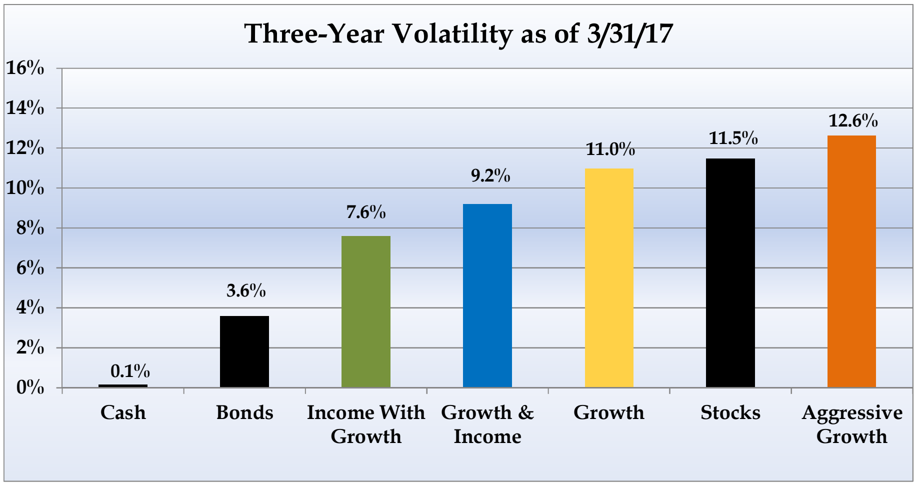
ASSET ALLOCATION QUARTERLY
Second Quarter 2017

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.



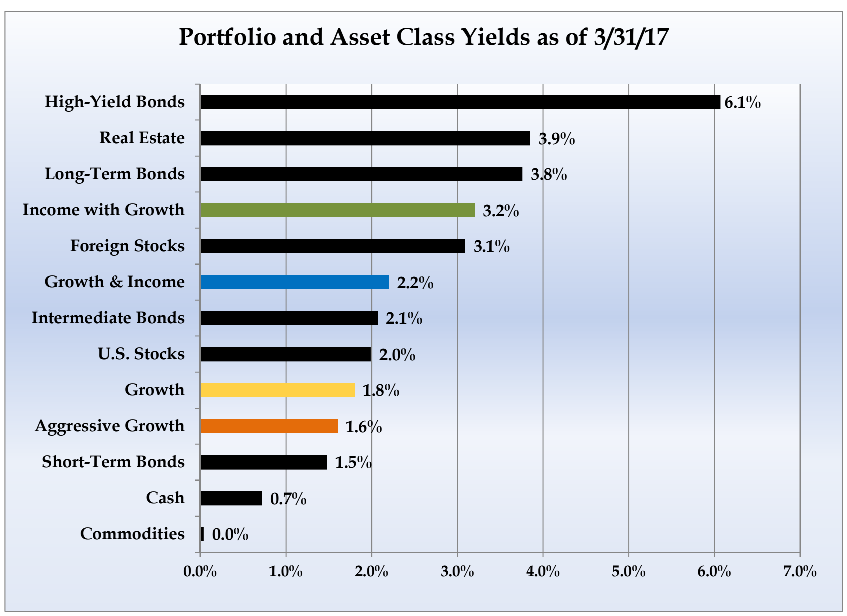
Source: Bloomberg, CIM. Cash is the ML 0-3 Month T-Bill Index; Bonds are the ML Domestic Master Index; Stocks are the S&P 500 Index. *See disclosures on page 6 for important details.

