

# Annual Management Report of Fund Performance

## BMO Private Canadian Special Equity Portfolio

For the period ended December 31, 2018

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Portfolio. If the annual financial statements of the Portfolio do not accompany the mailing of this report, you may obtain a copy of the annual financial statements at your request, and at no cost, by calling 1-855-852-1026, by e-mailing us at [contactcentre@bmo.com](mailto:contactcentre@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 interim financial report, 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”).*

### Investment Objective and Strategies

The Portfolio's investment objective is to provide above average capital growth over the long-term by investing in small and mid sized Canadian companies whose shares are listed on a Canadian stock exchange.

To achieve the Portfolio's objectives, the sub-advisor analyzes each company's financial health (including projected earnings and cash flow), operations, research and development to assess the company's future growth potential, and its management quality.

### Risk

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. During the period there were no changes to the Portfolio that materially affected the overall risk level associated with an investment in the Portfolio. On May 4, 2018, the Manager reviewed the Portfolio using the standardized investment risk classification methodology under National Instrument 81-102

*Investment Funds* and determined that the risk rating of the Portfolio had changed from “High” to “Medium to High”. There was no change to the investment objectives, strategies or management of the Portfolio associated with its new risk rating. The Manager reviews the Portfolio's investment risk level and reference index, if any, at least annually.

### Results of Operations

Over the 12-month period ended December 31, 2018, the Portfolio returned -14.76%, after expenses. The Portfolio's benchmark is the S&P/TSX SmallCap Index, which generated a -18.17% total return over the same 12-month period.

During the 12-month period ended December 31, 2018, Canadian equities were challenged amid uncertainty with respect to renegotiations of the North American Free Trade Agreement. Pricing weakness specific to Canadian industries, such as Energy, weighed on Canadian stocks. Despite underperforming for most of the year, the global sell-off in equities during the fourth quarter of 2018, largely as a result of monetary policy and global trade uncertainty, negatively impacted Canadian small-capitalization stocks. Energy, the largest sector within the benchmark, was the worst performer during the period, as oil prices sold off sharply.

Stock selection in the Energy, Industrials and Materials sectors contributed to performance, as did the Portfolio's cash allocation. An underweight exposure to Energy and overweight exposures to Real Estate and Information Technology also contributed to performance. Top

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individual contributors included Parkland Fuel Corp., which performed well as the company completed a strategic acquisition. Over the year, the company's shares were up over 30%. Holdings in Enerflex Ltd., Boyd Group Income Fund and Wipak Ltd. were notable contributors to performance as these finished the year with modest returns when most stocks declined significantly. A lack of ownership in Trican Well Service Ltd. and NuVista Energy Ltd. contributed to relative performance.

Stock selection in the Real Estate, Consumer Discretionary, Consumer Staples and Financials sectors detracted from the Portfolio's performance. Individual detractors included positions in Real Matters Inc., Altus Group Ltd. and NFI Group Inc. Real Matters Inc. underperformed as a result of lower-than-expected results that were driven by low mortgage originations. Altus Group Ltd. and NFI Group Inc., two of the Portfolio's large, long-term holdings, produced financial results that slightly missed investor expectations.

The sub-advisor added a new position in Badger Daylighting Ltd., which had been owned previously, but sold amid concern over several management changes and high volatility in quarterly earnings results. As the sub-advisor has become more comfortable with the company's new management and initiatives put in place to help the business become more diversified and better positioned for growth, the stock was repurchased. An existing holding in Wipak Ltd. was increased. Its shares underperformed earlier in the year as input costs rose unexpectedly as a result of unforeseen weather events. The sub-advisor saw these issues as temporary and increased the position at an advantageous price.

Invescor Restaurant Group Inc. was eliminated after it was acquired by MTY Food Group Inc. The Descartes Systems Group Inc. was trimmed, but is still a large position within the Portfolio. The sub-advisor is optimistic about the company's future prospects, but as Information Technology stock valuations became stretched earlier in the year, the position was reduced and reallocated to other areas of the market.

