Case Name: *In the Matter of* Accrediting Council for Independent Colleges and Schools

Docket No.: 16-44-O

Filing Party: Respondent, Accrediting Council for Independent Colleges and Schools

Exhibit No.: B-O-70

BMO Private Bank Overview Prepared for ACICS

Prepared by

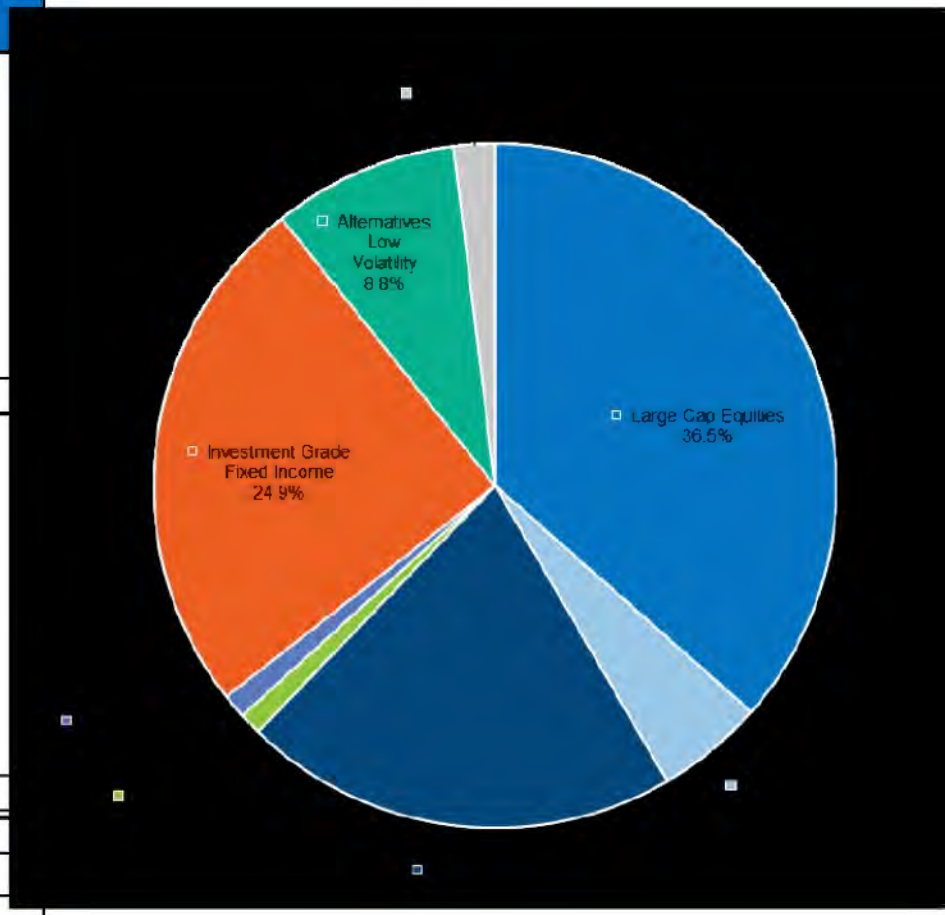
Director, Senior Portfolio Manager
||

Associate Portfolio Manager
||

Asset Allocation – Accrd Cncl For Ind Coll & Schools

as of November 24, 2017.

	Accrd Cncl For Ind Coll & Schools ACCOUNT: 000001247097	
	Market Value	**% of Account**
Cash Equivalents		
Total Cash Equivalents	(b)(4)	**1.9%**
Low Volatility Assets		
Fixed Income		
Corporate / Taxable Bonds		20.9%
Taxable Funds		3.9%
High Yield Funds		8.8%
Total Fixed Income		**33.7%**
Total Low Volatility Assets		**35.6%**
High Volatility Assets		
Equities		
Individual Common Stocks		36.5%
U.S. Small/Mid Cap Funds		5.1%
International Equity Funds		20.6%
Total Equities		**62.2%**
Alternative Investments		
REITs		1.1%
Total Return Hedge Funds		1.1%
Total Alternative Investments		**2.2%**
Total High Volatility Assets		**64.4%**
Total Account Value		**100.0%**
Estimated Annual Income		
Tax- Exempt		
Taxable		
Total Estimated Annual Income		**2.23%**



Selected Period Performance – Accrd Cncl For Ind Coll & Schools

as of October 31, 2017.

ACCRD CNCL FOR IND COLL & SCHOOLS	Total Portfolio %	Market Value	Year to Date (10 Months)	1 Year	3 Years	5 Years
Total Fund	**100.0%**	**11,721,174**	**11.2%**	**14.5%**	**6.0%**	**8.2%**
Total Fund - Net Fees			10.6%	13.7%	5.3%	7.5%
Total High Volatility	**64.3%**	**7,532,758**	**17.5%**	**24.0%**	**8.7%**	**12.6%**
Common Stock	36.4%	4,260,811	18.8%	28.7%	11.5%	16.4%
S&P 500 Index			*16.9%*	*23.6%*	*10.8%*	*15.2%*
Small/Mid Cap Funds	5.1%	596,940	13.8%	23.9%	8.4%	12.7%
Russell 2000 Index			*11.9%*	*27.9%*	*10.1%*	*14.5%*
International Equity	20.7%	2,421,922	21.1%	22.4%	6.3%	6.4%
MSCI EAFE Index - Net			*21.8%*	*23.4%*	*6.1%*	*8.5%*
MSCI Emerg Mkts Free - Net			*32.3%*	*26.5%*	*5.7%*	*4.8%*
Alternatives - Equity	1.1%	132,859	11.8%	14.7%	4.3%	6.1%
Morningstar Long-Short Equity Ind			*7.9%*	*11.1%*	*2.8%*	*5.0%*
REITs	1.0%	120,226	3.0%	4.0%	4.6%	8.4%
FTSE NAREIT Equity REITS			*2.7%*	*5.7%*	*6.1%*	*9.7%*
Total Low Volatility	**34.3%**	**4,016,872**	**2.6%**	**2.3%**	**2.2%**	**1.8%**
Taxable Bonds	25.3%	2,964,326	2.1%	1.5%	1.8%	1.3%
BarCap Int Govt / Cred Bd			*2.3%*	*0.6%*	*1.9%*	*1.6%*
BarCap 1-3 Yr US Govt / Cred			*1.0%*	*0.7%*	*1.0%*	*0.9%*
Alternatives-Fixed Income	9.0%	1,052,546	4.2%	5.4%	4.4%	4.2%
Morningstar Multialternative Index			*4.7%*	*5.4%*	*1.0%*	*1.6%*
Cash	**1.5%**	**171,544**	**0.6%**	**0.6%**	**0.3%**	**0.2%**
Lipper Money Market Fds Ind			*0.5%*	*0.6%*	*0.2%*	*0.1%*
Lipper Tax-Exempt Money Mkt			*0.4%*	*0.4%*	*0.2%*	*0.1%*

Portfolio Inception: □05/01/2006

Index is made up of 5.7% S&P 500, 1.8% Russell 2000, 2.3% MSCI EAFE, 1.1% MSCI EAFE Small Cap, 1.1% MSCI EM Free, 1.5% DJ/UBS Commodity, 1.5% FTSE NAREIT Equity REITS, 42.5% BarCap Inter Gov/Credit, 42.5% BarCap Muni 5 Yr

Deposit/Withdrawal History – Accrd Cncl For Ind Coll & Schools

from September 30, 2005 to November 24, 2017.

Portfolio Name	Security	Trade Date	Settle Date	Trade Amount
Deposit				
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/9/2006	5/9/2006	(b)(4)
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/10/2006	5/10/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/10/2006	5/10/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/16/2006	5/16/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/23/2006	5/23/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/25/2006	5/25/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/31/2006	5/31/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/31/2006	5/31/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/5/2006	6/5/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/6/2006	6/6/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/6/2006	6/6/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/7/2006	6/7/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/14/2006	6/14/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/6/2006	7/6/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/7/2006	7/7/2006	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	10/12/2007	10/12/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	5/8/2009	5/8/2009	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	10/19/2009	10/19/2009	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	11/17/2009	11/17/2009	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	11/18/2010	11/18/2010	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	4/5/2016	4/5/2016	

Portfolio Name	Security	Trade Date	Settle Date	Trade Amount
Withdraw				
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/26/2006	7/26/2006	(b)(4)
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	4/2/2007	4/2/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	4/5/2007	4/5/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/27/2007	7/27/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/30/2007	7/30/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	8/31/2007	8/31/2007	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/29/2008	7/29/2008	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/31/2008	7/31/2008	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	8/19/2008	8/19/2008	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/1/2009	7/1/2009	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	8/11/2009	8/11/2009	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	8/9/2010	8/9/2010	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/31/2014	7/31/2014	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/21/2016	6/21/2016	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	7/15/2016	7/15/2016	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	6/29/2017	6/29/2017	
Accrd Cncl For Ind Coll & Schools	PRINCIPAL CASH	9/13/2017	9/13/2017	

PORTFOLIO STATEMENT
AS OF TRADE DATE 11-24-17
ACCOUNT: 000001247097
Accrd Cncl For Ind Coll & Schools

Share/Face	Security	Ticker	Maturity	NWL	MARKET 11-24-17 Price	MARKET 11-24-17 Market Value	TAX COST Unit Cost	TAX COST Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	ESTIMATED INCOME Coupon or Dividend	ESTIMATED INCOME Annual Income
MANAGED													
	S-T INVEST & FIXED INCOME/LOW VOLATILITY												
	SHORT TERM INVESTMENTS												
	CASH EQUIVALENTS												
	PRINCIPAL CASH	pcash											
	INCOME CASH	icash											
	FEDERATED GOVT OBLI FD-I	60934n104											
	SUBTOTAL CASH EQUIVALENTS												
	SUBTOTAL SHORT TERM INVESTMENTS												
	FIXED INCOME/LOW VOLATILITY												
	CORPORATE AND OTHER TAXABLE BONDS												
100,000.00	NUCOR CORP 5.750% Due 12-01-17	670346ag0	12-01-17										
200,000.00	GENERAL ELECTRIC CO 5.250% Due 12-06-17	369604bc6	12-06-17										
200,000.00	GOLDMAN SACHS GP 6.150% Due 04-01-18	38141gfm1	04-01-18										
200,000.00	CHEVRON CORP 1.718% Due 06-24-18	166764ae0	06-24-18										
100,000.00	JOHN DEERE CAP MTN 5.750% Due 09-10-18	24422eqv4	09-10-18										
200,000.00	AMERICAN HONDA MTN 2.125% Due 10-10-18	02665wac5	10-10-18										
200,000.00	COMCAST CORP 5.700% Due 07-01-19	20030naz4	07-01-19										
100,000.00	JOHN DEERE CAP MTN 2.300% Due 09-16-19	24422ess9	09-16-19										
100,000.00	TD AMERITRADE HLDG 5.600% Due 12-01-19	87236yaa6	12-01-19										
100,000.00	AMAZON.COM INC 2.600% Due 12-05-19	023135al0	12-05-19										
200,000.00	ANHEUSER-BUSCH 5.375% Due 01-15-20	03523tan8	01-15-20										
200,000.00	CITIGROUP INC 2.400% Due 02-18-20	172967jj1	02-18-20										
200,000.00	VERIZON COMM INC 3.450% Due 03-15-21	92343vcc6	03-15-21										
200,000.00	JPMORGAN CHASE 4.625% Due 05-10-21	46625hhz6	05-10-21										
100,000.00	BURLINGTON NORTH 3.450% Due 09-15-21	12189laf8	09-15-21										

