

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 Bond Fund is to achieve superior investment returns

consistent with the preservation of capital and liquidity by investing in a portfolio of relatively low-risk, liquid securities consisting primarily of Canadian federal, provincial and municipal government and corporate bonds, as well as asset and mortgage-backed securities issued by Canadian entities.

The Fund seeks to achieve its investment objective by investing in a diversified portfolio of fixed-income securities including Canadian federal, provincial and municipal 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.

All investments by the Fund will be in fixed-income securities with a minimum credit rating of "A-" by Dominion Bond Rating Service, "A3" by Moody's or "A Low" by Standard and Poor's. The average term to maturity of investments held by the Fund is managed based on economic and market indicators. Currently, the targeted average term to maturity of investments held by the Fund 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 Bond Fund's net asset value declined by 7.4% to \$54.8 million from \$59.2 million at December 31, 2007.

The Fund's Class A units returned 3.0%, net of expenses, whereas the DEX Universe Bond Index (DEX) returned 6.4% for the one year period ending December 31, 2008.

On balance during 2008, the Fund maintained an interest rate sensitivity that was lower than that of the DEX. The United States (U.S.) housing market continued its poor performance with prices continuing to drop and inventories of homes remaining high. Troubles in the financial sector deepened in large part due to their exposure to the deteriorating U.S. housing market. Financial institutions came under severe

MANAGEMENT DISCUSSION OF FUND PERFORMANCE (cont.)

pressure during the second half of 2008 prompting action by authorities. Many efforts were undertaken to “shore up” the capital base of U.S. financial institutions, the most news worthy appeared to be the Troubled Asset Relief Program (TARP), initially designed to deal with “toxic” assets that remained on financial sector balance sheets. The U.S. Federal Reserve Board lowered the Federal Funds rate to effectively zero and began guaranteeing transactions in the overnight bank lending market. Uncertainty over the future direction of the economy, a fear that deflation was becoming a concern, Central Bank interest rate cuts and the desire to protect oneself in less risky assets caused both U.S. and Canadian government bond yields to head significantly lower. The Fund’s decreased sensitivity to interest rates relative to the benchmark was a negative for performance in this environment.

While trading activity was light in the corporate sector of the Fund, the Fund continued to maintain an overweight in its corporate bond holdings. The overweight, relative to the DEX in corporate bonds added yield to the portfolio and the Fund’s yield was greater than that of the DEX throughout the latter half of 2008. This increase in yield added to performance. However, the market’s desire to “de-risk” itself not only resulted in equity prices being put under pressure, it also resulted in corporate bond spreads widening (the yield a corporate bond issuer has to offer over the yield of a Government of Canada bond). The negative effect on corporate bond prices from the widening of the yield spread (bond prices fall as yield prices rise) had a greater impact than the increased yields gained from owning corporate bond and therefore, the overweight in the corporate bonds detracted from the Fund’s performance.

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 for the economy and over the state of both the equity and corporate bond markets, a cautious approach to investing is warranted. However, the Portfolio Manager continues to feel that at these spread levels (the yield a corporate bond issuer has to offer over the yield of a Government of Canada bond) 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 issues offered at a concession (above their current yield spread) come to the market

Interest rate anticipation will present more challenges. Central Banks will continue to keep short-term interest rates low. Low short-term rates coupled with concerns over the economy and expectations that inflation is not a problem in the near term will help to fix longer-term interest rates. However, the absolute level of interest rates is historically low and any increase in the appetite for risk (selling government bonds and purchasing equities for instance) would place upward pressure on longer-term interest rates. For the time being, the Portfolio Manager is willing to respect the momentum in the interest rate market and not further reduce the Fund’s interest rate sensitivity. However, if the Portfolio Manager observes indicators like the VIX (a measure of the volatility in equity markets) begin to decline, it will then examine the possibility of reducing the Fund’s duration (its sensitivity to changes in interest rates) further.

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 Non-Government Debt Securities underwritten by BMO Nesbitt Burns Inc.