*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

During 2018, various investor concerns created volatility for the stock market, including rising interest rates, tightening monetary policy, trade and geopolitical uncertainty and valuation concerns. The most important factor that should determine how equity markets perform in the coming period is likely to be what effect these issues have on the economy and corporate earnings. Many of the Portfolio's top holdings are at valuations that have not been this attractive in several years, but the outlook for these stocks and their prospective recoveries is dependent on the earnings outlook remaining positive.

Given this outlook, the sub-advisor has prioritized investment in companies with strong free cash flow to fund their growth profiles, robust balance sheets and resilient end markets. This should allow them to continue growing in the current economic environment, and weather any economic or market-based challenges that may arise.

### Independent Review Committee

On June 6, 2018, the Portfolio's independent review committee (the "IRC") was increased to five members when Jacqueline Allen was appointed as an IRC member. On September 6, 2018, the Portfolio's IRC was increased to six members when Marlene Davidge was appointed as an IRC member.

### 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 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

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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**

During the period, the Manager relied on standing instructions provided by the Portfolio's IRC for any of the following related party transactions that may have occurred in the Portfolio:

- (a) investments in securities of BMO, an affiliate of the Manager;
  - (b) 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, or any other affiliate of the Manager acted as an underwriter in the distribution;
  - (c) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., or any other affiliate of the Manager, who is trading with the Portfolio as principal; and
  - (d) inter-fund trades;
- (each, a "Related Party Transaction").

In accordance with the IRC's standing instructions, 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 standing instructions and their compliance or non-compliance with the governing policies and procedures. The governing

policies and procedures are designed to ensure that each 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 Dec. 31, 2018 (\$000s)	Period ended Dec. 31, 2017 (\$000s)
Total Brokerage Commissions	386	773
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	17	16

### *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.

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### *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 Dec. 31, 2018 (\$000s)</b>	<b>Period ended Dec. 31, 2017 (\$000s)</b>
Unitholder Services	139	122

### 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.

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### 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>	Years ended December 31				
	2018	2017	2016	2015	2014
Net assets, beginning of period	\$ 74.68	70.07	65.02	69.12	63.71
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 1.13	0.94	0.82	0.93	0.79
Total expenses <sup>(2)</sup>	\$ (0.16)	(0.26)	(0.29)	(0.21)	(0.27)
Realized gains (losses) for the period	\$ 0.60	2.82	4.41	2.63	11.31
Unrealized gains (losses) for the period	\$ (12.47)	1.90	1.48	(5.91)	(2.60)
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ (10.90)</b>	<b>5.40</b>	<b>6.42</b>	<b>(2.56)</b>	<b>9.23</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ 0.04	0.03	—	—	—
From dividends	\$ 0.94	0.93	0.86	0.71	0.72
From capital gains	\$ 0.49	—	1.68	1.14	3.00
Return of capital	\$ 0.01	0.01	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ 1.48</b>	<b>0.97</b>	<b>2.54</b>	<b>1.85</b>	<b>3.72</b>
<b>Net assets, end of period</b>	<b>\$ 62.17</b>	<b>74.68</b>	<b>70.07</b>	<b>65.02</b>	<b>69.12</b>

<sup>(1)</sup> This information is derived from the Portfolio's 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	Years ended December 31				
	2018	2017	2016	2015	2014
Total net asset value (000s) <sup>(1)</sup>	\$ 255,421	272,154	287,520	316,045	292,662
Number of units outstanding (000s) <sup>(1)</sup>	4,108	3,644	4,103	4,861	4,234
Management expense ratio <sup>(2)</sup>	%	0.08	0.08	0.09	0.08
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	%	0.20	0.19	0.20	0.21
Trading expense ratio <sup>(3)</sup>	%	0.13	0.28	0.35	0.28
Portfolio turnover rate <sup>(4)</sup>	%	21.92	43.53	60.55	42.94
Net asset value per unit	\$ 62.17	74.68	70.07	65.02	69.12

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

<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.

