Semi-Annual Management Report of Fund Performance

BMO NESBITT BURNS

BMO NESBITT BURNS BOND FUND (the "Fund")

FOR THE PERIOD ENDED JUNE 30, 2013

Manager: BMO Nesbitt Burns (the "Manager")
Portfolio Manager: BMO Asset Management Inc. (the "Portfolio Manager" or "BMO AM"), Toronto, Ontario

This semi-annual management report of fund performance contains financial highlights, but does not contain semi-annual or annual financial statements of the Fund. If the semi-annual or annual financial statements of the Fund do not accompany the mailing of this report, you can get a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-800-361-1392, by writing to us at BMO Nesbitt Burns Inc., 1 First Canadian Place, 37th Floor, P.O. Box 150, Toronto, Ontario, M5X 1H3 or by visiting our website at **www.bmonesbittburns.com** or SEDAR at **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

Results of Operations

The Fund's Class A units returned -2.47% whereas the benchmark Dex Universe Bond Index returned -1.69%.

Low interest rates and low volatility remained a common theme in the beginning of 2013. The economy appeared to be proceeding at the pace experienced in 2012 with low but still positive performance. As for inflation, it remained in-check, while the employment picture and the possibility for material improvement was much less assured. These were some of the principal reasons the U.S. Federal Reserve (the "Fed") was willing to keep interest rates low and remain engaged in its current Quantitative Easing program ("QE") of purchasing $85 billion per month in U.S. Treasury bonds and Mortgage-Backed Securities.

As the economic outlook improved towards the end of the first half of 2013, the Fed began considering "tapering" (lower the amount of bonds it was purchasing) its QE program. The market, which had become accustomed to Fed intervention in keeping interest rates low reacted, and for the first time in quite some time bond yields experienced significant upward pressure and the yield curve steepened (bond yields with longer-term maturities rose faster than those with shorter-term maturities).

The Fund was negatively impacted by the steepening of the yield curve as it held an overweight position in the middle portion of the curve where the rise in yields was most pronounced. The yield curve steepened by more than half a percentage point during the first half of the year. Contributing to relative performance was the Fund's overweight to provincial bonds, as provincial bonds outperformed their Government of Canada benchmarks for the period.

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

Recent Developments

Expectations are predicated on economic data being in-line with the Fed's expectations – the Fed beginning its tapering in late 2013/early 2014, the credit situation in Europe remaining stable and a sustainable economic recovery in China. In this environment, the economy should grow at a little above 2% with core inflation in-check at just over 1%. With modest growth and limited inflation expectations, the Portfolio Manager believes that both the Fed and the Bank of Canada will remain on hold over the coming 12 months and will not raise interest rates.

The Portfolio Manager believes that the market has priced-in the possibility of the Fed beginning to taper its QE program. As such, the Portfolio Manager's one-year expectation for the benchmark 10-year Government of Canada bond yield is roughly 2.50%. As for credit, while rates have a possibility to move higher over the coming twelve months, the Portfolio Manager expects that the extra yield available in credit versus Government of Canada bonds will see corporate credit modestly outperform.

Given the Portfolio Manager's expectations, the interest rate sensitivity of the Fund will likely be positioned between neutral and underweight compared to its benchmark over the next 12 months. It may be possible to add some yield to the Fund through an increase in credit exposure; however, given expectations that credit outperformance will be modest, the addition of credit will be executed through higher quality names.

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, for fiscal years beginning on or after January 1, 2014. For reporting periods commencing January 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 June 30, 2014, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 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 ("Canadian 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. If the Fund fair values investments that it controls, it may be required to make additional financial statement disclosures on its controlled investments in accordance with IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 also requires additional disclosures if the Fund is determined to qualify as an investment entity while not possessing all of the typical characteristics of an investment entity.

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 Nesbitt Burns Inc., an indirect, wholly-owned subsidiary of Bank of Montreal, is the Manager, and principal distributor 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 (a "Related Party").

