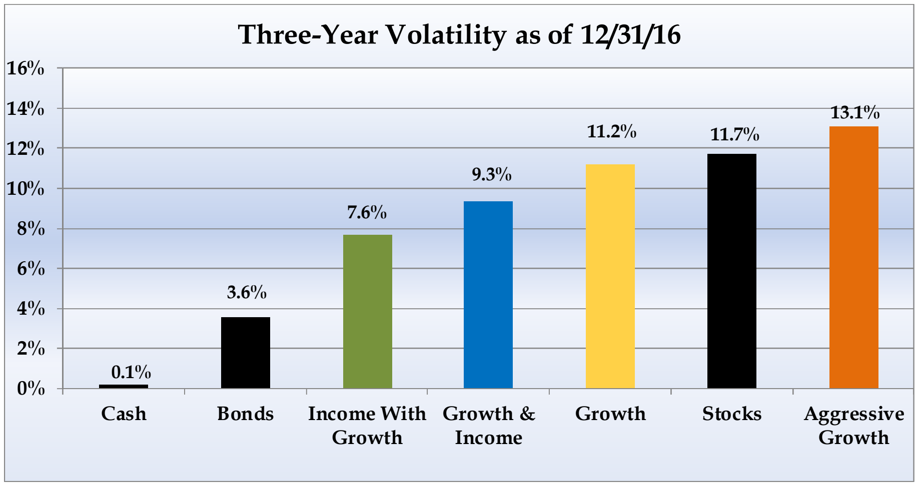
ASSET ALLOCATION QUARTERLY
First Quarter 2017

Asset allocation is a portfolio management process where various asset classes (stocks, bonds, commodities, etc.) are combined in one portfolio. Diversification helps to avoid having 'all eggs in one basket.' Risk and return are considered for the entire portfolio as opposed to evaluating individual securities or investments.

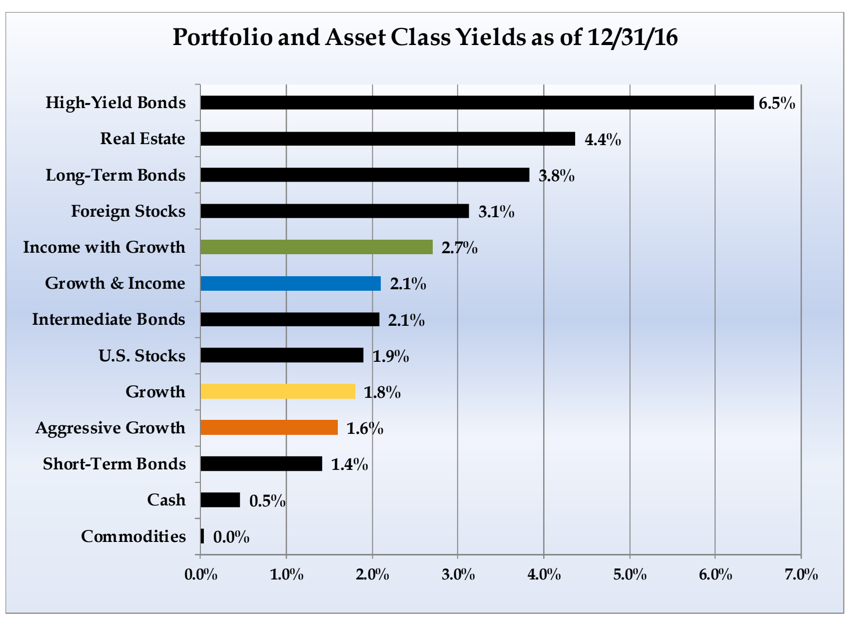


Source: Bloomberg, CIM. Cash is the ML 0-3 Month T-Bill Index; Bonds are the ML Domestic Master Index; Stocks are the S&P 500 Index. *See disclosures on page 6 for important details.

