

# BMO Mutual Funds 2019

Annual Financial Statements

September 30, 2019

## BMO U.S. Equity Fund

# Independent Auditor's Report

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To the Unitholders and Trustee of  
BMO Canadian Equity Fund  
BMO Canadian Small Cap Equity Fund  
BMO Resource Fund  
BMO Mortgage and Short-Term Income Fund  
BMO Money Market Fund  
BMO Bond Fund  
BMO Canadian Equity ETF Fund  
BMO Asset Allocation Fund  
BMO Dividend Fund  
BMO Precious Metals Fund  
BMO Monthly Income Fund  
BMO Diversified Income Portfolio  
BMO Global Infrastructure Fund  
BMO Emerging Markets Bond Fund  
BMO Core Plus Bond Fund  
BMO Core Bond Fund  
BMO Target Education Income Portfolio  
BMO Target Education 2020 Portfolio  
BMO Target Education 2025 Portfolio  
BMO Target Education 2030 Portfolio  
BMO Target Education 2035 Portfolio  
BMO Tactical Global Bond ETF Fund  
BMO Tactical Global Equity ETF Fund  
BMO Global Balanced Fund  
BMO U.S. Dividend Fund  
BMO Retirement Income Portfolio  
BMO Retirement Conservative Portfolio  
BMO Retirement Balanced Portfolio  
BMO SIA Focused Canadian Equity Fund  
BMO SIA Focused North American Equity Fund  
BMO Ascent™ Income Portfolio  
BMO Ascent™ Conservative Portfolio  
BMO Ascent™ Balanced Portfolio  
BMO Ascent™ Growth Portfolio  
BMO Ascent™ Equity Growth Portfolio  
BMO LifeStage Plus 2020 Fund  
BMO LifeStage Plus 2025 Fund  
BMO LifeStage Plus 2030 Fund  
BMO LifeStage Plus 2022 Fund  
BMO LifeStage Plus 2026 Fund  
BMO SelectTrust® Fixed Income Portfolio  
BMO FundSelect® Income Portfolio  
BMO FundSelect® Balanced Portfolio  
BMO FundSelect® Growth Portfolio  
BMO FundSelect® Equity Growth Portfolio  
BMO Fixed Income ETF Portfolio  
BMO Income ETF Portfolio  
BMO Conservative ETF Portfolio  
BMO Balanced ETF Portfolio  
BMO Growth ETF Portfolio  
BMO Equity Growth ETF Portfolio  
BMO World Bond Fund  
BMO Emerging Markets Fund

BMO European Fund  
BMO North American Dividend Fund  
BMO U.S. Equity ETF Fund  
BMO U.S. Equity Fund  
BMO Global Dividend Fund  
BMO International Equity ETF Fund  
BMO Global Monthly Income Fund  
BMO Preferred Share Fund  
BMO Tactical Dividend ETF Fund  
BMO Global Strategic Bond Fund  
BMO U.S. High Yield Bond Fund  
BMO Tactical Balanced ETF Fund  
BMO Growth Opportunities Fund  
BMO Global Equity Fund  
BMO U.S. Equity Plus Fund  
BMO U.S. Dollar Money Market Fund  
BMO U.S. Dollar Equity Index Fund  
BMO U.S. Dollar Monthly Income Fund  
BMO U.S. Dollar Dividend Fund  
BMO U.S. Dollar Balanced Fund  
BMO Risk Reduction Equity Fund  
BMO Risk Reduction Fixed Income Fund  
BMO Covered Call Canadian Banks ETF Fund  
BMO Covered Call Europe High Dividend ETF Fund  
BMO Sustainable Opportunities Global Equity Fund (formerly BMO Fossil Fuel Free Fund)  
BMO Tactical Global Asset Allocation ETF Fund  
BMO Tactical Global Growth ETF Fund  
BMO Covered Call U.S. High Dividend ETF Fund  
BMO Women in Leadership Fund  
BMO International Equity Fund  
BMO Japan Fund  
BMO Covered Call Canada High Dividend ETF Fund  
BMO Concentrated Global Equity Fund  
BMO Crossover Bond Fund  
BMO Global Multi-Sector Bond Fund  
BMO U.S. Small Cap Fund  
BMO Multi-Factor Equity Fund  
BMO Concentrated U.S. Equity Fund  
BMO Low Volatility Canadian Equity ETF Fund

To the Shareholders of BMO Corporate Class Inc., formerly BMO Global Tax Advantage Funds Inc.  
BMO Global Dividend Class  
BMO Canadian Equity Class  
BMO Global Equity Class  
BMO Global Energy Class  
BMO Dividend Class  
BMO Greater China Class  
BMO International Value Class  
BMO Global Low Volatility ETF Class  
BMO SelectClass® Income Portfolio  
BMO SelectClass® Balanced Portfolio  
BMO SelectClass® Growth Portfolio  
BMO SelectClass® Equity Growth Portfolio  
BMO Income ETF Portfolio Class  
BMO Balanced ETF Portfolio Class  
BMO Growth ETF Portfolio Class  
BMO Equity Growth ETF Portfolio Class  
BMO U.S. Equity Class  
BMO Asian Growth and Income Class  
*(collectively the Funds, individually the Fund)*

# Independent Auditor's Report

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## Our opinion

In our opinion, the accompanying September 30, 2019 annual financial statements of each of the Funds present fairly, in all material respects, the financial position of each Fund, its financial performance and its cash flows as at and for the periods indicated in note 1 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS).

## What we have audited

The financial statements of each of the Funds comprise:

- the statements of financial position as at the period-end dates indicated in note 1;
- the statements of comprehensive income for the periods indicated in note 1;
- the statements of changes in net assets attributable to holders of redeemable units/shares for the periods indicated in note 1;
- the statements of cash flows for the periods indicated in note 1; and
- the notes to the financial statements, which include a summary of significant accounting policies.

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We are independent of each of the Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

## Other information

Management is responsible for the other information of each of the Funds. The other information comprises the Annual Management Report of Fund Performance of each of the Funds.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of each of the Funds, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements of each of the Funds or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of each of the Funds in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of each of the Funds to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate any of the Funds or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of each of the Funds.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole for each Fund are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements of each of the Funds.

# Independent Auditor's Report

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As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of each of the Funds, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of each of the Funds.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of each of the Funds to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of each of the Funds or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause any of the Funds to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of each of the Funds, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph Pinizzotto.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Ontario  
December 18, 2019

# BMO U.S. Equity Fund

## STATEMENT OF FINANCIAL POSITION

(All amounts in thousands of Canadian dollars, except per unit data)

As at	September 30 2019	September 30 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	12,448	25,401
Investments		
Non-derivative financial assets	1,481,783	2,245,742
Derivative assets	—	54
Receivable for investments sold	39,797	—
Subscriptions receivable	234	433
Dividends receivable	833	1,117
<b>Total assets</b>	<b>1,535,095</b>	<b>2,272,747</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Payable for investments purchased	40,194	—
Redemptions payable	7,176	6,038
Derivative liabilities	3	—
Accrued expenses	153	116
<b>Total liabilities</b>	<b>47,526</b>	<b>6,154</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>1,487,569</b>	<b>2,266,593</b>
<b>Net assets attributable to holders of redeemable units</b>		
Series A Units	702,828	803,055
Series A Hedged Units	7,972	12,893
Advisor Series Units	21,454	21,338
Advisor Series Hedged Units	602	672
Series F Units	36,208	44,326
Series F Hedged Units	767	1,194
Series D Units	8,504	9,560
Series I Units	676,447	1,332,376
Series N Units	32,787	41,179
<b>Net assets attributable to holders of redeemable units per unit</b>		
Series A Units	\$ 24.28	\$ 27.64
Series A Hedged Units	\$ 11.49	\$ 12.75
Advisor Series Units	\$ 16.42	\$ 18.23
Advisor Series Hedged Units	\$ 11.53	\$ 12.83
Series F Units	\$ 25.24	\$ 27.89
Series F Hedged Units	\$ 12.56	\$ 13.54
Series D Units	\$ 13.99	\$ 15.49
Series I Units	\$ 20.32	\$ 22.62
Series N Units	\$ 10.96	\$ 12.23

## STATEMENT OF COMPREHENSIVE INCOME

(All amounts in thousands of Canadian dollars, except per unit data)

