Municipal Insights

President Trump's infrastructure plan fails to ignite enthusiasm

"Make no little plans; they have no magic to stir men's blood and probably themselves will not be realized."

1907 — Legendary Chicago architect and urban planner Daniel Burnham

On February 12, 2018, President Donald Trump unveiled his $1.5 trillion infrastructure plan. The plan received an unenthusiastic response by all constituents as it does not meaningfully address this country's ailing infrastructure. With only $200 billion in federal funding, the plan forces infrastructure spending down to the state and local level with thoughts that private investment will fill the funding gap. The plan encourages the sale of federal assets and private management of federal infrastructure projects for cost savings. Additionally, to encourage greater private participation, President Trump is asking for a more streamlined approval permitting process. Upcoming midterm elections and an already pressured Congressional agenda will most likely prevent any passage of the proposed infrastructure plan in 2018.

The central goal of the plan is to alter the way infrastructure is built and maintained in the United States. The White House believes that historic overreliance on federal funding has created a disincentive for non-federal revenue sources. By providing seed money to state and local governments, the White House believes there will be a greater incentive for public-private enterprise. The President's plan does provide an outline for ultimate legislation and marks a point from which negotiations with legislators can begin.

While many current federal infrastructure programs would remain in place, the plan would provide:

- Competitive grants for state and local governments as well as expanded low cost federal loans.
- Block grants encouraging rural infrastructure.
- Funding to programs that encourage the incorporation of technological advancements.
- Privatization of federal assets such as Ronald Reagan Washington National Airport, Washington Dulles International Airport and the George Washington Parkway.
- A stream-lined approval process cut to two years or less via the appointment of a single federal agency charged with granting a single federal permit.
- Expanded access to Private Activity Bonds (PABs), providing a financing mechanism for privately built assets via the tax-exempt debt market.

Municipal fixed income

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Ultimately, the primary obstacle to greater infrastructure spending is finding the money. This is the main reason the United States has suffered a long period of underinvestment in infrastructure. The nation's reluctance to raise gas taxes, tolls and user fees will continue to hinder any infrastructure plan. Positively, President Trump has indicated that he would support an increase in the federal gas tax to help fund infrastructure programs. However, the recently passed federal tax plan limiting state and local tax deductions makes it more challenging to raise taxes and fees to fund the cost of infrastructure.

Already in to the third month of 2018, Texas Republican Senator John Cornyn has indicated that it is unlikely that there will be time this year to deal with infrastructure legislation given debates on the federal budget, guns, immigration, and the re-election campaigns.

In the end, the President's plan simply is not bold enough to stir men's blood.

> Ultimately, the primary obstacle to greater infrastructure spending is finding the money.

Market commentary

February saw a continuation of upward pressure on yields leading to a second month of negative returns in the muni market, albeit not as onerous as January. The Bloomberg Barclays 1-15 year Muni Blend Index declined 0.26% for the month, giving us a year-to-date decline of 1.13%. Not what we want to see as investors, but relatively mild compared to the volatility we have seen in the equity markets. The poor performance has had a negative impact on demand. Municipal funds and ETFs posted net outflows of $635 million in February, in stark contrast to the $10.5 billion that flowed into municipal funds in January. Outflows did ease towards the end of the month. We will see if another month of negative performance dampens investor interest going forward. We are going into the seasonally weak months of March and April for the municipal market. Municipal primary issuance typically picks up and selling pressures increase. But with supply significantly curtailed due to the lack of advanced refunding deals, it may be a mild spring for the municipal market.

With the 10-year Treasury yield bouncing in the 2.80-2.90% area, we seem to have found some stability for the time being. However, we face a variety of triggers for yields to move quickly in either direction — inflation, trade wars, equity volatility, European political changes, wage pressures, etc. U.S. employment continues to improve with a recent weekly initial jobless claims number of 210,000, the lowest in 49 years. As of this writing, a 25 basis point Federal Reserve hike to 1.75% is fully priced into the market. We will continue to follow the Federal Open Market Committee (FOMC) statements and member speeches closely for any forward looking guidance. We still expect pressure for yields to move higher, particularly on the short end of the curve, albeit, not as much as they have recently.