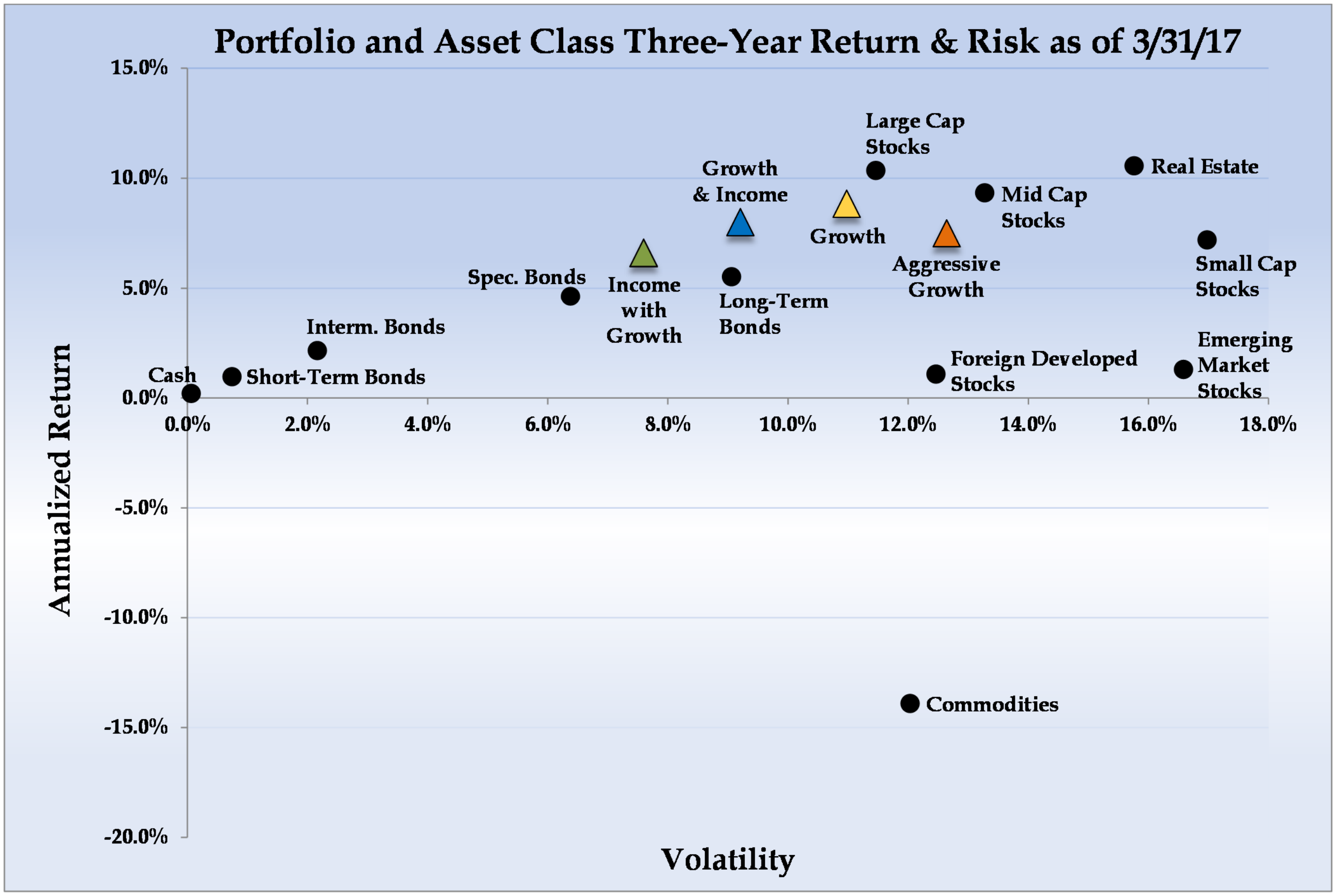
The Confluence asset allocation process is centered upon risk management. Our portfolios offer a broad spectrum of risk profiles, ranging from a fairly conservative posture in Income with Growth (green) to a more risk tolerant profile in Aggressive Growth (orange). The primary asset classes of cash, 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 our portfolios have performed over a rolling three-year period.

In the world of return and risk, the former gets a lot of attention, while the latter tends to be ignored. Risk eventually gets its day on stage, but it's usually during market declines or after negative events transpire. In our approach, we continuously monitor risk, checking the barn door while the horse is still inside. For that reason, we feel this chart is helpful as it illustrates not just returns, but the amount of volatility associated with a given level of return. We note that volatility is only one way to measure risk—and it has its limitations—but it can be helpful to estimate a range of possible outcomes.

Looking at the portfolio composites, we can see that the income-oriented portfolios have performed well over the past three years as we've combined allocations of various bond maturities and different credit qualities, while also including equities and real estate. The allocations have helped to create meaningful returns and yields, while not creating excessive amounts of volatility. The tradeoff of these lower volatility profiles is lower long-term return potential.

