

# Annual Management Report of Fund Performance

BMO NESBITT BURNS INTERNATIONAL EQUITY FUND

DECEMBER 31, 2009

Portfolio Manager: Pyrford International Limited, London, United Kingdom

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the Fund. If the annual financial statements of the Fund do not accompany the mailing of this report, 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](http://www.bmonesbittburns.com) 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

### Investment Objectives and Strategies

The principal investment objective of BMO Nesbitt Burns International Equity Fund is to achieve long-term capital growth consistent with the preservation of capital by investing primarily in equity securities of mid to large capitalization companies located outside of Canada and the United States that have long-term growth potential or that pay or are expected to pay above-average dividends.

The Fund seeks to achieve its investment objective by focusing on investments in countries that have attractive economic prospects in international markets. Country allocation decisions are made by formulating earnings projections and valuation estimates for each market.

Factors considered in this process include, but are not limited to, trends in corporate return on equity, government and central bank policy, employment growth and productivity, inflation and interest rates and debt levels. Each country is ranked according to attractiveness and an appropriate country allocation is determined.

Individual securities are then selected based on their return potential and current valuation relative to the market. Factors considered in this process include, but are not limited to, the dividend yield, long-term earnings per share growth and

management of the company. The stock selection universe is generally focused on companies that are considered to be medium to large capitalization companies in their respective countries.

### Risk

No changes affecting the overall level of risk associated with investing in the Fund were made in the period from inception to December 31, 2009. The risks associated with investing in this Fund remain as discussed in the Simplified Prospectus.

### Results of Operations

The Fund's Class A units returned 5.8%, net of expenses, whereas the Morgan Stanley Capital International Index (MSCI EAFE) returned 14.3% for the year ended December 31, 2009.

Country allocation was the primary positive contributor over the period. The most significant elements within this were overweight positions (relative to the MSCI EAFE) in the Pacific Basin (excluding Japan) – 13.6%. The underweight position in Japan – 10.4% was also a positive contributor to the Fund.

**MANAGEMENT DISCUSSION OF FUND PERFORMANCE** (cont.)

Stock selection was a negative contributor to the Fund performance. The most significant areas of negative relative stock selection were Thailand 35.8%, Australia 24.9%, Malaysia 18.5% and United Kingdom (UK) 15.7%. Japan delivered a positive relative performance 2.5% as did Norway 26.4%.

Currency allocation was positive; the key positive contribution came from the underweight exposure to the yen 10.4% and the overweight exposure to the Australian dollar 8.2%. The underweight allocation to sterling 12.6% was a negative.

The Fund remained significantly underweight Japan 10.4% and UK 12.6% throughout the period under review. The significant overweight positions were in the Asia-excluding Japan region, namely in Hong Kong 5.7%, Malaysia 3.8%, Thailand 2.5%, Singapore 4.5% and Taiwan 2.6% which continue to enjoy superior economic fundamentals and growth prospects.

Equity markets experienced significant volatility over the period experiencing very sharp falls at the beginning of the year before troughing (the stage of the economy's business cycle that marks the end of a period of declining business activity and the transition to expansion) in March and recovering very strongly thereafter. The Fund is currently very defensively positioned with very underweight positions in European and UK banks and very low exposure to deep cyclicals (stocks that rely heavily on the business cycle and economic conditions).

The Fund suffered from an overweight position in defensive stocks such as telecommunications, utilities, consumer staples and pharmaceuticals. The very underweight positions in far more economically cyclical sectors such as materials, capital goods and automobiles/components also contributed to negative relative performance from stock selection.

*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 expects the current global economic recovery to be fragile, remaining highly reliant on monetary stimulus programs led by central banks.

The process of private sector deleveraging (increasing their savings rate) in several economies (United States (US), UK, Spain, Australia and Ireland) has begun in earnest and is set to continue for a prolonged period in order to correct the extremely high levels of mortgage and consumer debt built up over many years by the household sector. This process will exact strong downward pressure on personal consumption which remains the most significant component of GDP.