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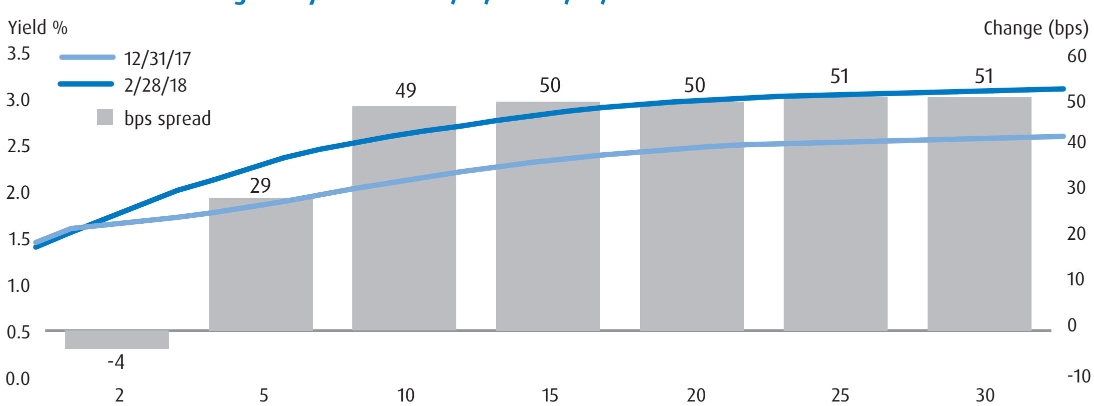
AAA Government Obligation yield curve 12/31/17 to 2/28/18



Source: Thomson Municipal Market Monitor

Strategy overview

Duration

- We will continue to be shorter duration than our benchmark and peers.
- Fixed income markets have been driven to higher yields by heightened concerns of inflation, potential for increased Treasury issuance and an active Fed. U.S. Treasury 10-year yields have risen 45 basis points year-to-date and 80 basis points from the low last September.
- We are looking to invest some cash at these higher yields, but supply is very thin.

Curve

- Overweight municipal floating-rate notes. Avoiding fixed-coupon bonds on the shorter end of the yield curve due to expected Fed rate hikes. Continue to monitor inflation and expectations. Fed has indicated more confidence in attaining their 2% target this year.
- Daily and weekly tax-free, floating-rate-note yields have retreated from the spike higher we saw at the end of 2017, but still attractive versus a year ago. The weekly municipal floating rate index (SIFMA rate) is at 1.09% (2/28/2018) versus 0.62% on 3/1/2017.

Credit and structure

- Like January, not much difference in the performance of lower and higher quality bonds with the Bloomberg AAA and BBB indices down about 30 basis points for the month. Municipal high yield was able to eke out a positive 7 basis points of return for the month. Bonds rated BBB continue to offer little additional spread over higher quality bonds on an historical basis.

Sector

- We like prepaid gas bonds at this time. These somewhat unique tax-exempt bonds can be issued as floating-rate notes with credit support from financial institutions. These institutions are in strong capital positions and benefit from rising interest rates.
- The Bloomberg Illinois Index did underperform by about 15 basis points over the month; however, it has outperformed the broader index by 175 basis points over the past year.

Continued

Performance

Fund performance as of February 28, 2018

Fund/Index	Share class	Inception date	Ticker	Returns as of February 28, 2018 (%) 1-month	YTD	1-year	3-year	5-year	10-year	Since inception	Returns as of December 31, 2017 (%) Q4	1-year	3-year	5-year	10-year	Since inception	Expense ratios (%)[1] Gross	Net
BMO Ultra Short Tax-Free Fund[2]	A NAV	05/27/14	BAUSX	0.07	0.26	0.87	0.55	0.57	—	0.93	0.07	0.92	0.48	0.57	—	0.92	0.64	0.55
BMO Ultra Short Tax-Free Fund[2]	A OFFER[3]			-1.97	-1.79	-1.19	-0.14	0.16	—	0.70	-1.97	-1.15	-0.21	0.15	—	0.68		
BMO Ultra Short Tax-Free Fund[2]	I	09/30/09	MUISX	0.09	0.20	1.02	0.77	0.83	—	1.17	0.13	1.17	0.76	0.82	—	1.17	0.39	0.30
Blended Benchmark[4]				0.11	0.28	0.58	0.45	0.42	—		-0.11	0.66	0.40	0.38	—			
BMO Short Tax-Free Fund[2]	A NAV	05/27/14	BASFX	0.02	0.04	1.22	0.92	1.30	—	1.51	-0.16	2.10	1.04	1.43	—	1.55	0.76	0.55
BMO Short Tax-Free Fund[2]	A OFFER[3]			-2.01	-1.99	-0.83	0.24	0.88	—	1.13	-2.18	0.01	0.36	1.01	—	1.16		
BMO Short Tax-Free Fund[2]	I	11/29/12	MTFIX	0.04	0.07	1.37	1.10	1.47	—	1.68	-0.13	2.25	1.19	1.60	—	1.72	0.51	0.40
Bloomberg Barclays Short (1-5 Year) Municipal Index				0.03	0.17	0.55	0.87	1.00	—		-0.65	1.61	0.96	1.07	—			
BMO Intermediate Tax-Free Fund[5]	A NAV	05/27/14	BITAX	-0.31	-0.96	2.62	1.88	2.28	4.54	4.32	0.50	4.73	2.49	2.60	4.48	4.40	0.58	0.56
BMO Intermediate Tax-Free Fund[5]	A OFFER[3]			-3.83	-4.43	-0.94	0.69	1.55	4.16	4.17	-3.01	1.08	1.29	1.87	4.11	4.24		
BMO Intermediate Tax-Free Fund[5]	Y	02/01/94	MITFX	-0.31	-0.96	2.62	1.88	2.28	4.54	4.32	0.50	4.73	2.49	2.60	4.48	4.40	0.58	0.56
BMO Intermediate Tax-Free Fund[5]	I	12/27/10	MIITX	-0.20	-0.93	2.85	2.15	2.51	4.67	4.38	0.65	5.06	2.73	2.83	4.62	4.45	0.33	0.33
Bloomberg Barclays U.S. 1-15 Year Blend Municipal Bond Index				-0.26	-1.13	1.76	1.77	2.11	4.02		0.15	4.33	2.37	2.46	3.99			

