# Annual Management Report of Fund Performance

## BMO Harris Canadian Corporate Bond Portfolio

For the period ended December 31, 2012

This annual management report of fund performance contains financial highlights but does not contain 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 1-800-361-1392, by e-mailing us at **contact.centre@bmonb.com**, by writing to us at BMO Harris Investment Management Inc., 1 First Canadian Place, 100 King St. W., 41st Floor, Toronto, Ontario, M5X 1H3. Electronic copies are available by visiting our website at **www.bmoharrisprivatebanking.com** or SEDAR at **www.sedar.com**. You may also contact us using one of these methods to request a copy of the Portfolio's proxy voting policies and procedures, proxy voting disclosure record and/or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

*BMO Harris Investment Management Inc. ("BHIMI" or the "manager"), the manager and portfolio manager, is responsible for the management of the overall business, investments and operations of the BMO Harris Private Portfolios and has engaged BMO Asset Management Inc. ("BMO AM Inc." or the "sub-advisor") as the sub-advisor of BMO Harris Canadian Corporate Bond Portfolio (the "Portfolio").*

### Investment Objective and Strategies

The Portfolio's investment objective is to produce superior returns through a combination of interest income and capital growth while also pursuing capital preservation. The Portfolio invests primarily in high quality fixed income securities such as bonds and debentures issued by Canadian corporations that mature in more than one year.

To achieve the Portfolio's objectives, the sub-advisor selects a variety of investment maturities based on the interest rate outlook and seeks to determine the best potential investments for the Portfolio by analyzing the credit ratings of various issuers. While generation of income will be important, the Portfolio may also undertake shifts in portfolio duration and composition in anticipation of interest rate movements to protect or enhance capital value.

### Risk

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

### Results of Operations

For the 12-month period ended December 31, 2012, the Portfolio returned 4.40%, after expenses. The Portfolio's benchmark is the DEX Universe All Corporate Bond Index, which generated a 6.22% total return over the same 12-month period.

Corporate bonds tend to perform well when "riskier" assets — like equities — perform well. Corporate bonds performed relatively well over 2012, echoing the strong performance of U.S. equity markets. Investors benefited as the spread — the interest on corporate bonds relative to government bonds — narrowed. Investors became increasingly confident over the period that monetary and fiscal measures undertaken by the central banks of both the United States and the European Union would succeed in resolving these regions' sovereign debt issues and help to stimulate their local economies. As such, investors began to increasingly favour relatively higher-risk assets like corporate bonds (over government debt).

As a result of the sub-advisor's concerns regarding the global economy and geopolitical uncertainty, the Portfolio was positioned during 2012 to take advantage of a credit spread widening and the possible underperformance of corporate credit versus Government of Canada bonds. However, corporate bonds outperformed government bonds during the period, and the Portfolio's positioning detracted from its relative performance.

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*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

At the end of 2012, corporate credit spreads were relatively narrow. The sub-advisor believes that the "break-even protection" (the amount of additional yield a corporate bond could experience, compared to a Government of Canada bond of a similar maturity before an investor would be indifferent to owning it versus the Government of Canada counterpart) now available to corporate bond investors is relatively low. As a result of these two factors, the sub-advisor believes that investors are not being adequately compensated for the risk involved in investing in corporate bonds, and are not receiving enough protection to offset the potential for corporate bond spreads to widen in the near term or for the value of corporate bonds to decline.

The sub-advisor plans to maintain the Portfolio's defensive positioning in corporate debt relative to its benchmark. The sub-advisor will focus on investing in securities with lower interest rate sensitivity and in higher-quality corporate issues.

Effective January 25, 2013, the Portfolio's investment strategies will change to permit the sub-advisor to select fixed income securities in reference to the characteristics of a widely recognized Canadian corporate bond index (which includes bonds with remaining effective terms of over one year).

#### *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 Portfolio will adopt IFRS as the basis for preparing its financial statements. The Portfolio 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 Portfolio under IFRS are outlined below.