As we move into the growth-oriented portfolios, we can see the range of possible return outcomes has been broader for higher volatility asset classes. The Growth portfolio has had lower returns relative to large caps stocks, but has also had lower volatility, which was derived from a more diversified posture. The Aggressive Growth portfolio has had proportionally more exposure to small caps, bringing its recent returns below that of large caps. Still, this portfolio has benefited by avoiding big allocations to foreign developed and emerging market stocks, along with commodities. Given its relatively high level of volatility, we expect its performance to move around the chart more than the other portfolios. The benefit of higher volatility is the potential for higher returns for investors who are more risk tolerant.

SECOND QUARTER 2017 ASSET ALLOCATION OUTLOOK

- **The economy continues on a stable path, along with relatively low levels of inflation.**
- **In this cycle, tighter Fed policy involves not only raising short-term rates, but also reducing the size of the Fed's balance sheet.**
- **The magnitude of growth of the Fed's balance sheet in recent years was unprecedented. Its reduction is also unprecedented.**
- **We expect the Fed to move gradually and telegraph its policy, allowing markets time to adjust without harmful disruptions.**
- **Our equity allocations are unchanged this quarter and remain entirely domestic. We utilize large caps for conservative portfolios, while including mid and small caps where risk tolerance is higher.**
- **Our bond allocations include short, intermediate and long maturities. We also believe speculative grade bonds are helpful in pursuing income objectives.**
- **Our growth/value style bias shifts from 30/70 to an even weight of 50/50.**

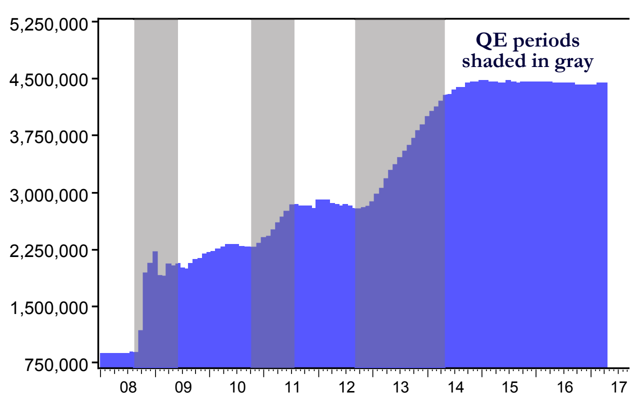
ECONOMIC VIEWPOINTS

The economy remains on a stable trend so far in 2017. Unemployment remains low, while consumer and business sentiment are improving. Accordingly, the Fed has continued on its path of gradually raising short-term interest rates. At this point, it appears the pace of tightening is appropriate, and isn't tipping the economy toward a recession. Still, we're keeping a close eye on monetary policy, because there's a unique issue the Fed is managing in this cycle: the reduction of its own balance sheet.

What exactly is the Fed's balance sheet? Without getting into too many details, the Fed's balance sheet reflects the value of assets it has purchased in the financial markets, most of which are bonds. When the Fed buys assets, it pays for them by simply creating money. It's sort of like a digital printing press that increases money supply. Conversely, when the Fed sells assets, the proceeds are taken out of the economy, lowering the supply of money. The Fed normally expands and shrinks its balance sheet by buying and selling short-maturity bonds, thereby directing short-term interest rates, according to its desired policy.

However, during the financial crisis in 2008, the Fed altered the kinds of assets it would purchase in order to help stabilize the markets. Then, after stabilizing markets, the Fed began purchasing long-maturity Treasury and mortgage bonds (a policy called "Quantitative Easing," or "QE" for short) in an attempt to stimulate the economy by driving long-term interest rates lower. In this graph, we can see the total assets of the Fed. In 2008, its balance sheet had assets worth about $900 billion. Although this was a large number, it was a function of multi-decade growth, having risen along with the overall size of the economy.

Federal Reserve Bank Total Assets (Millions $)



Source: Federal Reserve Board /Haver Analytics

Through three rounds of QE, the Fed's balance sheet growth accelerated rapidly, ultimately quintupling assets to almost $4.5 trillion. Unfortunately, the economic stimulus from QE didn't materialize. Most of the increase in money supply remained parked as excess reserves in the banking system. Lending stalled as financial regulations made banks very cautious to lend, while at the same time most qualified borrowers were simply not interested in more debt.