Other benchmarks as of February 28, 2018	Returns as of February 28, 2018 (%) 1-month	YTD	1-year	3-year	5-year	10-year	Returns as of December 31, 2017 (%) Q4	1-year	3-year	5-year	10-year
Bloomberg Barclays U.S. 1-10 Year Blend Municipal Bond Index	-0.22	-0.80	1.22	1.43	1.74	3.52	-0.22	3.49	1.94	2.02	3.56
Bloomberg Barclays U.S. Municipal Bond Index	-0.30	-1.47	2.50	2.22	2.57	4.66	0.75	5.45	2.98	3.02	4.46

Source: Bloomberg Barclays and BMO Global Asset Management

Performance data quoted represents past performance and past performance is not a guarantee of future results. Investment returns and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Mutual fund performance changes over time and current performance may be lower or higher than what is stated. To receive the most recent month-end performance, call 1-800-236-3863. Returns quoted are pre-tax. Investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision as the illustration above does not reflect these factors. For more information about performance, please contact your investment professional. Total returns for periods of less than one year are cumulative.

[1] **Expenses for Class A shares are based on estimated amounts for the current fiscal year. Net expense ratios reflect contractual fee waivers and/or expense reimbursements if applicable, made by BMO Asset Management Corp., the investment adviser (Adviser). The Adviser may not terminate these fee waivers and/or expense reimbursements prior to December 31, 2017 without the consent of the Board of Directors, unless the investment advisory agreement is terminated. Without these contractual waivers, the Fund's returns would have been lower.**

[2] Performance data quoted prior to the inception of the Class A shares is the performance of the Fund's Investor Class (Class Y). Class A Offer reflects a sales load charged at the time of initial investment. On June 2, 2017, the Fund's Class Y shares were converted to Class A shares. The Fund no longer offers Class Y shares.

[3] Offering Price (MOP) returns for the BMO Ultra Short Tax-Free Fund and the BMO Short Tax-Free Fund include the maximum sales charge of 2.00%. Offering Price (MOP) returns for the BMO Intermediate Tax-Free Fund include the maximum sales charge of 3.75%. Net Asset Value (NAV) returns exclude this charge, which would have reduced returns.

[4] The Blended Benchmark: 50% Bloomberg Barclays 1-Year Municipal Bond Index and 50% iMoneyNet Money Fund Tax Free National Retail Index.

[5] Performance data quoted prior to the inception of the Class A shares is the performance of the Fund's Investor Class (Class Y). Class A Offer reflects a sales load charged at the time of initial investment. Performance data quoted prior to 12/27/10 (inception of Class I of the Fund) is the performance of the Fund's Investor Class (Class Y), not adjusted for any differences in the expenses of the classes.