During the period, the Manager relied on the approval and standing instruction provided by the Fund's Independent Review Committee (IRC) to enable the Fund to invest 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. In accordance with the IRC's standing instruction, in making such an investment, the Manager and Portfolio Manager are required to comply with the Manager's policy and procedures pertaining to investments in securities underwritten by a related entity 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 instruction and their compliance or non-compliance with the policy and procedures. The policy and procedures are designed to ensure, among other things, that the decision to make an investment in non-government debt securities underwritten by NBI (i) is made free from any influence of NBI or its associates or affiliates and without taking into account any considerations relevant to NBI or its 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 Jones Heward Investment Counsel Inc. (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	\$82,170	\$114,290

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 0.75% for Class A units, 0.25% for Class F units, but has set the annual management fee at 0.65% for Class A units and 0.25% for Class F units.

The management fees charged to the Fund during the year ended December 31, 2008 amounted to \$371,966 (2007 - \$464,044). Approximately 77% 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	10.50	10.66 ¹	10.78	10.91	10.71
Increase (decrease) from operations:					
Total revenue	0.51	0.53	0.53	0.53	0.53
Total expenses ²	(0.09)	(0.10)	(0.10)	(0.11)	(0.11)
Realized gains (losses) for the period	0.01	(0.15)	(0.03)	0.38	0.05
Unrealized gains (losses) for the period	(0.11)	(0.05)	(0.10)	(0.21)	0.14
Total increase (decrease) from operations³	0.31	0.23	0.30	0.59	0.61
Distributions:					
From income (excluding dividends)	0.42	0.44	0.43	0.42	0.41
From dividends	-	-	-	-	-
From capital gains	-	-	-	0.31	-
Return of capital	-	-	-	-	-
Total Annual Distributions⁴	0.42	0.44	0.43	0.73	0.41
Net assets at December 31	\$10.39	\$10.50	\$10.66	\$10.78	\$10.91

F CLASS UNITS	October 31, to December 31, 2008 (\$)	2007 (\$)	2006 (\$)	2005 (\$)	2004 (\$)
Net Assets, beginning of period	10.03	-	-	-	-
Increase (decrease) from operations:					
Total revenue	0.09	-	-	-	-
Total expenses ²	0.01	-	-	-	-
Realized gains (losses) for the period	-	-	-	-	-
Unrealized gains (losses) for the period	0.28	-	-	-	-
Total increase (decrease) from operations³	0.35	-	-	-	-
Distributions:					
From income (excluding dividends)	0.06	-	-	-	-
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Annual Distributions⁴	0.06	-	-	-	-
Net assets at December 31	\$10.32	-	-	-	-

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	\$54,775	\$59,181	\$76,013	\$82,567	\$78,865
Number of units outstanding ¹	5,272,360	5,636,744	7,129,117	7,658,350	7,225,527
Management Expense Ratio ²	0.90%	0.95%	0.96%	0.96%	1.05%
Management expense ratio before waiver or management absorptions ²	0.90%	0.95%	0.96%	0.96%	1.05%
Portfolio turnover rate ³	87.53%	68.71%	85.82%	89.93%	89.00%
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁵	\$10.39	\$10.50	\$10.66	\$10.78	\$10.91

F CLASS UNITS

	2008	2007	2006	2005	2004
Total net asset value (000's) ¹	\$10	-	-	-	-
Number of units outstanding ¹	1,003	-	-	-	-
Management Expense Ratio ²	0.50%	-	-	-	-
Management expense ratio before waiver or management absorptions ²	0.50%	-	-	-	-
Portfolio turnover rate ³	87.53%	-	-	-	-
Trading expense ratio ⁴	-	-	-	-	-
Net asset value per unit⁵	\$10.32	-	-	-	-