So, today, as the Fed guides short-term rates gradually higher, it is also contemplating how to lower the size of its balance sheet. If most of the increase in money supply is parked as excess reserves in the U.S. banking system, a gradual decline in the Fed's balance sheet shouldn't be too disruptive to the availability of credit and shouldn't harm the economy…in theory. The problem is, nobody really knows how to shrink a balance sheet of this size. How much? How fast? When? It's an unprecedented endeavor.

Fortunately, the Fed has significant leeway in how it moves forward. It has already had success in telegraphing its interest rate policy, and we expect the Fed to communicate its balance sheet plan in a way that fosters gradual adjustments by financial markets, borrowers and lenders. It's worth noting this leeway is derived from a stable economy. In the event the economy begins to falter, or is disrupted by geopolitical events, the Fed's efforts will become much more complicated.

It's also worth mentioning that uncertainty regarding White House policies may also cloud the economic landscape. We have not yet ascertained whether the president will favor traditional supply-side economics, or if populist priorities will rule the day. Generally speaking, a supply-side bias would create more predictability for the Fed, whereas populist policies toward protectionism would tend to create more inflation, geopolitical risk and uncertainty for the Fed. Accordingly, we'll be closely monitoring economic trends, geopolitical risk, White House policies and how the Fed decides to navigate the unprecedented reduction of its balance sheet.

STOCK MARKET OUTLOOK

Even as the post-election euphoria leveled off, equities were still able to begin 2017 on a positive trend, with large caps delivering some of the best returns. We believe the environment for equities should remain generally good, although we are a bit more cautious given that valuations have risen over the past few years. Our work indicates there has been a close relationship between increases in the Fed's balance sheet and equity valuations (stock P/E ratios rose during periods of QE), so we are monitoring equities to see if a shrinking balance sheet has the opposite effect. Our early work indicates that a gradual decline in the Fed's balance sheet may not be overly disruptive to equities.

We maintain our focus on domestic equities, with no foreign developed or emerging equity exposure. We continue to believe the return/risk profile is more favorable for U.S. equities against the backdrop of potential earnings, valuations, currency risk and geopolitical uncertainty. We utilize large caps for more conservative models, while including more exposure to mid and small caps where risk tolerance is higher. Within large caps, we are overweight financials, industrials and utilities, while being underweight telecom and consumer staples. We are adjusting our style bias from 30/70 growth/value to an evenly balanced 50/50, based upon our views toward sectors and industries within each style.

BOND MARKET OUTLOOK

After rising in the latter half of 2016, Treasury yields were generally stable in the first quarter of 2017. Seemingly, as the optimism for higher growth mellowed, so too did concerns for future inflation and more aggressive tightening by the Fed. Our expectation is for both growth and inflation to remain generally in line with current levels, with the potential to rise modestly over the next few quarters. A wildcard here may be trade policy. If protectionist policies were to actually manifest, they would likely drive inflation higher. We are also watching to see how the decline in the Fed's balance sheet affects bond yields.

Against this backdrop, we feel it is appropriate for most bond investors to include a variety of maturities, sectors and credit qualities in their bond allocations. These include short, intermediate and long-maturities, including Treasury, corporate and MBS. We also include speculative grade bonds, where the default rates appear relatively benign. It is worth mentioning that we continue to see important diversification benefits from longer maturity bonds as this asset class has a tendency to rise when equities decline, helping to address overall portfolio risk.

OTHER MARKETS

Fundamentals in real estate are generally good, although we prefer to limit or avoid exposure to retailing, where certain markets may face ongoing challenges. Broadly speaking, real estate capital costs and financing should remain relatively low, while occupancy and rental rates are likely to be constructive. We also expect foreign capital to continue flowing into U.S. real estate.

We remain out of commodities where the return/risk does not appear as favorable. China continues to be the marginal source of demand for most commodities, and we have concerns regarding the stability of the country's growth rate. In addition, we expect energy commodities to have a negative bias given significant global supply capacity.