Market data for the journey

Valuation data as of February 28, 2018

AAA yields (%)

		Change		
Year	Current	1-month	3-month	1-year
2	1.52	-0.03	-0.05	0.56
5	1.97	0.14	0.21	0.47
10	2.47	0.12	0.32	0.18
30	3.06	0.15	0.27	0.01

Source: InvestorTools® Perform

Cross-market values (%)[1]

	Current (1-year averages)	
Year	Muni/treasury	Muni/corporate
2	67 (73)	66 (69)
5	75 (73)	75 (71)
10	86 (87)	80 (79)
30	98 (98)	87 (85)

Sources: InvestorTools® Perform and Bloomberg

Yield curve data as of February 28, 2018

Slope changes (%)

		Change		
	Current	1-month	3-month	1-year
Wkly - 2s	1.16	-0.01	-0.12	-0.45
2 - 5s	-0.28	0.14	0.21	0.47
2 - 10s	0.95	0.15	0.37	-0.38
2 - 30s	1.54	0.18	0.32	-0.55

Source: InvestorTools® Perform

Performance by maturity (%)

Year	1-month	3-month	1-year
3	-0.32	-0.53	1.57
5	-0.29	-0.47	2.14
10	-0.28	-0.39	3.09
22+	-0.33	-0.29	4.85

Source: Barclays Point

Credit data as of February 28, 2018

Current rating spreads (%)[2]

	Current (1-year averages)	
Year	AAA–A	AAA–BBB
2	0.21 (0.20)	0.48 (0.47)
5	0.42 (0.40)	0.73 (0.71)
10	0.50 (0.53)	0.85 (0.88)
30	0.51 (0.54)	0.83 (0.86)

Source: InvestorTools® Perform

Performance by quality (%)

Rating	1-month	3-month	1-year
AAA	0.04	0.41	0.49
AA	-0.30	-0.09	0.67
A	-0.43	-0.77	2.26
BBB	-0.43	-0.74	4.33

Source: Barclays Point

BMO Funds Tax-Free Suite

	Ticker			
Fund name	Class A	Class Y	Class I	Premier Class
BMO Tax-Free Money Market Fund	—	MTFXX	—	MFIXX
BMO Ultra Short Tax-Free Fund	BAUSX	MUYSX	MUISX	—
BMO Short Tax-Free Fund	BASFX	MTFYX	MTFIX	—
BMO Intermediate Tax-Free Fund	BITAX	MITFX	MIITX	—

[1] Cross-market values represent the ratio of tax-free municipal yields to taxable Treasury yields. The percentage in the parentheses represents that average of this ratio over the prior twelve months.

[2] The current rating spread is the difference between the benchmark AAA municipal yield curve and the associated rating benchmark (either A or BBB) for the appropriate maturity time frame. The percentage in the parentheses represents the spread over the prior twelve months.

All investments involve risk, including the possible loss of principal.

You should consider the Fund's investment objectives, risks, charges, and expenses carefully before investing. For a prospectus and/or summary prospectus, which contain this and other information about the BMO Funds, call 1-800-236-3863. Please read it carefully before investing.

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Keep in mind that as interest rates rise, prices for bonds with fixed interest rates may fall. This may have an adverse effect on a Fund's portfolio.

Interest income from Tax-Free Fund investments may be subject to the federal alternative minimum tax (AMT) for individuals and corporations, and state and local taxes.

Credit risk is the possibility that an issuer will default on a security by failing to pay interest or principal when due. Lower credit ratings correspond to higher credit risk.

Municipal bonds are subject to risks including economic and regulatory developments in the federal and state tax structure, deregulation, court rulings, and other factors.

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Bloomberg Barclays 1-10 Year Blend Municipal Bond Index is an unmanaged index of municipal bonds rated BBB or better with 1 to 12 years to maturity.

Bloomberg Barclays U.S. Municipal Bond Index is an unmanaged index of a broad range of investment-grade municipal bonds that measures the performance of the general municipal bond market.

Blended Benchmark consists of 50% Bloomberg Barclays 1 Year Municipal Bond Index and 50% iMoneyNet Money Fund Tax Free National Retail Index. Money Fund Report Averages™ is an arithmetic average of performance for all money market mutual funds tracked within this category. Money Fund Report Averages™ is a service of iMoneyNet, Inc. (formerly IBC Financial Data). The Bloomberg Barclays 1-Yr Municipal Bond Index is the 1-year component of the Bloomberg Barclays Municipal Bond Index, which is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa.

Bloomberg Barclays Short (1-5 Year) Municipal Index includes investment-grade tax-exempt bonds that are issued by state and local governments and have maturities of 1 to 5 years.

Bloomberg Barclays U.S. 1-15 Year Blend Municipal Bond Index is the 1-15 year Blend component of the Bloomberg Barclays Municipal Bond Index, which is an unmanaged index composed of long-term tax-exempt bonds with a minimum credit rating of Baa and a range of maturities between 1 and 17 years.

Investments cannot be made in an index.

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