

# BMO Mortgage and Short-Term Income Fund (the "Fund")

For the period ended September 30, 2012 • Manager: BMO Investments Inc.

Portfolio manager: BMO Asset Management Inc., Toronto, Ontario

## Annual Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. If the annual financial statements of the Fund 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 1-800-665-7700, by writing to us at BMO Investments Inc., 77 King Street West, 42nd Floor, Toronto, Ontario, M5K 1J5 or by visiting our website at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) 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 Fund's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

### MANAGEMENT DISCUSSION OF FUND PERFORMANCE

#### Investment Objective and Strategies

The Fund's objective is to provide a level of income consistent with investments in short-term fixed-income securities.

The Fund invests primarily in short-term, high-quality fixed-income securities issued or guaranteed by Canadian federal, provincial or municipal governments, or issued by corporations. It may also invest in mortgages insured or guaranteed by Canadian federal or provincial governments either directly or indirectly through pooled mortgage investments, such as mortgage-backed securities.

The portfolio manager examines various economic indicators to construct an interest rate outlook, then builds the Fund's portfolio using a disciplined investment approach. Overall maturity structure and sector positioning of the Fund's portfolio are based on anticipated changes in the direction of interest rates, while the selection of individual securities is determined by fundamental analysis and relative valuations.

#### Risk

No changes affecting the overall level of risk associated with investing in the Fund were made during the period. The risks of this Fund remain as discussed in the Fund's most recent simplified prospectus or its amendments.

#### Results of Operations

Over the 12-month period ended September 30, 2012 (the "period"), Series A units of the Fund returned 1.56%. Please see *Past Performance* for information on the performance returns of the Fund's other series.

During the period, investors across the globe sought out safe investments where there was a high degree of confidence in having their capital returned. For many, this meant U.S. or Canadian government bonds, however, for local investors turned off by the low levels of possible returns they flocked to corporate bonds. What helped were the continued

resilience of the Canadian and U.S. economies and the continued strength of corporate profitability. It now appeared that U.S. consumers had retired sufficient amounts of debt that there was money left over at the end of the month for discretionary spending. Supporting evidence of this can be found in healthy auto sales and a pickup in home sales. The recovery cannot by any means be classified as strong but it was there and the more time that passed, the stronger it became.

Within the short term portion of the DEX Universe Bond Index, those bonds which carried the highest yields came out on top returning 4.0% for the period. These corporate bonds offered the highest yields, BBB rated if confined to investment grade securities, or high yield bonds if more adventurous. The Fund's exposure to this sector was at maximum for the entire period and contributed positively to returns. Also adding value was the portfolio manager's decision to hold some securities with longer term maturities whose value rose as interest rates declined.

The Fund's exposure to insured mortgages held almost steady at 30% for the period. Because insured mortgages are government guaranteed, the yields available on this class of security is not nearly as high as that found on uninsured corporate bonds, though higher than on pure government bonds of similar terms. The largest drag on performance came from holding cash as continual inflows of new money meant cash was always available for investment.

*For information on the Fund's performance and composition, please refer to the Past Performance section and Summary of Investment Portfolio section of this report.*

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# BMO Mortgage and Short-Term Income Fund

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## Recent Developments

Positive news over the summer months that the European Central Bank is now ready to support the bond markets of weaker European countries bolstered equity markets, catapulting them higher. This also caused a spike in global interest rates as money flowed back into risky assets. Should this continue or if the economies of developed countries begin to grow at a faster pace, it will almost assuredly result in higher interest rates and lower returns from bonds. The portfolio manager may have to then reposition the Fund towards shorter, less price sensitive securities to protect the capital within the Fund. But if the political will to find a resolution to this crisis dissolves away then the multi decade bull market in bonds may continue.

## Future Accounting Standards

Canadian investment entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”), for fiscal years beginning on or after January 1, 2014. For reporting periods commencing October 1, 2014, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will report its financial results for the interim period ending March 31, 2015, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at October 1, 2013 (transition date). A summary of the significant standards impacting the Fund under IFRS are outlined below.

