

Semi-Annual Management Report of Fund Performance

BMO NESBITT BURNS BALANCED FUND (“the Fund”)

JUNE 30, 2010

Portfolio Manager: BMO Asset Management Inc., 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, 54th 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 -1.5% net of expenses, whereas the Fund’s blended benchmark of 55.0% S&P/TSX Composite Index (S&P/TSX) and 45.0% of the DEX Universe Bond Index (DEX) returned 0.6% for the six month period ending June 30, 2010.

As the end of the first half of 2010 approached the optimism experienced in the first part of the year gave way to concerns over economic growth, the unemployment outlook and the amount of debt at both the individual and public sector levels. The concern over the amount of public sector debt focused hardest on the Euro-zone and in particular Greece. Calls for austerity heightened fears that the removal of fiscal stimulus at this juncture in the economic recovery could adversely affect growth and promote the prospect of a double-dip recession. Events closer to home reinforced anxiety over the future direction of the economy as key economic variables failed to meet expectations.

The Portfolio Manager believes the combination of so many adverse factors negatively impacted the investor’s outlook for future economic growth and the prospects for riskier assets like equities. As a result, the S&P/TSX experienced its first significant correction since the explosive rally began in March

2009. The second quarter of 2010 was the first quarter that the S&P/TSX had declined since the first quarter of 2009.

Bond yields in Canada, using the 10-year Government of Canada bond yield as a proxy, were lower by a little more than 0.5% during the first half of 2010. The “flight-to-quality” (the situation that favoured Government of Canada and U.S. Treasury bonds) trade also affected the shape of the yield curve as investors drove longer-dated yields lower than that of shorter-dated yields – producing a yield curve flattening for the first half of the year. Additionally, the desire of investors to decrease their risk profile was also felt in both the provincial and corporate bond markets, as investors sold those positions to purchase bonds issued by the government. Both provincial and corporate bonds underperformed Government of Canada bonds.

The Fund’s exposure to the yield curve flattening added positively to performance as longer-term interest rates went lower than did interest rates with shorter terms-to-maturity. However, the Fund’s exposure to provincial bonds detracted from performance as they underperformed corporate bonds during the first half of 2010.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (cont.)

On a year-to-date basis for the S&P/TSX, four sectors gained while six declined. Gold stocks were the best performing sub-sector in the second quarter rising 55.0%. The top 10 stocks in terms of performance attribution featured 5 gold stocks. Contributing to year-to-date Fund performance was the largest equity holding, The Toronto-Dominion Bank, which was up 4.6% compared to the S&P/TSX's largest bank weighting, Royal Bank of Canada, which was also owned by the Fund and was down 10.1%. Detracting from Fund performance was the second largest equity holding Suncor Energy Inc. which was down 15.8%. Asset mix was neutral to Fund performance as the 57.0% equity exposure is in line with the benchmark.

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

The Portfolio Manager continues to remain optimistic that inflation will not be a problem in the short-term. The amount of capacity that exists in the economy, tight credit/lending conditions and a labour market that will find difficulty in promoting higher wage gains should all help to limit inflationary pressures. As the market lowers its inflation expectations – interest rates will have room to move lower. The Portfolio Manager feels the amount of any decrease will be modest but the Fund, with more interest rate sensitivity than its benchmark, will benefit from such a move. The Portfolio Manager will look to maintain the Fund's interest rate sensitivity modestly overweight that of the benchmark and will continue to look for opportunities to reduce risk in the corporate sector of the Fund holdings, particularly if the economy does not continue to show signs of improvement.

The Portfolio Manager believes that in general S&P/TSX securities are reasonably valued and below the long term average. Cash levels are high within many Canadian companies which should allow for dividend increases and share buybacks. The Portfolio Manager's strategy during this transitional period, as the markets recover from the burst of the credit bubble, will be to remain conservative and look to increase the dividend yield of the Fund as opportunities arise.

With fresh uncertainties of fiscal retrenchment from global governments, slowing Chinese growth and potentially higher taxes, the Portfolio Manager will maintain a neutral asset mix with approximately 55.0% in equities.

Harmonized Sales Tax

Certain fees and expenses paid by the Fund are subject to sales tax, such as the goods and services tax ("GST"). Prior to June 30, 2010, the Fund paid GST on management fees, administrative fees and most operating expenses. Beginning on July 1, 2010,

GST was replaced by the harmonized sales tax ("HST") in certain provinces, which will be imposed at higher rates than the GST. Since the applicable HST will be paid by the Fund, it will increase the overall expenses incurred by the Fund.