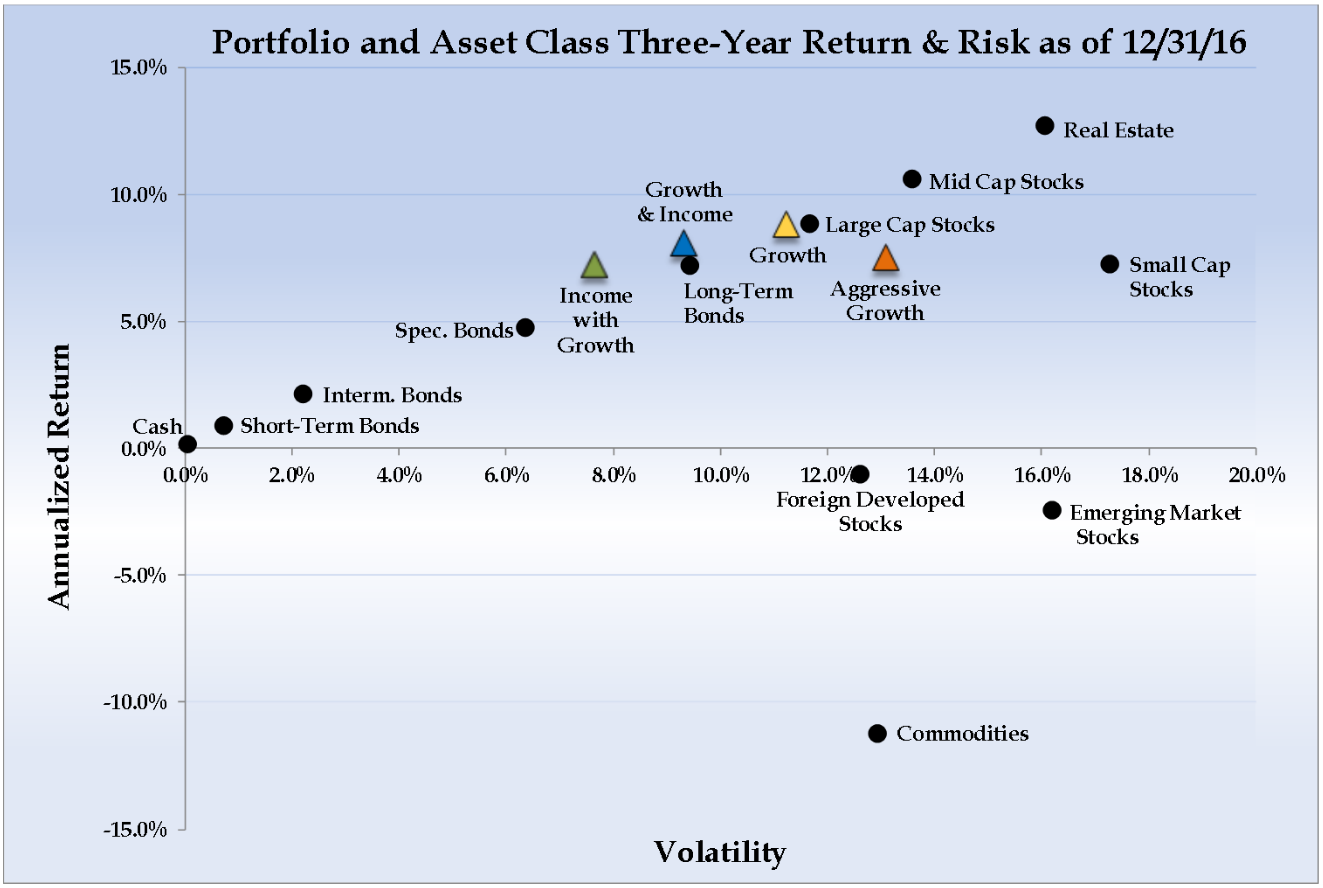
The Confluence asset allocation process is centered upon risk management. Our portfolios offer a broad spectrum of risk profiles, ranging from a fairly conservative posture in Income with Growth (green) to a more risk tolerant profile in Aggressive Growth (orange). The primary asset classes of cash, bonds and stocks are illustrated in the black bars for reference in the above chart.

We recognize that risk levels and return potential rise and fall over market and economic cycles. Therefore, we apply a dynamic process, one that evaluates the economy, interest rates, regulation, valuations and other investment variables in a forward-looking context. Although we seek return opportunities, we do so with a consideration for the amount of risk taken to pursue these returns.

For many investors, income is an important objective and we make it a priority in our income-oriented portfolios. However, we balance the income objective relative to our outlook for various asset classes. Often times, higher yields may not translate into attractive return/risk tradeoffs. This chart shows the recent gross yields of our portfolios, relative to several asset classes.



Source: Bloomberg, CIM. Portfolio yields are before fees. *See disclosures on page 6 for asset class composition and other important details.



Source: Bloomberg, CIM, using monthly data and gross returns. *See disclosures on page 6 for asset class benchmark details.

