

# Annual Management Report of Fund Performance

## BMO Private U.S. 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 William Blair Investment Management, LLC (“William Blair” or the “sub-advisor”) as the sub-advisor of BMO Private U.S. Special Equity Portfolio (the “Portfolio”).*

### Investment Objective and Strategies

The Portfolio's investment objective is to achieve long-term growth through capital appreciation by primarily investing in equity securities of small and mid capitalization U.S. companies.

To achieve the Portfolio's objectives, the sub-advisor primarily employs bottom-up security selection, quantitative and traditional fundamental analyses, analysis of the financial results, financial condition and potential future growth of the company, and seeks to identify companies showing improvement in the growth rates of one or more fundamental metrics, such as revenue, earnings or margins.

### 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 6.91% in C\$ (-1.46% in US\$), after expenses. The Portfolio's benchmark is the Russell 2500 Growth Index, which generated a 0.62% total return in C\$ (-7.47% in US\$) over the same 12-month period.

Significant equity declines during the fourth quarter of 2018 erased prior 2018 gains, with U.S. equity indices ending the year in negative territory, though larger-capitalization stocks fared somewhat better than small-capitalization stocks. After starting the year with a continuation of 2017 strength, the market sold off and volatility spiked amid concerns of the economy overheating, rising input costs and elevated valuations. Following the early sell off, rising equity returns for the second and third quarters were primarily driven by strong corporate earnings coupled with modest valuation expansion as investor confidence in the durability of the U.S. economic expansion increased. Investors

## BMO Private U.S. Special Equity Portfolio

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appeared to largely dismiss concerns about an escalating trade war with China and a flattening yield curve, which has sometimes preceded an economic slowdown. Through the first three quarters of 2018, returns for U.S. growth style indices were robust and many ended the third quarter at or near all-time highs.

Equities declined dramatically in the fourth quarter, partially triggered by U.S. Federal Reserve Board (the “Fed”) Chair Jerome Powell’s comments in October that the federal funds rate was “a long way from neutral.” Corporate earnings trends continued to be positive, supported by corporate tax cuts and a healthy U.S. economy. However, consensus estimates for fourth quarter and 2019 earnings growth were revised downward. At the same time, oil prices collapsed and the yield curve flattened further. At the core of the reversal in market sentiment was investor concern surrounding U.S. political dysfunction, unresolved trade tensions with China, monetary tightening by the Fed, softer housing market data, and a weaker economic backdrop outside of the United States.

The Portfolio significantly outperformed its benchmark largely as a result of stock selection, notably in Health Care and Industrials, and its bias toward companies with higher and more sustainable growth. In Health Care, the two top contributors to performance were ABIOMED Inc. and Dexcom Inc. ABIOMED Inc.’s stock outperformed as its Impella heart pump is becoming the standard of care for acute heart failure patients. Dexcom Inc. benefited from strong demand for its continuous glucose monitoring devices. Other top performers in the Portfolio included Glaukos Corp., Veeva Systems Inc. and Domino’s Pizza Inc.

Stock selection in the Information Technology, Financials and Industrials sectors detracted from performance, most notably in the Portfolio’s respective holdings of Rogers Corp., Bank OZK and BWX Technologies Inc. Advanced materials company Rogers Corp. saw its stock decline amid operational challenges, strong product demand against limited manufacturing capacity and rising raw material costs. Bank OZK shares underperformed partly as a result of increasing construction costs and charge-offs related to two of its real estate loans.

The sub-advisor introduced a number of new positions to the Portfolio, including GoDaddy Inc., Burlington Stores Inc. and Insulet Corp. Existing holdings of Encompass Health Corp., Vail Resorts Inc. and Cboe Global Markets Inc. were increased. Positions in Worldpay Group Inc., Maximus Inc. and Take-Two Interactive Software Inc. were eliminated, while Domino’s Pizza Inc., Copart Inc. and Guidewire Software Inc. were trimmed.

*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 Fed has communicated the potential for additional increases in the federal funds rate in 2019, at the same time it begins to shrink its balance sheet. If too aggressive, the Fed’s actions could present a challenge to growth in 2019. There is also the risk of continued political uncertainty, both in the United States and abroad. Last year closed with a partial shutdown of the U.S. federal government, emblematic of the political “gridlock” that could continue into 2019. Moreover, uncertainty with respect to Chinese tariff negotiations could thwart corporate productivity in the United States, while escalation to an all-out trade war would have significant ramifications on global growth, with potentially heightened risk for the emerging markets that are highly dependent on trade.