(b)(4)

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PORTFOLIO STATEMENT
AS OF TRADE DATE 11-24-17
ACCOUNT: 000001247097
Accrd Cncl For Ind Coll & Schools

Share/Face	Security	Ticker	Maturity	NWL	MARKET 11-24-17 Price	Market Value	TAX COST Unit Cost	Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	ESTIMATED INCOME Coupon or Dividend	Annual Income
	SUBTOTAL CORPORATE AND OTHER TAXABLE BONDS												
	SUBTOTAL FIXED INCOME/LOW VOLATILITY												
	FIXED INCOME MUTUAL FUNDS												
	TAXABLE FUNDS												
1,093.055	FEDERATED ULTRA SHORT FD-INS	fulix											
42,365.422	VANGUARD S/T INVEST GR-ADM	vfsux											
	SUBTOTAL TAXABLE FUNDS												
	SUBTOTAL FIXED INCOME MUTUAL FUNDS												
	ALTERNATIVES - LOW VOLATILITY												
	HIGH YIELD MUTUAL FUNDS												
40,040.040	ARTISAN HIGH INCOME-ADV	apdfx											
72,339.421	FRANKLIN FLT RTE DLY ACC-ADV	fdaax											
	SUBTOTAL HIGH YIELD MUTUAL FUNDS												
	SUBTOTAL ALTERNATIVES - LOW VOLATILITY												
	SUBTOTAL FIXED INCOME & FI MT FDS/LOW VOLATILITY												
	SUBTOTAL S-T INVEST & FIXED INCOME/LOW VOLATILITY												
	EQUITY & EQ MUTUAL FUNDS/HIGH VOLATILITY												
	EQUITY/HIGH VOLATILITY												
	MATERIALS												
835.00	BERRY GLOBAL GROUP INC	bery											
1,325.00	OWENS ILL INC	oi											
1,075.00	STEEL DYNAMICS INC	stld											
	SUBTOTAL MATERIALS												
	CONSUMER DISCRETIONARY												
3,800.00	COMCAST CORP-CL A	cmcsa											
325.00	HOME DEPOT INC	hd											
750.00	LEAR CORP	lea											
1,500.00	LOWES COS INC	low											
675.00	ROYAL CARIBBEAN CRUISES LTD	rcl											
500.00	WYNDHAM WORLDWIDE CORP	wyn											
	SUBTOTAL CONSUMER DISCRETIONARY												
	CONSUMER STAPLES												

(b)(4)

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500.00	BUNGE LIMITED	bg											
1,450.00	CVS HEALTH CORP	cvs											
250.00	PEPSICO INC	pep											
1,100.00	WAL MART STORES INC	wmt											
	SUBTOTAL CONSUMER STAPLES												
	HEALTH CARE												
525.00	ABBVIE INC	abbv											
920.00	CELGENE CORP	celg											
400.00	CIGNA CORP	ci											
550.00	HILL-ROM HOLDING	hrc											
685.00	ISHARES DJ US HEALTHCARE SEC ETF	iyh											
275.00	JOHNSON & JOHNSON	jnj											
850.00	LILLY ELI & CO	lly											
925.00	PFIZER INC	pfe											
	SUBTOTAL HEALTH CARE												
	ENERGY												
850.00	CHEVRON CORPORATION	cvx											
850.00	CONOCOPHILLIPS	cop											
525.00	SCHLUMBERGER LTD	s b											
	SUBTOTAL ENERGY												
	FINANCIALS												
275.00	ALEXANDRIA REAL ESTATE EQUITIES INC	are											
1,225.00	ALLSTATE CORP	all											
2,255.00	CITIGROUP INC	c											
1,425.00	DISCOVER FINL SVCS	dfs											
250.00	EQUINIX INC REIT	eqix											
410.00	ESSEX PROPERTY TRUST INC REIT	ess											
550.00	PROGRESSIVE CORP OHIO	pgr											
350.00	S&P GLOBAL INC	spgi											
1,700.00	UNUM GROUP	unm											
2,575.00	WELLS FARGO & CO	wfc											
	SUBTOTAL FINANCIALS												
	INDUSTRIALS												
800.00	ALLISON TRANSMISSION HOLDINGS INC	alsn											
565.00	BOEING CO	ba											
150.00	CUMMINS INC	cmi											
100.00	FEDEX CORPORATION	fdx											
325.00	HUNTINGTON INGALLS INDUSTRIES	hii											
600.00	OWENS CORNING INC	oc											

(b)(4)

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1,500.00	SOUTHWEST AIRLINES CO	luv											
390.00	UNITED RENTALS INC	uri											
	SUBTOTAL INDUSTRIALS												
	INFORMATION TECHNOLOGY												
225.00	ALLIANCE DATA SYSTEMS CORP	ads											
175.00	ALPHABET INC CL C	goog											
700.00	APPLE INC	aapl											
1,600.00	APPLIED MATERIALS INC	amat											
2,150.00	CADENCE DESIGN SYSTEMS INC	cdns											
1,440.00	CISCO SYSTEMS INC	csco											
475.00	F5 NETWORKS INC	ffiv											
290.00	LAM RESEARCH CORP	lrcx											
1,400.00	MICROSOFT CORP	msft											
550.00	RED HAT INC	rht											
	SUBTOTAL INFORMATION TECHNOLOGY												
	UTILITIES												
1,915.00	AMEREN CORP	aee											
1,450.00	AMERICAN ELEC PWR INC	aep											
600.00	PORTLAND GENERAL ELECTRIC CO	por											
	SUBTOTAL UTILITIES												
	SUBTOTAL EQUITY/HIGH VOLATILITY												
	EQUITY MUTUAL FUNDS												
	U.S. SMALL/MID CAP FUNDS												
4,614.745	ABERDEEN US SMALL CAP EQ-INS	gscix											
13,366.530	CHAMPLAIN MID CAP FUND-INS	cipix											
3,714.515	T ROWE PR SM CAP STOCK-RTL	otcfx											
	SUBTOTAL U.S. SMALL/MID CAP FUNDS												
	INTERNATIONAL FUNDS												
34,015.249	ABERDEEN EMER MKTS-INST	abemx											
21,364.135	ARTISAN DEVELOPING WORLD-INS	aphyx											
7,359.888	TWEEDY BROWNE FD INC GLOBAL VALUE	tbgvx											
6,703.355	VOYA MM INTL SM CAP-I	napix											
30,583.000	XTRACKERS MSCI EAFE HEDGED EQU	dbef											
	SUBTOTAL INTERNATIONAL FUNDS												
	SUBTOTAL EQUITY MUTUAL FUNDS												
	ALTERNATIVES - HIGH VOLATILITY												

(b)(4)

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AS OF TRADE DATE 11-24-17
ACCOUNT: 000001247097
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					MARKET 11-24-17		TAX COST					ESTIMATED INCOME	
Share/Face	Security	Ticker	Maturity	NWL	Price	Market Value	Unit Cost	Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	Coupon or Dividend	Annual Income
	TOTAL RETURN HEDGE FUNDS												
10,299.138	HIGHLAND LONG/SHORT EQY-Z	heozx			(b)(4)								
	SUBTOTAL TOTAL RETURN HEDGE FUNDS												
	SUBTOTAL ALTERNATIVES - HIGH VOLATILITY												
	REITS												
	REITS												
6,152.836	VOYA REAL ESTATE-I	crarx											
	SUBTOTAL REITS												
	SUBTOTAL REITS												
	SUBTOTAL EQUITY & EQ MUTUAL FUNDS/HIGH VOLATILITY												
	SUBTOTAL MANAGED												
	TOTAL ACCOUNT												

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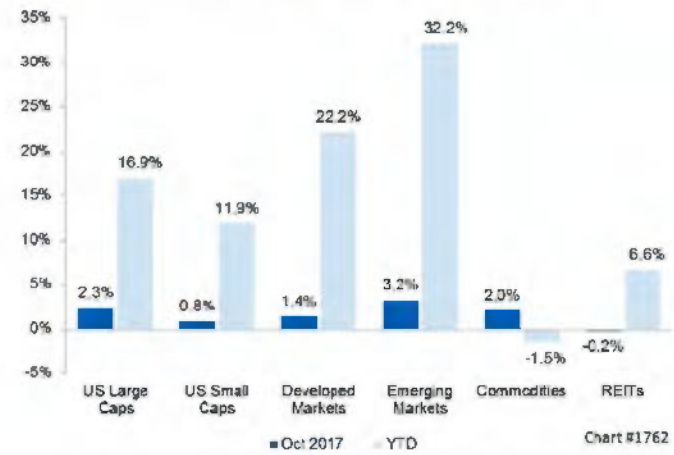
Monthly Market Outlook

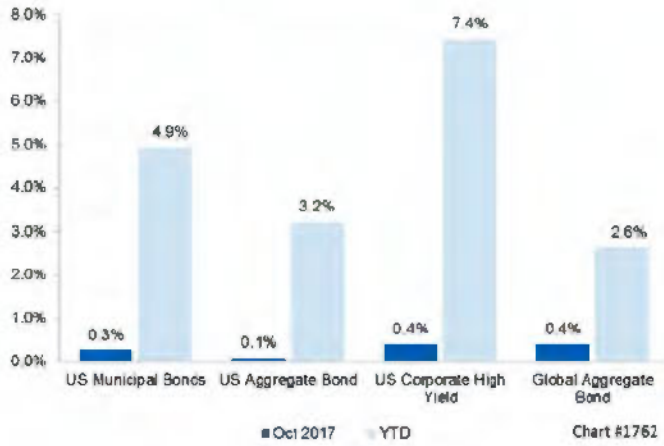
Market Review, November 2017

- U.S. large cap stocks gained ground for the seventh consecutive month, posting a 2.3 percent advance for the month. Small caps edged incrementally, as corporate tax reform talk cooled. The U.S. dollar added to last month's gains, picking up an additional 1.6 percent on the back of strong U.S. economic data.
- The U.S. economy beat forecasters' expectations by growing 3 percent on an annualized basis in the third quarter. That represents the second consecutive quarter of 3 percent growth. The advance was fueled by consumer spending, inventory building and a gains in exports. The U.S. economy is showing remarkable resilience in the face of an incessant wave of natural disasters in the quarter.
- International equities, attenuated by dollar strength, continued their winning streak last month. Developed markets, including Europe, the U.K. and Japan picked up 1.4 percent in October, leaving the index more than 20 percent to the good so far this year. Japan, which represents nearly 20 percent of the index, surged more than 8 percent last month.
- Emerging market equities gained more than 3 percent last month, pushing the index above 30 percent for the year. Growth in the developed world combined with easy monetary policies helped propel these relatively cheaper markets higher.
- Commodities gained 2 percent in increased demand. Crude gained for the fourth consecutive month as Saudi Arabia has shown a willingness to cut production and improving economies have boosted demand. Meats, including hogs and beef, gained 13 percent and 9 percent in October, respectively.
- REITs continued to edge lower even though the bond market gained ground. Investors worry that the new tax package could make REITs' favorable tax treatment less attractive should corporate rate roll back.

