

# BMO Canadian Diversified Monthly Income Fund (the "Fund")

For the period ended June 30, 2014 • Manager: BMO Investments Inc. (the "Manager" or "BMOI")

Portfolio Managers: Guardian Capital LP and BMO Asset Management Inc. (each, a "portfolio manager")

## 2014 Semi-Annual Management Report of Fund Performance

This semi-annual management report of fund performance contains financial highlights but does not contain either semi-annual or annual financial statements of the Fund. If the semi-annual financial statements of the Fund do not accompany the mailing of this report, you may obtain a copy of the semi-annual or annual financial statements at your request, and at no cost, by calling 1-800-668-7327, by writing to us at BMO Investments Inc., 1 First Canadian Place, 43rd Floor, 100 King Street West, Toronto, Ontario, M5X 1A1 or by visiting our website at [www.bmomutualfunds.com/advisor](http://www.bmomutualfunds.com/advisor) 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

#### Results of Operations

Over the six-month period ended June 30, 2014 (the "period"), Advisor Series units of the Fund returned 7.18%. Please see *Past Performance* for information on the performance returns of the Fund's other series.

During the period, Canadian government bond yields declined substantially, pushing bond prices higher. The yield on 10-year government of Canada bonds declined 52 basis points, reversing a substantial portion of the increase in yields in 2013. Investors sought out the safety of bonds, initially on concerns about emerging market growth, and then on North American economic weakness through the winter and other risks such as the tension between Ukraine and Russia. Bond yields declined despite the continued U.S. Federal Reserve Board's (the "Fed") tapering (i.e., reduction) of their bond-buying program.

After a volatile start to the year, the broad Canadian equity market pushed steadily higher through the first half of the year, turning in strong performance relative to the U.S. and other global markets. Energy was a key driver of outperformance with both oil and gas markets running strong. After a slow start, global economic activity showed signs of improvement through the second quarter, with business conditions holding steady. In the developed world, strengthening activity in Japan and steady momentum in the U.K., counterbalanced a somewhat softer growth in the U.S. and the eurozone area. While in emerging markets, economic conditions brightened slightly in China and Brazil. Although the U.S. economy did not rebound quite as

much as expected following the extremely cold winter, the economic data continued to move in the right direction and the markets continued to watch the Fed closely for any signs of when interest rate hikes might come into play.

The preferred share market, as measured by the Desjardins Universe Preferred Share Index, returned 5.4% in the period, rebounding strongly from the weakness late in 2013. Declining bond yields and the end of tax-loss selling were the primary drivers of the strong returns. As expected in a declining bond yield environment, straight perpetual preferreds (7.1%) were the best performing group. They were followed by rate resets (4.9%), retractables (2.5%) and floating rate preferreds (2.1%).

Generally speaking, bonds issued by U.S. companies performed better than Canadian issued bonds, as interest rates rallied more and spreads (i.e., difference in yields) tightened further in the U.S. market. In addition, issuers in the Energy sector generally produced the best relative performance, as commodity prices trended higher.

Issues in the gaming, retailing and mining sub-sectors were poorer performers, probably due to shorter maturities and lower coupons in those sectors, on average. In addition, longer maturities outperformed shorter maturities as interest rates fell. The Fund benefitted when the portfolio manager added duration early in the year and, as interest rates fell, duration performed well.

# BMO Canadian Diversified Monthly Income Fund

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The Fund distributes a fixed amount per unit each month, consistent with the Fund's stated objective of providing a stable cash flow to its unitholders. A portion of a distribution may consist of a return of capital, this portion may be significant, and will occur when the income earned by the Fund per unit is less than the fixed amount of the distribution. Distributions are expected to continue to include return of capital until there is a general improvement in the economy, an increase in interest rates, or there is a change in the fixed amount to be distributed.

## *Management Fee Change*

Effective April 3, 2014, the management fee on Series F units was reduced to 0.45% from 0.75%.