Based on the Fund’s analysis to date, the more significant accounting changes that will result from its adoption of IFRS will be in the areas of fair valuation, cash flow presentation, consolidation of investments and classification of net assets representing unitholders’ equity. The differences described in the sections that follow are based on Canadian generally accepted accounting principles (GAAP) and IFRS that are in effect as of this date. This should not be considered a comprehensive list of the main accounting changes when the Fund adopts IFRS.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement, which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the

net assets per unit for financial statement reporting purposes compared to current standards, and may also result in the elimination of the differences between the net asset per unit and net asset value per unit (“NAVPU”) at the financial statement reporting date. The Manager has not identified any changes that will impact NAVPU as a result of the transition to IFRS.

Where the Fund holds controlling interest in an investment, it is the Manager’s expectation that the Fund will qualify as an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Fund will not be required to consolidate its investments, but rather to fair value its investments regardless of whether those investments are controlled. However, where in certain circumstances the Fund does not have all the typical characteristics of an investment entity, even though it qualifies as an investment entity, it may be required to make additional financial statements disclosures on its investments in accordance with IFRS 12 Disclosure of Interests in Other Entities.

In addition to the financial statements currently presented for the Fund, Statement of Cash Flows will now be included in the financial statements in accordance with the requirement of IFRS 1 First-time adoption of International Financial Reporting Standards, and prepared in line with IAS 7 Statement of Cash Flows.

The criteria contained within IAS 32 Financial Instruments: Presentation may require unitholders’ equity to be classified as a liability within the Fund’s Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Fund’s unitholder structure to confirm classification.

## RELATED PARTY TRANSACTIONS

BMO Investments Inc. (“BMOII”), an indirect, wholly-owned subsidiary of Bank of Montreal, is the Manager of the Fund. From time to time, the Manager may, on behalf of the Fund, 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 Manager (each a “Related Party”). The purpose of this section is to provide a brief description of any transaction involving the Fund and a Related Party.

## Portfolio Manager

The Fund’s portfolio manager is BMO Asset Management Inc. (“BMOAM”), an affiliate of the Manager. BMOAM provides portfolio management services to the Fund. BMOAM receives a management fee based on assets under management, calculated daily and payable monthly.

# BMO Mortgage and Short-Term Income Fund

## Administration Fees

The Fund pays a fixed administration fee to the Manager. The Manager in return pays the operating expenses of the Fund, other than certain specified expenses that are paid directly by the Fund ("Fund Expenses"). Fund Expenses include interest or other borrowing expenses, costs and expenses related to the operation of the Fund's Independent Review Committee ("IRC"), including fees and expenses of IRC members, taxes to which the Fund is or might be subject, and costs associated with compliance with any new governmental or regulatory requirement introduced after December 1, 2007 (e.g., cost associated with the production of Fund Facts, filed in compliance with the relevant amendments to NI 81-101). Fund Expenses are allocated proportionately among the series. If the Fund Expenses are specific to a series, the Fund Expenses are allocated to that series. The fixed administration fee is calculated as a fixed annual percentage of the average net asset value of each relevant series of the Fund and, for the most part, replaces the previous cost recovery method under which operating expenses were charged or allocated to the Fund. Further details about the fixed administration fee and/or Fund Expenses can be found in the Fund's most recent simplified prospectus at [www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds) or [www.sedar.com](http://www.sedar.com).

## Buying and Selling Securities

### *Related-Party Underwritings and Trades in Debt Securities with a Related Entity, Trading as Principal*

During the period, the Manager relied on an approval and standing instruction provided by the Fund's IRC with respect to the following related party transactions:

- (a) investments in a class of equity and/or non-government debt 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, acted as an underwriter in the distribution; and
- (b) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc. who is trading with the Fund as principal (each, a "Related Party Transaction").

In accordance with the IRC's approval and standing instruction, in making a decision to cause the Fund to make a Related Party Transaction, the Manager and portfolio manager of the Fund 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

portfolio manager relied on the approval and standing instruction and their compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to ensure the Related Party Transaction (i) is made free from any influence of BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc. and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or an associate or affiliate of BMO Nesbitt Burns Inc., (ii) represents the business judgment of the portfolio manager, uninfluenced by considerations other than the best interests of the Fund, and (iii) achieves a fair and reasonable result for the Fund.