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## Past Performance

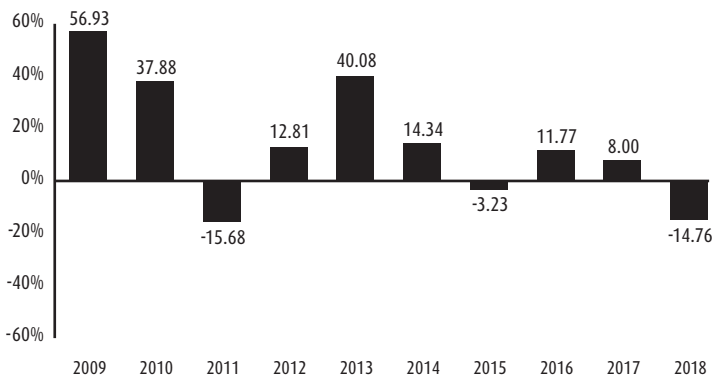
### General

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 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.



### Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the returns of the S&P/TSX SmallCap Index and the S&P/TSX Composite Index. The S&P/TSX SmallCap Index reflects the stock performance of the small capitalization segment of the Canadian equity market, and the S&P/TSX Composite Index reflects the price movements of a floating list of companies on the Toronto Stock Exchange that meet Standard & Poor's criteria for inclusion in the index.

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Private Canadian Special Equity Portfolio <sup>†</sup>	(14.76)	0.96	2.63	12.62
S&P/TSX SmallCap Index <sup>*</sup>	(18.17)	5.20	(0.29)	6.64
S&P/TSX Composite Index	(8.89)	6.37	4.06	7.92

<sup>†</sup>The Portfolio's return is after the deduction of expenses, while the benchmarks do not include any costs of investing.

<sup>\*</sup>The Portfolio's benchmark is the S&P/TSX SmallCap Index. Prior to January 1, 2015, it was the BMO Capital Markets Small Cap Index and prior to January 1, 2012, the Portfolio's benchmark was the BMO Capital Markets Small Cap Equity Only Index.

*A commentary on the market and/or information regarding the relative performance of the Portfolio as compared to its benchmark can be found under the Results of Operations section of this report.*

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### Summary of Investment Portfolio

as at December 31, 2018

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings Issuer	% of Net Asset Value
Industrials	22.4	Winpak Ltd.	4.9
Real Estate	16.2	Tricon Capital Group Inc.	4.6
Materials	16.0	Boyd Group Income Fund	4.2
Energy	13.3	Altus Group Limited	3.9
Information Technology	8.8	StorageVault Canada Inc.	3.9
Consumer Discretionary	6.3	Brookfield Business Partners L.P.	3.8
Money Market Investments	3.9	People Corporation	3.5
Financials	2.9	Enerflex Ltd.	2.8
Utilities	2.4	Park Lawn Corporation	2.7
Communication Services	2.4	NFI Group Inc.	2.7
Health Care	2.3	Parkland Fuel Corporation	2.6
Consumer Staples	2.2	Parex Resources Inc.	2.5
Cash/Receivables/Payables	0.9	Boralex Inc., Class A	2.4
<b>Total portfolio allocation</b>	<b>100.0</b>	Morneau Shepell Inc.	2.4
		Descartes Systems Group Inc., The,	2.4
		Knight Therapeutics Inc.	2.3
		Solium Capital Inc.	2.2
		FirstService Corporation	2.2
		Premium Brands Holdings Corporation	2.1
		Stingray Group Inc.	2.0
		Ero Copper Corp.	2.0
		Canadian Western Bank	1.9
		B2Gold Corp.	1.9
		Sylogist Ltd.	1.7
		Kinaxis Inc.	1.6
		<b>Top holdings as a percentage of total net asset value</b>	<b>69.2</b>
		<b>Total Net Asset Value</b>	<b>\$255,420,707</b>

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

**Manager**

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