For the periods ended	September 30 2019	September 30 2018
<b>INCOME</b>		
Interest income	15	1
Dividend income	22,244	48,726
Other changes in fair value of investments and derivatives		
Net realized gain	169,122	391,201
Change in unrealized (depreciation) appreciation	(195,664)	24,822
Net (loss) gain in fair value of investments and derivatives	(4,283)	464,750
Securities lending revenue (note 8)	222	37
Short-term penalty fees	1	—
Foreign exchange gain	1,200	1,446
Total other income	1,423	1,483
<b>Total (loss) income</b>	<b>(2,860)</b>	<b>466,233</b>
<b>EXPENSES</b>		
Management fees (note 6)	17,286	18,886
Fixed administration fees (note 6)	2,357	2,568
Independent review committee fees (note 6)	3	2
Withholding taxes	5,591	7,252
Interest expense	1	—
Fund facts fees	1	1
Commissions and other portfolio transaction costs (note 6)	1,035	1,470
Operating expenses absorbed by the Manager (note 6)	(1)	(4)
<b>Total expenses</b>	<b>26,273</b>	<b>30,175</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(29,133)</b>	<b>436,058</b>
<b>(Decrease) increase in net assets attributable to holders of redeemable units</b>		
Series A Units	(16,141)	120,470
Series A Hedged Units	(777)	1,003
Advisor Series Units	(293)	2,587
Advisor Series Hedged Units	(38)	58
Series F Units	(433)	6,293
Series F Hedged Units	(78)	90
Series D Units	(65)	1,131
Series I Units	(11,008)	297,387
Series N Units	(300)	7,039
<b>(Decrease) increase in net assets attributable to holders of redeemable units per unit (note 8)</b>		
Series A Units	(0.54)	3.92
Series A Hedged Units	(0.86)	1.13
Advisor Series Units	(0.23)	2.55
Advisor Series Hedged Units	(0.70)	1.25
Series F Units	(0.28)	4.21
Series F Hedged Units	(1.02)	1.13
Series D Units	(0.10)	2.08
Series I Units	(0.24)	3.82
Series N Units	(0.09)	2.05

The accompanying notes are an integral part of these financial statements.

# BMO U.S. Equity Fund

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

(All amounts in thousands of Canadian dollars)

For the periods ended	September 30 2019	September 30 2018
<b>Series A Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	803,055	764,405
(Decrease) increase in net assets attributable to holders of redeemable units	(16,141)	120,470
<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(74,552)	(46,986)
<b>Total distributions to holders of redeemable units</b>	(74,552)	(46,986)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	64,714	100,508
Reinvestments of distributions to holders of redeemable units	73,897	46,535
Redemption of redeemable units	(148,145)	(181,877)
<b>Net decrease from redeemable unit transactions</b>	(9,534)	(34,834)
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(100,227)	38,650
<b>Net assets attributable to holders of redeemable units at end of period</b>	702,828	803,055

### Series A Hedged Units

<b>Net assets attributable to holders of redeemable units at beginning of period</b>	12,893	6,035
(Decrease) increase in net assets attributable to holders of redeemable units	(777)	1,003
<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(471)	(328)
<b>Total distributions to holders of redeemable units</b>	(471)	(328)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	1,372	10,150
Reinvestments of distributions to holders of redeemable units	462	313
Redemption of redeemable units	(5,507)	(4,280)
<b>Net (decrease) increase from redeemable unit transactions</b>	(3,673)	6,183
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(4,921)	6,858
<b>Net assets attributable to holders of redeemable units at end of period</b>	7,972	12,893

For the periods ended	September 30 2019	September 30 2018
<b>Advisor Series Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	21,338	14,411
(Decrease) increase in net assets attributable to holders of redeemable units	(293)	2,587
<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(1,746)	(938)
<b>Total distributions to holders of redeemable units</b>	(1,746)	(938)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	8,845	9,231
Reinvestments of distributions to holders of redeemable units	1,687	902
Redemption of redeemable units	(8,377)	(4,855)
<b>Net increase from redeemable unit transactions</b>	2,155	5,278
<b>Net increase in net assets attributable to holders of redeemable units</b>	116	6,927
<b>Net assets attributable to holders of redeemable units at end of period</b>	21,454	21,338

### Advisor Series Hedged Units

<b>Net assets attributable to holders of redeemable units at beginning of period</b>	672	243
(Decrease) increase in net assets attributable to holders of redeemable units	(38)	58
<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(25)	(15)
<b>Total distributions to holders of redeemable units</b>	(25)	(15)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	80	456
Reinvestments of distributions to holders of redeemable units	14	7
Redemption of redeemable units	(101)	(77)
<b>Net (decrease) increase from redeemable unit transactions</b>	(7)	386
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(70)	429
<b>Net assets attributable to holders of redeemable units at end of period</b>	602	672

The accompanying notes are an integral part of these financial statements.

# BMO U.S. Equity Fund

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (cont'd) (All amounts in thousands of Canadian dollars)

For the periods ended	September 30 2019	September 30 2018	For the periods ended	September 30 2019	September 30 2018
<b>Series F Units</b>			<b>Series D Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	44,326	29,027	<b>Net assets attributable to holders of redeemable units at beginning of period</b>	9,560	4,850
(Decrease) increase in net assets attributable to holders of redeemable units	(433)	6,293	(Decrease) increase in net assets attributable to holders of redeemable units	(65)	1,131
<b>Distributions to holders of redeemable units from:</b>			<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(3,798)	(1,611)	Net realized gains on investments and derivatives	(812)	(267)
<b>Total distributions to holders of redeemable units</b>	<b>(3,798)</b>	<b>(1,611)</b>	<b>Total distributions to holders of redeemable units</b>	<b>(812)</b>	<b>(267)</b>
<b>Redeemable unit transactions</b>			<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	7,422	19,228	Proceeds from redeemable units issued	2,041	5,358
Reinvestments of distributions to holders of redeemable units	3,065	1,297	Reinvestments of distributions to holders of redeemable units	783	254
Redemption of redeemable units	(14,374)	(9,908)	Redemption of redeemable units	(3,003)	(1,766)
<b>Net (decrease) increase from redeemable unit transactions</b>	<b>(3,887)</b>	<b>10,617</b>	<b>Net (decrease) increase from redeemable unit transactions</b>	<b>(179)</b>	<b>3,846</b>
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(8,118)</b>	<b>15,299</b>	<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(1,056)</b>	<b>4,710</b>
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>36,208</b>	<b>44,326</b>	<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>8,504</b>	<b>9,560</b>
<b>Series F Hedged Units</b>			<b>Series I Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	1,194	585	<b>Net assets attributable to holders of redeemable units at beginning of period</b>	1,332,376	1,914,996
(Decrease) increase in net assets attributable to holders of redeemable units	(78)	90	(Decrease) increase in net assets attributable to holders of redeemable units	(11,008)	297,387
<b>Distributions to holders of redeemable units from:</b>			<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(36)	(17)	Net investment income	(17,355)	(40,285)
<b>Total distributions to holders of redeemable units</b>	<b>(36)</b>	<b>(17)</b>	Net realized gains on investments and derivatives	(92,894)	(181,351)
<b>Redeemable unit transactions</b>			<b>Total distributions to holders of redeemable units</b>		
Proceeds from redeemable units issued	191	975	<b>units</b>	<b>(110,287)</b>	<b>(221,780)</b>
Reinvestments of distributions to holders of redeemable units	36	17	<b>Redeemable unit transactions</b>		
Redemption of redeemable units	(540)	(456)	Proceeds from redeemable units issued	6,573	44,373
<b>Net (decrease) increase from redeemable unit transactions</b>	<b>(313)</b>	<b>536</b>	Reinvestments of distributions to holders of redeemable units	110,287	221,780
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	<b>(427)</b>	<b>609</b>	Redemption of redeemable units	(651,494)	(924,380)
<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>767</b>	<b>1,194</b>	<b>Net decrease from redeemable unit transactions</b>	<b>(534,634)</b>	<b>(658,227)</b>
			<b>Net decrease in net assets attributable to holders of redeemable units</b>	<b>(655,929)</b>	<b>(582,620)</b>
			<b>Net assets attributable to holders of redeemable units at end of period</b>	<b>676,447</b>	<b>1,332,376</b>

The accompanying notes are an integral part of these financial statements.

# BMO U.S. Equity Fund

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (cont'd) (All amounts in thousands of Canadian dollars)

For the periods ended	September 30 2019	September 30 2018
<b>Series N Units</b>		
<b>Net assets attributable to holders of redeemable units at beginning of period</b>	41,179	39,932
(Decrease) increase in net assets attributable to holders of redeemable units	(300)	7,039
<b>Distributions to holders of redeemable units from:</b>		
Net realized gains on investments and derivatives	(3,651)	(2,588)
<b>Total distributions to holders of redeemable units</b>	(3,651)	(2,588)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	2,960	5,818
Reinvestments of distributions to holders of redeemable units	3,628	2,571
Redemption of redeemable units	(11,029)	(11,593)
<b>Net decrease from redeemable unit transactions</b>	(4,441)	(3,204)
<b>Net (decrease) increase in net assets attributable to holders of redeemable units</b>	(8,392)	1,247
<b>Net assets attributable to holders of redeemable units at end of period</b>	32,787	41,179

### Total Fund

<b>Net assets attributable to holders of redeemable units at beginning of period</b>	2,266,593	2,774,484
(Decrease) increase in net assets attributable to holders of redeemable units	(29,133)	436,058
<b>Distributions to holders of redeemable units from:</b>		
Net investment income	(17,355)	(40,285)
Net realized gains on investments and derivatives	(177,985)	(234,101)
Return of capital	(38)	(144)
<b>Total distributions to holders of redeemable units</b>	(195,378)	(274,530)
<b>Redeemable unit transactions</b>		
Proceeds from redeemable units issued	94,198	196,097
Reinvestments of distributions to holders of redeemable units	193,859	273,676
Redemption of redeemable units	(842,570)	(1,139,192)
<b>Net decrease from redeemable unit transactions</b>	(554,513)	(669,419)
<b>Net decrease in net assets attributable to holders of redeemable units</b>	(779,024)	(507,891)
<b>Net assets attributable to holders of redeemable units at end of period</b>	1,487,569	2,266,593

The accompanying notes are an integral part of these financial statements.