## Distribution Services

The Manager markets and distributes the Fund directly through Bank of Montreal branches and through registered dealers and brokers, including BMO InvestorLine Inc. and BMO Nesbitt Burns Inc., both affiliates of the Manager. The Manager pays to these affiliates on an ongoing basis annual service or trailing commissions based on the average daily value of the units that are held in investor accounts.

## Management Fees

The Manager is responsible for the day-to-day management of the business and operations of the Fund. The Manager monitors and evaluates the Fund's performance, pays for the investment advice provided by the Fund's portfolio manager and provides certain administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a management fee payable monthly, calculated based on the daily NAV of each series of the Fund at the maximum annual rate set out in the table below.

	Maximum Annual Management Fee Rate <sup>*</sup>	As a Percentage of Management Fees	
		Dealer Compensation	General Administration, Investment Advice and Profit
	%	%	%
Series A Units	1.25	6	94
Series I Units	—	—	—
Series F Units <sup>(1)</sup>	0.75	0	100
Advisor Series Units <sup>(2)</sup>	1.25	56	44

<sup>\*</sup> For Series I Units, separate Series I fees are negotiated and paid by each Series I investor. Because the Manager pays no distribution, service or trailing fees on Series I Units, Series I Units will have lower Series I fees than the management fees for Series A Units.

<sup>(1)</sup> Series F Units refers to BMO Guardian Mortgage and Short-Term Income Fund Series F Units ("Series F" or "Series F Units").

<sup>(2)</sup> Advisor Series Units refers to BMO Guardian Mortgage and Short-Term Income Fund Advisor Series Units ("Advisor Series" or "Advisor Series Units").

# BMO Mortgage and Short-Term Income Fund

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the periods indicated.

### The Fund's Net Assets per Unit <sup>(1)</sup>

#### Series A

		2012	Periods ended Sep. 30			2008
		2011	2010	2009		
Net assets, beginning of period	\$	11.41	11.42	11.47	11.28	11.22
<b>Increase (decrease)</b>						
<b>from operations:</b>						
Total revenue	\$	0.42	0.45	0.47	0.53	0.55
Total expenses	\$	-0.18	-0.18	-0.17	-0.17	-0.17
Realized gains (losses)						
for the period	\$	-0.05	-0.05	-0.06	0.00	-0.05
Unrealized gains (losses)						
for the period	\$	-0.02	0.01	0.01	0.20	0.12
<b>Total increase (decrease)</b>						
<b>from operations <sup>(2)</sup></b>	\$	0.17	0.23	0.25	0.56	0.45
<b>Distributions:</b>						
From income						
(excluding dividends)	\$	0.25	0.27	0.30	0.37	0.38
From dividends	\$	—	—	—	—	—
From capital gains	\$	—	—	—	—	—
Return of capital	\$	—	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	\$	0.25	0.27	0.30	0.37	0.38
<b>Net assets, end of period</b>	\$	11.34	11.41	11.42	11.47	11.28

#### Series I

		2012	Periods ended Sep. 30			2008 <sup>(4)</sup>
		2011	2010	2009		
Net assets, beginning of period	\$	10.13	10.13	10.14	9.85	10.00*
<b>Increase (decrease)</b>						
<b>from operations:</b>						
Total revenue	\$	0.37	0.39	0.41	0.44	0.28
Total expenses	\$	—	—	—	—	—
Realized gains (losses)						
for the period	\$	-0.04	-0.05	-0.06	-0.02	0.01
Unrealized gains (losses)						
for the period	\$	0.00	0.10	0.11	0.07	-0.19
<b>Total increase (decrease)</b>						
<b>from operations <sup>(2)</sup></b>	\$	0.33	0.44	0.46	0.49	0.10
<b>Distributions:</b>						
From income						
(excluding dividends)	\$	0.37	0.38	0.37	0.35	0.26
From dividends	\$	—	—	—	—	—
From capital gains	\$	—	—	—	—	—
Return of capital	\$	—	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	\$	0.37	0.38	0.37	0.35	0.26
<b>Net assets, end of period</b>	\$	10.08	10.13	10.13	10.14	9.85

