

Annual Management Report of Fund Performance

BMO NESBITT BURNS BALANCED FUND

DECEMBER 31, 2008

Portfolio Manager: Jones Heward Investment Counsel Inc., Toronto, Ontario

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the 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.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The principal investment objective of BMO Nesbitt Burns Balanced Fund is to achieve long-term capital growth

consistent with the preservation of capital and liquidity by investing primarily in equities and fixed income securities. The portfolio manager may adjust the asset mix according to its outlook for equities and fixed income securities.

The equity component will consist primarily of common shares and preferred shares of Canadian and U.S. companies and trust units that are recommended by BMO Capital Markets' team of research analysts. The Fund will primarily invest in entities with market capitalizations in excess of \$1 billion.

The fixed income component will consist of a diversified portfolio of fixed income securities including Canadian

federal, provincial, government and corporate bonds, as well as asset and mortgage-backed securities issued by Canadian entities. The Fund may also invest in government bonds denominated in U.S. dollars, which may from time to time include U.S. Treasury Bonds. The average term to maturity of each investment held by the Fund is managed based on economic and market indicators and is typically between five and ten years.

Risk

No changes affecting the overall level of risk of investing in the Fund were made in the one-year period ended December 31, 2008. The risks of this Fund remain as discussed in the Simplified Prospectus.

Results of Operations

The BMO Nesbitt Burns Balanced Fund's net asset value declined by 15.8% to \$47.3 million from \$56.2 million at December 31, 2007.

The Fund's Class A units returned -20.1%, net of expenses, whereas a blended benchmark of 55.0% S&P/TSX Composite Index (TSX) and 45.0% DEX Universe Bond Index (DEX) returned -16.8% for the one year period ending December 31, 2008.

The United States (U.S.) housing market continued its deterioration in the second half of 2008. Problems in housing put pressure on financial institutions, particularly those with exposure to the sub-prime sector of the market. The fear that the financial sector might collapse under the

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (cont.)

intense pessimism of investors prompted reaction from most global governments. The U.S. Federal Reserve Board cut the Federal Funds rate to effectively zero and the U.S. government began to recapitalize the banking system through a myriad of government programs.

The most notable program to date would appear to be the Troubled Asset Recovery Program (TARP), an effort originally designed to remove “troubled” assets from the balance sheets of financial institutions. The program has a potential mandate of \$700 billion with \$350 billion already spent or allocated.

All of the preceding caused a flight out of risky assets such as stocks and corporate bonds into less risky assets like government bonds, thus driving government bond yields down. The Fund had hoped to take advantage of the higher yields on offer in the corporate bond market; unfortunately the higher yield was not enough to offset the under-performance in the corporate versus government bond market and the Fund’s overweight in the Corporate bonds detracted from performance.

The equity portfolio benefitted from its overweight relative to the benchmark in two gold stocks, Kinross Gold Corporation and Barrick Gold Corporation, which were the third and seventh best performing large capitalization stocks in 2008. What detracted from performance was the zero weighting in the Fund of the 2nd best performing Utility sector (down only 20.0%) in favour of the Insurance sector (down 42.0%).

For further information on the performance and composition of the Fund, please refer to the Past Performance and Summary of Investment Portfolio section of this document.

Recent Developments

With the amount of uncertainty over the future direction of the economy and over the state of both the equity and corporate bond markets, a cautious approach to investing in riskier assets is warranted. However, the Portfolio Manager continues to feel that at these spread levels (the yield a corporate bond issuer has to offer over a Government of Canada bond in order to raise new capital); quality corporate bond issuers look attractive, both on a historical and on a risk-adjusted basis (the amount of spread widening that would need to take place before making one indifferent between holding a given corporate bond and its comparable benchmark Government of Canada bond). The Portfolio Manager will look to add to the Fund’s corporate exposure opportunistically as new quality issues come to the market offered at a concession (above their current yield spread).

Before the early year equity rally of 2009, markets appeared to be fully discounting the magnitude of the recession in earnings. Although economic numbers will most likely continue to deteriorate going forward, the TSX has historically bottomed an average of 14 months before the trough in earnings. As we move forward, investors will eventually shift their focus from determining the depth of the recession to the prospects for recovery. The Portfolio Manager believes that the government programs will prove to be a success and looks forward to shifting the asset mix in 2009 toward more equity exposure.