PORTFOLIO AND ASSET CLASS COMMENTARY

This chart illustrates the return and volatility for a variety of asset classes, as well as the composite performance for our asset allocation portfolios. It reveals how different kinds of asset classes and portfolios have performed over a three-year period. This quarter the chart reveals a widely embraced concept from modern portfolio theory: the efficient frontier. This "frontier" is a conceptual band (not pictured), one that begins on one side at cash, runs through bonds, next through large and mid-caps, and ends at real estate. Asset classes, or combinations of asset classes, positioned along this band represent the highest level of return that could have been earned at a particular level of risk. When the planets align properly, as they have in this time frame, one can see an upsloping band where returns rise with greater risk.

It's a great idea, but its precision is limited to historical performance. The efficient frontier is very good at illustrating what investors should have done, but investors don't need an advanced model for that! If you try to look forward, the efficient frontier has very limited predictive utility. Return and volatility are fluid, rising and falling through market and economic cycles, and the theory provides little guidance on direction. It's a bit like knowing exactly where you are, while having absolutely no idea where you're going.

For these reasons, we don't lean heavily on efficient frontier theory. It can be helpful when studying history, but we find qualitative judgments from an experienced team to be an important complement. We don't ever get it all correct, but the chart shows our portfolios have delivered attractive returns relative to the risk taken. We were able to lower portfolio volatility by combining asset classes that often moved in different directions. We also included asset classes that provided both income and capital appreciation. And, importantly, we limited or avoided exposures to asset classes with low or negative returns, including commodities and foreign stocks.

Modern portfolio theory has a role to play in investing, but it's probably better suited for processes that are more quantitative than ours. We do utilize a quantitative model, but in our process both the inputs and outputs are subjectively evaluated. It's a different approach, but we've found that over time we're able to pursue attractive returns, while keeping a close eye on risk.

FIRST QUARTER 2017 ASSET ALLOCATION OUTLOOK

- **The November elections have had a significant impact on the financial markets. It is important to watch how policies from the new administration unfold.**
- **We don't expect new policies to rapidly accelerate economic growth. However, we do expect growth to improve modestly in 2017.**
- **Our equity allocations are entirely domestic. We shift allocations toward large caps for conservative investors, while focusing more on small and mid-caps for aggressive investors.**
- **We shorten the average maturity of bond allocations, recognizing tighter Fed policy and the potential for higher inflation.**
- **Our growth/value style bias shifts in favor of value at 30/70.**

ECONOMIC VIEWPOINTS

Since November, the outcome of the elections has dominated the market narrative. Equity markets rallied sharply, while bonds declined, reflecting a shift in expectations for higher economic and earnings growth, along with rising inflation and tighter Fed policy. Seemingly, the new expectations reflect a lot of optimism for the new president. The thing is, the elephant in the room isn't really an elephant…at least not a traditional one. Trump made his way into the White House campaigning on positions contrary to several long-standing Republican policies. So, as we begin life under this new administration, we'll be keeping a close eye on its policies. We'll be watching to see if Trump tacks toward Republican supply-side views, or if he instead hews to populist priorities.

A supply-side approach would focus on making capital more available and more easily invested. Policies would include lower taxes and less regulation, with the belief that rising capital efficiency would stimulate the economy. Theoretically, companies would hire more workers and increase long-term investments. Some of Trump's cabinet selections indicate this may be the direction he is headed toward.

On the other hand, Trump's vocal opposition to the current state of global trade hearkens to a populist view, one contrary to decades of establishment policy. Here the expectation is for "level" global trade agreements to bring jobs back to the United States and increase wages, which would stimulate economic growth. Early jawboning indicates this may be the new policy direction.

