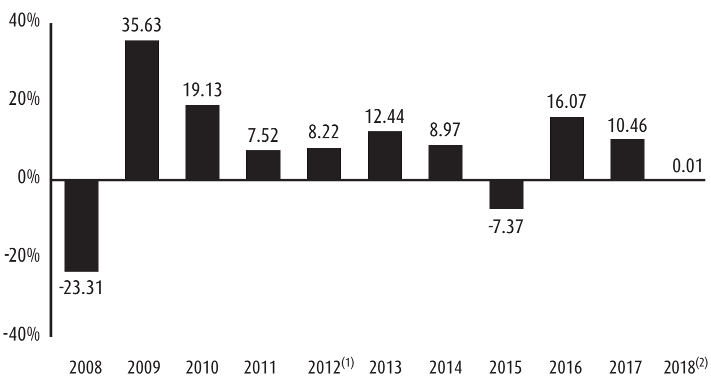
General

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.



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

(2) For the six-month period ended June 30, 2018.

Summary of Investment Portfolio

as at June 30, 2018

Portfolio Allocation	% of Net Asset Value
Financials	22.9
Preferred Shares – Fixed/Floaters	21.7
Energy	11.1
Industrials	9.0
Real Estate	7.4
Preferred Shares – Straight	6.2
Utilities	5.8
Materials	3.9
Consumer Staples	3.3
Telecommunication Services	2.9
Cash/Receivables/Payables	2.4
Consumer Discretionary	2.2
Other	1.2
Total portfolio allocation	**100.0**

Top 25 Holdings

Issuer	% of Net Asset Value
Toronto-Dominion Bank, The,	5.6
Bank of Nova Scotia, The,	4.6
Royal Bank of Canada	4.4
Brookfield Asset Management Inc., Class A	3.7
Rogers Communications Inc., Class B	3.0
Canadian National Railway Company	2.7
Waste Connections, Inc.	2.6
Cash/Receivables/Payables	2.4
Brookfield Infrastructure Partners L.P.	2.3
Enbridge Inc.	2.2
Manulife Financial Corporation	2.1
Suncor Energy Inc.	2.0
Morneau Shepell Inc.	1.7
Canadian Apartment Properties REIT	1.7
Allied Properties REIT	1.7
Intact Financial Corporation	1.7
Nutrien Ltd.	1.6
RioCan REIT	1.6
Keyera Corp.	1.4
Dollarama Inc.	1.4
Alimentation Couche-Tard Inc., Class B	1.3
Algonquin Power & Utilities Corp.	1.3
TransCanada Corporation	1.3
Pembina Pipeline Corporation	1.3
Brookfield Renewable Partners L.P.	1.3
Top holdings as a percentage of total net asset value	**56.9**
Total Net Asset Value	**$1,615,135,512**

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

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This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Portfolio may invest and the risks detailed from time to time in the simplified prospectus of the BMO Private Portfolios. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Portfolio, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, BMO Private Investment Counsel Inc. does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

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