## Series F

		2012	Periods ended Sep. 30		
		2011	2010	2009 <sup>(5)</sup>	
Net assets, beginning of period	\$	10.07	10.09	10.13	10.00*
<b>Increase (decrease)</b>					
<b>from operations:</b>					
Total revenue	\$	0.37	0.40	0.42	0.40
Total expenses	\$	-0.10	-0.11	-0.10	-0.08
Realized gains (losses)					
for the period	\$	-0.05	-0.04	-0.05	0.01
Unrealized gains (losses)					
for the period	\$	0.01	-0.03	-0.03	-0.04
<b>Total increase (decrease)</b>					
<b>from operations <sup>(2)</sup></b>	\$	0.23	0.22	0.24	0.29
<b>Distributions:</b>					
From income					
(excluding dividends)	\$	0.27	0.29	0.31	0.31
From dividends	\$	—	—	—	—
From capital gains	\$	—	—	—	—
Return of capital	\$	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	\$	0.27	0.29	0.31	0.31
<b>Net assets, end of period</b>	\$	10.01	10.07	10.09	10.13

## Advisor Series

		2012	Periods ended Sep. 30		
		2011	2010	2009 <sup>(5)</sup>	
Net assets, beginning of period	\$	10.11	10.13	10.16	10.00*
<b>Increase (decrease)</b>					
<b>from operations:</b>					
Total revenue	\$	0.37	0.40	0.41	0.42
Total expenses	\$	-0.16	-0.16	-0.15	-0.14
Realized gains (losses)					
for the period	\$	-0.04	-0.04	-0.05	-0.01
Unrealized gains (losses)					
for the period	\$	-0.01	-0.01	0.02	0.08
<b>Total increase (decrease)</b>					
<b>from operations <sup>(2)</sup></b>	\$	0.16	0.19	0.23	0.35
<b>Distributions:</b>					
From income					
(excluding dividends)	\$	0.21	0.24	0.26	0.22
From dividends	\$	—	—	—	—
From capital gains	\$	—	—	—	—
Return of capital	\$	—	—	—	—
<b>Total Annual Distributions <sup>(3)</sup></b>	\$	0.21	0.24	0.26	0.22
<b>Net assets, end of period</b>	\$	10.05	10.11	10.13	10.16

\* Initial net assets.

<sup>(1)</sup> This information is derived from the Fund's audited financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's financial statements.

<sup>(2)</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>(3)</sup> Distributions were either paid in cash or reinvested in additional units of the Fund, or both.

<sup>(4)</sup> The information shown in this column is for the period beginning March 5, 2008 (the series' launch date) and ending September 30, 2008.

<sup>(5)</sup> The information shown in this column is for the period beginning November 3, 2008 (the series' launch date) and ending September 30, 2009.

# BMO Mortgage and Short-Term Income Fund

## Ratios and Supplemental Data

### Series A

		2012	Periods ended Sep. 30			2008
			2011	2010	2009	
Total net asset value (000's) <sup>(1)</sup>	\$	567,955	613,099	697,527	659,568	567,116
Number of units						
outstanding (000's) <sup>(1)</sup>		50,098	53,747	61,066	57,510	50,276
Management expense ratio <sup>(2)</sup>	%	1.56	1.56	1.49	1.49	1.51
Management expense ratio						
before waivers or absorptions	%	1.56	1.56	1.51	1.49	1.52
Trading expense ratio <sup>(3)</sup>	%	—	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	%	28.42	25.15	49.02	76.19	63.68
Net asset value per unit	\$	11.34	11.41	11.42	11.47	11.28