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

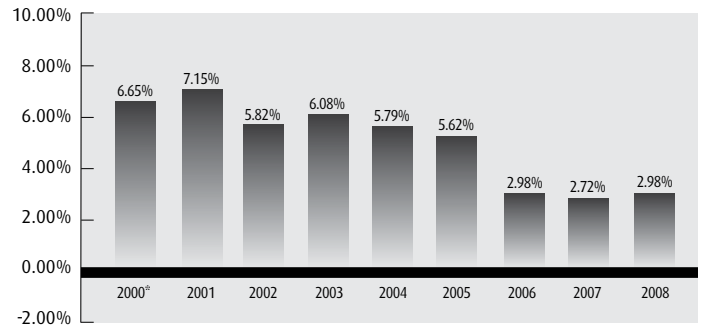
The Fund's performance assumes all distributions made by the Fund in the periods shown were used to purchase additional units of the Fund. If you hold the Fund outside a registered plan, you will be taxed on these distributions. Distributions of income the Fund earns and capital gains it realizes are 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, redemption, distribution 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

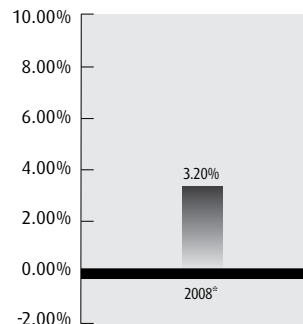
The bar charts that follow show the performance of each class of the Fund for, in the case of A Class units, each financial year since inception. For F Class units, the information is shown for the period beginning October 31, 2008 (the inception date of Class F) to December 31, 2008. The charts show, 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 2000 reflects the return from February 17 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 DEX Universe Bond Index, which is a broad measure of the total return of Canadian bonds that mature in more than one year. It was formerly known as the Scotia Capital Universe Bond Index prior to October 2007.

	BMO Nesbitt Burns Bond Fund*	DEX Universal Bond Index
Since Inception [†]	5.14%	6.69%
One year	2.98%	6.41%
Three years	2.89%	4.71%
Five years	4.01%	5.54%

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

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

† The inception date for the Fund is February 17, 2000.

SUMMARY OF INVESTMENT PORTFOLIO

Portfolio Allocation	Net Asset Value (%)
As at December 31, 2008	
Corporate Bonds	35.8%
Provincial Government Bonds	31.3%
Government and Government Guaranteed Bonds	29.7%
Mortgage Backed Securities	1.7%
Other Assets less Liabilities	1.0%
Government and Government Guaranteed Money Markets	0.5%
	100.0%

Top 25 Holdings	Net Asset Value (%)
As at December 31, 2008	
Canada Housing Trust, 4.050%, March 15, 2011	8.7%
Province of Quebec, 5.500%, December 1, 2014	7.7%
Province of Ontario, 5.600%, June 2, 2035	5.5%
Canada Housing Trust, 3.750%, March 15, 2010	5.5%
Government of Canada, 8.000%, June 1, 2023	4.3%
Hydro Quebec, 6.500%, February 15, 2035	4.3%
Canadian Imperial Bank of Commerce, 4.550%, March 28, 2016	4.2%
Alberta Capital Finance Authority, 4.350%, June 15, 2016	3.8%
Kreditanstalt Fuer Wiederauf, 4.950%, October 14, 2014	3.7%
Bank of Nova Scotia, 4.990%, March 27, 2018	3.4%
Canada Housing Trust, 4.650%, September 15, 2009	2.8%
TD Bank 5.763%, December 18, 2106	2.6%
Great West Lifeco, 6.670%, March 21, 2033	2.5%
British Columbia Municipal Finance Authority 5.100% November 20, 2018	2.1%
Province of Saskatchewan, 5.500%, June 17, 2019	2.0%
Province of Newfoundland, 5.600%, October 17, 2033	2.0%
Export Development Canada, 5.800%, March 12, 2012	2.0%
Government of Canada, 4.500%, June 1, 2015	2.0%
Province of Manitoba, 5.250%, December 3, 2012	1.9%
Government of Canada, 4.000%, Sep 1, 2010	1.9%
Royal Bank of Canada, 4.710%, December 22, 2014	1.9%
Glacier Credit Card, 4.274%, November 20, 2009	1.8%
407 International Inc., 5.960%, December 3, 2035	1.4%
Schooner Trust, Series 2005-3, Class A1, 4.257%, April 12, 2020	1.3%
John Deer Ltd 5.250%, October 18, 2010	1.3%
Total Net Asset Value	\$54,784,766

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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