Based on the Portfolio'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 Portfolio 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 Portfolio holds controlling interest in an investment, it is the Manager's expectation that the Portfolio will qualify as an Investment Entity in accordance with IFRS 10 Consolidated Financial Statements. As such, the Portfolio 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 Portfolio 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 Portfolio, Statement of Cash Flows will now be included in the financial statements in accordance with the requirement of IFRS 1 First-time Adoption of IFRS, 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 Portfolio's Statement of Net Assets, unless certain conditions are met. The Manager is currently assessing the Portfolio's unitholder structure to confirm classification.

## Related Party Transactions

BMO Trust Company, an indirect, wholly-owned subsidiary of Bank of Montreal, is the trustee (the "trustee") and BHIMI is the manager of the Portfolio. From time to time, BHIMI 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").

*Portfolio Manager*
BHIMI has hired BMO Asset Management Inc. ("BMO AM Inc."), a related party, to provide investment advice and make investment decisions for the Portfolio's investment portfolio. BMO AM Inc. receives an investment advisory fee based on assets under management that is paid monthly. BMO AM Inc. is paid by BHIMI.

### Buying and Selling Securities

*Investing in Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc. and Trading in Debt Securities with BMO Nesbitt Burns Inc., Trading as Principal*
During the period, BHIMI relied on an approval and standing instruction provided by the Portfolio's independent review committee ("IRC") with respect to the following related party transactions:

(a) investments in a class of 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 period of distribution where BMO Nesbitt Burns Inc., an affiliate of BHIMI, acted as an underwriter in the distribution of those securities, and

(b) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., an affiliate of BHIMI, who is trading with the Portfolio as principal (each, a "related party transaction").

In accordance with the IRC's approval and standing instruction, in making a decision to cause the Portfolio to make a related party transaction, BHIMI and the investment manager of the Portfolio are required to comply with BHIMI's policies and procedures governing the related party transaction and report periodically to the IRC, describing each instance that BHIMI and the investment manager relied on the IRC's standing instruction and its compliance or non-compliance with the governing policies and procedures. The governing policies and procedures are designed to, among other things, ensure the related party transaction (i) is made free from any influence of BMO Nesbitt Burns Inc. or its associates or affiliates and without taking into account any considerations relevant to BMO Nesbitt Burns Inc. or its associates or affiliates, (ii) represents the business judgment of the investment manager, uninfluenced by considerations other than the best interests of the Portfolio, and (iii) achieves a fair and reasonable result for the Portfolio.

*Wealth Management Fee*
Units of the Portfolio are only available through the wealth management service offered by BMO Financial Group. The trustee, a related party, receives 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 the BHIMI *Investment Management Fee Schedule* that has been provided to the investor when the investor enters into an investment management agreement with the trustee and BHIMI. The wealth management fee is paid directly by the investor to the trustee. 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. BMO AM Inc. is the registrar of the Portfolio. The trustee and BMO AM Inc. 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 period were as follows:

| | 2012 ($000s) | 2011 ($000s) |
|---|---|---|
| Unitholder Services | 89 | 88 |

## Management Fee

There is no management fee charged to the Portfolio. The trustee receives an annual fee from investors for the wealth management service offered by BMO Financial Group.