Change in the Composition of the Fund's Independent Review Committee

Effective March 31, 2010, Kenneth W. McArthur and R. Jamie Plant retired from their position as an IRC member. The current members of the Fund's IRC are Allen B. Clarke, John K. McBride and Louise Vaillancourt-Châtillon (Chair). Additional information regarding the Fund's IRC is available in the Fund's most recent annual information form.

Transition to International Financial Reporting Standards

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that all Canadian publicly accountable enterprises, which include investment funds, 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 financial years commencing on or after January 1, 2011. However, in June 2010, the AcSB issued a proposal to defer the adoption of IFRS for investment companies, which include investment funds, by one year. This proposal could result in the Fund deferring its adoption of IFRS from January 1, 2011 to January 1, 2012. The AcSB is expected to finalize their proposal in September 2010.

In order to meet the requirement to transition to IFRS, the Manager established a committee for the development and implementation of a transition plan and to provide oversight of the transition to IFRS. The transition plan is comprised of three phases: a diagnostic assessment to identify potential IFRS differences relative to current policies; implementation and education, which includes confirming actual IFRS differences relative to current policies; and completion of all integration requirements for any actual differences identified. The Fund's transition to IFRS remains on track: its diagnostic assessment to identify potential IFRS differences is completed, and the Committee is currently working through the second phase of the transition plan.

The diagnostic assessment of the Fund revealed the following:

The criteria contained within the IFRS Financial Instruments: Presentation standard (IAS 32) 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.

The requirements contained within the IFRS Consolidated and Separate Financial Statements standard (IAS 27) may impact the accounting of certain investments held by the Fund. To the extent any of the Fund's investments in other funds are deemed to be controlled by the Fund, as determined under the criteria contained within IAS 27, the Fund will need to consolidate the financial statements of those investments within the Fund's financial statements. However, the IASB is planning to replace IAS 27 with a new standard. This new standard may be in effect prior to Fund's transition date, such that the IFRS may differ at transition date from its current form. The Manager is currently monitoring the IASB's project to replace IAS 27, and will amend its implementation plans accordingly.

Presentation changes to unitholders' equity and presenting certain investments held by the Fund on a consolidated basis will not have an impact on the Fund's results of operations or financial position. The diagnostic assessment did not reveal any other potential material differences between the Fund's current accounting policies and the requirements under IFRS. The Manager does not foresee any impact or change to the Fund's business arrangements or any accounting policy or implementation decisions that the Fund will need to make as a result of the changeover to IFRS.

The Manager has not identified any changes that will impact NAV per share as a result of the changeover to IFRS. However, this determination is subject to change as new standards are issued or interpretations of existing standards evolve.

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, BMO Nesbitt Burns Inc. 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

BMO Nesbitt Burns Inc., as Manager of the Fund, has hired BMO Asset Management Inc. ("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 paid monthly. BMO AM is paid by BMO Nesbitt Burns Inc. and not by the Fund. BMO AM was formerly known as Jones Heward Investment Counsel Inc. having changed its name on May 7, 2010.

Distribution Services

BMO Nesbitt Burns Inc. 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 BMO Nesbitt Burns Inc. 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 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, 2010	Six-month period ended June 30, 2009
Unitholder Servicing Fees	\$33,279	\$28,875

Buying and Selling Securities

Investing in Bank of Montreal Common Shares and Trading in Debt Securities with BMO Nesbitt Burns Inc., Trading as Principal

During the period, BMO Nesbitt Burns Inc. relied on the approval and standing instructions provided by the Fund's IRC with respect to the following related party transactions (collectively, Related Party Investments):

- (a) investments in and/or continued investments in common shares of Bank of Montreal (BMO), an affiliate of BMO Nesbitt Burns Inc.; and
- (b) trades in debt securities in the secondary market with BMO Nesbitt Burns Inc., which is trading with the Fund as principal.