Multi-Class Structure

In addition to Class A units, which are available to all investors, the Manager began offering Class F units on October 31, 2008. Class F units are designed for investors who are participants in programs that do not require the payment of sales charges by investors or the payment of services fees to Investment Advisors but who are charged an annual fee by their Investment Advisors.

Adoption of New Accounting Policies – Financial Instruments Disclosure and Presentation

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”. The new standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. The new disclosure standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward unchanged. Adoption of the new standards does not impact the daily price of the fund’s securities for subscription and redemption purposes, nor for the calculation of net asset value.

CICA Handbook section 1535 – Capital Disclosure

The Fund adopted the new accounting standard, section 1535 (capital disclosure) during the year. Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. This standard applies to financial statements relating to fiscal years beginning on or after October 1, 2007. The adoption of this standard results in additional disclosures relating to the redeemable units of the Fund but does not affect the Fund’s results or financial positions.

Related Party Transactions

From time to time, BMO Nesbitt Burns Inc. as 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 of the Fund.

Portfolio Manager

The Manager has hired Jones Heward Investment Counsel Inc. (JHIC), an affiliate of the Manager, to provide investment advice and make investment decisions for the Fund's investment portfolio. JHIC receives an investment advisory fee based on assets under management that is paid monthly. JHIC is paid by the Manager and not by the Fund.

Buying and Selling Securities

Investing in Bank of Montreal Common Shares; 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, the Manager relied on the approval and standing instructions provided by the Fund's Independent Review Committee (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 the Manager;
- (b) 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. (NBI), an affiliate of the Manager, acted as an underwriter in the distribution of those securities, and
- (c) trades in non-government and/or government debt securities in the secondary market with NBI who 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, the Manager and Portfolio Manager are required to comply with the Manager's policy and procedures pertaining to the Related Party Investment and report to the IRC on a quarterly basis, describing each instance that the Manager and/or Portfolio Manager 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, NBI or their associates or affiliates and without taking into account any considerations relevant to BMO, NBI 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.

Distribution Services

BMO Nesbitt Burns Inc. sells units of the Fund through its sales representatives who are agents to the Manager, not the Fund. The Manager pays 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 the sales representative at the time of purchase or switch and when the account or registered tax plan is established.

Unitholder Services

The Fund is provided with certain facilities and services by affiliates of the Manager. Unitholder services, such as fund accounting, record keeping and processing orders, are provided by Bank of Montreal Ireland plc and JHIC (the Registrar). These expenses are paid by the Manager and charged to the Fund. The fees charged to the Fund during the year ended December 31 were as follows:

	2008	2007
Unitholder Servicing Fees	\$87,942	\$72,087

FINANCIAL HIGHLIGHTS**Management Fees**

BMO Nesbitt Burns Inc. is the Manager and principal distributor of the Fund. The Manager is responsible for the day-to-day management and administration of the Fund. The principal distributor markets and distributes the Fund directly through BMO Nesbitt Burns Inc. sales representatives.

The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the Portfolio Manager and provides all administrative services required by the Fund. As compensation for its services the Manager is entitled to receive a fee payable monthly, calculated based on the daily Net Asset Value of the Fund. The Manager is entitled to charge at the maximum annual rate of 1.75% for Class A units, 0.75% for Class F units, but has set the annual management fee at 1.40% for Class A units and 0.50% for Class F units.

The management fees charged to the Fund during the year ended December 31, 2008 amounted to \$804,458 (2007 - \$813,477). Approximately 71% of the management fees were used to pay for the distribution of securities and servicing of unitholders of the Fund through BMO Nesbitt Burns Inc. sales representatives. The remaining portion of the management fees were used to pay for portfolio management, general administration, product development, marketing and sales support services and any profit.

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 past 5 years. This information is derived from the Fund's audited annual financial statements. The following tables are not intended to be a reconciliation of beginning to ending Net Assets per unit. Please see cover page for information about how you can obtain the Fund's annual financial statements. For classes of units that were not in existence at the beginning of a period, "Net assets, beginning of period" reflects the net assets as at the inception date of those classes during the applicable period.