## Financial Highlights

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

| The Portfolio's Net Assets Per Unit (1) | | Years ended December 31 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Net assets, beginning of period | $ | 10.65 | 10.40 | 10.22 | 9.68 | 10.24 |
| **Increase (decrease) from operations:** | | | | | | |
| Total revenue | $ | 0.46 | 0.49 | 0.51 | 0.45 | 0.52 |
| Total expenses | $ | (0.00) | (0.00) | (0.00) | (0.01) | (0.01) |
| Realized gains (losses) for the period | $ | (0.03) | 0.01 | (0.02) | (0.09) | (0.02) |
| Unrealized gains (losses) for the period | $ | 0.03 | 0.24 | 0.20 | 0.58 | (0.56) |
| **Total increase (decrease) from operations** (2) | $ | 0.46 | 0.74 | 0.69 | 0.93 | (0.07) |
| **Distributions:** | | | | | | |
| From income (excluding dividends) | $ | 0.45 | 0.49 | 0.51 | 0.42 | 0.51 |
| From dividends | $ | — | — | — | — | — |
| From capital gains | $ | — | — | — | — | — |
| Return of capital | $ | 0.00 | 0.00 | — | 0.00 | — |
| **Total Annual Distributions** (3) | $ | 0.45 | 0.49 | 0.51 | 0.42 | 0.51 |
| **Net assets, end of period** | $ | 10.66 | 10.65 | 10.40 | 10.22 | 9.68 |

(1) This information is derived from the Portfolio's audited annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value calculated for Portfolio pricing purposes. An explanation of these differences can be found in the notes to the 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 Portfolio, or both.

| Ratios and Supplemental Data | | Years ended December 31 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Total net asset value (000s) (1) | $ | 356,605 | 306,432 | 283,582 | 299,161 | 195,056 |
| Number of units outstanding (000s) (1) | | 33,445 | 28,769 | 27,256 | 29,282 | 20,141 |
| Management expense ratio (2) | % | 0.05 | 0.06 | 0.05 | 0.07 | 0.09 |
| Management expense ratio before waivers or management absorptions | % | 0.08 | 0.06 | 0.05 | 0.07 | 0.09 |
| Trading expense ratio (3) | % | — | — | — | — | — |
| Portfolio turnover rate (4) | % | 9.10 | 29.41 | 40.39 | 54.02 | 3.32 |
| Net asset value per unit | $ | 10.66 | 10.65 | 10.40 | 10.22 | 9.68 |

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

(2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. For all the financial periods listed, no commissions or portfolio transaction costs were incurred by the Portfolio. As a result, the trading expense ratio for all the periods was zero.

(4) The portfolio turnover rate indicates how actively the Portfolio's sub-advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio turnover rate in a year, the greater the trading costs payable by the Portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Portfolio.

## Past Performance

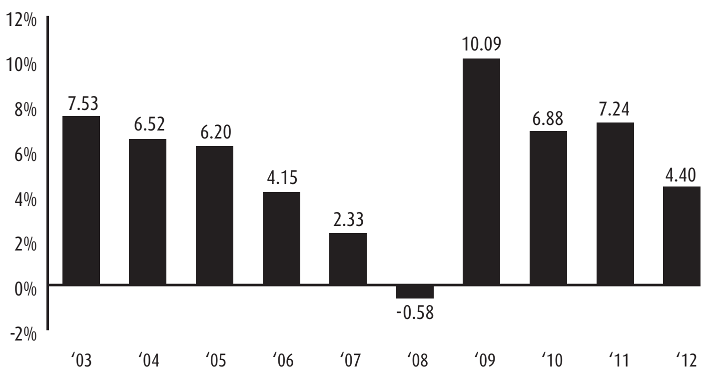
### General

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(s) show the performance for each of the financial years shown and illustrates how the performance has changed from year to year. The bar chart(s) 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.




### Annual Compound Returns

This chart compares the historical annual compound returns of the Portfolio with the DEX Universe All Corporate Bond Index, which reflects marketable Canadian corporate bonds with a rating of BBB or better with terms to maturity greater than one year.

| | 1 yr % | 3 yrs % | 5yrs % | 10yrs % |
|---|---|---|---|---|
| BMO Harris Canadian Corporate Bond Portfolio‡ | 4.40 | 6.16 | 5.54 | 5.44 |
| DEX Universe All Corporate Bond Index | 6.22 | 7.26 | 7.54 | 6.55 |

