

# Annual Management Report of Fund Performance

## **BMO Private Canadian Core Equity Portfolio** (formerly, BMO Private Canadian Conservative 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 [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 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 Core Equity Portfolio (the “Portfolio”).*

### **Investment Objective and Strategies**

The Portfolio's investment objective is to provide long-term capital appreciation through investing primarily in equity securities of large Canadian issuers.

To achieve the Portfolio's objectives, the sub-advisor primarily employs bottom-up security selection for its holdings that is based on quantitative and traditional fundamental analyses, including assessment of the company's projected earnings growth, quality of management, and identification of reasonable stock price valuations relative to other companies in the same industry.

### **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 -7.90%, after expenses. The Portfolio's benchmark is the S&P/TSX Composite Index (“S&P/TSX”), which generated a -8.89% total return over the same 12-month period.

While the end of 2017 looked promising for Canadian equities, the first and fourth quarters of 2018 were particularly challenging as a result of fragile investor sentiment. The S&P/TSX, representing the performance of Canadian equities, fell 8.9%. Oil was under pressure in the latter half of the year as concerns arose over demand. Coupled with decelerating global economic growth and U.S. waivers for a number of countries to buy Iranian oil, oil experienced significant downward pressure in the fourth quarter as the West Texas Intermediate (“WTI”) oil price fell to levels last seen in 2017. Canada continues to face pipeline constraints, forcing the government to announce oil production curtailments that, in turn, supported Western Canada Select relative to WTI at the end of the year. Weaker economic data, particularly in the second half of 2018, along with rising interest rates and a flattening yield

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curve, weighed on investor sentiment given the potential for weaker consumer credit growth. Information Technology stocks were a bright spot, delivering high double-digit gains.

The S&P 500 Index, which represents the performance of U.S. equities, posted a 4.4% loss in U.S.-dollar terms but gained 4.2% in Canadian-dollar terms as the U.S. dollar's appreciation cushioned the fall. Energy stocks were the biggest laggard as global economic growth concerns and rising oil supply weighed on oil prices. A number of other cyclical sectors, such as Industrials, Financials and Materials, underperformed as a result of fragile investor sentiment. Conversely, some defensive sectors, such as Health Care and Utilities, performed better.

An overweight allocation to the Information Technology sector and underweight exposure to Energy contributed to the Portfolio's performance. Individual contributors to performance included CGI Group Inc. and Canadian Apartment Properties REIT. CGI Group Inc., a stable technology company with high cash flows, outperformed as its more richly valued, higher-growth peers were harder hit by the equity market downturn in the fourth quarter of 2018. Canadian Apartment Properties REIT benefited from strong rental pricing growth as a result of high employment growth and lack of new supply in markets such as Ontario.

Security selection in the Consumer Staples and Consumer Discretionary sectors detracted from the Portfolio's performance as companies that face higher input costs were impacted by fear of slowing demand. Selection within the Financials sector was another detractor as insurance holdings underperformed. Individual detractors from performance included Dollarama Inc. and Manulife Financial Corp. Dollarama Inc.'s shares declined as a result of consecutive quarters of slowing same-store sales growth. Manulife Financial Corp. was negatively impacted by declining interest rates and investor concerns around profitability in its legacy business.

The sub-advisor added a new position in Canadian Apartment Properties REIT as the company is expected to benefit from strong rental pricing growth. An existing position in Royal Bank of Canada was increased. This Canadian bank has a high-quality loan

book that should be relatively resilient if the housing market slows. Its exposure to U.S. banking is also a positive because of that country's better economic conditions compared to Canada. Air Canada was also increased because of its attractive valuation, particularly in light of the benefits of the company bringing its loyalty program in house.

Holdings in Dollarama Inc. and Restaurant Brands International Inc. were eliminated during the period. Dollarama Inc. experienced consecutive quarters of slowing same-store sales growth. Restaurant Brands International Inc. continued to report sluggish growth, particularly in the face of high debt levels and a rich valuation. A holding in Canadian National Railway Co. was trimmed after a challenging winter operating environment resulted in poor financial performance, including the company's need to increase capital expenditures into a potentially slowing environment.

*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

Economic fundamentals have remained strong, but this has not been sufficient to counter negative investor sentiment and concerns over trade disputes and the economic cycle. This has led the sub-advisor to position the Portfolio more defensively even as valuations remain attractive for a number of cyclical holdings.