# BMO U.S. Equity Fund

## STATEMENT OF CASH FLOWS

(All amounts in thousands of Canadian dollars)

For the periods ended	September 30 2019	September 30 2018
<b>Cash flows from operating activities</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(29,133)	436,058
Adjustments for:		
Foreign exchange loss on cash	5	263
Net realized gain on sale of investments and derivatives	(169,122)	(391,201)
Change in unrealized depreciation (appreciation) of investments and derivatives	195,664	(24,822)
Decrease in dividends receivable	284	393
Increase in accrued expenses	37	7
Return of capital distributions received	3,466	—
Purchases of investments	(1,028,615)	(1,533,036)
Proceeds from sale and maturity of investments	1,763,506	2,451,335
Cash outflows on derivatives	(486)	(512)
<b>Net cash from operating activities</b>	<b>735,606</b>	<b>938,485</b>
<b>Cash flows from financing activities</b>		
Distributions paid to holders of redeemable units, net of reinvested distributions	(1,519)	(854)
Proceeds from issuances of redeemable units	90,167	188,163
Amounts paid on redemption of redeemable units	(837,202)	(1,128,525)
<b>Net cash from financing activities</b>	<b>(748,554)</b>	<b>(941,216)</b>
Foreign exchange loss on cash	(5)	(263)
Net decrease in cash	(12,948)	(2,731)
Cash at beginning of period	25,401	28,395
<b>Cash at end of period</b>	<b>12,448</b>	<b>25,401</b>

### Supplementary Information

Interest received, net of withholding taxes*	15	1
Dividends received, net of withholding taxes*	16,937	41,867
Distribution received from investment trusts, net of withholding taxes*	3,466	—
Interest expense paid*	1	—

\* These items are from operating activities.

The accompanying notes are an integral part of these financial statements.

# BMO U.S. Equity Fund

## SCHEDULE OF INVESTMENT PORTFOLIO

As at September 30, 2019 (All amounts in thousands of Canadian dollars, unless otherwise noted)

	Number of Shares or Units	Cost* (\$)	Fair Value (\$)		Number of Shares or Units	Cost* (\$)	Fair Value (\$)
<b>EQUITIES</b>							
<b>Communication Services — 8.9%</b>							
Alphabet Inc., Class C	31,597	32,174	51,029	Edwards Lifesciences Corporation	24,524	7,027	7,145
Comcast Corporation, Class A	629,656	20,989	37,606	Eli Lilly and Company	199,464	20,297	29,552
Discovery, Inc., Class A	463,035	18,268	16,336	Hill-Rom Holdings, Inc.	107,555	11,537	14,995
Facebook, Inc., Class A	91,018	21,631	21,474	Merck & Co., Inc.	379,067	39,924	42,276
TripAdvisor, Inc., Class A	103,553	8,504	5,306	Pfizer Inc.	618,605	25,513	29,447
		101,566	131,751			140,180	158,649
<b>Consumer Discretionary — 10.1%</b>				<b>Industrials — 9.1%</b>			
Amazon.com, Inc.	11,023	10,507	25,351	AGCO Corporation	131,934	12,910	13,232
Autozone, Inc.	18,561	26,293	26,672	Caterpillar Inc.	168,969	31,160	28,276
Chipotle Mexican Grill, Inc.	7,436	6,936	8,280	Dover Corporation	62,561	7,638	8,252
Deckers Outdoor Corporation	48,824	10,694	9,532	Kansas City Southern	48,428	7,603	8,534
Dollar General Corporation	74,893	9,521	15,770	Masco Corporation	240,200	11,887	13,264
Expedia, Inc.	130,968	22,578	23,322	Oshkosh Corporation	42,142	4,147	4,232
Kohl's Corporation	69,792	6,604	4,592	Southwest Airlines Co.	272,552	10,511	19,502
Lowe's Companies, Inc.	125,159	12,313	18,233	Union Pacific Corporation	22,086	5,244	4,740
NIKE, Inc., Class B	147,346	14,906	18,334	United Continental Holdings, Inc.	92,015	10,522	10,778
		120,352	150,086	United Rentals, Inc.	64,539	10,785	10,657
				W.W. Grainger, Inc.	34,527	14,743	13,592
						127,150	135,059
<b>Consumer Staples — 8.3%</b>				<b>Information Technology — 23.6%</b>			
Estee Lauder Companies Inc., The, Class A	68,757	16,437	18,123	Akamai Technologies, Inc.	158,245	17,639	19,158
Hershey Company, The	47,161	6,538	9,684	Apple Inc.	232,408	24,996	68,962
Post Holdings, Inc.	110,879	16,030	15,548	Cadence Design Systems, Inc.	160,292	10,376	14,033
Sysco Corporation	199,528	15,359	20,989	Cisco Systems, Inc.	101,693	4,126	6,657
Tyson Foods, Inc., Class A	92,185	10,824	10,520	F5 Networks, Inc.	89,527	14,754	16,655
US Foods Holding Corp.	191,046	9,858	10,403	Fortinet, Inc.	81,779	6,217	8,316
Walmart Inc.	240,417	21,784	37,801	Intel Corporation	521,048	36,167	35,572
		96,830	123,068	Lam Research Corporation	28,765	6,777	8,807
				Microsoft Corporation	458,559	41,268	84,464
<b>Energy — 3.7%</b>				<b>Materials — 1.3%</b>			
Cabot Oil & Gas Corporation	324,234	7,512	7,547	Berry Global Group, Inc.	257,570	15,965	13,401
Chevron Corporation	80,282	11,068	12,614	Steel Dynamics, Inc.	150,920	4,639	5,958
ConocoPhillips	362,140	33,648	27,338			20,604	19,359
Helmerich & Payne, Inc.	133,244	7,199	7,074				
		59,427	54,573	<b>Real Estate — 4.0%</b>			
				EPR Properties	56,699	5,946	5,774
<b>Financials — 16.7%</b>				Essex Property Trust, Inc.	71,580	21,696	30,977
Allstate Corporation, The	211,911	22,585	30,512	Extra Space Storage Inc.	98,957	15,426	15,315
American Express Company	167,945	21,010	26,317	Lamar Advertising Company, Class A	76,154	8,370	8,266
Ameriprise Financial, Inc.	102,979	20,398	20,069			51,438	60,332
Bank of America Corporation	368,180	14,668	14,229	<b>Utilities — 3.2%</b>			
Citigroup Inc.	410,860	29,735	37,602	AES Corporation, The	1,061,765	19,269	22,985
Citizens Financial Group, Inc.	430,232	22,071	20,161				
Morgan Stanley	446,693	24,955	25,252				
MSCI Inc., Class A	25,089	7,541	7,238				
Reinsurance Group of America, Incorporated	130,611	26,937	27,665				
Synchrony Financial	482,462	18,864	21,790				
Wells Fargo & Company	275,354	16,627	18,401				
		225,391	249,236				
<b>Health Care — 10.7%</b>							
Baxter International Inc.	245,905	28,286	28,497				
Cooper Companies Inc., The	17,123	7,596	6,737				



# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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### 1. The Fund

BMO U.S. Equity Fund (the “Fund”) is an open-ended mutual fund established under the laws of the province of Ontario by Declaration of Trust. The Master Declaration of Trust was amended on October 23, 2008 and November 3, 2009 to permit certain Funds to offer a multi-series structure. In addition to the existing Series A Units, certain Funds are permitted to offer Series A Hedged Units, Advisor Series Units, Advisor Series Hedged Units, ETF Series Units, Series T4 Units, Series T5 Units, Series T6 Units, Series T8 Units, Series M Units, Series F Units, Series F Hedged Units, Series F2 Units, Series F4 Units, Series F6 Units, Series D Units, Series G Units, Series I Units, Series N Units, Series NBA Units, Series O Units, Series L Units, Series R Units, Series S Units and/or Classic Series Units. Each series is intended for different kinds of investors and has different management fees and fixed administration fees. Refer to Note 8 for the series issued for this Fund as well as the management and administration fee rates for each series.

BMO Investments Inc. (“the Manager”) is the Manager and Trustee of the Fund. The Manager is a wholly owned subsidiary of Bank of Montreal. The address of the Fund’s registered office is 100 King Street West, Toronto, Ontario, M5X 1A1.