Positive profit growth is still expected for 2019, albeit at a more moderate pace than what was witnessed in the first three quarters of 2018. Presuming no material fundamental deterioration, and given the fact that both valuations and growth expectations have come down, the sub-advisor is positive about the U.S. equity market into 2019. While volatility may persist, the reset in both valuations and investor expectations leaves room for positive surprises on the China trade front or an eventual pause in the Fed interest rate increase cycle. The sub-advisor will focus on identifying durable businesses with sustainable growth opportunities that are underappreciated by the market, expecting that companies with these characteristics will be rewarded in a variety of economic and market environments.

# BMO Private U.S. Special Equity Portfolio

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## *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, 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 William Blair to provide investment advice and make investment decisions for the Portfolio's investment portfolio. William Blair receives a sub-advisory fee based on assets under management, which is paid quarterly. William Blair is paid by BPIC, and BPIC charges a portion of the sub-advisory fee as an expense to the Portfolio.

## **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.

## BMO Private U.S. Special Equity 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:

	<b>Period ended Dec. 31, 2018 (\$000s)</b>	<b>Period ended Dec. 31, 2017 (\$000s)</b>
Total Brokerage Commissions	133	237
Brokerage Commissions paid to BMO Nesbitt Burns Inc.	0	1

### *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:

	<b>Period ended Dec. 31, 2018 (\$000s)</b>	<b>Period ended Dec. 31, 2017 (\$000s)</b>
Unitholder Services	142	123

### 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 U.S. Special 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	\$	10.09	8.42	8.26	7.60	7.10
<b>Increase (decrease) from operations:</b>						
Total revenue	\$	0.07	0.06	0.08	0.09	0.07
Total expenses <sup>(2)</sup>	\$	(0.09)	(0.08)	(0.07)	(0.08)	(0.11)
Realized gains (losses) for the period	\$	1.16	1.50	(0.47)	0.68	0.63
Unrealized gains (losses) for the period	\$	(0.66)	0.22	0.10	(0.12)	0.03
<b>Total increase (decrease) from operations <sup>(3)</sup></b>	<b>\$</b>	<b>0.48</b>	<b>1.70</b>	<b>(0.36)</b>	<b>0.57</b>	<b>0.62</b>
<b>Distributions:</b>						
From income (excluding dividends)	\$	—	—	—	—	—
From dividends	\$	—	—	0.03	0.03	0.15
From capital gains	\$	0.58	—	—	—	—
Return of capital	\$	—	—	0.00	0.00	0.00
<b>Total Annual Distributions <sup>(4)</sup></b>	<b>\$</b>	<b>0.58</b>	<b>—</b>	<b>0.03</b>	<b>0.03</b>	<b>0.15</b>
<b>Net assets, end of period</b>	<b>\$</b>	<b>10.21</b>	<b>10.09</b>	<b>8.42</b>	<b>8.26</b>	<b>7.60</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>	\$	305,323	260,060	192,131	277,161	197,017
Number of units outstanding (000s) <sup>(1)</sup>		29,915	25,787	22,823	33,575	25,940
Management expense ratio <sup>(2)</sup>	%	0.65	0.72	0.63	0.58	0.64
Management expense ratio before waivers or management absorptions <sup>(2)</sup>	%	0.83	0.86	0.79	0.75	0.81
Trading expense ratio <sup>(3)</sup>	%	0.05	0.11	0.18	0.22	0.25
Portfolio turnover rate <sup>(4)</sup>	%	60.41	133.04	61.48	73.11	76.58
Net asset value per unit	\$	10.21	10.09	8.42	8.26	7.60

<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.

# BMO Private U.S. Special Equity Portfolio

## Past Performance

### General

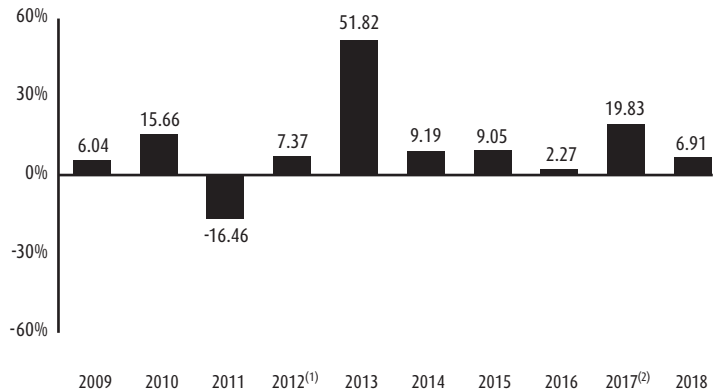
The Portfolio's performance information assumes that all distributions made by the Portfolio in the periods shown were reinvested in additional units of the Portfolio and is based on the net asset value of the Portfolio.

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.