## **Recent Developments**

The portfolio manager continues to believe that stimulative monetary conditions from the Fed and other global central banks consistently improve economic momentum, attractive earnings growth and reasonable valuation levels, which should provide a supportive background for equities over the next year. However, the portfolio manager expects that continued geopolitical concerns, the conclusion of the Fed's bond-buying program and the possibility of higher short-term interest rates could add volatility and uncertainty. The Fund remains focused on businesses capable of growing their dividends, because in the portfolio manager's view this will provide some protection against higher interest rate expectations. This focus results in a bias towards the Financials, Industrials and Consumer sectors.

Continued improvement in economic data and growing worries about inflation are likely to be among the strongest drivers in the second half of the year. A surprise on the inflation front could bring the prospect for higher interest rates sooner than most investors are anticipating. This, combined with continued withdrawal of stimulus tapering by the Fed could well cause volatility in both interest rates and credit spreads at some point.

## *Significant Accounting Changes*

### *Resulting from our Adoption of IFRS*

Effective January 1, 2014, the Fund adopted International Financial Reporting Standards ("IFRS") as its basis of accounting. The semi-annual financial statements for the period ended June 30, 2014, are the first set of financial statements prepared on an IFRS basis. The adjustments made to reflect the impact of the change from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS are presented in note 8 to the financial statements.

Key changes to the financial statements as a result of the implementation of IFRS are:

- Statement of Financial Position replaced the Statement of Net Assets:
  - The Fund's unitholders investments in the units of the Fund did not qualify for equity classification under IFRS and have been classified as a financial liability for financial reporting purposes.
  - Classification of financial instruments: derivatives and short positions have been classified as held for trading while all other financial instruments have been designated as fair valued through profit and loss. Following adoption of IFRS by the Fund for financial reporting purposes, the Fund now fair values its investment securities traded on an exchange at close price, which is determined as the price within the bid ask range that represents the best estimate of fair value.
- Statement of Comprehensive Income replaced Statement of Operations:
  - The Fund accounts for interest income using the effective interest rate method, rather than the coupon method previously used under Canadian GAAP.
- Statement of Changes in Net Assets Attributable to Holders of Redeemable Units replaced the Statement of Changes in Net Assets and the Fund now presents a Statement of Cash Flows.
- Other notable changes to the financial statement notes include additional or enhanced information in the notes to the financial statements, including a more detailed note and reconciliation on the Fund's transition from Canadian GAAP to IFRS.

## RELATED PARTY TRANSACTIONS

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.

# BMO Canadian Diversified Monthly Income Fund

## Buying and Selling Securities

*Investing in Common Shares or Preferred Shares of the Bank of Montreal and Investing in Equity or Non-Government Debt Securities Underwritten by BMO Nesbitt Burns Inc.*

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

- (a) investments in common shares or preferred shares of Bank of Montreal ("BMO"), an affiliate of the Manager; and
- (b) 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 (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, 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 portfolio manager, uninfluenced by considerations other than the best interests of the Fund, and (iii) achieves a fair and reasonable result for the Fund.

## Portfolio Manager

One of the Fund's portfolio managers is BMO Asset Management Inc. ("BMOAM"), an affiliate of the Manager. BMOAM provides portfolio management services to the Fund. BMOAM receives from the Fund a management fee based on assets under management, calculated daily and payable monthly.

## Brokerage Commissions

The Fund 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 Fund (excluding exchange and other fees) during the periods were as follows:

		Period ended June 30, 2014 (\$)	Period ended June 30, 2013 (\$)
Total brokerage commissions	\$	24,948	94,585
Brokerage commissions paid to BMO Nesbitt Burns Inc.	\$	870	6,911

## Administration Services

The Manager and other members of BMO Financial Group provide the Fund with certain administration services, such as those relating to fund accounting, record keeping, order processing, issuing and distributing account statements and general administrative support. Further details about the Fund's administration fees can be found in the Fund's most recent simplified prospectus. The expenses charged to the Fund in respect of such services during the period amounted to \$304,370 (2013 – \$583,703).

## Dealer Compensation

The Manager markets and distributes the Fund through Bank of Montreal branches and/or (depending on the series) 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 a service fee called a "trailing commission" based on the average daily value of the units and/or shares that are held in investor accounts. This service fee is paid monthly or quarterly and varies by purchase option and by series.