Portfolio Manager

The Portfolio Manager has hired BMO AM, a Related Party, to provide investment advice and make investment decisions for the Fund's investment portfolio. BMO AM receives an investment advisory fee based on assets under management that is calculated daily and payable monthly. BMO AM is paid by the Manager and not by the Fund.

Distribution Services

The Manager sells units of the Fund through its sales representatives. The Manager pays trailer fees to these sales representatives based on the amount of assets held in the investor's account and additionally, in some cases, on the amount of the initial purchase. There may be other fees and expenses payable in respect to the operation of the investor's account with the Manager that could affect the investment in units of the Fund, if the investor receives special services, such as switch fees and registered plan fees. The amount of these fees should be discussed with your sales representative at the time of purchase or switch and when your account or registered tax plan is established.

Unitholder Services

The Fund is provided with certain facilities and services by Related Parties. Unitholder services, such as fund accounting, record keeping and purchase/redemption order processing, are provided by the Bank of Montreal Ireland p.l.c. and BMO AM, in its capacity as the Fund's registrar. Fees associated with these services are paid by the Manager and charged to the Fund. The fees charged to the Fund during the period were as follows:

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Unitholder Servicing Fees	**28,283**	$34,934

Buying and Selling Securities

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 to enable the Fund to trade in debt securities in the secondary market with the Manager 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, the Manager or an associate or affiliate of BMO and/or the Manager and without taking into account any considerations relevant to BMO, the Manager or an associate or affiliate of BMO and/or the Manager, (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.

Management Fees

As Manager of the Fund, BMO Nesbitt Burns Inc. is responsible for the day-to-day management of the business and operations of the Fund. It monitors and evaluates the Fund's performance, pays for the investment advice provided by BMO AM and provides certain administrative services required by the Fund. As compensation for its services, BMO Nesbitt Burns Inc. is entitled to receive a management fee payable monthly, calculated based on the daily net asset value of each class of the Fund at the maximum annual rate set out in the below table.

		As a percentage of Management Fees	
	Annual Management Fee Rate*	**Dealer Compensation**	**General Administration Investment Advice and Profit**
	%	**%**	**%**
Class A Units	0.75	76.92	23.08
Class F Units	0.25	–	100.00

* *No service fees are payable in respect of Class F units.*

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[1]

CLASS A	Period ended June 30, 2013	Periods ended December 31 2012 ($)	2011 ($)	2010 ($)	2009 ($)	2008 ($)
Net Assets, beginning of year	11.06	11.30	10.79	10.55	10.39	10.50
Increase (decrease) from operations:						
Total revenue	0.20	0.44	0.45	0.45	0.48	0.51
Total expenses	(0.05)	(0.11)	(0.11)	(0.10)	(0.10)	(0.09)
Realized gains (losses) for the period	0.08	0.49	0.00	0.07	(0.03)	(0.00)
Unrealized gains (losses) for the period	(0.49)	(0.59)	0.51	0.17	0.21	(0.11)
Total increase (decrease) from operations[2]	**(0.26)**	**0.23**	**0.85**	**0.59**	**0.56**	**0.31**
Distributions:						
From income (excluding dividends)	0.16	0.34	0.35	0.37	0.40	0.42
From dividends	–	–	–	–	–	–
From capital gains	–	0.13	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions[3]	**0.16**	**0.47**	**0.35**	**0.37**	**0.40**	**0.42**
Net Assets, end of period	**$10.62**	**$11.06**	**$11.30**	**$10.79**	**$10.55**	**$10.39**