Equity and Commodity Performance Through October 2017



Fixed Income Performance Through October 2017



Source: Bloomberg, BMO Private Bank. Indices = S&P 500® Index, Russell 2000® Index, MSCI EAFE, MSCI Emerging Markets Index, Bloomberg Commodity Total Return Index, FTSE NAREIT All Eq REITs Index, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index.

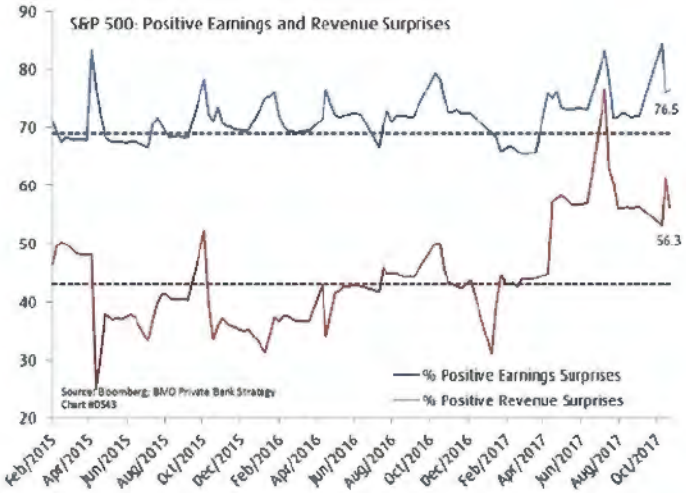
For general information only.

Market conditions and trends will vary. Past performance is no guarantee of future results.

Earnings Environment, November 2017

S&P 500 Profits remain Strong despite the Storms

- Third quarter earnings are expected to grow 7.8 percent year over year. A pullback from two consecutive double-digit quarters, but is reflective of the challenges presented by three major hurricanes in the period.
- Energy companies posted enormous gains on the back of a 40 percent rise in crude over the last 12 months. Without the benefit of the energy sector, overall profit growth downshifts to 5 percent.
- Technology companies delivered strong profit growth, backed by a blowout quarter for Amazon. Microsoft and IBM delivered strong gains as well, thanks to improving global growth and business spending.
- An impressive 56 percent of companies reporting beat their top line estimates. That's 15 percentage points higher than historical norms. More than 75 percent beat on the bottom line, too.
- Analysts anticipate a rebound in profit growth next quarter and beyond. Tax reform, which is expected to add $10 per share of S&P profits, would also be a plus.



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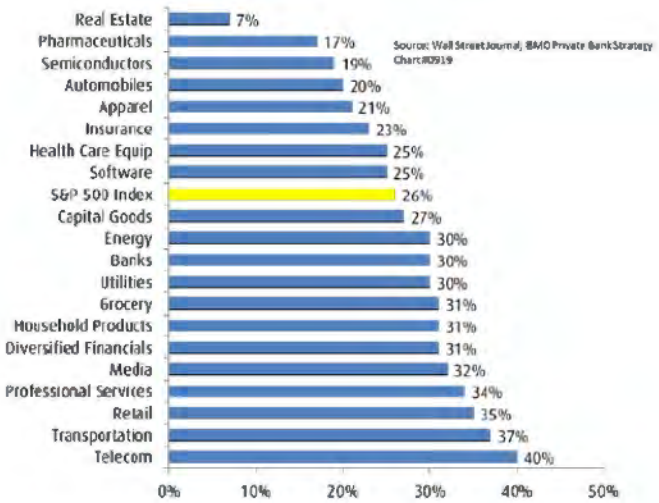
Market conditions and trends will vary
Past performance is no guarantee of future results

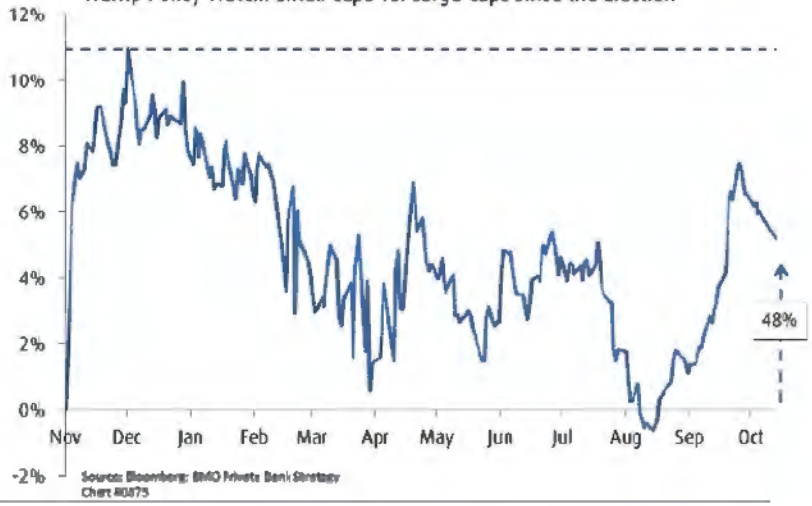
Tax Reform, November 2017

- While most industries would benefit from a 20 percent corporate tax rate, several groups, including real estate, pharmaceuticals and semis, would wind up paying a higher effective rate.
- Investors are placing a 50/50 chance of getting tax reform measures signed into law. Passage of the Senate's 2018 budget resolution lowers the hurdle from 60 members to 51 to get tax legislation approved in the Senate.
- It remains to be seen whether or not the bill would include incentives to repatriate the $2 trillion of "stranded" cash stuck in low-tax territories like Ireland, Singapore and Hong Kong.
- It is estimated that corporate tax reform could boost the S&P 500 between $8 and $10 per share. That's 5-7 percent of additional upside at current valuation. Realistically, it's closer to 3-4 percent upside since a portion of its passage is already priced in.
- A majority of CEO clients I've talked to indicated that they would boost business spending and capex if their tax rate was lowered.
- Without a reduction in health care costs, its likely that robots will be a likely beneficiary of increased business spending, not jobs.

Effective Tax Rate by Industry



Trump Policy Watch: Small Caps vs. Large Caps since the Election



For general information only
Market conditions and trends will vary
Past performance is no guarantee of future results

Outlook: Domestic Equities, November 2017

Valuation

- Relative to history, U.S. equities are expensive. The S&P 500 is trading more than two times revenues, the highest price-to-sales ratio since the tech bubble. Corporate earnings, however, are expanding at an impressive pace. The bond market is the only lens that allows equities to look relatively cheap.

Economy

- U.S. economic data improved. America enjoyed two consecutive quarters of three-plus growth. Global data are strong. Japan is notching strong gains in both its economy and equity markets. Chances of corporate tax reform has improved in recent weeks. That's a plus.

Liquidity

- The Federal Reserve's plan for quantitative tightening has been set into motion. The Fed is expected to raise rates in December and begin tamping down its bond reinvestment program. The ECB announced it will scale back its bond buying later next year. The Bank of Japan has no intentions of reducing its stimulus program soon.

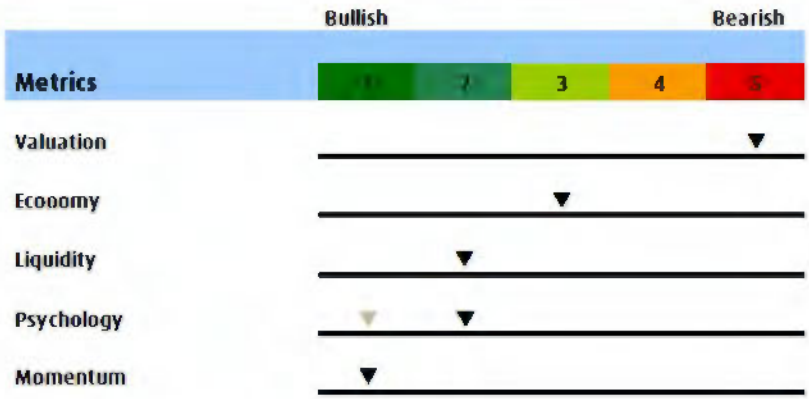
Psychology

- A cooling of geopolitical tensions and improving stocks helped best investor attitudes last month. Nonetheless, there are still more bears than bulls currently.

Momentum

- Momentum remains strong. The market has not suffered a 5 percent pullback this year. Investors have virtually looked past a series of September headlines. The S&P 500 has recorded more than 50 all-time highs this year.