# BMO Canadian Diversified Monthly Income Fund

## 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 managers 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 net asset value of each series of the Fund at the maximum annual rate set out in the table below.

	Maximum Annual Management Fee Rate* %	As a Percentage of Management Fees	
		Dealer Compensation %	General Administration, Investment Advice and Profit %
Advisor Series Units	1.85	51	49
Series T5 Units	1.85	64	36
Series T8 Units	1.85	62	38
Series F Units	0.45	0	100
Series I Units	—	—	—

\* 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 Advisor Series 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 <sup>(1)</sup>

#### Advisor Series Units

	Period ended June 30		Periods ended Dec. 31			
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ 12.01	11.38	11.08	11.22	10.35	8.60
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.27	0.51	0.54	0.52	0.52	0.53
Total expenses <sup>(2)</sup>	\$ -0.15	-0.29	-0.28	-0.28	-0.26	-0.22
Realized gains (losses) for the period	\$ 0.14	0.74	0.19	0.24	-0.11	-0.65
Unrealized gains (losses) for the period	\$ 0.59	0.08	0.27	-0.20	1.14	2.48
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ 0.85	1.04	0.72	0.28	1.29	2.14
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	—	—	—	0.05	0.10
From dividends	\$ 0.11	0.23	0.22	0.19	0.22	0.22
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.10	0.19	0.20	0.23	0.15	0.10
<b>Total annual distributions<sup>(4)</sup></b>	\$ 0.21	0.42	0.42	0.42	0.42	0.42
<b>Net assets, end of period<sup>(5)</sup></b>	\$ 12.66	12.00	11.38	11.08	11.22	10.35

#### Series T5 Units

	Period ended June 30		Periods ended Dec. 31			
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ 9.81	9.42	9.28	9.53	8.86	7.38
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.22	0.41	0.45	0.44	0.45	0.46
Total expenses <sup>(2)</sup>	\$ -0.11	-0.23	-0.23	-0.24	-0.22	-0.19
Realized gains (losses) for the period	\$ 0.11	0.60	0.15	0.20	-0.08	-0.51
Unrealized gains (losses) for the period	\$ 0.47	0.09	0.26	-0.19	1.00	2.14
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ 0.69	0.87	0.63	0.21	1.15	1.90
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	—	—	—	0.05	0.10
From dividends	\$ 0.10	0.18	0.17	0.17	0.18	0.17
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.15	0.29	0.30	0.31	0.21	0.10
<b>Total annual distributions<sup>(4)</sup></b>	\$ 0.25	0.47	0.47	0.48	0.44	0.37
<b>Net assets, end of period<sup>(5)</sup></b>	\$ 10.27	9.80	9.42	9.28	9.53	8.86

#### Series T8 Units

	Period ended June 30		Periods ended Dec. 31			
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ 8.13	8.05	8.18	8.67	8.31	7.12
<b>Increase (decrease) from operations:</b>						
Total revenue	\$ 0.18	0.35	0.39	0.39	0.42	0.43
Total expenses <sup>(2)</sup>	\$ -0.09	-0.20	-0.20	-0.21	-0.21	-0.18
Realized gains (losses) for the period	\$ 0.09	0.52	0.13	0.17	-0.08	-0.47
Unrealized gains (losses) for the period	\$ 0.39	0.05	0.22	-0.18	0.95	2.05
<b>Total increase (decrease) from operations<sup>(3)</sup></b>	\$ 0.57	0.72	0.54	0.17	1.08	1.83
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	—	—	—	0.05	0.09
From dividends	\$ 0.08	0.15	0.15	0.15	0.16	0.16
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.25	0.49	0.51	0.55	0.46	0.32
<b>Total annual distributions<sup>(4)</sup></b>	\$ 0.33	0.64	0.66	0.70	0.67	0.57
<b>Net assets, end of period<sup>(5)</sup></b>	\$ 8.38	8.12	8.05	8.18	8.67	8.31