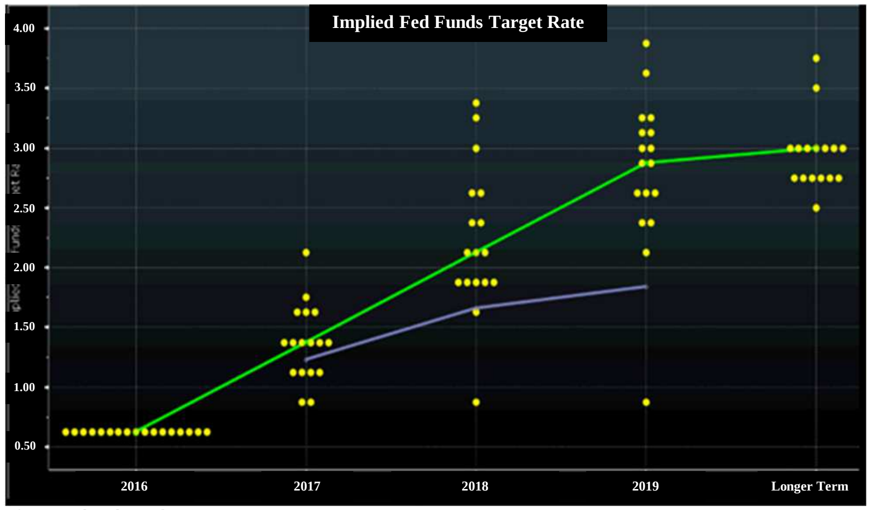
Of course, it's possible we see a combination of supply-side and populist policies. Unfortunately, we don't expect either strategy to create significant job or wage growth. Technology and innovation appear to be at the root of limited labor opportunities, and both will probably play a role in disappointing some optimists. But even as we don't expect a big uplift in growth, we do believe there's room for some improvement in 2017. The economy has maintained a fairly steady, albeit below-average, growth rate, even as the Fed has moved through two rate increases. We believe this trend should continue with modest acceleration, unless the Fed becomes too aggressive.

What do we expect from the Fed? Right now, Fed guidance indicates three rate hikes in 2017. Up until recently, the financial markets have been at odds with the Fed's guidance, having expected a more moderate pace of tightening. For the most part, markets have been correct. But as we look forward, market expectations are now quite closely aligned with the Fed's guidance. In the chart on the next page, the green line represents the median forecast for short-term rates by the Fed's voting policy members for the next few years, while the blue line illustrates the market's expectations. We can see the market has generally accepted the Fed's guidance.

Will three rate hikes be too much for the economy in 2017? At this point, we don't think so. However, even the Fed has communicated the importance of evaluating developing economic conditions as it directs monetary policy. We are optimistic the Fed can make the appropriate adjustments, even as we're aware of the Fed's proclivity to overtighten. Given the importance of the Fed's policy decisions, the real elephant in the room may actually turn out to be the Fed.

STOCK MARKET OUTLOOK

Equities performed well in 2016, although most of the returns were earned after the November elections. The surge reflects widespread optimism for higher economic growth and rising corporate earnings. Although we see a pathway for both, we expect equity investors are likely to encounter periods of disappointment along the way. Valuations have risen ahead of actual results, meaning delays and shortfalls could increase downside risk.



(Source: Bloomberg, CIM)

Still, we expect a generally good environment for stocks. Small and mid-cap stocks performed particularly well in 2016, and all of the portfolios benefited from their inclusion. We continue to hold a favorable view toward small and mid-sized companies, which may benefit as Washington policies become more inwardly focused on the U.S. economy. However, with the recent strong performance of small and mid-caps, we are shifting some equity allocations toward large caps for conservative and income-oriented investors, and toward mid-caps in our more aggressive portfolios. Large caps tend to have lower relative volatility and we expect this asset class to also perform reasonably well.

Within large caps we favor the energy, financial, industrial and utility sectors, while we are underweight technology and telecom. Sector preferences incorporate our views toward valuations, industry fundamentals and potential changes in regulations. Our growth/value style bias shifts in favor of value at 30/70.

We continue to avoid foreign developed equities. Their valuations may be attractive, and many foreign economies should benefit from a stronger U.S. dollar; however, the strong dollar may also diminish returns on foreign investments for U.S. investors. Risk in emerging markets could also increase. For these reasons, we eliminate our emerging allocations this quarter and have no foreign equity allocations in the portfolios.

BOND MARKET OUTLOOK

Optimism in the equity markets following the elections was mirrored with pessimism in the debt markets. Expectations for higher economic growth benefited equities but also created expectations for tighter monetary policy, which helped move bonds lower. Adding to negative sentiment has been the prospect for rising longer term inflation, which could emerge if global trade declines.

For quite some time, we have included long maturity bonds in portfolios. This allocation not only contributed to income and returns, but it also provided significant diversification benefits. But as we look forward, we may be at the point where a multi-decade decline in rates may be turning around. If we are in a reversal, we don't expect a rapid increase. Still, we believe it's prudent to pare back some of the long-term bond allocation this quarter. We continue to favor corporate bonds, including both investment and speculative grades, as we expect relatively low default rates.

OTHER MARKETS

Even with an increase in longer term rates, we believe real estate can continue to perform well. Financing costs remain relatively low, while occupancy and rental rates are constructive. In addition, real estate rental rates often scale with inflation, providing a mechanism to help maintain income should inflation arise. With the modest pullback in the second half of 2016, we believe real estate is attractive, particularly where income is an objective.