### 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

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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;
  - (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	126	167
Brokerage Fees paid to BMO Nesbitt Burns Inc.	31	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

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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 Dec. 31, 2018 (\$000s)</b>	<b>Period ended Dec. 31, 2017 (\$000s)</b>
Unitholder Services	137	120

### 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>	Years ended December 31				
	2018	2017	2016	2015	2014
Net assets, beginning of period	\$ 18.66	16.84	14.69	16.15	15.05
<b>Increase (decrease) from operations:</b>					
Total revenue	\$ 0.43	0.39	0.36	0.43	0.44
Total expenses <sup>(2)</sup>	\$ (0.01)	(0.01)	(0.02)	(0.01)	(0.01)
Realized gains (losses) for the period	\$ 0.77	0.94	0.70	0.15	0.44
Unrealized gains (losses) for the period	\$ (2.70)	0.88	1.49	(1.53)	0.72
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$ (1.51)</b>	<b>2.20</b>	<b>2.53</b>	<b>(0.96)</b>	<b>1.59</b>
<b>Distributions:</b>					
From income (excluding dividends)	\$ —	—	—	—	—
From dividends	\$ 0.40	0.38	0.39	0.46	0.45
From capital gains	\$ 0.21	—	—	—	—
Return of capital	\$ 0.00	0.00	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$ 0.61</b>	<b>0.38</b>	<b>0.39</b>	<b>0.46</b>	<b>0.45</b>
<b>Net assets, end of period</b>	<b>\$ 16.58</b>	<b>18.66</b>	<b>16.84</b>	<b>14.69</b>	<b>16.15</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>	\$ 777,815	764,875	705,259	620,904	730,729
Number of units outstanding (000s) <sup>(1)</sup>	46,926	40,985	41,874	42,263	45,239
Management expense ratio <sup>(2)</sup>	%	0.03	0.03	0.04	0.04
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	%	0.14	0.14	0.15	0.16
Trading expense ratio <sup>(3)</sup>	%	0.02	0.02	0.11	0.03
Portfolio turnover rate <sup>(4)</sup>	%	17.85	26.29	50.09	13.17
Net asset value per unit	\$ 16.58	18.66	16.84	14.69	16.15

<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 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

## Past Performance

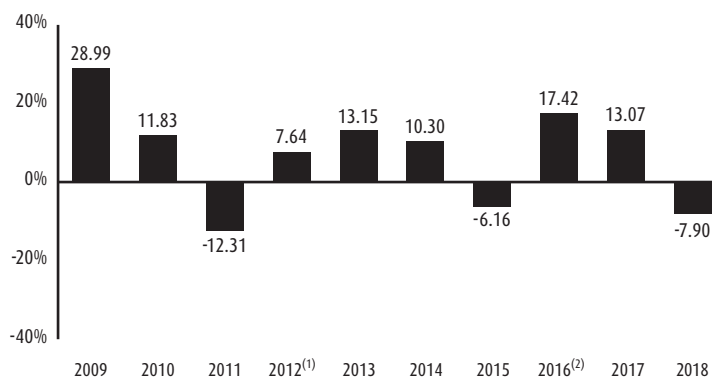
### General

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.



<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.

### Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the S&P/TSX Composite Index. 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 Core Equity Portfolio <sup>††</sup>	(7.90)	6.93	4.82	6.91
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 benchmark does not include any costs of investing.

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

<sup>\*</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.

*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.*

## BMO Private Canadian Core Equity Portfolio

### Summary of Investment Portfolio

as at December 31, 2018

Portfolio Allocation	% of Net Asset Value	Top 25 Holdings Issuer	% of Net Asset Value
Financials	31.0	Toronto-Dominion Bank, The,	8.2
Energy	15.2	Royal Bank of Canada	8.2
Industrials	12.0	Manulife Financial Corporation	4.9
Materials	11.0	CGI Group Inc., Class A	4.1
Communication Services	6.3	Rogers Communications Inc., Class B	4.0
Information Technology	6.2	Canadian National Railway Company	4.0
Real Estate	4.4	Canadian Natural Resources Limited	3.7
Consumer Staples	4.1	TransCanada Corporation	3.7
Utilities	3.6	Teck Resources Limited, Class B	3.7
Cash/Receivables/Payables	3.4	Cash/Receivables/Payables	3.5
Consumer Discretionary	2.8	Franco-Nevada Corporation	3.3
<b>Total portfolio allocation</b>	<b>100.0</b>	Air Canada	3.0
		Bank of Nova Scotia, The,	3.0
		Magna International Inc.	2.8
		Canadian Apartment Properties REIT	2.7
		Suncor Energy Inc.	2.5
		Onex Corporation	2.4
		Brookfield Asset Management Inc., Class A	2.3
		Imperial Oil Limited	2.2
		Waste Connections, Inc.	2.1
		Canadian Pacific Railway Limited	2.0
		Methanex Corporation	1.7
		Cenovus Energy Inc.	1.7
		FirstService Corporation	1.7
		George Weston Limited	1.5
		<b>Top holdings as a percentage of total net asset value</b>	<b>82.9</b>
		<b>Total Net Asset Value</b>	<b>\$777,814,612</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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