BMO Private Bank S&P 500 Metrics
November 2017



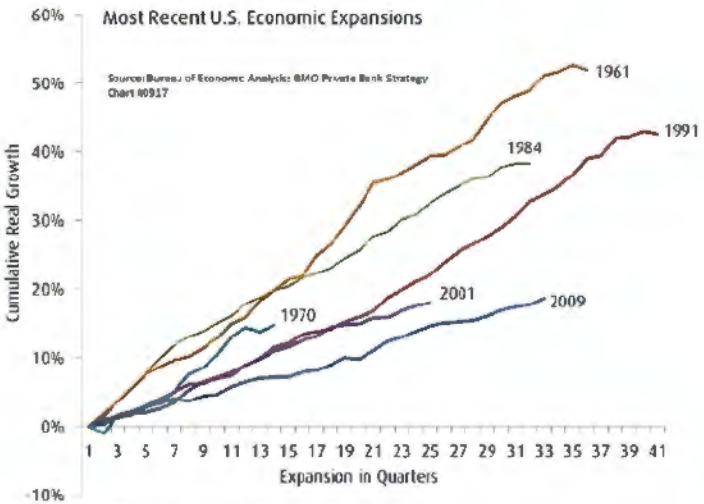
Source: BMO Private Bank Strategy
Chart #0838

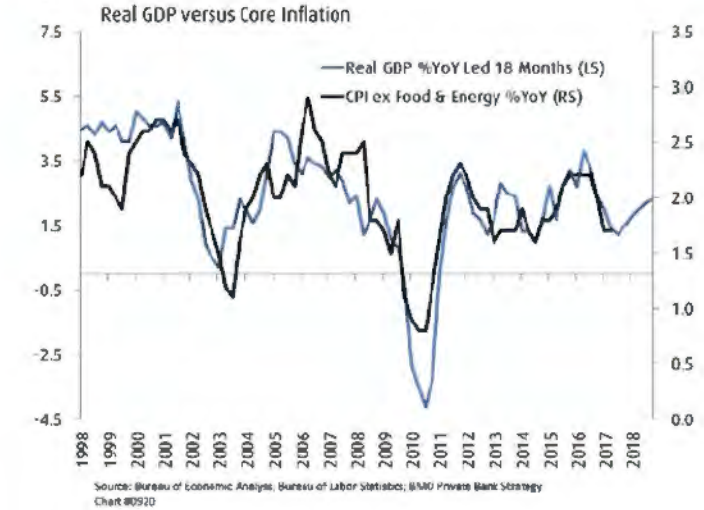
Any appearance of a grey arrow conveys the outlook as of last month.

Source: BMO Private Bank Strategy
For general information only
Market conditions and trends will vary
Past performance is no guarantee of future results

Outlook: On the Lookout for Inflation, November 2017

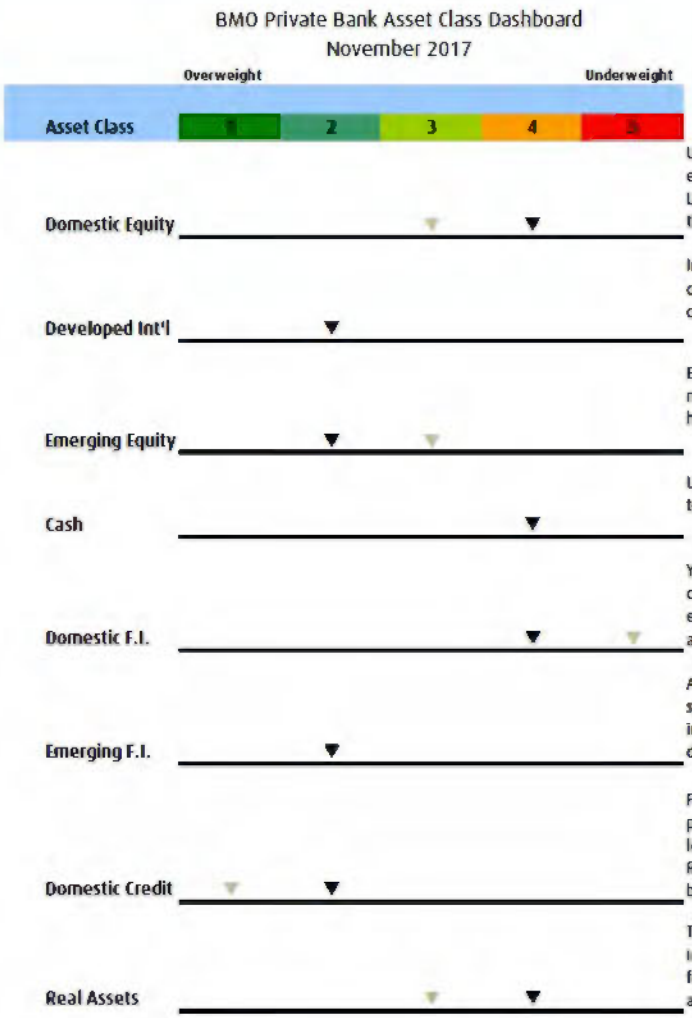
- Reasonable growth, low inflation and generous interest rates are creating a favorable risk-taking environment. We expect these conditions to continue until we see evidence of an inflation pickup.
- Despite the nine-year recovery, inflation is nowhere to be found. Wage growth remains under control despite the 4-plus percent unemployment rate.
- Even though our recovery is the third longest, it is also the shallowest, suggesting more time until spare production capacity and labor capacity is used up.
- Our year-over-year GDP growth model suggests higher inflation in 18 months, however, pricing gains could expand to 2 percent, year over year.





For general information only
Market conditions and trends will vary
Past performance is no guarantee of future results

Tactical Positioning[1], November 2017



Source: BMO Private Bank Strategy
Chart #0839

Comment

U.S. equities are relatively expensive when gauged against earnings and revenues. Fundamentals are solid, however. Liquidity levels remain robust even as the Fed is poised to reduce their balance sheet reinvestment program.

International equities are relatively cheaper than their U.S. counterparts, and fundamentals are improving. Economic conditions are improving, as are corporate earnings.

Emerging equities are relatively cheap and their fundamentals and momentum are on the rise. Economic data is a plus. Momentum has turned bullish.

Unattractive yield, but cash offers dry powder that would allow us to buy equities or bonds' on pullbacks.

Yields are unattractive by historical standards and leave little cushion in the event they rise. We expect rates to rise as expansionary policies move to center stage. TIPs may be an attractive alternative to fixed-rate Treasurys.

Attractively positioned relative to domestic fixed income. While spreads are narrow relative to their history, emerging market fixed income offers incremental income opportunities with diversification benefits.

Favorable liquidity conditions present a tailwind for credit. Yield premiums are low, although banks are beginning to tighten their lending standards. Loan demand is diminishing as well. A Federal Reserve which is willing to drag its feet on raising rates is the biggest factor supporting credit this year.

Trump's expansionary policies could put upward pressure on inflation and interest rates. Investors dialed back their enthusiasm for political change right away. Lower rates could support REITs, although risk taking could take a hit.

1: Overweight / Underweight posi ioning relates to the long-term strategic asset allocation
Source: BMO Private Bank Strategy
For general information only. Market condi ions and trends will vary.
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Index Definitions

Equity indices

S&P 500® Index (S&P 500®) is an unmanaged index of large-cap common stocks.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

Russell 2000® Growth Index measures the performance of those Russell 2000 Companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000® Value Index measures the performance of those Russell 2000 Companies with lower price-to-book ratios and lower forecasted growth values.

MSCI EAFE Index (NDDUEAFE) (Developed Markets) — MSCI EAFE Index Europe, Australasia, and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International.

MSCI Emerging Markets Index (NDUEEGF) is a market capitalization weighted index comprised of over 800 companies representative of the market structure of the emerging countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

FTSE NAREIT All Eq REITs Index contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

Fixed income indices

Barclays Global Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least $250 million par amount outstanding and with at least one year to final maturity.

Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Barclays U.S. Corporate High-Yield Bond Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market.

Barclays 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Barclays Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Commodity Total Return Index is a broadly diversified index that is composed of futures contracts on 22 physical commodities traded on U.S. futures exchanges, with the exception of aluminum, nickel, and zinc, which trade on the London Metal Exchange. The S&P GSCI ® Total Return Index is a composite index of commodity sector returns representing unleveraged, long-only investment in commodity futures across 24 commodities.

BofA Merrill Lynch 3-5 Year Treasury Index is an unmanaged index which includes U.S. Treasury securities with maturities of 3 to 4.99 years. The index is produced by Bank of America Merrill Lynch, Pierce, Fenner & Smith, Inc.

BofA Merrill Lynch High Yield Master Index is a market capitalization-weighted index of all domestic and Yankee High-Yield Bonds. Issues included in the index have maturities of at least one year and have a credit rating lower than BBB-Baa3, but are not in default.

Disclosure

This is not intended to serve as a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. Information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy. This publication is prepared for general information only. This material does not constitute investment advice and is not intended as an endorsement of any specific investment. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investment involves risk. Market conditions and trends will fluctuate. The value of an investment as well as income associated with investments may rise or fall. Accordingly, investors may receive back less than originally invested. Investments cannot be made in an index.

Past performance is not necessarily a guide to future performance.

BMO Wealth Management is a brand name that refers to BMO Harris Bank N.A. and certain of its affiliates that provide certain investment, investment advisory, trust, banking, securities, insurance and brokerage products and services.

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Investment Products are: **NOT FDIC INSURED - NOT BANK GUARANTEED – NOT A DEPOSIT – MAY LOSE VALUE**

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BMO Private Bank Overview Prepared for ACICS

Prepared by

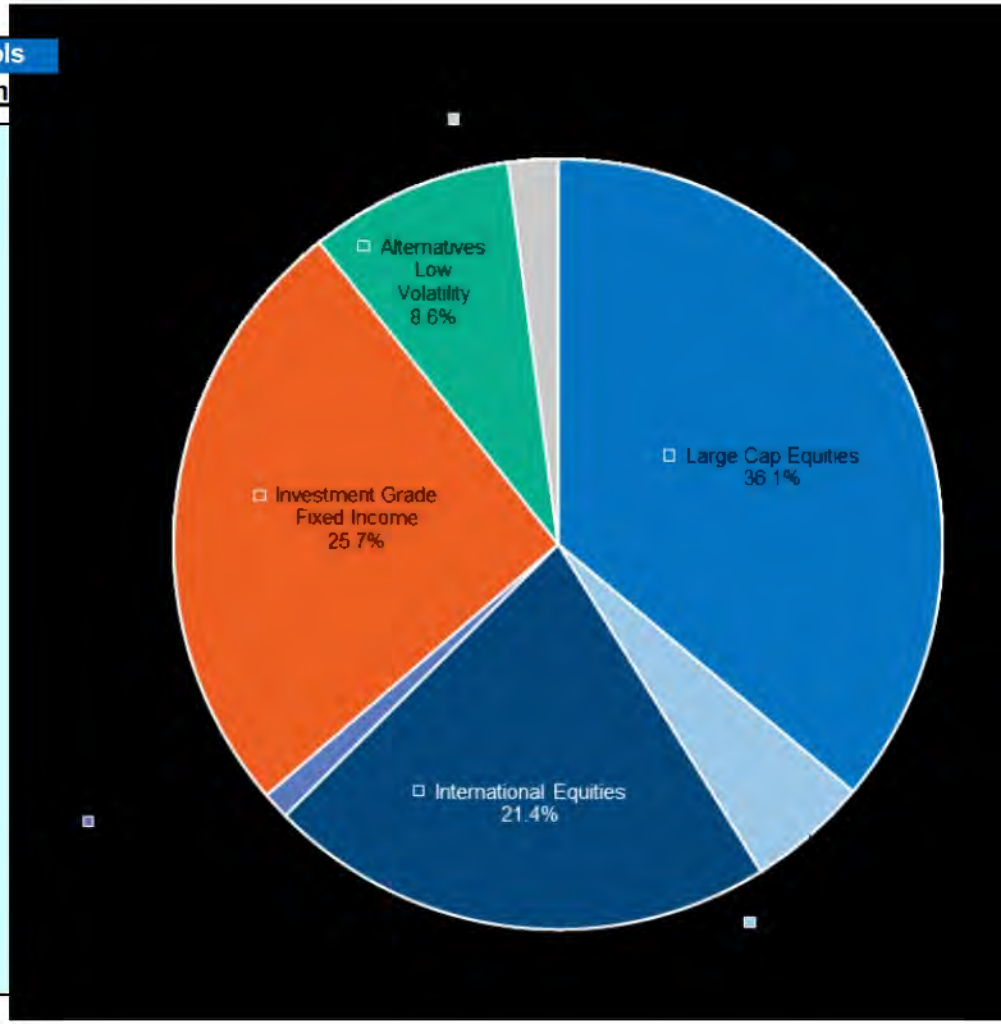
Director, Senior Portfolio Manager
||

Associate Portfolio Manager
||

Asset Allocation – Accrd Cncl For Ind Coll & Schools

as of March 15, 2018.