CLASS F	Period ended June 30, 2013	Periods ended December 31 2012 ($)	2011 ($)	2010 ($)	2009 ($)	2008[4] ($)
Net Assets, beginning of year	11.14	11.37	10.87	10.63	10.32	10.03
Increase (decrease) from operations:						
Total revenue	0.20	0.44	0.46	0.45	0.47	0.08
Total expenses	(0.03)	(0.06)	(0.06)	(0.06)	(0.06)	0.01
Realized gains (losses) for the period	0.08	0.50	0.00	0.07	0.01	(0.02)
Unrealized gains (losses) for the period	(0.49)	(0.60)	0.45	0.18	0.14	0.28
Total increase (decrease) from operations[2]	**(0.24)**	**0.82**	**0.85**	**0.64**	**0.56**	**0.35**
Distributions:						
From income (excluding dividends)	0.19	0.39	0.42	0.40	0.19	0.06
From dividends	–	–	–	–	–	–
From capital gains	–	0.13	–	–	–	–
Return of capital	–	–	–	–	–	–
Total annual distributions[3]	**0.19**	**0.52**	**0.42**	**0.40**	**0.19**	**0.06**
Net Assets, end of period	**$10.71**	**$11.14**	**$11.37**	**$10.87**	**$10.63**	**$10.32**

1) *This information is derived from the Fund's audited annual financial statements and unaudited June 30, 2013 semi-annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the Fund's financial statements.*

2) *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.*

3) *Distributions were paid in cash or reinvested in additional units of the Fund, or both, where applicable.*

4) *The information shown in this column is for the period beginning October 31, 2008 (the class' inception date) and ending December 31, 2008.*

Ratios and Supplemental Data

CLASS A	Period ended June 30, 2013	Periods ended December 31 2012	2011	2010	2009	2008
Total net asset value (000's)[1]	$34,745	$41,255	$46,719	$49,579	$53,856	$54,775
Number of units outstanding[1]	3,270,485	3,728,690	4,133,125	4,595,746	5,103,415	5,272,360
Management expense ratio[2]	1.00%	1.01%	1.01%	0.97%	0.95%	0.90%
Management expense ratio before waivers or management absorptions[2]	1.00%	1.01%	1.01%	0.97%	0.95%	0.90%
Trading expense ratio[3]	–	–	–	–	–	–
Portfolio turnover rate[4]	20.50%	68.85%	28.62%	37.91%	69.92%	87.53%
Net asset value per unit	**$10.62**	**$11.06**	**$11.30**	**$10.79**	**$10.55**	**$10.39**

CLASS F	Period ended June 30, 2013	Periods ended December 31 2012	2011	2010	2009	2008[5]
Total net asset value (000's)[1]	$1,439	$1,358	$1,287	$1,472	$1,218	$10
Number of units outstanding[1]	134,400	121,952	113,195	135,418	114,575	1,003
Management expense ratio[2]	0.55%	0.55%	0.55%	0.53%	0.52%	0.50%
Management expense ratio before waivers or management absorptions[2]	0.55%	0.55%	0.55%	0.53%	0.52%	0.50%
Trading expense ratio[3]	–	–	–	–	–	–
Portfolio turnover rate[4]	20.50%	68.85%	28.62%	37.91%	69.92%	87.53%
Net asset value per unit	**$10.71**	**$11.14**	**$11.37**	**$10.87**	**$10.63**	**$10.32**

1) *This information is provided as at June 30 or December 31 of the period shown, as applicable.*

2) *Management expense ratio ("MER") 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. In the period a fund is established, the MER is annualized from the date of inception to December 31.*

The Manager absorbed certain expenses or waived certain fees otherwise payable by a class. In doing so, the Manager attempts to maintain the overall MER of the Fund at a relatively consistent level. The Manager may discontinue the absorption or waiver at any time.