### Series I

		2012	Periods ended Sep. 30			2008 <sup>(5)</sup>
			2011	2010	2009	
Total net asset value (000's) <sup>(1)</sup>	\$	691,868	406,721	175,724	17,771	1.0105
Number of units						
outstanding (000's) <sup>(1)</sup>		68,633	40,134	17,343	1,753	0.1026
Management expense ratio <sup>+</sup>	%	—	—	—	—	—
Management expense ratio						
before waivers or absorptions <sup>+</sup>	%	0.00	—	—	—	—
Trading expense ratio <sup>(3)</sup>	%	—	—	—	—	—
Portfolio turnover rate <sup>(4)</sup>	%	28.42	25.15	49.02	76.19	63.68
Net asset value per unit	\$	10.08	10.13	10.13	10.14	9.85

### Series F

		2012	Periods ended Sep. 30			2009 <sup>(6)</sup>
			2011	2010	2009	
Total net asset value (000's) <sup>(1)</sup>	\$	5,142	4,630	7,477	4,338	
Number of units						
outstanding (000's) <sup>(1)</sup>		513	460	741	428	
Management expense ratio <sup>(2)</sup>	%	1.03	1.05	0.98	0.93	
Management expense ratio						
before waivers or absorptions	%	1.03	1.05	0.98	0.93	
Trading expense ratio <sup>(3)</sup>	%	—	—	—	—	
Portfolio turnover rate <sup>(4)</sup>	%	28.42	25.15	49.02	76.19	
Net asset value per unit	\$	10.01	10.07	10.09	10.13	

### Advisor Series

		2012	Periods ended Sep. 30			2009 <sup>(6)</sup>
			2011	2010	2009	
Total net asset value (000's) <sup>(1)</sup>	\$	19,544	17,437	20,112	9,429	
Number of units						
outstanding (000's) <sup>(1)</sup>		1,944	1,724	1,986	927	
Management expense ratio <sup>(2)</sup>	%	1.57	1.57	1.49	1.47	
Management expense ratio						
before waivers or absorptions	%	1.57	1.58	1.51	1.47	
Trading expense ratio <sup>(3)</sup>	%	—	—	—	—	
Portfolio turnover rate <sup>(4)</sup>	%	28.42	25.15	49.02	76.19	
Net asset value per unit	\$	10.05	10.11	10.13	10.16	

+ Operating expenses are paid by BMOII and management fees are paid directly to BMOII as negotiated with the investor.

<sup>(1)</sup> This information is provided as at September 30 of the period shown, as applicable.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transactions 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. For all financial periods listed, no commissions or other portfolio transaction costs were incurred by the Fund. As a result, the trading expense ratio for all the periods was zero.

<sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund 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 fund.

<sup>(5)</sup> The information shown in this column is for the period beginning March 5, 2008 (the series' launch date) and ending September 30, 2008.

<sup>(6)</sup> The information shown in this column is for the period beginning November 3, 2008 (the series' launch date) and ending September 30, 2009.

## PAST PERFORMANCE

The Fund's performance information assumes that all distributions made by the Fund in the periods shown were used to purchase additional units or shares of the Fund and is based on the net asset value of the Fund.

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 that how the Fund has performed in the past does not indicate how it will perform in the future.

The returns of each series may differ from one another for a number of reasons, including if the series was not issued and outstanding for the entire reporting period and because of the different levels of management fees and expenses allocated and payable by each series.

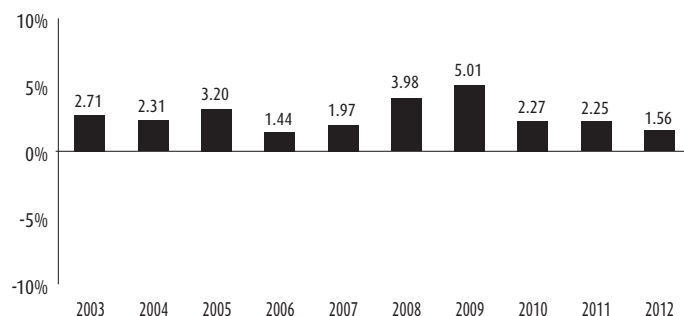
On July 23, 2003, the investment objectives and strategies of the Fund were changed to allow it to invest in high-quality, corporate fixed-income securities in addition to fixed-income securities issued or guaranteed by Canadian federal, provincial or municipal governments. The requirement to invest at least 50% of the Fund's assets in mortgage investments was eliminated. The Fund also changed its investment strategies to reflect its new objective. These changes could have affected the performance of the Fund, had they been in effect throughout the performance measurement periods presented.