	Accrd Cncl For Ind Coll & Schools	
	Market Value	% of Accoun
Cash Equivalents	(b)(4)	
Total Cash Equivalents		
Low Volatility Assets		
Fixed Income		
Corporate / Taxable Bonds		
Taxable Funds		
High Yield Funds		
Total Fixed Income		
Total Low Volatility Assets		
High Volatility Assets		
Equities		
Individual Common Stocks		
U.S. Small/Mid Cap Funds		
International Equity Funds		
Total Equities		
Alternative Investments		
Total Return Hedge Funds		
Total Alternative Investments		
Total High Volatility Assets		
Total Account Value		
Estimated Annual Income		
Tax- Exempt		
Taxable		
Total Estimated Annual Income		



Annual Period Performance – Accrd Cncl For Ind Coll & Schools

as of February 28, 2018.

ACCRD CNCL FOR IND COLL & SCHOOLS	Total Portfolio %	Market Value	2016	2017	2018
Total Fund	(b)(4)				
Total Fund - Net Fees					
Total High Volatility					
Common Stock					
S&P 500 Index					
Small/Mid Cap Funds					
Russell 2000 Index					
International Equity					
MSCI EAFE Index - Net					
MSCI EAFE Small Cap - Net					
MSCI Emerg Mkts Free - Net					
Alternatives - Equity					
Morningstar Long-Short Equity Ind					
Total Low Volatility					
Taxable Bonds					
BarCap Int Govt / Cred Bd					
BarCap 1-3 Yr US Govt / Cred					
Alternatives-Fixed Income					
Morningstar Multialternative Index					
Cash					
Lipper Money Market Fds Ind					
Lipper Tax-Exempt Money Mkt					

Portfolio Inception: 05/01/2006

Selected Period Performance – Accrd Cncl For Ind Coll & Schools

as of February 28, 2018.

ACCRD CNCL FOR IND COLL & SCHOOLS	Total Portfolio %	Market Value	Year to Date (2 Months)	1 Year	3 Years	5 Years
Total Fund	(b)(4)					
Total Fund - Net Fees						
Total High Volatility						
Common Stock						
S&P 500 Index						
Small/Mid Cap Funds						
Russell 2000 Index						
International Equity						
MSCI EAFE Index - Net						
MSCI EAFE Small Cap - Net						
MSCI Emerg Mkts Free - Net						
Alternatives - Equity						
Morningstar Long-Short Equity Ind						
Total Low Volatility						
Taxable Bonds						
BarCap Int Govt / Cred Bd						
BarCap 1-3 Yr US Govt / Cred						
Alternatives-Fixed Income						
Morningstar Multialternative Index						
Cash						
Lipper Money Market Fds Ind						
Lipper Tax-Exempt Money Mkt						

Portfolio Inception: 05/01/2006

PORTFOLIO STATEMENT
AS OF TRADE DATE 03-15-18
ACCOUNT: CONSOLIDATED
ACICS Holdings

Share/Face	Security	Ticker	Maturity	NWL	MARKET 03-15-18 Price	MARKET 03-15-18 Market Value	TAX COST Unit Cost	TAX COST Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	ESTIMATED INCOME Coupon or Dividend	ESTIMATED INCOME Annual Income
MANAGED													
	S-T INVEST & FIXED INCOME/LOW VOLATILITY												
	SHORT TERM INVESTMENTS												
	CASH EQUIVALENTS												
	PRINCIPAL CASH	pcash											
	INCOME CASH	icash											
	FEDERATED GOVT OBLI FD-I	60934n104											
	SUBTOTAL CASH EQUIVALENTS												
	SUBTOTAL SHORT TERM INVESTMENTS												
	FIXED INCOME/LOW VOLATILITY												
	CORPORATE AND OTHER TAXABLE BONDS												
200,000.00	GOLDMAN SACHS GP 6.150% Due 04-01-18												
200,000.00	CHEVRON CORP 1.718% Due 06-24-18												
100,000.00	JOHN DEERE CAP MTN 5.750% Due 09-10-18												
200,000.00	AMERICAN HONDA MTN 2.125% Due 10-10-18												
200,000.00	COMCAST CORP 5.700% Due 07-01-19												
100,000.00	JOHN DEERE CAP MTN 2.300% Due 09-16-19												
100,000.00	TD AMERITRADE HLDG 5.600% Due 12-01-19												
100,000.00	AMAZON.COM INC 2.600% Due 12-05-19												
200,000.00	ANHEUSER-BUSCH 5.375% Due 01-15-20												
200,000.00	CITIGROUP INC 2.400% Due 02-18-20												
200,000.00	VERIZON COMM INC 3.450% Due 03-15-21												
200,000.00	JPMORGAN CHASE 4.625% Due 05-10-21												
100,000.00	BURLINGTON NORTH 3.450% Due 09-15-21												
200,000.00	BOSTON PROP LP 3.125% Due 09-01-23												
	SUBTOTAL CORPORATE AND OTHER TAXABL												

(b)(4)

(b)(4)

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SUBTOTAL FIXED INCOME/LOW VOLATILITY						**2,328,884.00**		**2,407,976.01**	**53.39**	**19.4**	**3.8**		**89,036.00**
FIXED INCOME MUTUAL FUNDS													
TAXABLE FUNDS													
32,051.282	BMO SHORT-TERM INCOME FUND CLASS I	msifx											
1,093.055	FEDERATED ULTRA SHORT FD-INS	fulix											
42,365.422	VANGUARD S/T INVEST GR-ADM	vfsux											
SUBTOTAL TAXABLE FUNDS													
SUBTOTAL FIXED INCOME MUTUAL FUNDS													
ALTERNATIVES - LOW VOLATILITY													
HIGH YIELD MUTUAL FUNDS													
40,040.040	ARTISAN HIGH INCOME-ADV	apdfx											
72,339.421	FRANKLIN FLT RTE DLY ACC-ADV	fdaax											
SUBTOTAL HIGH YIELD MUTUAL FUNDS													
SUBTOTAL ALTERNATIVES - LOW VOLATILITY													
SUBTOTAL FIXED INCOME & FI MT FDS/LOW VOLATILITY													
SUBTOTAL S-T INVEST & FIXED INCOME/LOW VOLATILITY													
EQUITY & EQ MUTUAL FUNDS/HIGH VOLATILITY													
EQUITY/HIGH VOLATILITY													
MATERIALS													
835.00	BERRY GLOBAL GROUP INC	bery											
1,325.00	OWENS ILL INC	oi											
1,075.00	STEEL DYNAMICS INC	stld											
SUBTOTAL MATERIALS													
CONSUMER DISCRETIONARY													
3,800.00	COMCAST CORP-CL A	cmcsa											
325.00	HOME DEPOT INC	hd											
465.00	LEAR CORP	lea											
1,500.00	LOWES COS INC	low											
675.00	ROYAL CARIBBEAN CRUISES LTD	rcl											
500.00	WYNDHAM WORLDWIDE CORP	wyn											
SUBTOTAL CONSUMER DISCRETIONARY													
CONSUMER STAPLES													
1,450.00	CVS HEALTH CORP	cvs											
400.00	JM SMUCKER CO	sjm											

(b)(4)

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1,100.00	WALMART INC	wmt											
	SUBTOTAL CONSUMER STAPLES												
	HEALTH CARE												
1,075.00	ABBVIE INC	abbv											
400.00	CIGNA CORP	ci											
550.00	HILL-ROM HOLDING	hrc											
685.00	ISHARES DJ US HEALTHCARE SEC ETF	iyh											
275.00	JOHNSON & JOHNSON	jnj											
850.00	LILLY ELI & CO	lly											
3,525.00	PFIZER INC	pfe											
	SUBTOTAL HEALTH CARE												
	ENERGY												
875.00	CHEVRON CORPORATION	cvx											
850.00	CONOCOPHILLIPS	cop											
800.00	SCHLUMBERGER LTD	s b											
	SUBTOTAL ENERGY												
	FINANCIALS												
275.00	ALEXANDRIA REAL ESTATE EQUITIES INC	are											
1,225.00	ALLSTATE CORP	all											
425.00	AMERICAN EXPRESS CO	axp											
2,255.00	CITIGROUP INC	c											
1,425.00	DISCOVER FINL SVCS	dfs											
125.00	EQUINIX INC REIT	eqix											
410.00	ESSEX PROPERTY TRUST INC REIT	ess											
550.00	PROGRESSIVE CORP OHIO	pgr											
4,745.00	REGIONS FINANCIAL CORP	rf											
350.00	S&P GLOBAL INC	spgi											
1,700.00	UNUM GROUP	unm											
	SUBTOTAL FINANCIALS												
	INDUSTRIALS												
800.00	ALLISON TRANSMISSION HOLDINGS INC	alsn											
440.00	BOEING CO	ba											
100.00	FEDEX CORPORATION	fdx											
325.00	HUNTINGTON INGALLS INDUSTRIES	hii											
600.00	OWENS CORNING INC	oc											
1,500.00	SOUTHWEST AIRLINES CO	luv											
390.00	UNITED RENTALS INC	uri											
	SUBTOTAL INDUSTRIALS												