The Statement of Financial Position and related notes of each of the Funds are as at September 30, 2019 and September 30, 2018, as applicable. The Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Holders of Redeemable Units, Statement of Cash Flows and related notes are for the period(s) ended September 30, 2019 and September 30, 2018, except for a Fund established during the period(s), which is presented from the date of inception (as noted in Note 8) to September 30 of the applicable period. Financial information provided for a series established during the period(s) is presented from the inception date as noted in Note 8 to September 30 of the applicable period.

These financial statements were authorized for issuance by the Board of Directors of the Manager on December 5, 2019.

### 2. Basis of preparation and presentation

These audited financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

### 3. Summary of significant accounting policies Financial instruments

Investments include financial assets and financial liabilities such as equity and debt securities, investment funds and derivatives. These financial instruments are part of a group of financial instruments that are managed and their performance is evaluated on a fair value basis and in accordance with the Fund's investment strategy.

The Fund classifies and measures financial instruments in accordance with IFRS 9 Financial Instruments (“IFRS 9”). Upon initial recognition, financial instruments are recorded at fair value. A financial instrument is recognized when the Fund becomes a party to the contractual requirements of the instrument and is derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. As such, investment purchase and sale transactions are recorded as of the trade date. Investments and derivatives are subsequently measured at fair value through profit and loss (“FVTPL”), with changes in fair value recognized in the Statement of Comprehensive Income as “Change in unrealized appreciation (depreciation)”.

All financial assets and financial liabilities are recognized in the Statement of Financial Position.

The Fund’s outstanding redeemable units, which are puttable instruments, are entitled to a contractual obligation of annual distribution of any net income and net realized capital gains by the Fund. This annual distribution can be in cash at the option of the unitholders, and therefore the ongoing redemption feature is not the redeemable units’ only contractual obligation. Also, the Fund has issued multiple series of redeemable units, which are equally subordinated but are not identical and consequently, do not meet the conditions to be classified as equity. As a result, the Fund’s obligations for net assets attributable to holders of redeemable units (“Net Assets”) are classified as financial liabilities and presented at the redemption amounts.

### Cost of investments

The cost of investments represents the amount paid for each security and is determined on an average cost basis, and excludes commissions and other portfolio

# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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transaction costs, which are reported separately in the Statement of Comprehensive Income. Realized gains and losses on disposition are determined based on the cost of the investments.

### **Fair value measurement**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For exchange-traded securities, close prices are considered to be fair value if they fall within the bid-ask spread. In circumstances where the close price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

Procedures are in place to fair value equities traded in countries outside of North America daily, to avoid stale prices and to take into account, among other things, any significant events occurring after the close of a foreign market.

For bonds, debentures, asset-backed securities and other debt securities, fair value is determined as the last traded market price or close price, where the close price falls within the bid-ask spread of the security. Short-term investments, if any, are held at amortized cost, which approximates fair value due to their short-term nature.

Mutual fund units held as investments are valued at their respective Net Asset Value ("NAV") on each Valuation Date (the "Valuation Date" is each day on which the Toronto Stock Exchange is open for trading), as these values are the most readily and regularly available.

The Fund may enter into forward currency contracts for hedging purposes either directly or indirectly or for non-hedging purposes. The fair value of forward currency contracts entered into by the Fund is recorded as the difference between the fair value of the contract on the Valuation Date and the fair value on the date the contract originated.

For the Series A Hedged Units, Advisor Series Hedged Units and Series F Hedged Units (the "Hedged Series"), the Fund enters into forward currency contracts to hedge against foreign currency exposure and as a result the Hedged Series will be subject to less currency risk than the other series of the Fund because their foreign

currency exposure is hedged. However, the hedging strategy may not achieve a perfect hedge of the foreign currency exposure for the Hedged Series.

The Fund may engage in option contract transactions by purchasing (long positions) or writing (short positions) call or put option contracts. These contracts have different risk exposures for the Fund, whereas the risk for long positions will be limited to the premium paid to purchase the option contracts, the risk exposure for the short positions are potentially unlimited until closed or expired.

The premium paid for purchasing an option is recorded as an asset in the Statement of Financial Position. The option contract is valued on each Valuation Date at an amount equal to the fair value of the option that would have the effect of closing the position. The change in the difference between the premium and the fair value is shown as "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

When a purchased option expires, the Fund will realize a loss equal to the premium paid. When a purchased option is closed, the gain or loss the Fund will realize will be the difference between the proceeds and the premium paid. When a purchased call option is exercised, the premium paid is added to the cost of acquiring the underlying security. When a purchased put option is exercised, the premium paid is subtracted from the proceeds from the sale of the underlying security that had to be sold.

The premium received from writing a call or put option is recorded as a liability in the Statement of Financial Position.

When a written option expires, the Fund will realize a gain equal to the premium received. When a written option is closed, the Fund will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received. When a written call option is exercised, the premium received is added to the proceeds from the sale of the underlying investments to determine the realized gain or loss. When a written put option is exercised, the premium received will be subtracted from the cost of the underlying investment the Fund had to purchase.

# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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The gain or loss that the Fund realizes when a purchased or written option is expired or closed is recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income.

Futures contracts are financial agreements to purchase or sell a financial instrument at a contracted price on a specified future date. Futures contracts are valued at the gain or loss that would arise as a result of closing the position at the Valuation date. Any difference between the notional value on each Valuation Date is recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income. Treasury bills or cash are held as margin against futures contracts.

A credit default swap contract is an agreement to transfer credit risk from one party, a buyer of protection, to another party, a seller of protection. The Fund, as a seller of protection, would be required to pay a notional or other agreed upon value to the buyer of protection in the event of a default by a third-party. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations.

In connection with the agreement, securities or cash may be identified as collateral or margin in accordance with the terms of the agreement to provide assets of value in the event of default or bankruptcy/insolvency.

The Fund, as a buyer of protection, would receive a notional or other agreed upon value from the seller of protection in the event of a default by a third-party. In return, the Fund would be required to pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs.

Credit default swap contracts are fair valued daily based upon quotations from independent security pricing sources. Premiums paid or received, if any, are included in “Net realized gain (loss)” in the Statement of Comprehensive Income. Net periodic payments are accrued daily and recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income. When credit default swap contracts expire or are closed out, gains or losses are recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income.

Interest rate swap contracts are agreements between two parties to exchange periodic interest payments based on a notional principal amount. The net periodic payments received or paid from interest rate swap contracts are recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income. Payments received or paid when the Fund enters into the contract are recorded as a liability or asset in the Statement of Financial Position. When the contract is terminated or expires, the payments received or paid are recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income. Payments received or paid upon early termination are recorded as “Net realized gain (loss)” in the Statement of Comprehensive Income.

Interest rate swap agreements are valued based upon quotations from independent sources. The change in value is included in “Change in unrealized appreciation (depreciation)” in the Statement of Comprehensive Income.

The Fund enters into interest rate swap agreements to manage the exposure to interest rates.

Unlisted warrants, if any, are valued based on a pricing model which considers factors such as the market value of the underlying security, strike price and terms of the warrant.

For securities where market quotes are not available, unreliable or not considered to reflect the current value, the Manager may determine another value which it considers to be fair and reasonable, or use a valuation technique that, to the extent possible, makes maximum use of inputs and assumptions based on observable market data including volatility, comparable companies, NAV (for exchange-traded funds) and other applicable rates or prices. These estimation techniques include discounted cash flows, internal models that utilize observable data or comparisons with other securities that are substantially similar. In limited circumstances, the Manager may use internal models where the inputs are not based on observable market data.

### **Cash**

Cash is comprised of cash and deposits with banks, which include bankers' acceptances and overnight demand deposits. The carrying amount of cash approximates its fair value because it is short-term in nature.

# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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### **Other assets and other liabilities**

Other assets and other liabilities generally include receivables for investments sold, subscriptions receivable, interest receivable, dividend receivable, distribution receivable from investment trusts, payable for investments purchased, redemptions payable, distributions payable and accrued expenses. These financial assets and financial liabilities are short-term in nature and are subsequently measured at amortized cost, which approximates their fair value.

### **Investments in subsidiaries, joint ventures and associates**

Subsidiaries are entities over which the Fund has control through its exposure or rights to variable returns from its investment and has the ability to affect those returns through its power over the entity. The Manager has determined that the Fund is an investment entity and as such, it accounts for subsidiaries, if any, at fair value. Joint ventures are investments where the Fund exercises joint control through an agreement with other shareholders, and associates are investments in which the Fund exerts significant influence over operating, investing, and financing decisions (such as entities in which the Fund owns 20% - 50% of voting shares), all of which, if any, have been classified at FVTPL.

### **Unconsolidated structured entities**

The Manager has determined that the underlying funds in which the Fund may invest are unconsolidated structured entities. This determination is based on the fact that decision making about the underlying funds is not governed by the voting right or other similar right held by the Fund. Similarly, investments in securitizations, asset-backed securities and mortgage-backed securities are determined to be interests in unconsolidated structured entities.