Net Assets per Unit

A CLASS UNITS	2008	2007	2006	2005	2004
	(\$)	(\$)	(\$)	(\$)	(\$)
Net Assets, beginning of year	14.90	14.68 ¹	14.10	12.51	11.54
Increase (decrease) from operations:					
Total revenue	0.46	0.41	0.51	0.42	0.35
Total expenses ²	(0.24)	(0.26)	(0.27)	(0.24)	(0.26)
Realized gains (losses) for the period	(0.40)	1.08	1.22	0.26	0.18
Unrealized gains (losses) for the period	(2.94)	(0.32)	(0.07)	1.30	0.82
Total increase (decrease) from operations³	(3.13)	0.91	1.39	1.74	1.09
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	0.21	0.14	0.25	0.17	0.06
From capital gains	-	0.53	0.48	-	-
Return of capital	-	-	-	-	-
Total Annual Distributions⁴	0.21	0.67	0.73	0.17	0.06
Net assets at December 31	\$11.70	\$14.90	\$14.78	\$14.10	\$12.51

F CLASS UNITS	October 31, to December 31, 2008	2007	2006	2005	2004
	(\$)	(\$)	(\$)	(\$)	(\$)
Net Assets, beginning of period	12.10	-	-	-	-
Increase (decrease) from operations:					
Total revenue	0.09	-	-	-	-
Total expenses ²	(0.02)	-	-	-	-
Realized gains (losses) for the period	(0.56)	-	-	-	-
Unrealized gains (losses) for the period	0.33	-	-	-	-
Total increase (decrease) from operations³	(0.16)	-	-	-	-
Distributions:					
From income (excluding dividends)	-	-	-	-	-
From dividends	0.03	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Annual Distributions⁴	0.03	-	-	-	-
Net assets at December 31	\$11.88	-	-	-	-

¹⁾ 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.

²⁾ Prior to 2007, commissions and other fund transaction costs were not included in expenses as they were included in realized and unrealized gains/(losses).

³⁾ Net asset value 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.

⁴⁾ Distributions were paid in cash or reinvested in additional shares of the Fund, or both, where applicable.

Ratios and Supplemental Data**A CLASS UNITS**

	2008	2007	2006	2005	2004
Total net asset value (000's) ¹	\$47,312	\$56,231	\$56,675	\$51,135	\$47,486
Number of units outstanding ¹	4,034,893	3,737,357	3,834,228	3,625,680	3,795,135
Management Expense Ratio ²	1.75%	1.73%	1.82%	1.83%	2.15%
Management expense ratio before waiver or management absorptions ²	1.75%	1.73%	1.82%	1.83%	2.15%
Portfolio turnover rate ³	125.01%	111.09%	112.02%	43.84%	85.40%
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁵	\$11.73	\$14.93	\$14.78	\$14.10	\$12.51

F CLASS UNITS

	2008	2007	2006	2005	2004
Total net asset value (000's) ¹	\$16	-	-	-	-
Number of units outstanding ¹	1,330	-	-	-	-
Management Expense Ratio ²	0.98%	-	-	-	-
Management expense ratio before waiver or management absorptions ²	0.98%	-	-	-	-
Portfolio turnover rate ³	125.01%	-	-	-	-
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁵	\$11.90	-	-	-	-

¹⁾ This information is provided as at 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. The trading expense ratio is provided from 2005 onwards.

⁵⁾ This information is derived from the Fund'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.

PAST PERFORMANCE

General

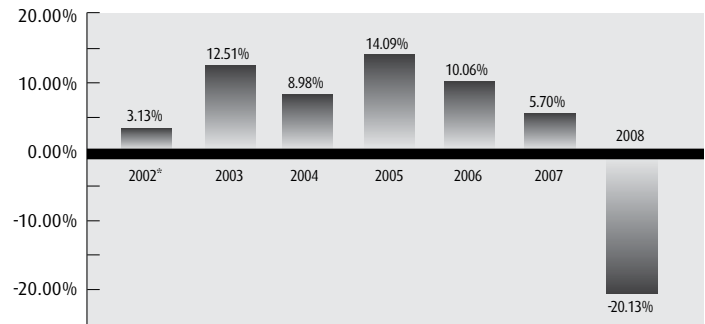
The Fund's performance assumes all distributions made by the Fund in the periods shown were used to purchase additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on these distributions. Distributions of income the Fund earns and capital gains it realizes are taxable in the year received whether received in cash or reinvested in additional units. Income tax considerations are discussed in the Simplified Prospectus. Please consult your tax adviser regarding your personal tax situation.