Commodity prices could rise with faster U.S. growth, and this asset class may be helpful if we experience rising inflation. However at this point in the cycle, we believe other asset classes offer a more attractive return/risk profile. This quarter we exit the gold allocation, which was useful in addressing global central bank policies; however, our expectation for a strengthening U.S. dollar now makes gold relatively less attractive.

First Quarter 2017	Income With Growth		Growth & Income		Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Cash	2%	-	2%	-	2%	-	2%	-
Short Term Bonds	-	(3%)	-	-	-	-	-	-
Intermediate Term Bonds	8%	8%	10%	-	5%	5%	-	-
Long Term Bonds	30%	(5%)	5%	(11%)	-	(7%)	-	(5%)
Speculative Grade Bonds	7%	7%	5%	5%	-	-	-	-
Real Estate	20%	5%	5%	-	5%	-	5%	-
U.S. Large Cap Stocks	26%	11%	43%	18%	40%	-	-	-
U.S. Mid Cap Stocks	7%	(9%)	25%	6%	30%	12%	35%	18%
U.S. Small Cap Stocks	-	(9%)	5%	(10%)	18%	(2%)	58%	-
Foreign Developed Country Stocks	-	-	-	-	-	-	-	-
Emerging Market Stocks	-	-	-	(5%)	-	(5%)	-	(10%)
Commodities	-	(5%)	-	(3%)	-	(3%)	-	(3%)
Total	*100%*		*100%*		*100%*		*100%*	

INCOME WITH GROWTH

Intermediate and long-term bonds form the foundation of the bond allocation in the Income with Growth portfolio. Although long-term rates have risen recently, we don't expect a rapid spike upward going forward. Still, we recognize the economic landscape may be changing and pare back some of the long-term allocation to initiate a focus on intermediate maturities. The remaining long-term bond allocation contributes significantly to income, while also providing important diversification benefits.

Over the past couple years, this portfolio has included a significant exposure to small and mid-caps, which we believed had attractive growth potential. But with the very strong performance of small and mid-caps in 2016, we find it appropriate for conservative investors to shift into large caps, which usually have relatively less volatility. We do continue to include mid-caps, albeit in smaller proportion. We also continue to avoid foreign equities as we believe domestic equities have a better return/risk profile. Real estate continues to contribute to income and total return potential. We exit the position in gold due to our expectation for the U.S. dollar to strengthen.

GROWTH & INCOME

The Growth and Income portfolio includes both intermediate and long-maturity bonds in its investment grade allocation. Recognizing a changing economic landscape, this quarter we reduce the exposure to long-term bonds. With this reduction, we initiate an allocation to speculative grade bonds, exchanging a measure of interest rate risk for credit risk. We expect economic growth to improve modestly in 2017, and anticipate a relatively low corporate default rate.

With the strong performance of small caps in 2016, we pare back the allocation and shift the focus toward large and mid-caps. Generally speaking, we expect a positive environment for equities, but favor large caps due to lower relative volatility. We exit emerging market equities, which we believe face rising risk from a stronger U.S. dollar. The equity allocation is entirely domestic as we believe the U.S. equity return/risk profile is more attractive. Real estate contributes to both income and growth objectives. We exit the gold allocation as precious metals may face headwinds from the strong U.S. dollar.

GROWTH

The large cap allocation remains the foundation of the Growth portfolio. Generally speaking, we expect a good environment for stocks and believe large caps can deliver good returns for equity investors. This quarter, we pare back a small amount of the small cap allocation, recognizing its strong performance in 2016. We also pare back the emerging market equity valuation, but for a different reason, as the strong U.S. dollar may create challenges for emerging equities. We redirect these reductions into mid-caps. This asset class has also recently performed very well, but we still find the return/risk profile attractive.

We shift the focus of the small bond allocation to intermediate maturities, recognizing a changing economic landscape. In addition, we exit the gold allocation as we believe returns on gold may be challenged by the strong U.S. dollar. Real estate continues to play a role in delivering differentiated returns, helping to diversify the portfolio.

AGGRESSIVE GROWTH

Aggressive Growth investors benefited from the portfolio's outsized allocation to small and mid-cap stocks. Both asset classes performed very well in 2016, outpacing returns derived from large caps. Despite the strong performance, we continue to believe small and mid-cap stocks can deliver attractive returns going forward. Many smaller companies have relatively high growth rates and we believe changes in regulations may favor the domestic orientation of many small and mid-caps.