This effect will be exacerbated by rising unemployment as corporations continue to reduce headcount on an unprecedented scale in order to cut costs and defend margins and profitability. However, in the long term the key driver of corporate operating margins is revenue growth and the economies of scale that it brings. Cost cutting alone may work in the short term but it will not generate a long term recovery in corporate earnings, not least because the reduced wage costs of the corporate sector largely translate to reduced revenues for the same corporate sector at the whole economy level.

Central bank monetary policy has been extremely accommodative and in US and UK in particular has encompassed significant quantitative easing which has been a major stimulus to the economy. The major challenge to these central banks is now how to wean the economies off the printing of money without risking the recovery.

The other major source of stimulus over the last year has been the ballooning of fiscal deficits as the banking system's bad debts have effectively been nationalised. Some deficits such as those of UK and US have reached unprecedented peacetime levels. Bond markets have focussed on this issue and have been ready to punish governments like Greece and UK who have failed to take the necessary corrective action.

Sharp rises in international equity markets over the last 9 months have eroded the attractive valuation levels prevalent in March. The Portfolio Manager continues to employ a defensive strategy. Key geographical overweights are to Asia excluding Japan with corresponding underweight positions in Japan and UK. The focus of stock selection remains value and quality with particular emphasis on high dividend yields, strong balance sheets and robustly sustainable return on equity.

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

On April 29, 2009, Charles W. White was appointed a Judge of the Court of Appeal of the Supreme Court of Newfoundland and Labrador and, as a result was required to resign from his position as Chair of the Fund's Independent Review Committee (IRC). On May 28, 2009, the Fund's IRC appointed Louise Vaillancourt-Châtillon to act as Chair.

The current members of the Fund's IRC are Allen B. Clarke, Kenneth W. McArthur, John K. McBride, R. Jamie Plant 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**

Canadian publicly accountable enterprises, which include mutual 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, for financial years beginning on or after January 1, 2011. Effective January 1, 2011, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will issue its financial results for the annual period ending December 31, 2011 prepared in accordance with IFRS, which will include comparative data on an IFRS basis, and an opening statement of net assets as at January 1, 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: IFRS diagnostic assessment; implementation and education; and completion of all integration changes.

The Manager has not currently identified any changes that will impact net asset value per unit as a result of the changeover to IFRS. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

### **Adoption of New Accounting Policies**

#### *Emerging Issues Committee – 173 (“EIC-173”)*

For the year ended December 31, 2009, the Fund adopted EIC-173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”. EIC-173 clarifies that credit risk and counter party risk should be considered in determining the fair value of financial instruments. The adoption of this new standard did not have a significant impact on the Fund’s financial statements.

#### *Financial Instruments Disclosure and Presentation*

On January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants Handbook (“CICA”) Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation”. These standards replaced Section 3861, “Financial Instruments – Disclosure and Presentation” and increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The adoption of the standards did not impact the daily price of the Fund’s securities for subscription and redemption purposes, nor for the calculation of net assets.

The Accounting Standards Board of the CICA recently issued an amendment to CICA Handbook Section 3862, “Financial Instruments – Disclosures”. The Fund adopted this amendment for the fiscal 2009 financial statements in line

with the requirement of the standard. The amendments to the existing standard require classification of the Fund’s financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are based on quoted prices in active markets for identical securities. Level 2 securities are based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets. Level 3 securities are based on significant unobservable inputs that reflect the Fund’s determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investment. For example, Canadian government bonds are generally high-quality and liquid; however, they may be reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

### **Related Party Transactions**

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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 Bank of Montreal Group of Companies, or certain other persons or companies that are related or connected to (a Related Party).

### **Portfolio Manager**

BMO Nesbitt Burns Inc., as Manager of the Fund, has hired Pyrford International Limited (Pyrford), a Related Party, to provide investment advice and make investment decisions for the Fund’s investment portfolio. Pyrford receives an investment advisory fee based on assets under management that is paid monthly. Pyrford is paid by BMO Nesbitt Burns Inc. and not by the Fund.