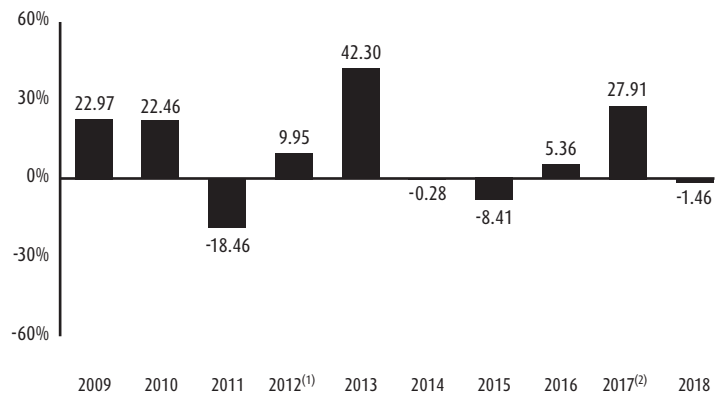
### Year-by-Year Returns

The following bar charts show the performance for each of the financial years shown and illustrate how the performance has changed from year to year. The bar charts show 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.

**BMO Private U.S. Special Equity Portfolio (C\$)**



**BMO Private U.S. Special Equity Portfolio (US\$)**



<sup>(1)</sup> On October 26, 2012, the Portfolio's investment objectives, investment strategies, sub-advisor and benchmark were changed. Accordingly, the Portfolio's performance prior to this date would have been different under the current investment objective, investment strategies, sub-advisor and benchmark.

<sup>(2)</sup> On January 16, 2017, the Portfolio's sub-advisor and benchmark were changed. Accordingly, the Portfolio's performance prior to this date would have been different under the current sub-advisor and benchmark.

## BMO Private U.S. Special Equity Portfolio

### Annual Compound Returns

These charts compare the historical annual compound returns of the Portfolio with the Russell 2500 Growth Index, which measures the performance of those Russell 2500 Index companies with higher price-to-book ratios and higher earnings and sales growth rates. The Russell 2500 Index generally includes small and mid capitalization companies, representing the smallest 2,500 companies covered in the Russell 3000 Index, a broad-based U.S. equity market index.

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Private U.S. Special Equity Portfolio (C\$) <sup>†‡§</sup>	6.91	9.42	9.30	10.05
Russell 2500 Growth Index (C\$)*	0.62	7.59	11.61	16.07

	1 yr %	3 yrs %	5 yrs %	10 yrs %
BMO Private U.S. Special Equity Portfolio (US\$) <sup>†‡§</sup>	(1.46)	9.92	3.94	8.83
Russell 2500 Growth Index (US\$)*	(7.47)	8.11	6.19	14.76

‡The Portfolio's return is after the deduction of expenses, while the benchmark does not include any costs of investing.

†On October 26, 2012, the Portfolio's investment objectives, investment strategies, sub-advisor and benchmark were changed.

§On January 16, 2017, the Portfolio's sub-advisor and benchmark were changed.

\*The Portfolio's benchmark is the Russell 2500 Growth Index. Prior to January 16, 2017 it was the Russell 2000 Growth Index, and prior to November 1, 2012, the Portfolio's benchmark was the S&P Developed Ex-U.S. Small Cap 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.*

## BMO Private U.S. Special 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
United States	92.6	Cash/Receivables/Payables	3.5
Cash/Receivables/Payables	3.5	Copart, Inc.	3.0
Canada	2.7	CoStar Group, Inc.	2.7
Israel	1.2	Ball Corporation	2.5
<b>Total portfolio allocation</b>	<b>100.0</b>	Cboe Global Markets, Inc.	2.5
		Booz Allen Hamilton Holding Corporation	2.5
<b>Sector Allocation</b>	<b>% of Net Asset Value</b>	Euronet Worldwide, Inc.	2.4
Industrials	21.4	BWX Technologies, Inc.	2.3
Information Technology	20.5	Adtalem Global Education Inc.	2.2
Health Care	20.3	Live Nation Entertainment, Inc.	2.2
Consumer Discretionary	12.6	Veeva Systems Inc., Class A	2.1
Materials	6.9	Burlington Stores, Inc.	2.1
Financials	6.7	Martin Marietta Materials, Inc.	2.0
Cash/Receivables/Payables	3.5	Teleflex Incorporated	2.0
Communication Services	2.9	Encompass Health Corporation	1.9
Real Estate	2.5	Teledyne Technologies Incorporated	1.9
Consumer Staples	1.6	TransUnion	1.8
Energy	1.1	Vail Resorts, Inc.	1.8
<b>Total sector allocation</b>	<b>100.0</b>	Insulet Corporation	1.7
		HEICO Corporation, Class A	1.7
		Grand Canyon Education, Inc.	1.7
		Healthcare Services Group, Inc.	1.6
		DexCom, Inc.	1.6
		GoDaddy Inc., Class A	1.6
		Domino's Pizza, Inc.	1.6
		<b>Top holdings as a percentage of total net asset value</b>	<b>52.9</b>
		<b>Total Net Asset Value</b>	<b>\$305,323,087</b>

*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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