The Fund may invest in underlying funds whose investment objectives range from achieving short-term to long-term income and capital growth potential. Underlying funds may use leverage in a manner consistent with their respective investment objectives and as permitted by Canadian securities regulatory authorities. Underlying funds finance their operations by issuing redeemable units which are puttable at the holders' option and entitles the holder to a proportionate stake in the respective fund's Net Assets. The change in fair value of each of the underlying

funds during the periods is included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income.

Mortgage-related securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans and student loans.

The Fund does not provide and has not committed to providing any additional significant financial or other support to the unconsolidated structured entities other than its investment in the unconsolidated structured entities.

Additional information on the Fund's interest in unconsolidated structured entities, where applicable, is provided in Note 8.

### **Offsetting of financial assets and financial liabilities**

Financial instruments are presented at net or gross amounts in the Statement of Financial Position depending on the existence of intention and legal right to offset opposite positions of such instruments held with the same counterparties. Amounts offset in the Statement of Financial Position are transactions for which the Fund has legally enforceable rights to offset and intends to settle the positions on a net basis. Amounts not offset in the Statement of Financial Position relate to transactions where a master netting arrangement or similar agreement is in place with a right to offset only in the event of default, insolvency or bankruptcy, or where the Fund has no intention of settling on a net basis.

### **Income recognition**

Dividend income and distributions received from investment trusts are recognized on the ex-dividend and ex-distribution date, respectively.

Interest income from interest bearing investments is recognized in the Statement of Comprehensive Income using the effective interest rate. Interest receivable shown in the Statement of Financial Position is accrued based on the interest bearing investments' stated rates of interest.

Interest on inflation-indexed bonds is paid based on a principal value, which is adjusted for inflation. The inflation adjustment of the principal value is

# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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recognized as part of interest income in the Statement of Comprehensive Income. If held to maturity, the Fund will receive, in addition to a coupon interest payment, a final payment equal to the sum of the par value and the inflation compensation accrued from the original issue date. Interest is accrued on each Valuation Date based on the inflation adjusted par value at that time and is included in "Interest income" in the Statement of Comprehensive Income.

### **Foreign currency translation**

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Fund's functional currency at the rates of exchange prevailing at the period-end date. Purchases and sales of investments, and income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Realized foreign exchange gains (losses) on investment transactions are included in "Net realized gain (loss)" in the Statement of Comprehensive Income and unrealized foreign exchange gains (losses) are included in "Change in unrealized appreciation (depreciation)" in the Statement of Comprehensive Income. Foreign exchange gains (losses) relating to cash, receivables and payables are included in "Foreign exchange gain (loss)" in the Statement of Comprehensive Income.

### **Securities lending**

A Fund may engage in securities lending pursuant to the terms of an agreement with State Street and BNY Mellon (the "security lending agent" and the "former security lending agent", respectively). BNY Mellon was the security lending agent until December 3, 2018, when State Street became the lending agent. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the NAV of the Fund. The Fund will receive collateral of at least 102% of the value of securities on loan. Collateral will generally be comprised of obligations of or guarantee by the Government of Canada or a province thereof, or by the United States government or its agencies, but it may include obligations of other governments with appropriate credit ratings. Further, the program entered into provides for 100% indemnification by the securities lending agent and parties related to the Fund's custodian, to the Fund for any defaults by borrowers.

For those Funds participating in the program, aggregate values of securities on loan, the collateral held as at September 30, 2019 and September 30, 2018 and information about the security lending income earned by the Fund are disclosed in Note 8, where applicable.

Income from securities lending, where applicable, is included in the Statement of Comprehensive Income and is recognized when earned. The breakdown of the securities lending income is disclosed in Note 8, where applicable.

### **Short-term trading penalty**

To discourage excessive trading, the Fund may, at the Manager's sole discretion, charge a short-term trading penalty. This penalty is paid directly to the Fund and is included in "Short-term penalty fees" in the Statement of Comprehensive Income.

### **Increase or decrease in net assets attributable to holders of redeemable units per unit**

"Increase (decrease) in net assets attributable to holders of redeemable units per unit" of a series in the Statement of Comprehensive Income represents the increase (decrease) in net assets attributable to holders of redeemable units of the series divided by the weighted average number of units of the series outstanding during the period. Refer to Note 8 for details.

### **Taxation**

The Fund qualifies as a unit trust under the provisions of the Income Tax Act (Canada). Distributions of all net taxable income and sufficient amounts of net realized capital gains for each taxation year will be paid to unitholders so that the Fund will not be subject to income tax. As a result, the Fund has determined that it is in substance not taxable and therefore does not record income taxes in the Statement of Comprehensive Income nor does it recognize any deferred tax assets or liabilities in the Statement of Financial Position.

The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and capital gains are recorded on a gross basis with the related withholding taxes shown as a separate expense in the Statement of Comprehensive Income.

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

### **Fund mergers**

The Manager has adopted the purchase method of accounting for certain fund mergers which occurred during the periods. Under this method, one of the Funds in each merger is identified as the acquiring fund, and is referred to as the “Continuing Fund”, and the other Fund involved in the merger is referred to as the “Terminated Fund”. This identification is based on the comparison of the relative NAV of the funds as well as consideration of the continuation of such aspects of the Continuing Fund as: investment advisors, investment objectives and practices, type of portfolio securities, and management fees and expenses. Where applicable, refer to Note 8 for the details of the merger transactions.

### **4. Critical accounting judgements and estimates**

The preparation of financial statements requires the use of judgement in applying the Fund's accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgements and estimates that the Manager has made in preparing the Fund's financial statements.

#### **Accounting judgements:**

##### **Functional and presentation currency**

The Fund's unitholders are mainly Canadian residents, with the subscriptions and redemptions of the redeemable units denominated in Canadian dollars. The Fund invests in Canadian and U.S. dollars and other foreign denominated securities, as applicable. The performance of the Fund is measured and reported to the investors in Canadian dollars. The Manager considers the Canadian dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Canadian dollars, which is the Fund's functional and presentation currency.

##### **Classification and measurement of investment portfolio**

Effective October 1, 2018, the Fund retrospectively adopted IFRS 9. The new standard requires assets to be carried at either amortized cost, FVTPL, or fair value through other comprehensive income (“FVOCI”), based on an assessment of the Fund's business model for managing financial instruments and the contractual cash flow characteristics of the financial assets. In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgements in determining the most

appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business model with respect to the manner in which financial assets and financial liabilities are managed as a group and performance is evaluated on a fair value basis, and has concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Fund's investment portfolio. The collection of principal and interest is incidental to the fair value business model. Further information related to the Fund's transition to IFRS 9 is detailed in Note 9.

#### **Accounting estimates:**

##### **Fair value measurement of securities not quoted in an active market**

The Fund has established policies and control procedures that are intended to ensure these estimates are well controlled, independently reviewed, and consistently applied from period to period. The estimates of the value of the Fund's assets and liabilities are believed to be appropriate as at the reporting date.

The Fund may hold financial instruments that are not quoted in active markets. Note 3 discusses the policies used by the Fund for the estimates used in determining fair value.

### **5. Units and unit transactions**

The redeemable units of the Fund are classified as financial liabilities. The units have no par value and are entitled to distributions, if any. Upon redemption, a unit is entitled to a proportionate share of the Fund's NAV. The Fund is required to pay distributions in an amount not less than the amount necessary to ensure the Fund will not be liable for income taxes on realized capital gains, dividends and interest. The Fund has no restrictions or specific capital requirements on the subscriptions and redemptions of units except as disclosed in Note 8. The relevant movements in redeemable units are shown in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units.

In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 7, the Fund endeavours to invest the subscriptions received in appropriate investments, while maintaining sufficient liquidity to meet redemptions, with such liquidity being augmented by short-term borrowings or disposal of investments where necessary.

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

Redeemable units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any Valuation Date at the NAV per unit of a particular series. The NAV per unit of a series for the purposes of subscription or redemption is computed by dividing the NAV of the Fund attributable to the series (that is, the total fair value of the assets attributable to the series less the liabilities attributable to the series) by the total number of units of the series of the Fund outstanding at such time on each Valuation Date, in accordance with Part 14 of National Instrument ("NI") 81-106 Investment Fund Continuous Disclosure for the purpose of processing unitholder transactions. Net Assets are determined in accordance with IFRS and may differ to the Funds' NAV. Where the Fund's NAV is not equal to its Net Assets, a reconciliation is shown in Note 8.

### ETF Series Units

On any trading day, a designated broker or an ETF dealer may place a subscription or redemption order for an integral multiple of the prescribed number ETF Series Units of the Fund as permitted by the Manager.

If the subscription or redemption order is accepted, the Fund will issue or redeem ETF Series Units to/from the designated broker or the ETF dealer by no later than the third trading day after the date on which the subscription or redemption order is accepted, in the case of a fund that invests a portion of its portfolio assets in T+3 securities; by no later than the second trading date after the date on which the subscription or redemption order is accepted, in the case of a fund that does not invests a portion of its portfolio assets in T+3 securities or a shorter period as may be determined by the Manager in response to changes in applicable law or general changes to settlement procedures in applicable markets.

