

Annual Management Report of Fund Performance

BMO Private Canadian Short-Term Bond 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 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 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 sub-advisor of BMO Private Canadian Short-Term Bond Portfolio (the “Portfolio”).

Investment Objective and Strategies

The Portfolio's investment objectives are to produce a high level of interest income, and to preserve the capital invested. The Portfolio invests primarily in high-quality fixed income securities such as bonds and debentures issued by governments and corporations in Canada that mature in more than one year.

To achieve the Portfolio's objectives, the sub-advisor selects fixed income securities in reference to the characteristics of a widely recognized Canadian short-term bond index (which includes bonds with remaining effective terms greater than one year and less than or equal to five years), and invests primarily in securities which will provide a steady stream of annual income.

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 not changed. 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 1.91%, after expenses. The Portfolio's benchmark is the FTSE TMX Canada Short Term Bond Index, which generated a 1.91% total return over the same 12-month period.

Canadian economic momentum faded in 2018, which was a reversal from the previous year's strong labour market, wage gain, and manufacturing Purchasing Managers' Indices (“PMIs”). After recovering some of January's job losses, which could be attributed to a higher minimum wage in Ontario, the Canadian economy witnessed softer employment numbers throughout the rest of 2018. In addition, recent PMIs suggest that manufacturing activity has lost its momentum, albeit remaining in expansionary territory. North American Free Trade Agreement negotiations drove investor sentiment earlier in 2018. However, by the end of the year, there was more clarity on Canada-U.S. trade, yet global trade and growth were concerns for investors.

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Headline inflation peaked in July and began to slow in the third quarter. In the last quarter of 2018, the Bank of Canada (the “BoC”) adopted a cautious tone. Oil prices declined at the end of 2018, limiting increases in inflation and supporting Canadian bond prices. The Canadian yield curve flattened as investors expected limited consumer price pressure over the medium and long term. Overall, the Canadian short- and mid-term bond markets, as measured by the FTSE TMX Canada Short Term Overall Bond Index and FTSE TMX Canada Mid Term Overall Bond Index, both returned 1.9%. Canadian corporate spreads widened, as government bonds outperformed corporate credit.

The Portfolio’s shorter duration (interest rate sensitivity) contributed to its performance during the period, as did exposure to provincial bonds. Allocation to the Securitization and Industrials sectors was another contributor to performance.

Exposure to corporate bonds and the Communication Services sector detracted from the Portfolio’s performance.

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 expects the BoC to continue raising interest rates in 2019, but at a slower pace than previously anticipated. The sub-advisor expects that corporate bonds will outperform in the coming period, which should, along with the Portfolio’s short duration positioning, provide some protection if interest rates continue to rise.

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 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;

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(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.

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 Dec. 31, 2018 (\$000s)	Period ended Dec. 31, 2017 (\$000s)
Unitholder Services	279	273

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 ⁽¹⁾	Years ended December 31					
	2018	2017	2016	2015	2014	
Net assets, beginning of period	\$	10.12	10.38	10.55	10.56	10.52
Increase (decrease) from operations:						
Total revenue	\$	0.18	0.17	0.18	0.20	0.18
Total expenses ⁽²⁾	\$	0.00	(0.00)	(0.00)	(0.01)	(0.00)
Realized gains (losses) for the period	\$	(0.07)	(0.03)	0.02	0.04	0.02
Unrealized gains (losses) for the period	\$	0.07	(0.14)	(0.10)	0.03	0.11
Total increase (decrease) from operations ⁽³⁾	\$	0.18	(0.00)	0.10	0.26	0.31
Distributions:						
From income (excluding dividends)	\$	0.25	0.26	0.27	0.28	0.28
From dividends	\$	—	—	—	—	—
From capital gains	\$	—	—	—	—	—
Return of capital	\$	0.00	0.00	0.00	0.00	0.00
Total Annual Distributions ⁽⁴⁾	\$	0.25	0.26	0.27	0.28	0.28
Net assets, end of period	\$	10.06	10.12	10.38	10.55	10.56

⁽¹⁾ This information is derived from the Portfolio's 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	Years ended December 31					
	2018	2017	2016	2015	2014	
Total net asset value (000s) ⁽¹⁾	\$	2,034,129	2,308,722	2,668,824	2,698,527	2,537,808
Number of units outstanding (000s) ⁽¹⁾		202,240	228,095	257,104	255,804	240,355
Management expense ratio ⁽²⁾	%	0.03	0.02	0.02	0.02	0.03
Management expense ratio before waivers or management absorptions ⁽²⁾	%	0.15	0.13	0.14	0.14	0.14
Trading expense ratio ⁽³⁾	%	—	—	—	—	—
Portfolio turnover rate ⁽⁴⁾	%	41.98	57.73	36.03	39.55	44.60
Net asset value per unit	\$	10.06	10.12	10.38	10.55	10.56

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

⁽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. For all the financial periods listed, no commissions or portfolio transaction costs were incurred by the Portfolio. As a result, the trading expense ratio for each of the periods was zero.