(b)(4)

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Share/Face	Security	Ticker	Maturity	NWL	MARKET 03-15-18 Price	MARKET 03-15-18 Market Value	TAX COST Unit Cost	TAX COST Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	ESTIMATED INCOME Coupon or Dividend	ESTIMATED INCOME Annual Income
	INFORMATION TECHNOLOGY												
225.00	ALLIANCE DATA SYSTEMS CORP	ads											
175.00	ALPHABET INC CL C	goog											
700.00	APPLE INC	aapl											
525.00	APPLIED MATERIALS INC	amat											
2,150.00	CADENCE DESIGN SYSTEMS INC	cdns											
475.00	F5 NETWORKS INC	ffiv											
1,075.00	FORTINET INC	ftnt											
290.00	LAM RESEARCH CORP	lrcx											
1,400.00	MICROSOFT CORP	msft											
2,175.00	ON SEMICONDUCTOR CORP	on											
550.00	RED HAT INC	rht											
390.00	VISA INC	v											
	SUBTOTAL INFORMATION TECHNOLOGY												
	UTILITIES												
1,915.00	AMEREN CORP	aee											
1,450.00	AMERICAN ELEC PWR INC	aep											
600.00	PORTLAND GENERAL ELECTRIC CO	por											
	SUBTOTAL UTILITIES												
	SUBTOTAL EQUITY/HIGH VOLATILITY												
	EQUITY MUTUAL FUNDS												
	U.S. SMALL/MID CAP FUNDS												
4,614.745	ABERDEEN US SMALL CAP EQ-INS	gscix											
13,366.530	CHAMPLAIN MID CAP FUND-INS	cipix											
3,714.515	T ROWE PR SM CAP STOCK-RTL	otcfx											
	SUBTOTAL U.S. SMALL/MID CAP FUNDS												
	INTERNATIONAL FUNDS												
34,015.249	ABERDEEN EMER MKTS-INST	abemx											
21,364.135	ARTISAN DEVELOPING WORLD-INS	aphyx											
2,503.000	ISHARES MSCI EMERGING MKT ETF	eem											
7,359.888	TWEEDY BROWNE FD INC GLOBAL VALUE	tbgvx											
6,703.355	VOYA MM INTL SM CAP-I	napix											
30,583.000	XTRACKERS MSCI EAFE HEDGED EQU	dbef											
	SUBTOTAL INTERNATIONAL FUNDS												
	SUBTOTAL EQUITY MUTUAL FUNDS												
	ALTERNATIVES - HIGH VOLATILITY												
	TOTAL RETURN HEDGE FUNDS												

(b)(4)

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AS OF TRADE DATE 03-15-18
ACCOUNT: CONSOLIDATED
ACICS Holdings

					MARKET 03-15-18		TAX COST					ESTIMATED INCOME	
Share/Face	Security	Ticker	Maturity	NWL	Price	Market Value	Unit Cost	Total Cost	% of Asset Class	% of Total Managed	Cur. Yield	Coupon or Dividend	Annual Income
10,299.138	HIGHLAND LONG/SHORT EQY-Z	heozx			(b)(4)								
	SUBTOTAL TOTAL RETURN HEDGE FUNDS												
	SUBTOTAL ALTERNATIVES - HIGH VOLATILITY												
	SUBTOTAL EQUITY & EQ MUTUAL FUNDS/HIGH VOLATILITY												
SUBTOTAL MANAGED													
TOTAL ACCOUNT													

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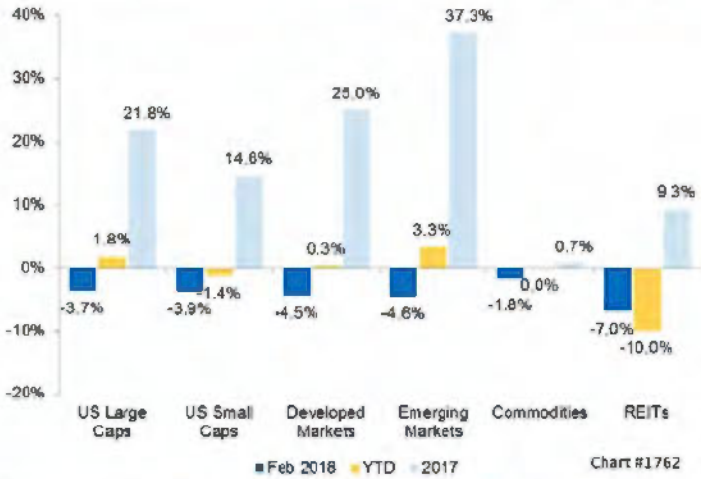
Monthly Market Outlook

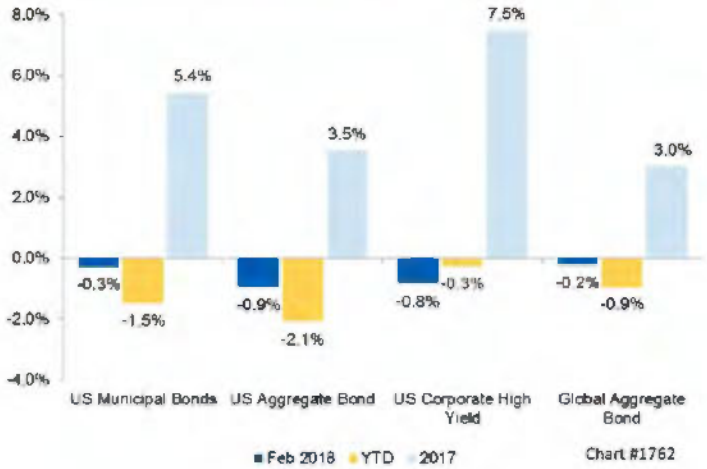
Market Review, March 2018

- U.S. large cap stocks decreased for the first time in over a year, posting a 3.7 percent decrease during a turbulent February. Domestic equities (along with other risk assets) fell spurred by renewed investor concerns around inflation and a corresponding ascent in bond yields. Large cap stocks slightly outperformed small cap stocks on the month.
- Developed international markets, including Europe, the U.K. and Japan fell 4.5 percent in February; returns are now flat on the year. Data released during the month showed real GDP in the Eurozone grew by 2.7 percent. We expect above trend growth to continue.
- Emerging market equities decreased more than U.S. and non-U.S. developed equities, tumbling 4.6 percent in February. Major emerging market countries such as Brazil, Russia and China were down mid-single digits. Despite the pullback, emerging market equities remain up 3.3 percent YTD.
- Commodities declined roughly 2 percent for the month. WTI crude oil prices fell over 4 percent. Gold finished the month lower by nearly 2 percent after gaining 2 percent in January.
- REITs plunged 7 percent in February and are now down 10 percent YTD. The interest rate sensitive sector suffered as treasury yields rose.
- Global bond markets were also under pressure in February due to a continued rise in interest rates. The 10-year treasury yield increased over 15 bps to 2.86 percent. U.S. high yield bonds and emerging market corporate bonds also finished the month lower.

Equity and Commodity Performance Through February 2018



Fixed Income Performance Through February 2018

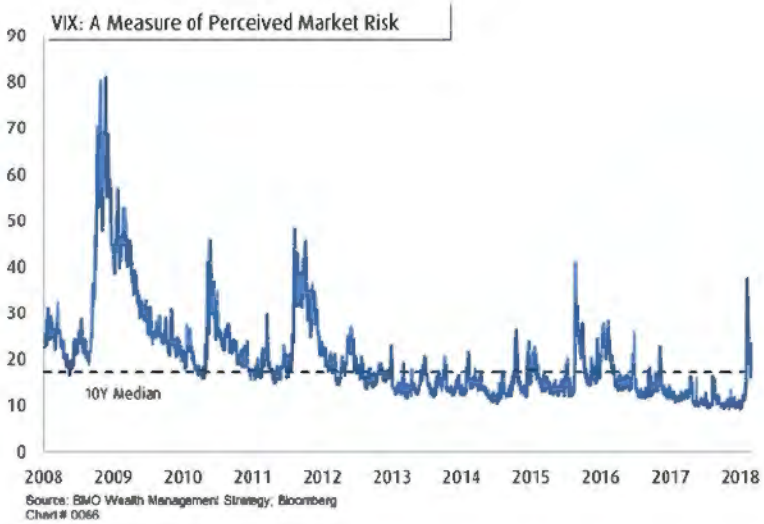


Source: Bloomberg, BMO Wealth Management. Indices = S&P 500® Index, Russell 2000® Index, MSCI EAFE, MSCI Emerging Markets Index, Bloomberg Commodity Total Return Index, FTSE NAREIT All Eq REITs Index, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index.

For general information only.
Market conditions and trends will vary. Past performance is no guarantee of future results.

Volatility, March 2018

- Equity market volatility (measured by the VIX) typically has an element of persistence. Large spikes in volatility are often followed by periods of continued heightened volatility.
- It can take months before relative calm returns to the equity market following a volatility spike.
- Bond market volatility (measured by the MOVE Index) also spiked recently but to a much smaller degree than the VIX. The recent bond market volatility is also not especially large relative to earlier spikes in 2013 and 2015.
- Incoming data on growth and inflation have a natural degree of variability – even with a trend in place some readings will be above the trend and some will be below the trend.
- Given that volatility has crept back into the markets, the data variability is likely to generate more market volatility than in 2017 as markets react more strongly to any signs of a shift in trend.
- "It is important not to overreact to a few readings, and data on inflation can be noisy." Janet Yellen, June 2017