For each prescribed number of ETF Series Units issued or redeemed, a designated broker or an ETF dealer must deliver or receive payment consisting of:

- A basket of applicable securities and cash in an amount sufficient so that the value of the securities and the cash received is equal to the NAV of the ETF Series Units subscribed/redeemed;
- Cash in the amount equal to the NAV of the ETF Series Units subscribed/redeemed; or

- A combination of securities and cash, as determined by the Manager, in an amount sufficient so that the value of the securities and cash received is equal to the NAV of the ETF Series Units subscribed/redeemed.

On any trading day, unitholders may redeem ETF Series Units for cash or exchange ETF Series Units for baskets of securities and cash. ETF Series Units redeemed for cash will be redeemed at a redemption price per ETF Series Unit equal to the lesser of (i) 95% of the closing price for the ETF Series Units on the TSX on the effective day of the redemption; and (ii) the NAV per unit of the ETF Series Units on the effective day of the redemption. ETF Series Units exchanged for baskets of securities will be exchanged at a price equal to the NAV of the ETF Series Units on the effective day of the exchange request, payable by delivery of baskets of securities and cash.

Unitholders that redeem ETF Series Units prior to the distribution record date will not be entitled to receive the distribution.

Expenses directly attributable to a series are charged to that series. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each series based upon the relative NAV of each series. The gain (loss) of certain forwards in Funds with Hedged Series is allocated only to the hedged series.

## 6. Related party transactions

### (a) Management fees

The Manager is responsible for the day-to-day management of the Fund and its investment portfolio in compliance with the Fund's constating documents. The Manager provides key management personnel to the Fund, monitors and evaluates the performance of the Fund, pays for the investment management services of the investment advisors and provides all related administrative services required by the Fund.

The management fees for the ETF Series includes costs related to the administration expenses and other operating expenses, other than the fund expenses.

As compensation for its services, the Manager is entitled to receive a fee payable monthly, calculated at the maximum annual rates included in Note 8.

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

### (b) Fixed administration fees

The Manager pays certain operating expenses of each Fund except for BMO Ascent Income Portfolio, BMO Ascent Conservative Portfolio, BMO Ascent Balanced Portfolio, BMO Ascent Growth Portfolio, BMO Ascent Equity Growth Portfolio, BMO FundSelect Balanced Portfolio (Series NBA only), BMO FundSelect Growth Portfolio (Series NBA only), BMO FundSelect Equity Growth Portfolio (Series NBA only), BMO Covered Call Canadian Banks ETF Fund, BMO Covered Call U.S. High Dividend ETF Fund, BMO Covered Call Europe High Dividend ETF Fund, BMO Sustainable Opportunities Global Equity Fund, BMO Tactical Global Asset Allocation ETF Fund, BMO Tactical Global Growth ETF Fund, BMO Women in Leadership Fund, BMO International Value Fund, BMO Japan Fund, BMO Covered Call Canada High Dividend ETF Fund, BMO Concentrated Global Equity Fund, BMO Crossover Bond Fund, BMO Global Multi-Sector Bond Fund, BMO U.S. Small Cap Fund, BMO Multi-Factor Equity Fund, BMO SIA Focused Canadian Equity Fund, BMO SIA Focused North American Equity Fund, BMO Concentrated U.S. Equity Fund and BMO Low Volatility Canadian Equity ETF Fund (the "Variable Operating Expense Series"), including audit and legal fees and expenses; custodian and transfer agency fees; costs attributable to the issue, redemption and change of securities, including the cost of the securityholder record keeping system; expenses incurred in respect of preparing and distributing prospectuses, financial reports and other types of reports, statements and communications to securityholders; fund accounting and valuation costs; filing fees, including those incurred by the Manager (collectively the "Administration Expenses"). In return, the Fund pays a fixed administration fee to the Manager. The fixed administration fee is calculated daily as a fixed annual percentage of the average NAV of the Fund. Refer to Note 8 for the fixed administration fee rates charged to the Fund, where applicable.

### (c) Fund expenses

The Fund also pays certain operating expenses directly ("Fund Expenses"), including expenses incurred in respect of preparing and distributing fund facts; interest or other borrowing expenses; all reasonable costs and expenses incurred in relation to compliance with NI 81-107, including compensation and expenses payable to Independent Review Committee ("IRC") members and any independent counsel or other advisors employed by the IRC, the costs of the

orientation and continuing education of IRC members and the costs and expenses associated with IRC meetings; taxes of all kinds to which the Fund is or might be subject; and costs associated with compliance with any new governmental or regulatory requirement introduced after December 1, 2007.

The Manager may, in some years and in certain cases, absorb a portion of management fees, fixed administration fees or certain specified expenses of the Fund or series of the Fund. The decision to absorb these expenses is reviewed periodically and determined at the discretion of the Manager, without notice to unitholders.

### (d) Variable administration fees

The Variable Operating Expense Series pay all of its expenses directly. These operating expenses include Administration Expenses and Fund Expenses.

### (e) Commissions and other portfolio transaction costs

The Fund may execute trades with and through BMO Nesbitt Burns Inc., an affiliate of the Manager, based on established standard brokerage agreements at market prices. These fees are included in "Commissions and other portfolio transaction costs" in the Statement of Comprehensive Income. Refer to Note 8 for related party fees charged to the Fund during the period(s) ended September 30, 2019 and September 30, 2018, where applicable.

### (f) Initial investments

In order to establish a new Fund, the Manager, makes an initial investment in the Fund. Pursuant to the policies of the Canadian Securities Administrators, an initial investor cannot redeem its investments until an additional \$500 has been received from other investors with respect to the same class of units. Refer to Note 8 for the investment in units of the Fund held by the Manager as at September 30, 2019 and September 30, 2018, where applicable.

### (g) Other related party transactions

From time to time, the Manager may on behalf of the Fund, enter into transactions or arrangements with or involving subsidiaries and affiliates of Bank of Montreal, or certain other persons or companies that are related or connected to the Manager of the Fund. These transactions or arrangements may include transactions or arrangements with or involving subsidiaries and affiliates of Bank of Montreal, BMO Investments Inc., BMO Nesbitt Burns Inc., BMO Asset

# BMO U.S. Equity Fund

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## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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Management Corp., BMO Private Investment Counsel Inc., BMO Asset Management Inc., BMO InvestorLine Inc., Pymfod International Limited, LGM Investments Limited, BMO Trust Company, BMO Asset Management Limited, BMO Global Asset Management (Asia) Limited, Taplin, Canida & Habacht LLC, BMO Capital Markets Corp., or other investment funds offered by Bank of Montreal, and may involve the purchase or sale of portfolio securities through or from subsidiaries or affiliates of Bank of Montreal, the purchase or sale of securities issued or guaranteed by subsidiaries or affiliates of Bank of Montreal, the purchase or redemption of units or shares of other Bank of Montreal investment funds or the provision of services to the Manager.

### 7. Financial instruments risks

The Fund's activities expose it to a variety of risks associated with the financial instruments, as follows: market risk (including currency risk, interest rate risk and other market risk), credit risk and liquidity risk. The concentration table groups securities by asset type, geographic location and/or market segment. The Fund's risk management practice outlines the monitoring of compliance to investment guidelines.

The Manager manages the potential effects of these financial risks on the Fund's performance by employing and overseeing professional and experienced portfolio managers that regularly monitor the Fund's positions, market events, and diversify investment portfolios within the constraints of the investment guidelines.

Where the Fund invests in other investment fund(s), it may be indirectly exposed to the financial risks of the underlying fund(s), depending on the investment objectives and the type of securities held by the underlying fund(s). The decision to buy or sell an underlying fund is based on the investment guidelines and positions, rather than the exposure of the underlying fund(s).

#### (a) Currency risk

Currency risk is the risk that the fair value of financial instruments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. Investments in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value. The Fund may enter into forward currency

contracts for hedging purposes to reduce foreign currency exposure or to establish exposure to foreign currencies. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, the Manager monitors the exposure on all foreign currency denominated assets and liabilities. The Fund's exposure to currency risk, if any, is further disclosed in Note 8.

#### (b) Interest rate risk

Interest rate risk is the risk that the fair value of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. The Fund's exposure to interest rate risk is concentrated in its investment in debt securities (such as bonds, money market investments, short-term investments and debentures) and interest rate derivative instruments, if any. Other assets and liabilities are short-term in nature and/or non-interest bearing. The Fund's exposure to interest rate risk, if any, is further discussed in Note 8.

#### (c) Other market risk

Other market risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. Other assets and liabilities are monetary items that are short-term in nature, as such they are not subject to other market risk. The Fund's exposure to other market risk, if any, is further discussed in Note 8.

#### (d) Credit risk

Credit risk is the risk that a loss could arise from a security issuer or counterparty to a financial instrument not being able to meet its financial obligations. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. Credit risk exposure for over-the-counter derivative instruments is based on the Fund's unrealized gain of the contractual obligations with the counterparty as at the reporting date. The credit exposure of other assets is represented by its carrying amount. The Fund's exposure to credit risk, if any, is further discussed in Note 8.