⁽⁴⁾ 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

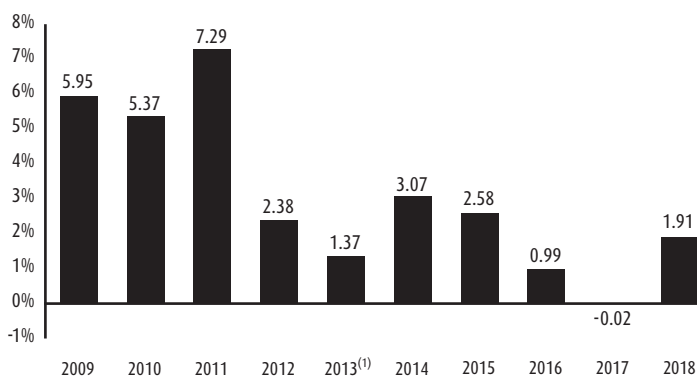
General

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.



⁽¹⁾ On January 25, 2013, the Portfolio's investment strategies and benchmark were changed. Accordingly, the Portfolio's performance prior to this date would have been different under the current investment strategies and benchmark.

Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the FTSE TMX Canada Short Term Bond Index and the FTSE TMX Canada Universe Bond Index. The FTSE TMX Canada Short Term Bond Index is a measure of total return of Canadian bonds which have a term to maturity of one to five years, and the FTSE TMX Canada Universe Bond Index is a broad measure of the total return of all marketable Canadian bonds that mature in more than one year.

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Private Canadian Short-Term Bond Portfolio ^{†*}	1.91	0.96	1.70	3.07
FTSE TMX Canada Short Term Bond Index ^{**}	1.91	1.00	1.73	2.51
FTSE TMX Canada Universe Bond Index	(0.05)	1.17	3.80	4.95

[†]The Portfolio's return is after the deduction of expenses, while the benchmarks do not include any costs of investing.

^{*}On January 25, 2013, the Portfolio's investment strategies and benchmark were changed.

^{**}The Portfolio's benchmark is the FTSE TMX Canada Short Term Bond Index (100%), and prior to January 25, 2013, it was a blend of 50% FTSE TMX Canada Short Term Bond Index and 50% FTSE TMX Canada Mid Term Bond 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
Government Bonds	48.3	Government of Canada, Unsecured, 1.500% Mar 1, 2020	3.2
Corporate Bonds	31.2	Government of Canada, Unsecured, 0.750% Sep 1, 2020	3.0
Provincial Bonds	18.6	Government of Canada, Series 1, 1.500% Jun 1, 2023	2.4
Asset-Backed Securities	1.1	Government of Canada, 3.500% Jun 1, 2020	2.3
Cash/Receivables/Payables	0.5	Government of Canada, Unsecured, 0.750% Mar 1, 2021	2.2
Municipal Bonds	0.3	Government of Canada, Unsecured, 0.750% Sep 1, 2021	2.2
Total portfolio allocation	100.0	Canada Housing Trust, Mortgage Bonds, Series 48, Secured, 2.400% Dec 15, 2022	2.1
		Government of Canada, 1.750% May 1, 2020	2.0
		Government of Canada, Unsecured, 1.000% Sep 1, 2022	2.0
		Government of Canada, Unsecured, 0.500% Mar 1, 2022	1.9
		Government of Canada, 1.750% Mar 1, 2023	1.8
		Government of Canada, 1.250% Feb 1, 2020	1.8
		Province of Ontario, Unsecured, 3.150% Jun 2, 2022	1.7
		Province of Ontario, Unsecured, 2.850% Jun 2, 2023	1.6
		Government of Canada, 2.750% Jun 1, 2022	1.5
		Government of Canada, 3.250% Jun 1, 2021	1.5
		Government of Canada, 2.000% Sep 1, 2023	1.5
		Canada Housing Trust, Mortgage Bonds, Series 40, Secured, 3.800% Jun 15, 2021	1.4
		Canada Housing Trust, Mortgage Bonds, Series 68, Secured, 1.250% Dec 15, 2020	1.4
		Province of Quebec, Unsecured, 4.250% Dec 1, 2021	1.4
		Canada Housing Trust, Mortgage Bonds, Series 83, Secured, 2.350% Jun 15, 2023	1.4
		Province of Ontario, Unsecured, 4.200% Jun 2, 2020	1.4
		Canada Housing Trust, Mortgage Bonds, Series 71, Secured, 1.250% Jun 15, 2021	1.4
		Province of Quebec, Unsecured, 3.500% Dec 1, 2022	1.4
		Province of Ontario, Unsecured, 4.000% Jun 2, 2021	1.3
		Top holdings as a percentage of total net asset value	45.8
		Total Net Asset Value	\$2,034,129,432

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

Manager

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