# BMO Canadian Diversified Monthly Income Fund

## Series F Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			2009
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ 13.58	12.64	12.12	12.10	11.00	9.05
<b>Increase (decrease)</b> <b>from operations:</b>						
Total revenue	\$ 0.30	0.56	0.59	0.57	0.56	0.56
Total expenses <sup>(2)</sup>	\$ -0.05	-0.15	-0.16	-0.17	-0.14	-0.10
Realized gains (losses) for the period	\$ 0.16	0.84	0.21	0.24	-0.11	-0.69
Unrealized gains (losses) for the period	\$ 0.67	0.10	0.28	-0.20	1.21	2.60
<b>Total increase (decrease)</b> <b>from operations<sup>(3)</sup></b>	\$ 1.08	1.35	0.92	0.44	1.52	2.37
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.08	0.09	0.06	0.07	0.20	0.24
From dividends	\$ 0.16	0.33	0.36	0.31	0.24	0.23
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.00	—	—	0.04	—	—
<b>Total annual distributions<sup>(4)</sup></b>	\$ 0.24	0.42	0.42	0.42	0.44	0.47
<b>Net assets, end of period<sup>(5)</sup></b>	\$ 14.41	13.56	12.64	12.12	12.10	11.00

## F5 Class Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			2009
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ —	10.02	9.77	9.91	9.11	7.48
<b>Increase (decrease)</b> <b>from operations:</b>						
Total revenue	\$ —	0.11	0.48	0.46	0.46	0.46
Total expenses <sup>(2)</sup>	\$ —	-0.03	-0.13	-0.14	-0.12	-0.09
Realized gains (losses) for the period	\$ —	0.10	0.16	0.23	-0.10	-0.51
Unrealized gains (losses) for the period	\$ —	0.23	0.18	-0.22	1.03	2.17
<b>Total increase (decrease)</b> <b>from operations<sup>(3)</sup></b>	\$ —	0.41	0.69	0.33	1.27	2.03
<b>Distributions:</b>						
From income (excluding dividends)	\$ —	0.00	0.06	0.08	0.13	0.20
From dividends	\$ —	0.11	0.28	0.27	0.17	0.18
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ —	0.02	0.15	0.15	0.16	—
<b>Total annual distributions<sup>(4)</sup></b>	\$ —	0.13	0.49	0.50	0.46	0.38
<b>Net assets, end of period<sup>(5)</sup></b>	\$ —	10.02	9.77	9.91	9.11	7.48

## Series I Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			2009
	2014	2013	2012	2011	2010	2009
Net assets, beginning of period <sup>(5)</sup>	\$ 12.62	11.66	11.07	10.95	9.94	8.23
<b>Increase (decrease)</b> <b>from operations:</b>						
Total revenue	\$ 0.28	0.53	0.54	0.52	0.51	0.51
Total expenses <sup>(2)</sup>	\$ -0.00	-0.01	0.00	-0.01	-0.01	-0.01
Realized gains (losses) for the period	\$ 0.15	0.70	0.19	0.19	-0.10	-0.60
Unrealized gains (losses) for the period	\$ 0.62	0.33	0.27	-0.10	1.12	2.41
<b>Total increase (decrease)</b> <b>from operations<sup>(3)</sup></b>	\$ 1.05	1.55	1.00	0.60	1.52	2.31
<b>Distributions:</b>						
From income (excluding dividends)	\$ 0.12	0.17	0.15	0.21	0.24	0.29
From dividends	\$ 0.09	0.08	0.27	0.21	0.26	0.22
From capital gains	\$ —	—	—	—	—	—
Return of capital	\$ 0.00	0.17	—	—	—	0.09
<b>Total annual distributions<sup>(4)</sup></b>	\$ 0.21	0.42	0.42	0.42	0.50	0.60
<b>Net assets, end of period<sup>(5)</sup></b>	\$ 13.46	12.61	11.66	11.07	10.95	9.94

<sup>(1)</sup> The information is derived from the Fund's audited annual financial statements and unaudited June 30, 2014 semi-annual financial statements. Prior to 2014, the net assets per unit presented in the financial statements differed 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> Includes commissions and portfolio transaction costs. Prior to 2014, withholding taxes were not included in expenses as they were included in revenue.