Source. BMO Wealth Management Strategy.
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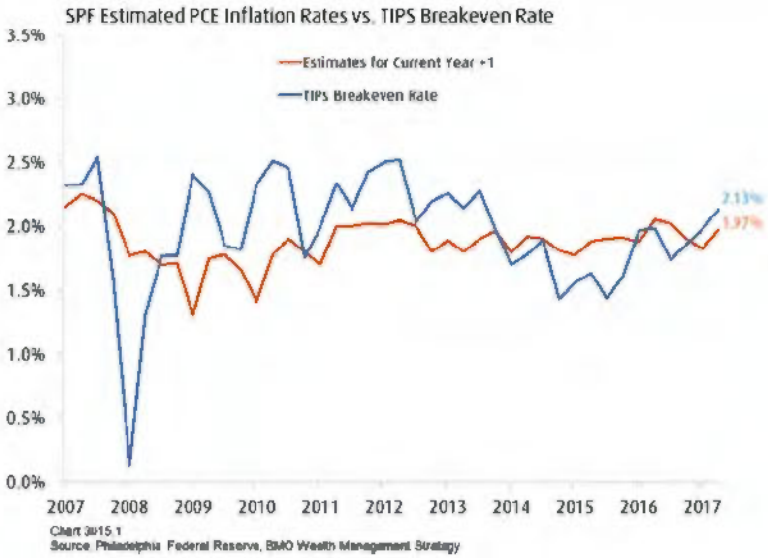
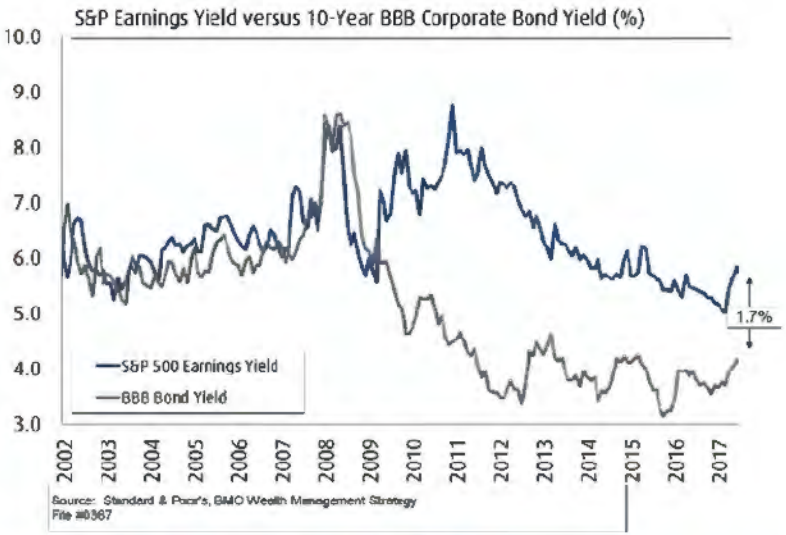
Inflation & Liquidity, March 2018

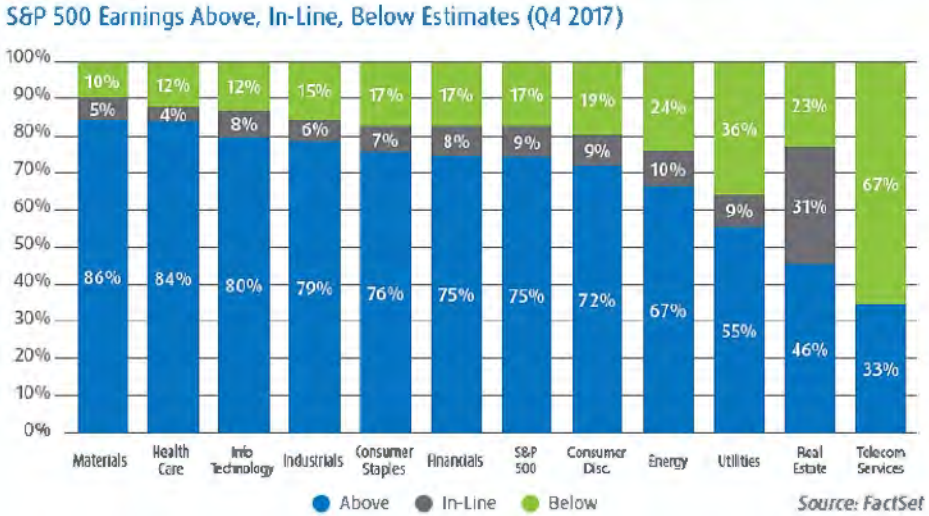
- The median one-year inflation estimate from the recently released Survey of Professional Forecasters (SPF) showed a modest increase in inflation expectations.
- The 10-year TIPS breakeven inflation rate has climbed more sharply, but a good portion of this increase is likely from renewed interest in inflation hedging rather than a sharp rise in inflation expectations. This measure is primarily what the Fed refers to when referencing "market based measures of inflation compensation."
- The recent release of the Fed's January 30-31 FOMC meeting minutes indicated that staff economists don't expect core Personal Consumption Expenditure (Core PCE) inflation to sustain 2% until 2019.
- The U.S., European, and Japanese Central Banks all carry large balances consistent with providing ample liquidity to the financial markets. While the Federal Reserve has started to shrink its balance sheet, the ECB and JCB are well behind the Fed in terms of removing liquidity from the financial system.
- Fed Chairman Powell fueled speculation that the Fed may increase interest rates four times in 2018 when he made somewhat hawkish comments in recent testimony to the House of Representatives.
- Whether the Fed decides on three rate increases or four is less important than the driver of those hikes. If the motivation to increase rates is primarily growth-driven rather than inflation-driven, then the equity market can more easily digest the rate increases.



Valuation and Earnings, March 2018

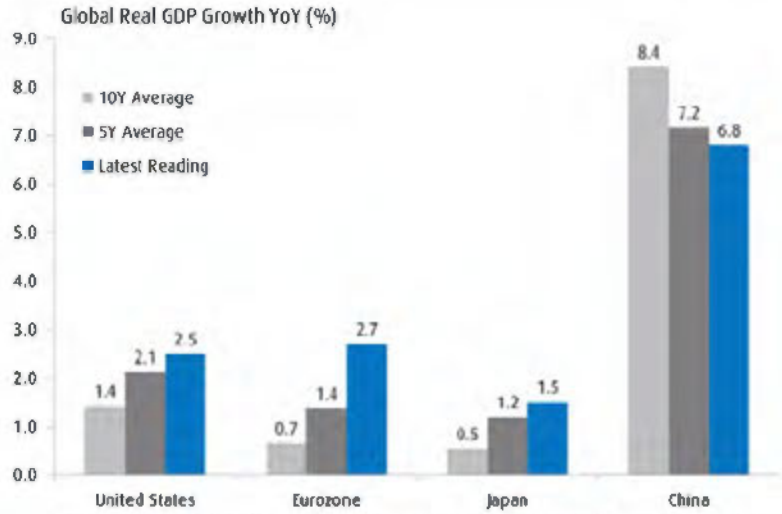
- While recent headlines have been dominated by interest rates and market volatility, U.S. equities put together one of the best earnings quarters on record.
- As of February 16, the proportion of S&P 500 companies beating sales or earnings (EPS) is striking with 75% of firms beating EPS numbers (vs. 69% on average over 5 years) and 78% exceeding sales estimates (vs. 56% on average).
- We expect the Financial and Health Care sectors to be two of the largest beneficiaries of the new law. Information Technology, which already had an average 21% tax rate, is estimated to see a lesser effect.
- As impressive as fourth quarter results were, it is important to note that they (in particular revenue improvements) were a byproduct of improving economic conditions late last year. The new law has only added to the enthusiasm for 2018.
- When compared to bond yields, equities appear fairly priced to undervalued, as indicated by the S&P earnings yield vs. BBB bond yields.
- Further, when factoring in recent tax cuts and strong underlying economic fundamentals, we believe there is additional upside in domestic equities.



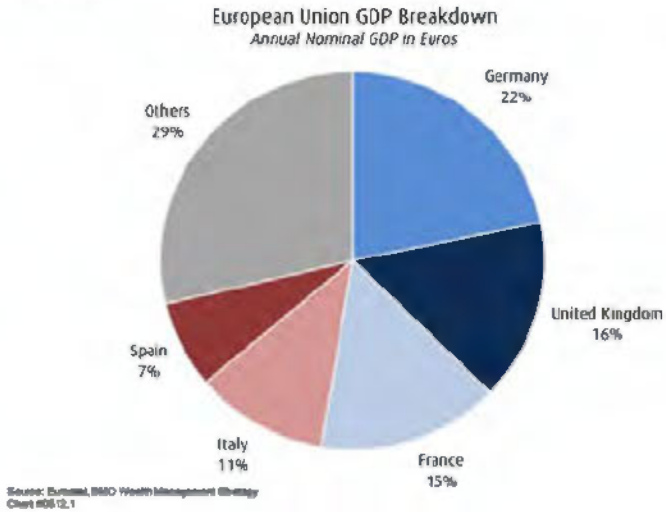


Global Economy, March 2018

- One trend we've addressed in recent months remains firmly in place: Global growth is solid and widespread. Across the U.S., Europe, Japan, China, and other emerging markets, economic growth is synchronized in a way that hasn't been seen since 2010 — when the world was rebounding from the depths of the U.S. led financial crisis.
- This synchronized growth matters because shocks to the economy, either regionally or internationally, can be more easily absorbed if worldwide growth is providing a buffer and support.
- Japan's economy expanded for an eighth straight quarter — its longest stretch of growth in 28 years; current forecasts call for an extension of that trend across the two-year forecast horizon. Meanwhile, Prime Minister Abe just nominated Bank of Japan Governor Kuroda to a new five-year term, suggesting continuity at the central bank and a continuation of the BoJ's program of "powerful monetary easing".
- Developments in Europe have been equally positive: stable economic growth has taken hold, and the continent's deflation and debt scares are barely visible in the rearview mirror. Germany, Europe's economic heavyweight, finished 2017 registering its fastest pace of annual growth in six years. Forecasters believe the Eurozone is well-positioned to extend those trends over the coming few years.
- The European Union (EU) is facing one of its largest political tests since the BREXIT vote, in the form of Italian general elections in early March. As of the time of this writing, polls suggest no party is close securing the 40% majority to win outright, and the markets are also pricing in little political risk. Still, with Italy representing 11% of EU GDP, post-election positioning by the winning party or coalition will be worth watching.



Source: Bureau of Economic Analysis, Eurostat, Economic and Social Research Institute Japan, National Bureau of Statistics of China, BMO Wealth Management Strategy
Chart #0500.3



Source: Eurostat, BMO Wealth Management Strategy
Chart #0512.1

International Small Cap Equities

- We recently upgraded our view on international small cap equities. The recommendation was based on several factors including improving global fundamentals, an enhanced risk/return profile relative to other risk assets, and positive economic momentum.
- International developed markets are enjoying accelerated growth on the back of increased business confidence, declining geopolitical risks, and continued accommodative monetary policy.
- Relative to the U.S., non-U.S. developed markets are earlier in their business cycle, and Europe may be poised for continued earnings growth after several years of stagnation following the global financial crisis.
- International small cap equities also provide increased exposure to Japan. We expect Japanese equities to benefit from a strong labor market and stimulative monetary policy. Additionally, Japan is becoming more shareholder friendly, as seen by increased dividends, share buybacks, and improved corporate governance structures.
- From a risk and sector exposure perspective, when comparing the MSCI EAFE large and small cap indexes, small caps tend to have a higher exposure to the technology, industrials and discretionary sectors, at the expense of financials, consumer staples, and health care. Furthermore, based on data provided by Bloomberg, the volatility of returns between the indexes has been nearly identical the past five years.
- From a valuation perspective, non-U.S. developed equities are among the most attractive asset classes. The recent pullback, coupled with rising growth expectations, has served to further improve the forward P/E ratio and earnings yield (vs. local bonds) picture.