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

*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.*

## Summary of Investment Portfolio
as at December 31, 2012

| Portfolio Allocation | % of Net Asset Value |
|---|---|
| Corporate Bonds | 82.8 |
| Government Bonds | 12.2 |
| Money Market Investments | 2.8 |
| Cash/Receivables/Payables | 1.3 |
| Other | 0.9 |
| **Total portfolio allocation** | **100.0** |

| Top 25 Holdings | % of Net Asset Value |
|---|---|
| **Issuer** | |
| Government of Canada, 4.000% Jun 1, 2041 | 7.7 |
| Government of Canada, Series A55, 8.000% Jun 1, 2023 | 4.3 |
| Bank of Nova Scotia, Deposit Notes, Senior, 4.560% Oct 30, 2013 | 4.3 |
| Toronto-Dominion Bank, The, Deposit Notes, Senior, Unsecured, 4.854% Feb 13, 2013 | 3.2 |
| Royal Bank of Canada, Deposit Notes, Senior, Unsecured, Unsubordinated, 3.660% Jan 25, 2017 | 2.2 |
| Greater Toronto Airports Authority, Series 2000-1, Medium Term Notes, Senior, Secured, 7.050% Jun 12, 2030 | 2.0 |
| Royal Bank of Canada, Deposit Notes, Senior, 4.710% Dec 22, 2014 | 2.0 |
| Hydro One Inc., Series 4, Medium Term Notes, Unsecured, Callable, 6.350% Jan 31, 2034 | 1.9 |
| National Bank of Canada, Deposit Notes, Unsecured, 3.147% Feb 11, 2015 | 1.9 |
| Daimler Canada Finance Inc., Senior, Unsecured, Notes, 2.33% Sep 14, 2015 | 1.5 |
| Canadian Imperial Bank of Commerce, Deposit Notes, Unsecured, 3.400% Jan 14, 2016 | 1.5 |
| GE Capital Canada Funding Company, Series A, Medium Term Notes, 5.530% Aug 17, 2017 | 1.4 |
| Cash/Receivables/Payables | 1.3 |
| Canadian Imperial Bank of Commerce, Deposit Notes, 3.300% Nov 19, 2014 | 1.3 |
| Toronto-Dominion Bank, The, Medium Term Notes, Fixed to Floating, Subordinated, Callable, 5.690% Jun 3, 2018 | 1.3 |
| Intact Financial Corporation, Series 1, Medium Term Notes, Senior, Unsecured, Unsubordinated, 5.410% Sep 3, 2019 | 1.1 |
| Enbridge Gas Distribution Inc., Medium Term Notes, Senior, Unsecured, Unsubordinated, 5.160% Dec 4, 2017 | 1.1 |
| OMERS Realty Corporation, Notes, 4.740% Jun 4, 2018 | 1.1 |
| Sun Life Financial Inc., Series B, Fixed to Floating, Senior, Unsecured, Notes, Callable, 4.950% Jun 1, 2036 | 1.1 |
| Royal Bank of Canada, Deposit Notes, Senior, Unsecured, Unsubordinated, 5.060% Jul 17, 2013 | 1.1 |
| Power Financial Corporation, Unsecured, Debentures, Callable, 6.900% Mar 11, 2033 | 1.0 |
| Canadian Imperial Bank of Commerce, Deposit Notes, 4.950% Jan 23, 2014 | 1.0 |
| Manitoba Telecom Services Inc., Series 8, Medium Term Notes, Unsecured, 5.625% Dec 16, 2019 | 1.0 |
| Thomson Reuters Corporation, Unsecured, Notes, Unsubordinated, 6.000% Mar 31, 2016 | 0.9 |
| VW Credit Canada Inc., Senior, Unsecured, Notes, 2.200% Oct 11, 2016 | 0.9 |
| **Top holdings as a percentage of net asset value** | **48.1** |
| **Total Net Asset Value** | **$356,605,144** |

*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 BMO Harris Private Portfolios' 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 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 Harris Investment Management 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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