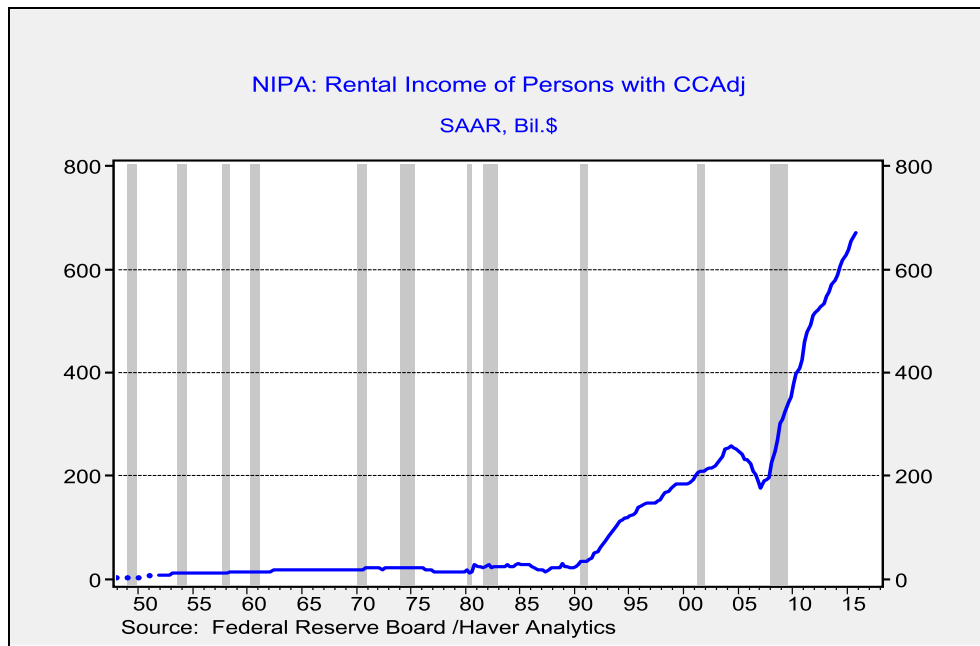


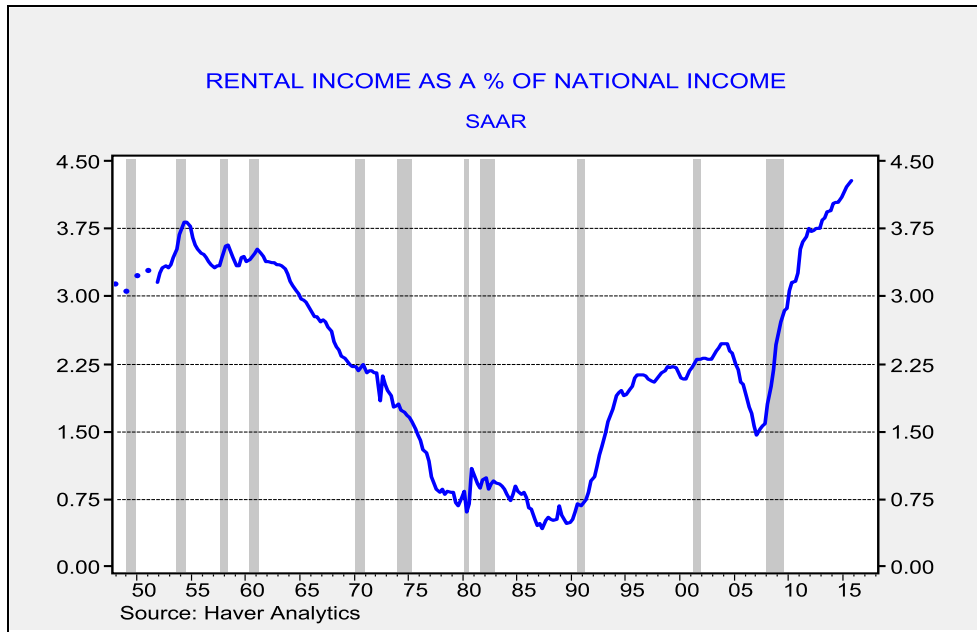
*Confluence Investment Management offers various asset allocation products which are managed using “top down,” or macro, analysis. We publish asset allocation thoughts on a weekly basis in a special section within our Daily Comment report, updating the piece every Friday.*