<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 Fund, or both, where applicable.

<sup>(5)</sup> Net assets prior to 2014 were calculated under Canadian GAAP. Net assets in 2014 were calculated under IFRS.

## Ratios and Supplemental Data

### Advisor Series Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			2009
	2014	2013	2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 291,152	290,153	311,302	326,653	363,447	370,895
Number of units outstanding (000s) <sup>(1)</sup>	23,003	24,155	27,325	29,423	32,303	35,744
Management expense ratio <sup>(2)</sup>	% 2.27	2.41	2.45	2.45	2.41	2.30
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 2.27	2.41	2.45	2.51	2.49	2.48
Trading expense ratio <sup>(3)</sup>	% 0.17	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% 8.60	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ 12.66	12.01	11.39	11.10	11.25	10.38

# BMO Canadian Diversified Monthly Income Fund

## Series T5 Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			
			2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 6,912	6,970	7,025	4,396	4,093	2,491
Number of units						
outstanding (000s) <sup>(1)</sup>	673	710	745	473	428	281
Management expense ratio <sup>(2)</sup>	% 2.25	2.39	2.44	2.45	2.40	2.30
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 2.25	2.39	2.47	2.55	2.44	2.59
Trading expense ratio <sup>(3)</sup>	% 0.17	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% 8.60	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ 10.27	9.81	9.43	9.30	9.55	8.89

## Series T8 Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			
			2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 9,169	8,677	7,033	5,402	4,210	2,228
Number of units						
outstanding (000s) <sup>(1)</sup>	1,094	1,067	873	659	484	268
Management expense ratio <sup>(2)</sup>	% 2.26	2.39	2.44	2.45	2.40	2.30
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 2.26	2.39	2.48	2.53	2.43	2.59
Trading expense ratio <sup>(3)</sup>	% 0.17	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% 8.60	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ 8.38	8.13	8.06	8.20	8.69	8.34

## Series F Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			
			2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 12,153	10,179	12,259	10,897	9,421	9,347
Number of units						
outstanding (000s) <sup>(1)</sup>	843	750	969	897	777	846
Management expense ratio <sup>(2)</sup>	% 0.74	1.06	1.27	1.32	1.16	1.00
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% 0.89	1.19	1.27	1.34	1.31	1.36
Trading expense ratio <sup>(3)</sup>	% 0.17	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% 8.60	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ 14.41	13.58	12.65	12.14	12.13	11.03

## F5 Class Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			
			2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ —	—	13	117	145	38
Number of units						
outstanding (000s) <sup>(1)</sup>	—	—	1	12	15	4
Management expense ratio <sup>(2)</sup>	% —	1.21	1.32	1.32	1.25	1.00
Management expense ratio before waivers or absorptions <sup>(2)</sup>	% —	19.52	1.79	2.16	1.57	14.33
Trading expense ratio <sup>(3)</sup>	% —	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% —	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ —	—	10.04	9.79	9.93	9.13

## Series I Units

	Period ended June 30 2014	2013	Periods ended Dec. 31			
			2012	2011	2010	2009
Total net asset value (000s) <sup>(1)</sup>	\$ 2,642	2,638	17	16	12	10
Number of units						
outstanding (000s) <sup>(1)</sup>	196	209	1	1	1	1
Management expense ratio <sup>*</sup>	% —	—	—	—	—	—
Management expense ratio before waivers or absorptions <sup>*</sup>	% —	—	—	—	—	—
Trading expense ratio <sup>(3)</sup>	% 0.17	0.06	0.03	0.06	0.05	0.06
Portfolio turnover rate <sup>(4)</sup>	% 8.60	26.61	20.49	29.58	30.89	23.55
Net asset value per unit	\$ 13.46	12.62	11.67	11.09	10.98	9.97

\* 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 June 30 or December 31 of the period shown.

<sup>(2)</sup> The management expense ratio of a particular series is calculated based on all expenses allocated to the series, as applicable, including all taxes and interest expenses but excluding brokerage commissions and other portfolio transaction costs, divided by the average daily net asset value of that series, annualized. BMOII may reduce the effective management fees payable by some unitholders by reducing the management fees it charges to the Fund and directing the Fund to make management fees distributions to these unitholders in amounts equal to the amounts of the management fees reduction. The management expense ratio does not take into account the reduction in management fees due to management fees distributions to unitholders.