Source. BMO Wealth Management Strategy
For general information only
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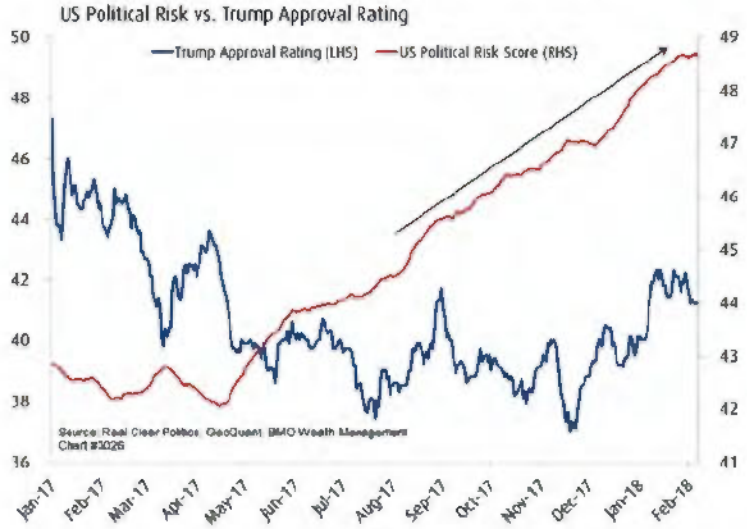
Trade & Geopolitics, March 2018

- Global trade issues were thrust into the geopolitical spotlight, as the Trump Administration announced its intention to impose steep tariffs on steel and aluminum imports.
- The announcement rattled financial markets, introducing a new uncertainty into the global-policy flux.
- The Administration's primary target is widely viewed to be China — but specifics around the program remain unclear at this point, and other trading partners and political allies might find themselves caught in the crossfire.
- While the measures could meaningfully impact individual producers, the direct impact on the global economy is unlikely to be significant.
- The larger risk is potential retaliation by global partners, an escalation to broader protectionist measures, and spillover into unrelated policy matters.
- The Administration's announcement prompted quick responses from U.S. trading partners, such as Canada and the European Union, threatening exactly those types of retaliatory measures.



Source: BMO Wealth Management Strategy
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Outlook: Domestic Equities, March 2018

Valuation

- The combination of strong earnings growth, still benign interest rates, and the recent market decline makes S&P 500 valuations look marginally better. While a handful of highly correlated metrics indicate a high degree of equity overvaluation, this view is tempered by the relationship between S&P 500 earnings yields and bond yields which still casts equities in a favorable light.

Economy

- U.S. economic data points remain positive. GDP grew by 2.5% QoQ in Q4, preceded by two consecutive quarters of 3+% growth. PMI readings suggest continued growth momentum. The labor market and consumer also remain strong. We believe the tax reform is a positive catalyst for domestic growth.

Liquidity

- The Federal Reserve's path of continued rate increases is on track and there is a large supply of Treasury bonds that the market will need to absorb in 2018. The ECB tapering is expected to begin in Q4. Liquidity conditions are still favorable, but declining.

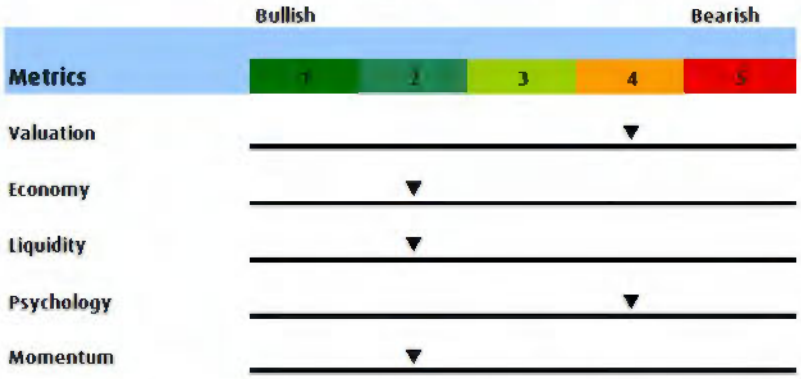
Psychology

- Tax reform and continued momentum in equities helped investor attitudes last month. Prior to the recent decline, bullish sentiment had been reaching new highs. A retreat in sentiment and froth is welcome.

Momentum

- Momentum remains reasonably strong despite recent volatility. Investors seem to have shifted their focus to rising inflation and bond yields. The market is still trading firmly above its 200 day moving average.

BMO Wealth Management S&P 500 Metrics
March 2018

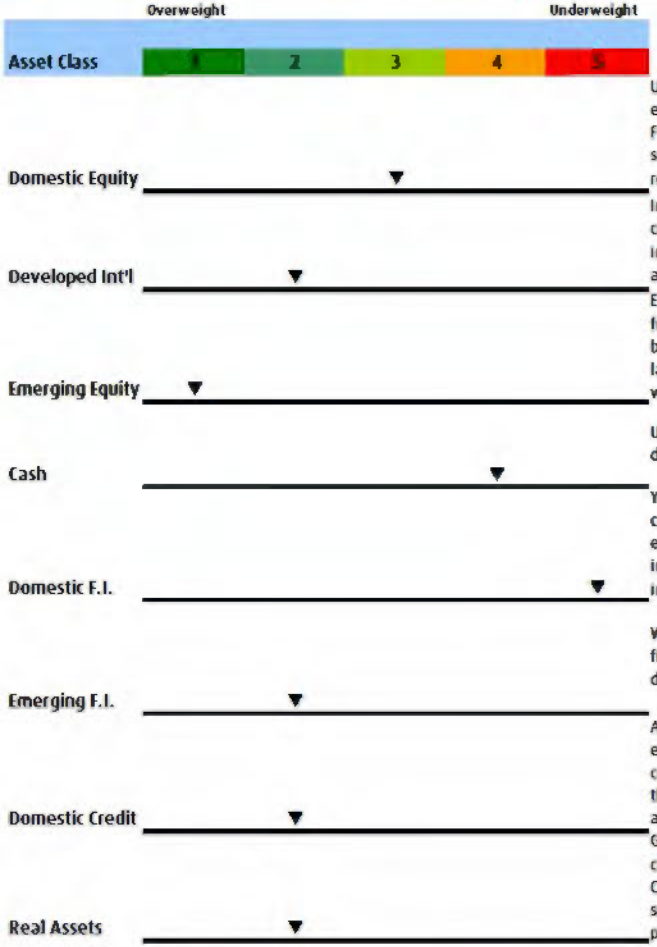


Source: BMO Wealth Management Strategy
Chart #0838

Key: ▼ Current month position
▼ Previous month position

Tactical Positioning[1], March 2018

BMO Wealth Management Asset Class Dashboard
March 2018



Comment

U.S. equities are relatively expensive when gauged against earnings but more favorable given the interest rate environment. Fundamentals are solid and liquidity levels remain moderately supportive as the Fed is poised to reduce its balance sheet reinvestment program

International equities are relatively cheaper than their U.S. counterparts, and fundamentals are solid. Economic conditions are improving, as are corporate earnings. Labor market reforms provide a positive tailwind, but trade frictions presents a risk.

Emerging market equities are relatively cheap and their economic fundamentals look firm. China's manufacturing slowdown should be deliberate and measured, but trade frictions add an additional layer of risk. The asset class is attractive, but constitutes higher risk with higher expected return, on average.

Unattractive yields, but with rising interest rates at least the direction is improving.

Yields are unattractive by historical standards and leave little cushion in the event they rise. We expect rates to rise as expansionary policies move to center stage. TIPS breakeven inflation rates have risen and are now roughly in line with our inflation expectations.

While spreads are narrow relative to their history, emerging market fixed income offers incremental income opportunities with diversifications benefits.

Although yield premiums are low, the overall positive economic environment provides support for credit. Favorable liquidity conditions also present a tailwind. Banks are beginning to tighten their lending standards to some borrowers. Increased tightening across the board would be a concern should that develop.

Global growth is creating increased demand for commodities, and could put upward pressure on inflation and interest rates. Commodities can provide an indirect hedge on inflation, but the supply dynamics of commodity markets can sometimes offset a positive demand environment.

Source: BMO Wealth Management Strategy
Chart #0839

Key: ▼ Current month position
▼ Previous month position

1. Overweight / Underweight positioning relates to the long-term strategic asset allocation
Source: Wealth Management Strategy
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Index Definitions

Equity indices

S&P 500® Index (S&P 500®) is an unmanaged index of large-cap common stocks.

Russell 2000® Index (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

Russell 2000® Growth Index measures the performance of those Russell 2000 Companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000® Value Index measures the performance of those Russell 2000 Companies with lower price-to-book ratios and lower forecasted growth values.

MSCI EAFE Index (NDDUEAFE) (Developed Markets) — MSCI EAFE Index Europe, Australasia, and Far East Index (EAFE) is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International.

MSCI Emerging Markets Index (NDUEEGF) is a market capitalization weighted index comprised of over 800 companies representative of the market structure of the emerging countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

FTSE NAREIT All Eq REITs Index contains all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property that also meet minimum size and liquidity criteria.

Fixed income indices

Barclays Global Aggregate Bond Index is a market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least $250 million par amount outstanding and with at least one year to final maturity.

Barclays U.S. Aggregate Bond Index is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

Barclays U.S. Corporate High-Yield Bond Index is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market.

Barclays 1-10 Year Blend Municipal Bond Index is a market value-weighted index which covers the short and intermediate components of the Barclays Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

Bloomberg Commodity Total Return Index is a broadly diversified index that is composed of futures contracts on 22 physical commodities traded on U.S. futures exchanges, with the exception of aluminum, nickel, and zinc, which trade on the London Metal Exchange. The S&P GSCI ® Total Return Index is a composite index of commodity sector returns representing unleveraged, long-only investment in commodity futures across 24 commodities.

BofA Merrill Lynch 3-5 Year Treasury Index is an unmanaged index which includes U.S. Treasury securities with maturities of 3 to 4.99 years. The index is produced by Bank of America Merrill Lynch, Pierce, Fenner & Smith, Inc.

BofA Merrill Lynch High Yield Master Index is a market capitalization-weighted index of all domestic and Yankee High-Yield Bonds. Issues included in the index have maturities of at least one year and have a credit rating lower than BBB-Baa3, but are not in default.

Disclosure

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Past performance is not necessarily a guide to future performance.

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