The Fund may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered

# BMO U.S. Equity Fund

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

*(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019*

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minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Fund must be at least 102% of the fair value of securities loaned, as disclosed in Note 8, where applicable.

**(e) Liquidity risk**

The Fund's exposure to liquidity risk is concentrated in the daily cash redemptions of units, and other liabilities. The Fund primarily invests in securities that are traded in active markets and can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. The Fund may, from time to time, enter into over-the-counter derivative contracts or invest in unlisted securities, which are not traded in an organized market and may be illiquid. Securities for which a market quotation could not be obtained and may be illiquid are identified in the Schedule of Investment Portfolio. The proportion of illiquid securities to the NAV of the Fund is monitored by the Manager to ensure it does not exceed the regulatory limit and does not significantly affect the liquidity required to meet the Fund's financial obligations.

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

### 8. Fund specific information

#### (a) Fund and Series information and change in units

The Fund is authorized to issue an unlimited number of units in each of Series A Units, Series A Hedged Units, Advisor Series Units, Advisor Series Hedged Units, Series F Units, Series F Hedged Units, Series D Units, Series I Units and Series N Units, which are redeemable at the unitholders' option.

Series	Inception Date
Series A Units	October 22, 1996
Series A Hedged Units	April 19, 2016
Advisor Series Units	March 28, 2013
Advisor Series Hedged Units	April 19, 2016
Series F Units	October 24, 2008
Series F Hedged Units	April 19, 2016
Series D Units	April 7, 2014
Series I Units	March 5, 2008
Series N Units	April 17, 2015

Series A Units are offered on a no-load basis and are available to all investors.

Advisor Series Units are available to all investors through registered dealers.

Series F Units are available for purchase by investors who are enrolled in dealer-sponsored wrap programs or flat fee accounts. Instead of paying a commission on each transaction, these investors pay an annual fee to the Manager based on the value of their assets.

Series A Hedged Units, Advisor Series Hedged Units and Series F Hedged Units ("the Hedged Series") have the same features as Series A Units, Advisor Series Units and Series F Units, respectively, except that the Hedged Series seek to reflect the performance of the Fund after hedging substantially all of the foreign currency exposure. The Hedged Series units are designed for investors who want exposure to foreign investments but seek to eliminate the impact of foreign currency investments relating to the Canadian dollar on their investments.

Series D Units are available to investors who have an account with a discount brokerage. A reduced trailing commission is paid to discount brokerages in respect to Series D Units which means a lower management fee can be charged.

Series I Units are available only to institutional investors and other investment funds as determined by the Manager from time to time and on a case-by-case basis, and who have entered into an agreement with the Manager. No management fees and fixed administration fees are charged to the Fund in respect of the Series I Units as each investor or dealer negotiates a separate fee with the Manager.

Series N Units are available to investors who participate in a separate managed account or discretionary management program through a dealer who has entered into an agreement with the Manager. No management fees are charged in respect to Series N Units. Instead, the investor pays the dealer the fee set by the dealer, a portion of which is paid to the Manager by the dealer.

The number of units of each series that have been issued and are outstanding are disclosed in the table below.

For the periods ended (in thousands of units)	Sep. 30, 2019	Sep. 30, 2018
<b>Series A Units</b>		
Units issued and outstanding, beginning of period	29,055	30,312
Issued	2,682	3,808
Issued on reinvestment of distributions	3,337	1,771
Redeemed during the period	(6,123)	(6,836)
Units issued and outstanding, end of period	28,951	29,055
<b>Series A Hedged Units</b>		
Units issued and outstanding, beginning of period	1,011	511
Issued	121	826
Issued on reinvestment of distributions	44	26
Redeemed during the period	(482)	(352)
Units issued and outstanding, end of period	694	1,011

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

For the periods ended (in thousands of units)	Sep. 30, 2019	Sep. 30, 2018
<b>Advisor Series Units</b>		
Units issued and outstanding, beginning of period	1,170	864
Issued	535	532
Issued on reinvestment of distributions	113	52
Redeemed during the period	(511)	(278)
Units issued and outstanding, end of period	1,307	1,170

<b>Advisor Series Hedged Units</b>		
Units issued and outstanding, beginning of period	52	21
Issued	8	37
Issued on reinvestment of distributions	1	0
Redeemed during the period	(9)	(6)
Units issued and outstanding, end of period	52	52

<b>Series F Units</b>		
Units issued and outstanding, beginning of period	1,589	1,176
Issued	295	736
Issued on reinvestment of distributions	135	50
Redeemed during the period	(584)	(373)
Units issued and outstanding, end of period	1,435	1,589

<b>Series F Hedged Units</b>		
Units issued and outstanding, beginning of period	88	48
Issued	15	75
Issued on reinvestment of distributions	3	1
Redeemed during the period	(45)	(36)
Units issued and outstanding, end of period	61	88

<b>Series D Units</b>		
Units issued and outstanding, beginning of period	617	352
Issued	147	368
Issued on reinvestment of distributions	62	17
Redeemed during the period	(218)	(120)
Units issued and outstanding, end of period	608	617

For the periods ended (in thousands of units)	Sep. 30, 2019	Sep. 30, 2018
<b>Series I Units</b>		
Units issued and outstanding, beginning of period	58,901	89,775
Issued	317	2,012
Issued on reinvestment of distributions	5,684	10,237
Redeemed during the period	(31,610)	(43,123)
Units issued and outstanding, end of period	33,292	58,901

<b>Series N Units</b>		
Units issued and outstanding, beginning of period	3,367	3,622
Issued	274	526
Issued on reinvestment of distributions	369	225
Redeemed during the period	(1,019)	(1,006)
Units issued and outstanding, end of period	2,991	3,367

### (b) Reconciliation of NAV to Net Assets

As at September 30, 2019 and September 30, 2018, there were no differences between the Fund's NAV per unit and its Net Assets per unit calculated in accordance with IFRS.

### (c) Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated as follows:

For the periods ended	Sep. 30, 2019	Sep. 30, 2018
<b>Series A Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(16,141)	120,470
Weighted average units outstanding during the period (in thousands of units)	30,278	30,709
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.54)	3.92

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

For the periods ended	Sep. 30, 2019	Sep. 30, 2018
<b>Series A Hedged Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(777)	1,003
Weighted average units outstanding during the period (in thousands of units)	906	886
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.86)	1.13
<b>Advisor Series Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(293)	2,587
Weighted average units outstanding during the period (in thousands of units)	1,341	1,015
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.23)	2.55
<b>Advisor Series Hedged Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(38)	58
Weighted average units outstanding during the period (in thousands of units)	54	46
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.70)	1.25
<b>Series F Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(433)	6,293
Weighted average units outstanding during the period (in thousands of units)	1,610	1,494
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.28)	4.21
<b>Series F Hedged Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(78)	90
Weighted average units outstanding during the period (in thousands of units)	76	80
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(1.02)	1.13
<b>Series D Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(65)	1,131
Weighted average units outstanding during the period (in thousands of units)	673	543
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.10)	2.08

For the periods ended	Sep. 30, 2019	Sep. 30, 2018
<b>Series I Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(11,008)	297,387
Weighted average units outstanding during the period (in thousands of units)	47,545	77,852
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.24)	3.82
<b>Series N Units</b>		
(Decrease) increase in net assets attributable to holders of redeemable units	(300)	7,039
Weighted average units outstanding during the period (in thousands of units)	3,184	3,431
(Decrease) increase in net assets attributable to holders of redeemable units per unit	(0.09)	2.05

### (d) Income taxes

The Fund did not have any available capital and non-capital losses carried forward for income tax purposes as of the tax year-ended December 2018.

### (e) Related party transactions

#### Management fees and administration fees

The Manager is entitled to receive the following fees payable monthly, calculated at the following maximum annual rates:

Series	Management Fees (%)	Fixed Administration Fees (%)
Series A Units	2.000	0.250
Series A Hedged Units	2.000	0.250
Advisor Series Units	2.000	0.250
Advisor Series Hedged Units	2.000	0.250
Series F Units	0.500	0.250
Series F Hedged Units	0.500	0.250
Series D Units	0.850	0.250
Series I Units	*	*
Series N Units	*	0.250

\* Negotiated and paid by each Series I and Series N investor directly to the Manager.

The outstanding accrued management fees due to the Manager are included in "Accrued expenses" in the Statement of Financial Position and as at September 30, 2019 amounted to \$134 (September 30, 2018 — \$101).

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

The outstanding accrued fixed administration fees due to the Manager are included in "Accrued expenses" in the Statement of Financial Position and as at September 30, 2019 amounted to \$18 (September 30, 2018 — \$14).

### Expenses

The Manager pays the administration and operating expenses of the Series I Units.