## Year-by-Year Returns

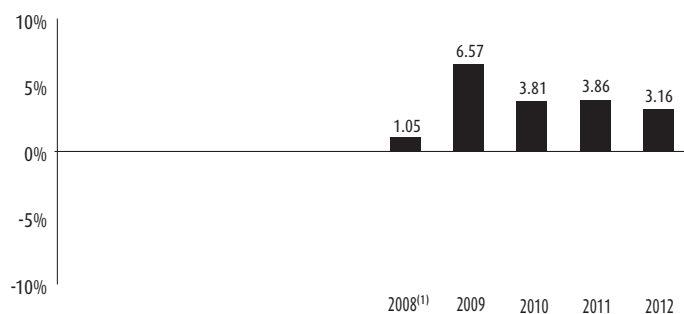
The following bar charts show the performance for each series of the Fund for each of the financial years shown. The charts show in percentage terms how an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year.

# BMO Mortgage and Short-Term Income Fund

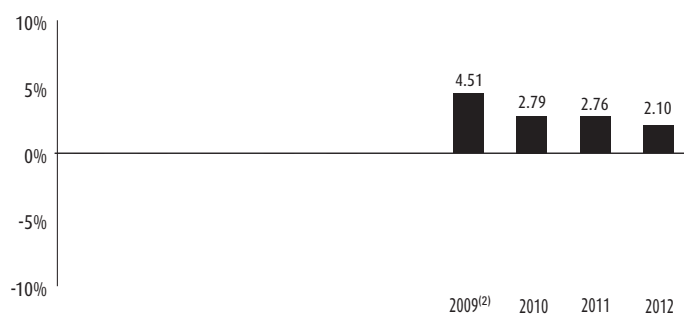
Series A



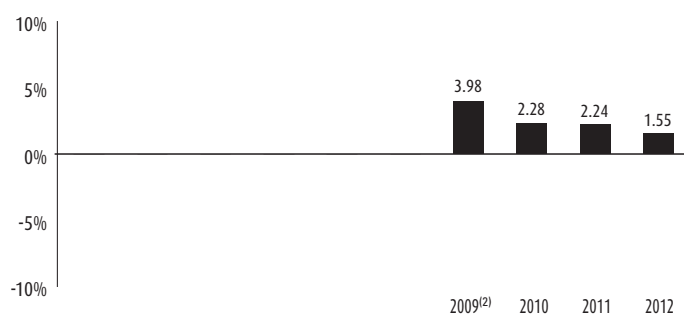
Series I



Series F



Advisor Series



<sup>(1)</sup> For the period beginning March 5, 2008 to September 30, 2008.

<sup>(2)</sup> For the period beginning November 3, 2008 to September 30, 2009.

## Annual Compound Returns

This table compares the historical annual compound returns of the Fund with its benchmark, the DEX Short-Term Bond Index.

The DEX Short-Term Bond Index is a broad measure of the total return of Canadian bonds that mature in less than one year.

Series A

		1 year	3 years	5 years	10 years	Since Inception
BMO Mortgage and Short-Term Income Fund	%	1.56	2.03	3.01	2.66	
DEX Short-Term Bond Index	%	2.17	3.44	4.90	4.54	

Series I

		1 year	3 years	5 years	10 years	Since Inception <sup>(1)</sup>
BMO Mortgage and Short-Term Income Fund	%	3.16	3.61			4.02
DEX Short-Term Bond Index	%	2.17	3.44			4.35

Series F

		1 year	3 years	5 years	10 years	Since Inception <sup>(2)</sup>
BMO Mortgage and Short-Term Income Fund	%	2.10	2.55			3.11
DEX Short-Term Bond Index	%	2.17	3.44			4.48

## Advisor Series

		1 year	3 years	5 years	10 years	Since Inception <sup>(2)</sup>
BMO Mortgage and Short-Term Income Fund	%	1.55	2.02			2.57
DEX Short-Term Bond Index	%	2.17	3.44			4.48

<sup>(1)</sup> Return from March 5, 2008 to September 30, 2012.