In accordance with the IRC's approval and standing instructions, in making a decision to cause the Fund to make a Related Party Investment, BMO Nesbitt Burns Inc. and BMO AM are required to comply with BMO Nesbitt Burns Inc.'s policy and procedures pertaining to the Related Party Investment and report to the IRC on a quarterly basis, describing each instance that BMO Nesbitt Burns Inc. and/or BMO AM relied on the IRC's standing instructions and their compliance or non-compliance with the policy and procedures. The policy and procedures are designed to, among other things, ensure the Related Party Investment (i) is made free from any influence of BMO, BMO Nesbitt Burns Inc. or their associates or affiliates and without taking into account any considerations relevant to BMO, BMO Nesbitt Burns Inc. or their affiliates or associates, (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.

FINANCIAL HIGHLIGHTS

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 the Fund's Portfolio Manager 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	1.75	71.43	28.57
Class F Units	0.75	-	100

* Because the Manager pays lower or no distribution, service or trailing fees on Class F units, Class F units have a lower management fee than Class A.

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 Unit¹

CLASS A	Period ended/Periods ended December 31					
	June 30, 2010 (\$)	2009 (\$)	2008 (\$)	2007 (\$)	2006 (\$)	2005 (\$)
Net Assets, beginning of year	12.98	11.70	14.90	14.68 ²	14.10	12.51
Increase (decrease) from operations:						
Total revenue	0.20	0.42	0.45	0.41	0.51	0.42
Total expenses ³	(0.11)	(0.23)	(0.24)	(0.26)	(0.27)	(0.24)
Realized gains (losses) for the period	0.15	(0.40)	(0.40)	1.08	1.22	0.26
Unrealized gains (losses) for the period	(0.39)	1.68	(2.94)	(0.32)	(0.07)	1.30
Total increase (decrease) from operations⁴	(0.15)	1.47	(3.13)	0.91	1.39	1.74
Distributions:						
From income (excluding dividends)	-	0.06	-	-	-	-
From dividends	0.10	0.17	0.21	0.14	0.250	0.17
From capital gains	-	-	-	0.53	0.480	-
Return of capital	-	-	-	-	-	-
Total annual distributions⁵	0.10	0.23	0.21	0.67	0.73	0.17
Net Assets, end of period	\$12.71	\$12.98	\$11.70	\$14.90	\$14.78	\$14.10

CLASS F	Period ended	Periods ended December 31				
	June 30, 2010	2009	2008 ⁶	2007	2006	2005
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net Assets, beginning of year	13.27	11.88	12.10	-	-	-
Increase (decrease)						
from operations:						
Total revenue	0.21	0.43	0.09	-	-	-
Total expenses	(0.05)	(0.13)	(0.02)	-	-	-
Realized gains (losses)						
for the period	0.15	(0.07)	(0.56)	-	-	-
Unrealized gains (losses)						
for the period	(0.49)	1.56	0.33	-	-	-
Total increase (decrease)						
from operations⁴	(0.18)	1.79	(0.16)	-	-	-
Distributions:						
From income						
(excluding dividends)	0.06	0.14	0.03	-	-	-
From dividends	0.08	0.13	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	-	-	-	-	-	-
Total annual distributions⁵	0.14	0.27	0.03	-	-	-
Net Assets, end of period	\$13.02	\$13.27	\$11.88	-	-	-

¹⁾ This information is derived from the Fund's audited annual financial statements and unaudited June 30, 2010 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⁾ The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly the opening Net Assets for the period ended December 31, 2007 has been adjusted.

³⁾ Prior to 2007, commissions and other Fund transaction costs were not included in expenses as they were included in realized and unrealized gains/(losses).

⁴⁾ 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.

⁵⁾ Distributions were paid in cash or reinvested in additional units of the Fund, or both, where applicable.

⁶⁾ 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	Periods ended December 31				
	June 30, 2010	2009	2008	2007	2006	2005
Total net assets (000's) ¹	\$49,379,004	\$52,220	\$47,312	\$56,231	\$56,675	\$51,135
Number of units outstanding ¹	3,884,091	4,017,943	4,034,893	3,737,357	3,834,228	3,625,680
Management expense ratio ²	1.72%	1.83%	1.75%	1.73%	1.82%	1.83%
Management expense ratio before waivers or management absorptions ²	1.72%	1.83%	1.75%	1.73%	1.82%	1.83%
Portfolio turnover rate ³	26.00%	81.62%	125.01%	111.09%	112.02%	43.84%
Trading expense ratio ⁴	-	-	-	-	-	-
Net asset value per unit⁵	\$12.71	\$13.00	\$11.73	\$14.93	\$14.78	\$14.10