3) *The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.*

4) *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. The rate is calculated based on the lesser of purchases or sales of investments divided by the average market value of the portfolio investments, excluding short-term investments.*

5) *The information shown in this column is for the period beginning October 31, 2008 (the class' inception date) and ending December 31, 2008.*

PAST PERFORMANCE

General

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

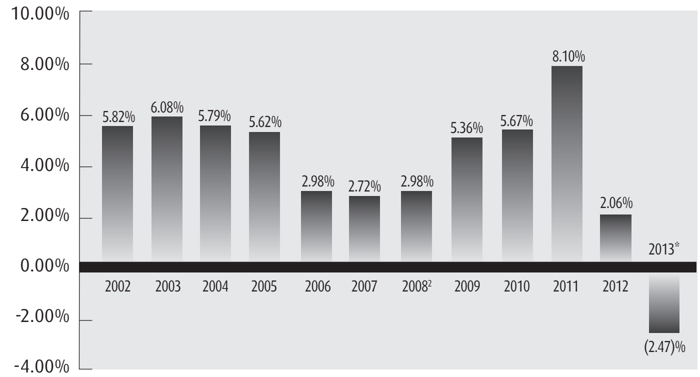
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Fund has performed in the past does not indicate how it will perform in the future.

The Fund offers more than one class and the class returns may differ for a number of reasons, including if the class was not issued and outstanding for the entire reporting period and because of the different levels of management fees payable by each class.

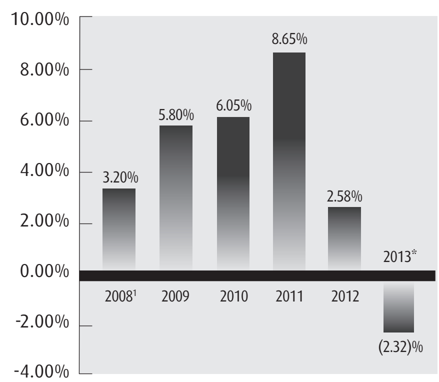
Year-by-Year Returns

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

CLASS A



CLASS F



** For the six-month period ended June 30, 2013.*

[1] For the period beginning October 31, 2008 to December 31, 2008.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2013

Portfolio Allocation	% of Net Asset Value
Corporate Bonds	42.2
Provincial Government Bonds	32.1
Government and Government Guaranteed Bonds	25.8
Cash/Receivables/Payables	-0.1

Top 25 Holdings	% of Net Asset Value
Government of Canada, 8.000%, June 1, 2023	9.0
Province of Ontario, 4.400%, June 2, 2019	5.8
Government of Canada, 4.000%, June 1, 2041	5.7
Province of Ontario, 5.600%, June 2, 2035	3.8
Government of Canada, 5.750%, June 1, 2029	3.3
Province of British Columbia, 4.800%, June 15, 2021	3.3
Government of Canada, 3.500%, June 1, 2020	3.2
Royal Bank of Canada, 4.710%, December 22, 2014	2.9
Province of Ontario, 3.150%, June 2, 2022	2.8
Province of British Columbia, 4.100%, December 18, 2019	2.7
Province of Ontario, 6.500%, March 8, 2029	2.4
Government of Canada, 1.500%, June 1, 2023	2.3
Government of Canada, 1.000%, February 1, 2014	2.3
Province of Quebec, 5.350%, June 1, 2025	2.2
Daimler Canada Finance Inc., 3.160%, April 14, 2014	2.2
Province of Quebec, 5.000%, December 1, 2041	2.1
Score Trust, 4.949%, February 20, 2014	1.8
Broadway Credit Card Trust, 4.804%, March 17, 2014	1.8
Province of Newfoundland, 5.600%, October 17, 2033	1.6
BMW Canada Inc., 3.150%, April 1, 2015	1.5
Province of Manitoba, 4.400%, September 5, 2025	1.5
407 International Inc., 3.880%, June 16, 2015	1.4
Toyota Credit Inc., 2.200%, October 11, 2016	1.4
Province of British Columbia, 5.620%, August 17, 2028	1.4
Enbridge Inc., 6.530%, March 9, 2020	1.3
Top holdings as a percentage of total net asset value	69.7
Total Net Asset Value	**$36.2 million**

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

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 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 Fund may invest and the risks detailed from time to time in BMO Nesbitt Burns Group of Funds' simplified prospectus. 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 Fund, 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 Nesbitt Burns 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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