<sup>(2)</sup> Return from November 3, 2008 to September 30, 2012.

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

# BMO Mortgage and Short-Term Income Fund

## SUMMARY OF INVESTMENT PORTFOLIO

As at September 30, 2012

Portfolio Allocation	% of Net Asset Value
Corporate Bonds	39.9
Mortgage Backed Securities	27.8
Collateral Mortgage Obligations	9.6
Asset-Backed Securities	7.5
Government Bonds	5.7
Provincial Bonds	5.2
Money Market Investments	3.1
Cash/Receivables/Payables	1.2
<b>Total Portfolio Allocation</b>	<b>100.0</b>

Top 25 Holdings	% of Net Asset Value
<b>Issuer</b>	
MCAN Mortgage Corporation, Pool #97587232, 2.000% Jul 1, 2017	2.7
Merrill Lynch Financial Assets Inc., Commercial Mortgage Pass-Through Certificates, Series 2005-Canada 15, Class A2, 4.823% Feb 12, 2037	2.5
MILIT-AIR Inc., Series 1, Senior, Secured, Sinking Funds, Asset-Backed Securities, 5.750% Jun 30, 2019	2.5
MacQuarie Financial, Pool #97558944, 2.150% Oct 1, 2015	2.1
Score Trust, Series 2004-1, Senior, Secured, Notes, Asset-Backed, Credit Card Receivables 4.949% Feb 20, 2014	2.0
MCAP Service Corporation, MBS, Pool #97582035, 2.370% Apr 1, 2017	2.0
Toronto-Dominion Bank, The, NHA MBS, Pool #97551519, 2.200% Sep 1, 2014	1.9
Equitable Trust, NHA MBS, Pool #96503214, 4.200% Mar 1, 2017	1.9
N-45 First CMBS Issuer Corporation, Series 2003-2, Class A2, Commercial Mortgage Backed Bonds, 5.667% Nov 15, 2020	1.9
Home Trust Co., NHA MBS, Pool #97560254, 2.600% Nov 1, 2015	1.7
Toronto-Dominion Bank, The, NHA MBS, Pool #97572770, 1.500% Sep 1, 2016	1.7
Schooner Trust, Series 2006-5, Class A1, Commercial Mortgage Pass-Through Certificates, 4.556% Feb 12, 2021	1.7
TELUS Corporation, Medium Term Notes, 3.650% May 25, 2016	1.6
Bank of Nova Scotia, Deposit Notes, 2.250% May 8, 2015	1.6
Toronto-Dominion Bank, The, NHA MBS Pool #99010340, 2.600% Mar 1, 2022	1.6
Government of Canada, 3.500% Jun 1, 2013	1.5
Toronto-Dominion Bank, The, NHA MBS, Pool #99010050, 2.600% Nov 1, 2020	1.5
Laurentian Bank of Canada, Deposit Notes, Senior, Unsecured, Floating Rate, Feb 14, 2014	1.4
Province of New Brunswick, Unsecured, 6.750% Jun 27, 2017	1.4

Top 25 Holdings	% of Net Asset Value
<b>Issuer</b>	
ICICI Bank Canada, NHA MBS, Pool #97557250, 2.450% Sep 1, 2015	1.4
Province of Ontario, 4.400% Mar 8, 2016	1.4
Merrill Lynch Financial Assets Inc., Commercial Mortgage Pass-Through Certificates, Series 2005-Canada 16, Class A2, 4.475% Jul 12, 2037	1.3
Royal Bank of Canada, NHA MBS. Pool # 97558746, 2.170% Sep 1, 2015	1.3
George Weston Limited, Medium Term Notes, Senior, Unsecured, Unsubordinated, 3.780% Oct 25, 2016	1.2
Bank of America Corporation, Euro Medium Term Notes, Senior, Unsecured, 5.450% Sep 17, 2014	1.2
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>43.0</b>
<b>Total Net Asset Value</b>	<b>\$1,284,508,748</b>

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

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