We exit allocations in emerging market equities and gold as these asset classes may face challenges as the U.S. dollar strengthens. In addition, we exit the allocation to long-term bonds based upon our view of the economic landscape. Real estate continues to provide a differentiated return profile and should benefit from strong fundamentals.

Performance & Disclosures

As of 12/31/16

Strategy	Quarter	YTD	1 - Year	3 - Year	5- Year	ITD
Aggressive Growth - Gross of Fees	4.5%	16.1%	16.1%	7.6%	11.2%	7.0%
Aggressive Growth - Net of Fees	3.7%	12.6%	12.6%	4.4%	7.9%	3.8%
Benchmark - S&P 500	3.8%	12.0%	12.0%	8.9%	14.7%	9.4%
Growth - Gross of Fees	2.5%	13.1%	13.1%	8.9%	11.0%	6.8%
Growth - Net of Fees	1.8%	9.7%	9.7%	5.6%	7.7%	3.6%
Benchmark - S&P 500	3.8%	12.0%	12.0%	8.9%	14.7%	9.3%
Growth and Income Taxable - Gross of Fees	0.3%	12.2%	12.2%	8.1%	9.5%	6.8%
Growth and Income Taxable - Net of Fees	-0.4%	8.9%	8.9%	4.9%	6.2%	3.6%
Benchmark - 70% S&P 500 and 30% ML Bond Index	1.7%	9.2%	9.2%	7.3%	10.9%	8.0%
Income Taxable with Growth - Gross of Fees	-1.8%	10.0%	10.0%	7.3%	7.9%	10.3%
Income Taxable with Growth - Net of Fees	-2.5%	6.7%	6.7%	4.1%	4.7%	7.1%
Benchmark - 40% S&P 500 and 60% ML Bond Index	-0.4%	6.4%	6.4%	5.6%	7.2%	8.5%

ITD: Inception-to-Date. Inception: Income with Growth (12/1/08), Growth & Income (9/1/08), Growth (9/1/08), Aggressive Growth (8/1/08).

Confluence Investment Management LLC is an independent registered investment adviser. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[1]Net of fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.40% on the first $500,000; 0.35% on the next $500,000; and 0.30% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

Each strategy is implemented using Exchange Traded Funds (ETFs) and the investment objective is the pursuit of nominal returns (yield and growth) in excess of inflation, subject to the limitations of the risk constraint for each strategy. The targeted risk constraint and appropriate investor risk tolerance for each strategy is as follows; Aggressive Growth (High), Growth (Average), Growth and Income Taxable (Moderate), and Income with Growth (Conservative). ML Bond Index consist of Merrill Lynch US Corporate, Government, and Mortgage Bond Index.

Confluence claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of composite descriptions and/or a GIPS compliant presentation is available by contacting Marketing@confluenceim.com or calling (314) 743-5090.

There are investment risks in investing in these strategies. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. In a rising interest rate environment, the value of fixed income securities generally declines. Speculative grade bonds are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities. Investments in international and emerging market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. The real estate asset class is a portfolio containing Real Estate Investment Trust (REIT) securities.

Confluence utilizes fixed income ETFs for the bond asset classes to deliver the income and lower volatility traditionally available from a diversified bond portfolio. Fixed income ETFs are not bonds, but are pro-rata interests in publicly traded bond funds. Investors should be aware there are limitations in utilizing fixed income ETFs, which are subject to market risk, including the possible loss of principal. There may be times when an ETF's performance may vary relative to its targeted benchmark. And while ETFs generally trade very close to their net asset values, during times of market disruption they can trade at discounts or premiums, directly affecting performance. Liquidity can vary depending upon market conditions. ETFs trade like a stock, and there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF's investment objective, risks, charges, and expenses carefully before investing.

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.

*Benchmark return and volatility calculations utilize monthly data through 12/31/16. Investors cannot invest directly in an index. Past performance does not guarantee future performance. Asset class and benchmark index representation: cash (ML T-Bill); short-term bonds (ML 0-3 Year C/G); intermediate bonds (ML 3-5 Year C/G); long-term bonds (ML 10+ C/G); speculative grade or high yield bonds (ML High Yield Master); real estate (FTSE NAREIT Equity); large cap (S&P 500); mid cap (S&P MidCap 400); small cap (Russell 2000); foreign developed country (MSCI EAFE); emerging markets (MSCI Emerging Market); commodities (Dow Jones UBS Commodity). Yield chart data as of December 2016. Representations: U.S. stocks are the S&P 500; foreign stocks are the average of developed country and emerging markets.

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