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

<sup>(3)</sup> 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.

<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.

# BMO Canadian Diversified Monthly Income Fund

## 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, 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 fees and expenses allocated and payable by each series.

On December 27, 2007, Barrantagh Investment Management Inc. was appointed portfolio manager for the small cap income trust section of the Fund.

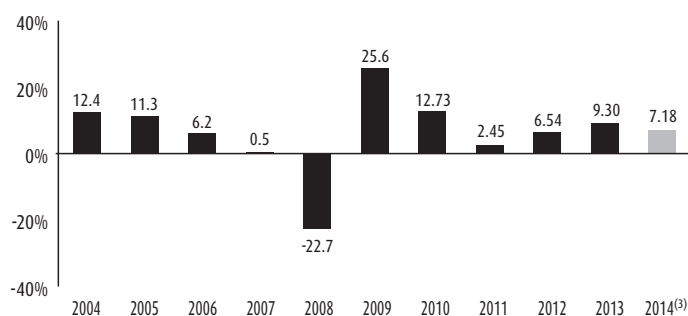
On July 26, 2013, Barrantagh Investment Management Inc. was removed as portfolio manager of the Fund.

These changes could have affected the performance of the Fund, had they been in effect throughout the performance measurement periods presented.

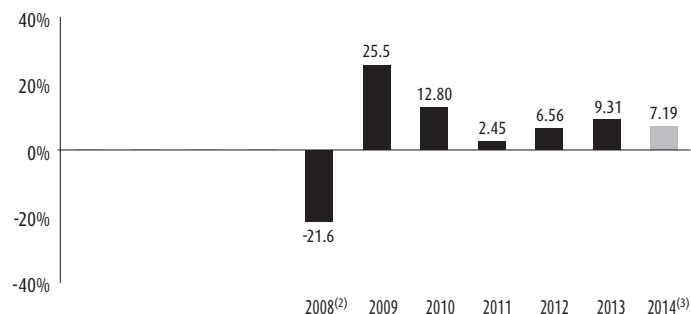
### Year-by-Year Returns

The following bar charts show the performance for each series of the Fund for each of the financial years shown and for the six-month period ended June 30, 2014. 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 the financial year.