### Brokerage commissions and soft dollars

Brokerage commissions paid (excluding transaction costs) on security transactions and amounts paid to related parties of the Manager for brokerage services provided to the Fund for the periods are as follows:

For the periods ended	Sep. 30, 2019 (\$)	Sep. 30, 2018 (\$)
Total brokerage amounts paid	1,006	1,419
Total brokerage amounts paid to related parties	—	—

The ascertainable soft dollar value of services received, and as a percentage of total brokerage commissions paid, under the soft dollar arrangement entered into by the portfolio advisor for the periods ended is as follows:

For the periods ended	Sep. 30, 2019	Sep. 30, 2018
Top soft dollars (\$)	629	144
Top soft dollars as a percentage of total commissions (%)	62.5	10.2

### Units held by the Manager

The Manager held the following units of the Fund:

#### As at Sep. 30, 2019

Series	Number of Units	Value of Units (\$)
Advisor Series Hedged Units	10,824	125
Series F Hedged Units	10,540	132

#### As at Sep. 30, 2018

Series	Number of Units	Value of Units (\$)
Advisor Series Hedged Units	10,321	132
Series F Hedged Units	10,199	138

### (f) Financial instruments risks

The Fund's objective is to increase the value of investments over the long-term by investing in equities of well-established U.S. companies that may be undervalued by the marketplace.

No changes affecting the overall level of risk of investing in the Fund were made during the period.

### Currency risk

The Fund's exposure to currency risk is summarized in the tables below. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and the underlying principal (notional) amount of forward currency contracts, if any). The Fund may enter into forward currency contracts for hedging purposes to reduce foreign currency exposure to foreign currencies in respect of Series A Hedged Units, Advisor Series Hedged Units and Series F Hedged Units only.

#### As at Sep. 30, 2019

Currencies	Cash and other current receivables & payables (\$)	Investments (monetary & non-monetary) (\$)	Forward currency contracts (\$)	Net currency exposure (\$)	As a % of Net Assets (%)
U.S. Dollar	8,517	1,481,783	(9)	1,490,291	100.2

#### As at Sep. 30, 2018

Currencies	Cash and other current receivables & payables (\$)	Investments (monetary & non-monetary) (\$)	Forward currency contracts (\$)	Net currency exposure (\$)	As a % of Net Assets (%)
U.S. Dollar	8,608	2,245,742	(14,907)	2,239,443	98.8

As at September 30, 2019 and September 30, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all variables held constant, the Net Assets of the Fund could possibly have decreased or increased, respectively, by approximately \$74,515 (September 30, 2018 — \$111,972). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

### Interest rate risk

As at September 30, 2019 and September 30, 2018, the Fund did not have any significant exposure to interest rate risk.

### Other market risk

The Fund has a significant exposure to other market risk arising from its investment in equity securities. Using historical correlation between the Fund's return and the return of its benchmark, if the benchmark, S&P 500 Total Return Index (CS), had increased or decreased by 10%, with all other variables held constant, the Net Assets of the Fund would have increased or decreased, respectively, by \$145,470 (September 30, 2018 — \$210,918). Historical correlation may not be representative of future correlation, and accordingly, actual results may differ and the difference could be material.

### Credit risk

As at September 30, 2019 and September 30, 2018, the Fund did not have significant exposure to credit risk.

### Securities lending

The Fund had assets involved in securities lending transactions outstanding as at September 30, 2019 and September 30, 2018 as follows:

	Aggregate Value of Securities on Loan (\$)	Aggregate Value of Collateral Received for the Loan (\$)
Sep. 30, 2019	58,111	63,214
Sep. 30, 2018	111,654	119,892

The table below is a reconciliation of the gross amount generated from securities lending transactions to the security lending revenue for the periods ended September 30, 2019 and September 30, 2018:

For the periods ended	Sep. 30, 2019		Sep. 30, 2018	
	Amount	% of Gross Securities Lending Revenue	Amount	% of Gross Securities Lending Revenue
Gross securities lending revenue	298	100.0	53	100.0
Withholding taxes	—	—	0	0.2
	298	100.0	53	99.8
Payment to securities lending agents	76	25.5	16	30.0
Net securities lending revenue*	222	74.5	37	69.8

\*Amount shown on the Statement of Comprehensive Income is gross of withholding taxes of \$nil (September 30, 2018 — \$0).

### Concentration risk

The Fund's concentration risk is summarized in the following table:

As at	Sep. 30, 2019	Sep. 30, 2018
<b>Equities</b>		
Communication Services	8.9%	5.7%
Consumer Discretionary	10.1%	7.4%
Consumer Staples	8.3%	5.6%
Energy	3.7%	8.1%
Financials	16.7%	15.0%
Health Care	10.7%	14.7%
Industrials	9.1%	8.5%
Information Technology	23.6%	22.8%
Materials	1.3%	1.6%
Real Estate	4.0%	5.0%
Utilities	3.2%	4.7%
<b>Other Assets Less Liabilities</b>	0.4%	0.9%
	<b>100.0%</b>	<b>100.0%</b>

### (g) Fair value hierarchy

The Fund classifies its financial instruments into three levels based on the inputs used to value the financial instruments. Level 1 securities are valued based on quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets

# BMO U.S. Equity Fund

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(All amounts in thousands of Canadian dollars, except per unit data)  
September 30, 2019

or based on observable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect the Manager's determination of assumptions that market participants might reasonably use in valuing the securities. The tables below show the relevant disclosure.

### As at Sep. 30, 2019

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	1,481,783	—	—	1,481,783
<b>Financial liabilities</b>				
Derivatives	—	(3)	—	(3)

### As at Sep. 30, 2018

Financial assets	Level 1	Level 2	Level 3	Total
Equity Securities	2,245,742	—	—	2,245,742
Derivatives	—	54	—	54
<b>Total</b>	<b>2,245,742</b>	<b>54</b>	<b>—</b>	<b>2,245,796</b>

### Transfers between levels

There were no transfers between the levels during the periods.

### 9. IFRS 9 transition

Upon transition to IFRS 9, financial assets and financial liabilities in the Fund's investment portfolio were classified as FVTPL. The classification for financial assets and financial liabilities differs from the classification under the previous IAS 39. However, there were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9. The tables below show the reconciliation of the financial assets and financial liabilities balances as at October 1, 2018, the IFRS 9 transition date.

### As at Oct. 1, 2018

Financial Assets	Held for Trading	Designated as FVTPL	Loans and Receivables**	FVTPL
Opening balance - under IAS 39	54	2,245,742	1,550	—
On the basis of change from IAS 39 to IFRS 9:				
- reclassification of investments to FVTPL*	(54)	(2,245,742)	—	2,245,796
Total change on transition to IFRS 9	(54)	(2,245,742)	—	2,245,796
Opening balance - under IFRS 9	—	—	1,550	2,245,796

\* These are financial instruments (including derivatives) classified as held for trading and others designated as FVTPL under IAS 39.

\*\* These are other financial assets classified as loans and receivables under IAS 39, now classified as amortized cost under IFRS 9.

### As at Oct. 1, 2018

Financial Liabilities	Held for Trading	Other Financial Liabilities**	FVTPL
Opening balance - under IAS 39	—	6,154	—
On the basis of change from IAS 39 to IFRS 9:			
- reclassification of securities sold short and derivatives*	—	—	—
Total change on transition to IFRS 9	—	—	—
Opening balance - under IFRS 9	—	6,154	—

\* These are financial liabilities (such as securities sold short and derivatives) classified as held for trading under IAS 39.

\*\* These were classified as other financial liabilities under IAS 39, now classified as amortized cost under IFRS 9.

# Management's Responsibility for Financial Reporting

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The accompanying financial statements have been prepared by management of BMO Investments Inc. Management is responsible for the information and representations made in these financial statements. Management has maintained appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been produced in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and include certain amounts that are based on estimates and judgements. The significant accounting policies which management believes are appropriate for the BMO Mutual Funds are described in Note 3 to the financial statements.

The Trustee of each of the Funds, structured as Trusts, is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Trustee reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors.

The Board of Directors of BMO Corporate Class Inc. is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. The Audit Committee of the Board of Directors reviews the financial statements, adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the Board approval of the financial statements.

PricewaterhouseCoopers LLP are the external auditors of the BMO Mutual Funds. The auditors have been appointed by the respective Boards and cannot be changed without the prior approval of the Independent Review Committee and 60 days notice to the Securityholders. They have audited the financial statements in accordance with generally accepted auditing standards in Canada to enable them to express their opinion on the financial statements. Their report is included as an integral part of the financial statements.

Mr. Steve Ilott,  
*Head and Chief Investment Officer*  
BMO Investments Inc.  
December 5, 2019

Robert J. Schauer,  
*Chief Financial Officer*  
BMO Mutual Funds  
December 5, 2019

**BMO Investments Inc.**

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

**Independent Auditor**

PricewaterhouseCoopers LLP  
PwC Tower  
18 York Street, Suite 2600  
Toronto, Ontario M5J 0B2

If you have any questions, please give us a call as follows:

- If you purchased BMO Mutual Funds through a BMO Bank of Montreal branch or BMO Online Banking, please call 1-800-665-7700.
- If you purchased BMO Mutual Funds through a full-service or discount broker, please call 1-800-668-7327 or email [clientservices.mutualfunds@bmo.com](mailto:clientservices.mutualfunds@bmo.com).

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