### **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 affiliates of the Manager. Unitholder services, such as fund accounting, record keeping and purchase/redemption order processing, are provided by Bank of Montreal Ireland p.l.c. and JHIC, in its capacity as the Fund's Registrar. These expenses are paid by the Manager and charged to the Fund. The fees charged to the Fund during the period were as follows:

	December 31, 2009	December 31, 2008
<b>Unitholder Servicing Fees</b>	\$3,400	\$280

## 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 %
<b>Class A Units</b>	2.25	57.14	42.86
<b>Class F Units</b>	1.25	-	100.00

\* 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 Unit<sup>1</sup>

CLASS A	2009 (\$)	2008 <sup>2</sup> (\$)	2007 (\$)	2006 (\$)	2005 (\$)
Net Assets, beginning of year	10.11	10.00	-	-	-
<b>Increase (decrease) from operations:</b>					
Total revenue	0.26	0.05	-	-	-
Total expenses <sup>3</sup>	(0.23)	(0.07)	-	-	-
Realized gains (losses) for the period	(0.08)	(0.09)	-	-	-
Unrealized gains (losses) for the period	0.77	0.23	-	-	-
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>0.72</b>	<b>0.12</b>	-	-	-
<b>Distributions:</b>					
From income (excluding dividends)	0.12	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions<sup>3</sup></b>	<b>0.12</b>	-	-	-	-
<b>Net Assets, end of period</b>	<b>\$10.60</b>	<b>\$10.11</b>	-	-	-

<b>CLASS F</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Net Assets, beginning of year	10.11	10.00	-	-	-
<b>Increase (decrease) from operations:</b>					
Total revenue	0.22	0.04	-	-	-
Total expenses	(0.14)	(0.04)	-	-	-
Realized gains (losses) for the period	0.03	(0.09)	-	-	-
Unrealized gains (losses) for the period	1.80	0.22	-	-	-
<b>Total increase (decrease) from operations<sup>2</sup></b>	<b>1.91</b>	<b>0.13</b>	-	-	-
<b>Distributions:</b>					
From income (excluding dividends)	0.15	0.02	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
<b>Total annual distributions<sup>3</sup></b>	<b>0.15</b>	<b>0.02</b>	-	-	-
<b>Net Assets, end of period</b>	<b>\$10.75</b>	<b>\$10.11</b>	-	-	-

<sup>1)</sup> This information is derived from the Fund's audited 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.

<sup>2)</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.

<sup>3)</sup> Distributions were paid in cash or reinvested in additional units of the Fund, or both, where applicable.

## Ratios and Supplemental Data

### CLASS A

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total net assets (000's) <sup>1</sup>	\$1,535	\$1,023	-	-	-
Number of units outstanding <sup>1</sup>	144,594	100,971	-	-	-
Management expense ratio <sup>2</sup>	2.36%	2.14%	-	-	-
Management expense ratio before waivers or management absorptions <sup>2</sup>	2.36%	2.14%	-	-	-
Portfolio turnover rate <sup>3</sup>	26.10%	4.18%	-	-	-
Trading expense ratio <sup>4</sup>	0.45%	-	-	-	-
<b>Net asset value per unit<sup>5</sup></b>	<b>\$10.62</b>	<b>\$10.13</b>	-	-	-

### CLASS F

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total net assets (000's) <sup>1</sup>	\$5,562	\$10	-	-	-
Number of units outstanding <sup>1</sup>	516,595	1,002	-	-	-
Management expense ratio <sup>2</sup>	1.30%	0.88%	-	-	-
Management expense ratio before waivers or management absorptions <sup>2</sup>	1.30%	0.88%	-	-	-
Portfolio turnover rate <sup>3</sup>	26.10%	4.18%	-	-	-
Trading expense ratio <sup>4</sup>	0.43%	-	-	-	-
<b>Net asset value per unit<sup>5</sup></b>	<b>\$10.77</b>	<b>\$10.13</b>	-	-	-

<sup>1)</sup> This information is provided as at December 31 of the period shown.

<sup>2)</sup> 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.

<sup>3)</sup> 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.

<sup>4)</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>5)</sup> This information is derived from the Fund's audited 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.