May 6, 2016

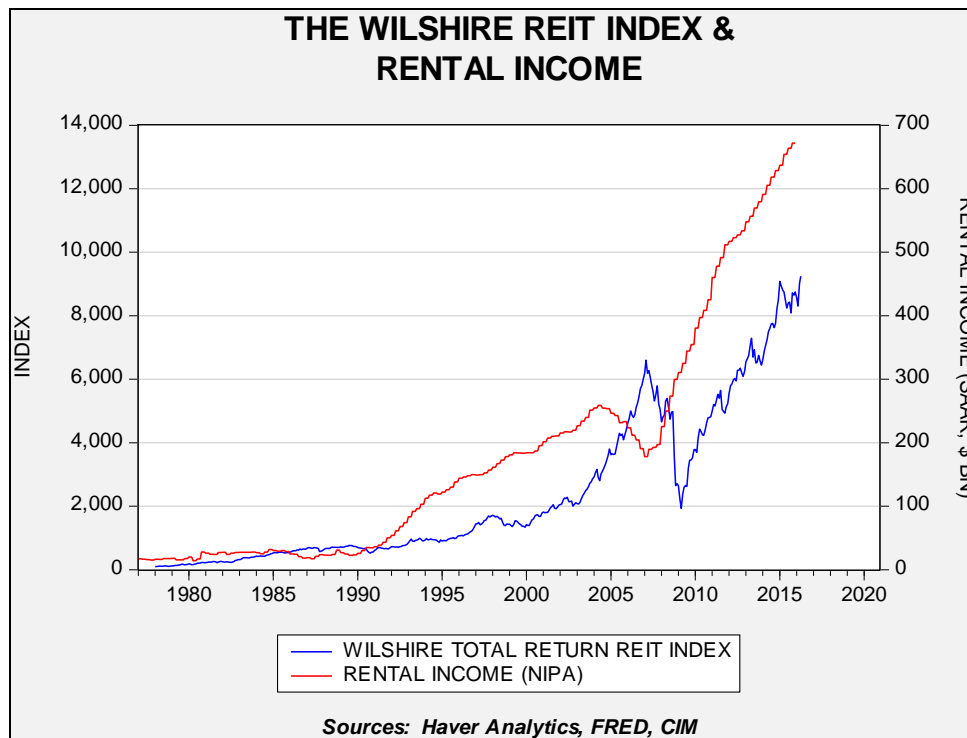
In our latest adjustment to the asset allocation portfolios, we added to the REIT positions in three of the four models. One of the reasons we remain friendly to this asset class has been the steady increase in rental income.



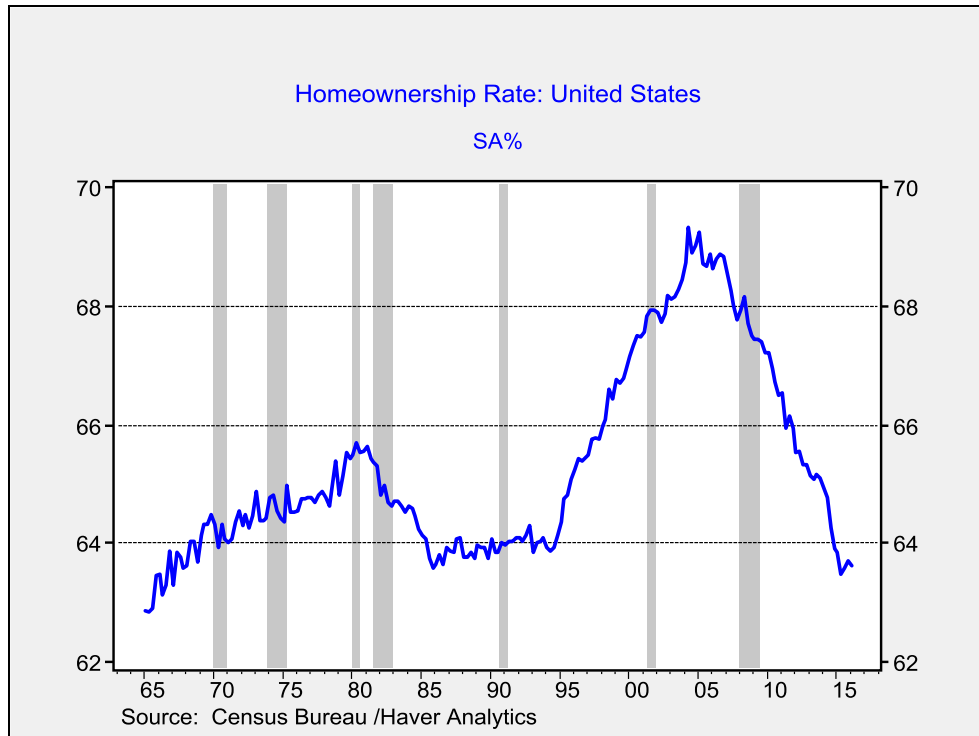
This chart shows rental income from the National Income and Product Accounts (NIPA). Note that rental income has been rising at a very fast pace since the housing crisis. In fact, as a percentage of national income, rents are at a postwar high, exceeding 4.25%.



In general, history shows that rising rental income tends to support rising REIT values.



A major reason rental income is rising is due to falling homeownership rates.



The rate of homeownership peaked at 69.3% in Q2 2004 and, in the wake of the housing crisis, suffered a precipitous decline. Although we have reached a level where we believe stabilization is likely, we doubt this level will rise anytime soon. And so, rental income should remain elevated until enough new apartments are constructed to depress rents. So far, that hasn't happened, although there has been an increase in multi-family construction. We will continue to closely monitor rental income as a key input into our REIT allocations.

*Past performance is no guarantee of future results. Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice or a recommendation. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Opinions expressed are current as of the date shown and are subject to change.*

*This report was prepared by Bill O'Grady and Kaisa Stucke of Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*