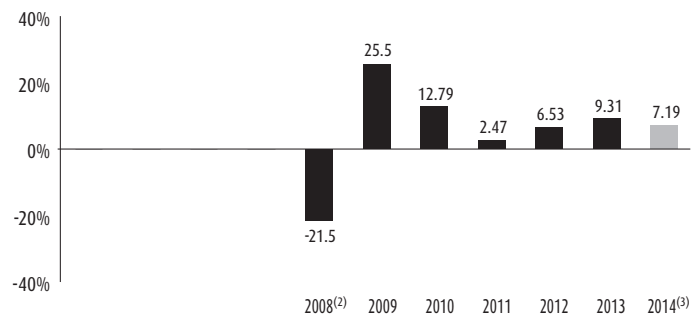
#### Advisor Series Units



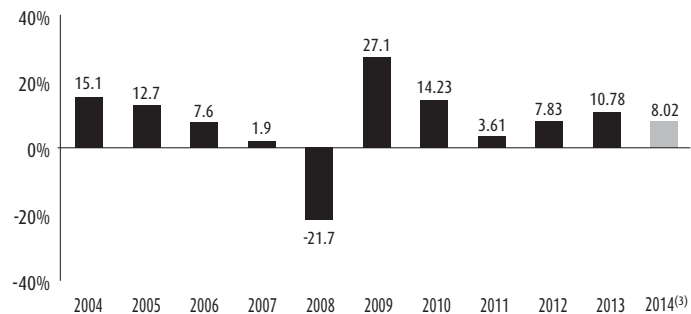
#### Series T5 Units



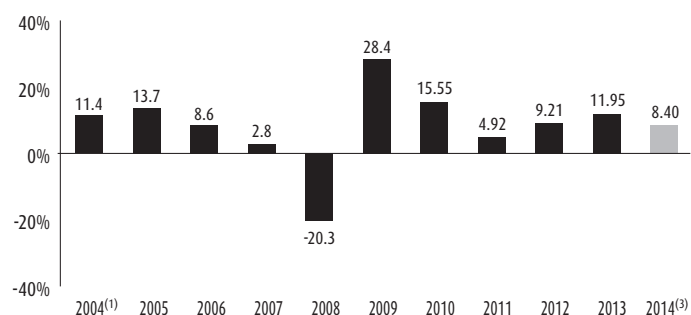
#### Series T8 Units



#### Series F Units



#### Series I Units



<sup>(1)</sup> Return from July 7, 2004 to December 31, 2004.

<sup>(2)</sup> Return from January 8, 2008 to December 31, 2008.

<sup>(3)</sup> For the six-month period ended June 30, 2014.



# BMO Canadian Diversified Monthly Income Fund

## SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2014

<b>Portfolio Allocation</b>	<b>% of Net Asset Value</b>
Corporate Bonds	23.4
Financials	20.1
Energy	15.2
Preferred Shares – Fixed/Floaters	10.3
Preferred Shares – Retractable	4.1
Consumer Discretionary	4.1
Others	3.8
Industrials	3.1
Cash/Receivables/Payables	2.9
Information Technology	2.7
Telecommunication Services	2.2
Preferred Shares – Straight	2.0
Preferred Shares – Floating Perpetual	1.9
Consumer Staples	1.7
Utilities	1.3
Materials	1.2
<b>Total Portfolio Allocation</b>	<b>100.0</b>

<b>Top 25 Holdings</b>	<b>% of Net Asset Value</b>
<b>Issuer</b>	
Toronto-Dominion Bank, The,	3.5
Bank of Nova Scotia	3.3
Cash/Receivables/Payables	2.9
Royal Bank of Canada	2.5
Baytex Energy Corp.	1.6
Crescent Point Energy Corp.	1.6
Government of Canada, Series 1, 1.500% Jun 1, 2023	1.5
Intact Financial Corporation	1.5
TELUS Corporation	1.4
Great-West LifeCo Finance (Delaware) LP, Fixed to Floating, Debentures, Subordinated, Callable, 5.691% Jun 21, 2067	1.4
Baytex Energy Corporation, Series B, Senior, Unsecured, Notes, Callable, 6.750% Feb 17, 2021	1.4
Canadian National Railway Company	1.3
Manulife Financial Corporation	1.2
Cenovous Energy Inc.	1.2
Enbridge Inc.	1.2
Pembina Pipeline Corporation	1.2
TransCanada Corporation	1.2
Keyera Corp.	1.2
ARC Resources Ltd.	1.2
Canadian Imperial Bank of Commerce, Unsecured, Notes, 2.220% Mar 7, 2018	1.1
Fortis Inc., Series E, Cumulative, Exchangeable, Soft Retractable Preferred, Redeemable, Jun 1, 2015, \$25.25	1.1
Fairfax Financial Holdings Limited, Senior, Unsecured, Notes, 7.375% Apr 15, 2018	1.1
Peyto Exploration & Development Corp.	1.0
Nova Scotia Power Inc., Series D, Cumulative, Exchangeable, Soft Retractable, Preferred, Redeemable, Oct 15, 2015, \$25.00	1.0
Ford Credit Canada Ltd., Senior, Unsecured, Notes, 4.875% Feb 8, 2017	1.0
<b>Top Holdings as a Percentage of Total Net Asset Value</b>	<b>38.6</b>
<b>Total Net Asset Value</b>	<b>\$322,028,039</b>

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



[www.bmo.com/mutualfunds](http://www.bmo.com/mutualfunds)

**BMO Investments Inc.**

**First Canadian Place, 43rd Floor, 100 King Street West  
Toronto, ON M5X 1A1**

**For more information please call 1-800-665-7700**



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 Fund may invest in and the risks detailed from time to time in BMO Mutual 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 Investments 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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