## 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.

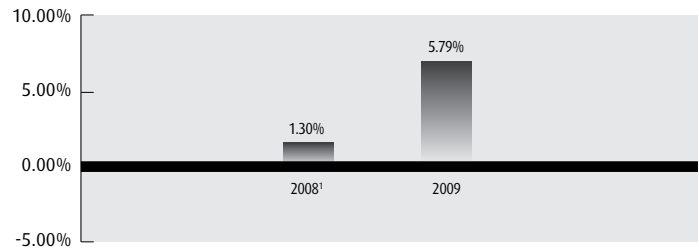
The performance information does not take into account sales, redemption, distribution or other optional charges that, if applicable, would have reduced returns or performance. Please remember, how the Fund has performed in the past does not indicate how it will perform in the future.

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.

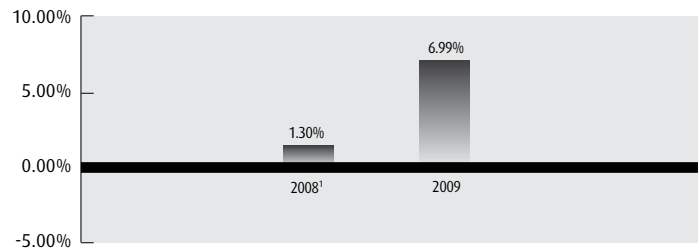
### Year-by-Year Returns

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



<sup>1</sup> For the period beginning October 31, 2008 to December 31, 2008.

<sup>2</sup> For the period beginning October 31, 2008 to December 31, 2008.

### Annual Compound Returns

The MSCI-EAFE is a free float-adjusted market capitalization index that is designed to measure developed market equity performance. The index includes 21 country indices, excluding the U.S. and Canada.

	<b>BMO Nesbitt Burns International Equity Fund<sup>1</sup></b>	<b>MSCI EAFE (Total Return)</b>
<b>Class A</b>		
Since Inception <sup>2</sup>	6.11%	4.79%
One year	5.79%	14.30%
<b>Class F</b>		
Since Inception <sup>2</sup>	7.30%	4.79%
One Year	6.99%	14.30%

<sup>1</sup> The Fund's return is after the deduction of expenses, while the benchmark does not include any cost of investing.

<sup>2</sup> The inception date for Class A and Class F is October 31, 2008.

A commentary on the market and/or information regarding the relative performance of the Fund 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, 2009

Portfolio Allocation	% of Net Asset Value
United Kingdom	13.4
Australia	9.6
Japan	9.0
Cash/Receivables/Payables	8.8
The Netherlands	7.2
Switzerland	7.2
Hong Kong	7.1
Germany	6.4
France	6.2
Singapore	4.6
Taiwan	3.5
Malaysia	3.5
Spain	3.2
Thailand	2.6
Belgium	2.3
Austria	1.3
Italy	1.2
Norway	0.9
Sweden	0.9
Ireland	0.6
Greece	0.5

Top 25 Holdings	% of Net Asset Value
Cash/Receivables/Payables	8.8
Total SA	3.4
Royal Dutch Shell plc	2.3
Telefonica SA	2.3
Hong Kong Electric Holdings Limited	2.0
SAP AG	2.0
Vodafone Group plc	1.9
Reed Elsevier NV	1.8
Nestle SA	1.8
QBE Insurance Group Limited	1.8
BP PLC	1.7
Roche Holding AG	1.7
Woolworths Limited	1.7
Koninklijke KPN NV	1.6
Deutsche Post AG	1.6
Brambles Limited	1.5
Hang Seng Bank Limited	1.5
RWE AG	1.5
Chunghwa Telecom Company Limited	1.5
Novartis SA	1.5
Air Liquide SA	1.4
TNT NV	1.4
Sanofi-Aventis	1.4
Sumitomo Rubber Industries	1.4
Telstra Corp Limited	1.3
Top holdings as a percentage of total net asset value	50.8
<b>Total Net Asset Value</b>	<b>\$7.1 million</b>

\* The prospectus and other information about the underlying investment funds held in this portfolio are available on the internet at [www.sedar.com](http://www.sedar.com).

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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