CLASS F	Period ended	Periods ended December 31				
	June 30, 2010	2009	2008 ⁶	2007	2006	2005
Total net assets (000's) ¹	\$268,478	\$172	\$16	-	-	-
Number of units outstanding ¹	20,613	12,920	1,330	-	-	-
Management expense ratio ²	0.77%	0.97%	0.98%	-	-	-
Management expense ratio before waivers or management absorptions ²	0.77%	0.97%	0.98%	-	-	-
Portfolio turnover rate ³	26.00%	81.62%	125.01%	-	-	-
Trading expense ratio ⁴	-	-	-	-	-	-
Net asset value per unit⁵	\$13.02	\$13.29	\$11.90	-	-	-

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

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. In the period a Fund is established, the management expense ratio is annualized from the date of inception to December 31.

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

³⁾ The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Adviser 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.

⁴⁾ 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.

⁵⁾ This information is derived from the Fund's audited financial statements and unaudited June 30, 2010 semi-annual financial statements. The net assets per unit presented in the financial statements differs from the net asset value per unit calculated for portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

⁶⁾ 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.

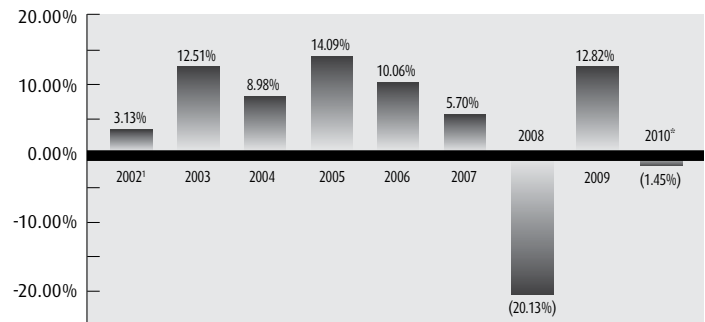
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Fund has performed in the past does not indicate how it will perform in the future.

If a Fund offers more than one class, 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.

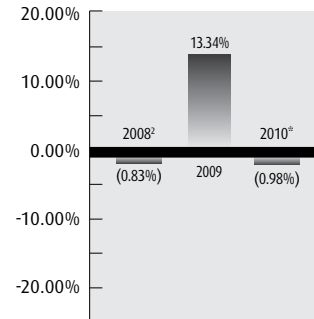
Year-by-Year Returns

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, 2010.

¹ For the period beginning November 1, 2002 to December 31, 2002.

² For the period beginning October 31, 2008 to December 31, 2008.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2010

Portfolio Allocation	% of Net Asset Value
Government and Government Bonds	18.9
Financials	16.8
Energy	14.4
Materials	11.8
Corporate Bonds	10.2
Provincial Government Bonds	9.8
Industrials	3.8
Telecommunication Services	3.6
Consumer Discretionary	3.2
Cash/Receivables/Payables	2.7
Money Market Investments	1.7
Consumer Staples	1.6
Information Technology	1.5

Top 25 Holdings	% of Net Asset Value
Government of Canada, 5.250%, June 1, 2013	6.0
Government of Canada, 3.500%, June 1, 2020	3.9
Toronto-Dominion Bank	3.8
Royal Bank of Canada	3.0
Suncor Energy Inc.	2.7
Cash/Receivables/Payables	2.7
Thomson Reuters Corporation	2.2
BCE Inc.	2.2
Nexen Inc.	2.1
Goldcorp Inc.	2.0
Government of Canada, 4.500%, June 1, 2015	2.0
Province of Quebec, 5.500%, December 1, 2014	2.0
Canadian Imperial Bank of Commerce	1.9
Barrick Gold Corporation	1.9
Talisman Energy Inc.	1.8
Great-West Lifeco Inc.	1.8
Export Development Canada, 5.800%, March 12, 2012	1.8
Bank of Nova Scotia, 4.990%, March 27, 2018	1.7
Government of Canada, 1.250%, December 1, 2011	1.7
Potash Corporation of Saskatchewan	1.6
Manulife Financial Corporation	1.5
EnCana Corporation	1.5
Research In Motion Limited	1.4
Celtic Explorations Limited	1.4
Power Financial Corporation	1.4
Top holdings as a percentage of total net asset value	56.0
Total Net Asset Value	\$49.6 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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