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

Year-by-Year Returns

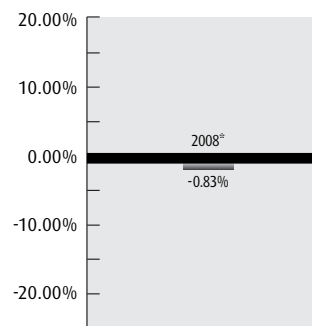
The bar charts that follow show the performance of each class of the Fund for, in the case of A Class units, each financial year since inception. For F Class units, the information is shown for the period beginning October 31, 2008 (the inception date of Class F) to December 31, 2008. The chart shows, in percentage terms, how much your investment on the first day of each financial year would have grown or decreased by the last day of each financial year.

A CLASS UNITS



* The Fund's return for 2002 reflects the return from November 1 to December 31.

F CLASS UNITS



* The Fund's return for 2008 reflects the return from October 31, to December 31.

Annual Compound Returns

This chart compares the historical annual compound returns of the Fund with the blended return of 55% S&P/TSX Composite Index (S&P/TSX) and 45% DEX Universe Bond Index (DEX). The S&P/TSX reflects price movements of a floating list of companies on the Toronto Stock Exchange that meet the S&P criteria for inclusion in the S&P/TSX. The DEX is a broad measure of total return on Canadian bonds that mature in more than one year. It was known as the Scotia Capital Universe Bond Index prior to October 2007.

	Since Inception†	One Year	Three Years	Five Years
BMO Nesbitt Burns Balanced Fund*	4.87%	(20.13%)	(2.42%)	2.93%
S&P/TSX	8.47%	(33.00%)	(4.80%)	4.16%
DEX	6.43%	6.41%	4.71%	5.54%
55% S&P/TSX 45% DEX	7.63%	(16.75%)	(0.23%)	5.09%

As of December 31, 2008 the Fund's Class A units underperformed the S&P/TSX for the five-year and since inception periods and outperformed the S&P/TSX for the one-year and three-year periods.

As of December 31, 2008 the Fund's Class A units underperformed the DEX for the one-year, three-year, five-year and since inception periods.

As of December 31, 2008 the Fund's Class A units underperformed the blended benchmark of 55% S&P/TSX and 45% DEX for the one-year, three-year, five-year and since inception periods.

* The Fund's return is after the deduction of expenses, while the benchmarks do not include any cost of investing.

† The inception date for the Fund is November 1, 2002

SUMMARY OF INVESTMENT PORTFOLIO

Portfolio Allocation

As at December 31, 2008

	Net Asset Value (%)
Government and Government Guaranteed Bonds	19.2%
Corporate Bonds	15.5%
Financials	14.6%
Energy	13.7%
Provincial Government Bonds	11.4%
Materials	8.1%
Telecommunication Services	3.5%
Commercial Paper	3.1%
Consumer Discretionary	2.8%
Industrials	2.5%
Information Technology	2.4%
Government and Government Guaranteed Money Market Investments	1.6%
Consumer Staples	0.9%
Mortgage Backed Securities	0.3%
Other Assets less Liabilities	0.4%
	100.0%

Top 25 Holdings

As at December 31, 2008

	Net Asset Value (%)
Government of Canada, 4.000%, September 1, 2020	7.2%
EnCana Corporation	4.2%
Nexen Inc.	3.2%
Barrick Gold Corporation	2.9%
Suncor Energy Inc.	2.7%
Toronto-Dominion Bank, The,	2.5%
Government of Canada, 4.000%, June 1, 2017	2.2%
Kreditanstalt Fuer Wiederauf, 4.950%, October 14, 2014	2.2%
Province of Quebec, 5.500%, December 1, 2014	2.1%
BCE Inc.	2.1%
Manulife Financial Corporation	2.1%
Export Development Canada, 5.800%, March 12, 2012	2.0%
Government of Canada, 6.000%, June 1, 2011	2.0%
Bank of Nova Scotia	2.0%
Sun Life Financial Inc.	2.0%
Thompson Reuters Corp.	1.8%
Canadian Wheat Board Discount Note	1.7%
Bank of Nova Scotia, 4.990% March 27, 2018	1.7%
Canadian Imperial Bank of Commerce	1.7%
Power Financial Corporation	1.7%
Canadian Imperial Bank of Commerce, 4.550%, March 28, 2016	1.6%
Potash Corporation of Saskatchewan	1.5%
Canadian Natural Resources Ltd.	1.5%
Province of British Columbia Discount Note	1.4%
Government of Canada, 5.000%, June 1, 2015	1.4%
Total Net Asset Value	\$47,327,599

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available.

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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