Second 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%	3%	-	-	-	-	-	-
Intermediate Term Bonds	-	(8%)	10%	-	5%	-	-	-
Long Term Bonds	30%	-	5%	-	-	-	-	-
Speculative Grade Bonds	12%	5%	5%	-	-	-	-	-
Real Estate	20%	-	5%	-	5%	-	5%	-
U.S. Large Cap Stocks	26%	-	43%	-	40%	-	-	-
U.S. Mid Cap Stocks	7%	-	25%	-	30%	-	35%	-
U.S. Small Cap Stocks	-	-	5%	-	18%	-	58%	-
Foreign Developed Country Stocks	-	-	-	-	-	-	-	-
Emerging Market Stocks	-	-	-	-	-	-	-	-
Commodities	-	-	-	-	-	-	-	-
Total	*100%*		*100%*		*100%*		*100%*	

INCOME WITH GROWTH

In the Income with Growth portfolio, the bond allocation continues to include long-term bonds, which contribute to yield and provide significant portfolio diversification. In recent quarters, long-maturity bonds have often increased in price when equity markets declined, making this asset class helpful to conservative investors with equity exposure. This quarter, we adjust the allocation to include short-term bonds, which help “barbell” longer maturities. We also increase the exposure to speculative grade bonds, which have higher yields, albeit with greater credit risk. We expect the default environment to be relatively benign, creating a good opportunity to participate in the higher yields.

The equity allocation remains focused on large caps, which we believe can perform well with the economy growing at a moderate pace. We also believe real estate should perform well, given strong operating fundamentals and low financing costs.

GROWTH & INCOME

The bond allocation in the Growth & Income portfolio includes intermediate and long-term bonds, as well as an allocation to speculative grade bonds. The diversified allocation combines different maturities, sectors and credit quality.

On the equity side, the allocations are also well diversified to include large, mid and small cap stocks. Most of the allocation is in large caps, which tend to have less volatility than other equity asset classes. However, we also include mid and small caps, which bring a different dimension of growth, albeit with higher risk. We note that we remain entirely out of foreign equities. We believe domestic equities have a more favorable return/risk profile given our outlook for growth, currencies and geopolitical risk. We maintain a real estate allocation, which can contribute to both growth and income objectives. We remain out of commodities due to significant excess global supply capacity.

GROWTH

We continue to believe the environment for U.S. equities should be generally good. Economic growth is stable, while the Fed is telegraphing rate hikes that seem manageable. Still, we are closely watching the Fed as it contemplates shrinking its balance sheet. Valuations rose when the balance sheet expanded, so it is important to see how the markets react to balance sheet contraction.

Our equity allocation in the Growth portfolio remains entirely domestic, with a focus on large caps. Mid and small caps are also included in smaller proportions to add potentially higher growth, albeit with greater risk. We remain out of foreign equities as we believe the U.S. environment is more favorable given our views with regard to potential growth, currencies and geopolitical risk. We also include small allocations to real estate and intermediate bonds. We believe these allocations provide helpful diversification to the portfolio.

AGGRESSIVE GROWTH

The Aggressive Growth portfolio is currently focused on mid and small cap stocks. We made this shift late in 2014 and although we were a bit early, these asset classes performed particularly well in 2016. Despite the strong relative performance from last year, we continue to believe small and mid-sized companies may be able to deliver higher growth, even in a moderate-growth economy. Granted, the risk is certainly higher but the business environment is generally constructive and we get the sense that it may get even better in coming quarters.

We remain out of both foreign developed and emerging market equities. We believe many foreign companies may face challenges to growing their earnings in the coming quarters. Although the immediate pace of growth favors some foreign areas, we believe that local political events (European elections, Brexit) and geopolitical concerns could weigh on earnings growth into 2018. We maintain a relatively small allocation to real estate, which may provide attractive returns due to good fundamentals and ongoing capital flows from foreign investors.

Performance & Disclosures

As of 3/31/17

Strategy	Quarter	YTD	1 - Year	3 - Year	5- Year	ITD
Aggressive Growth - Gross of Fees	1.9%	1.9%	17.3%	7.5%	10.0%	7.0%
Aggressive Growth - Net of Fees	1.1%	1.1%	13.8%	4.3%	6.7%	3.8%
Benchmark - S&P 500	6.1%	6.1%	17.2%	10.4%	13.3%	9.8%
Growth - Gross of Fees	3.7%	3.7%	14.7%	8.9%	10.2%	7.0%
Growth - Net of Fees	2.9%	2.9%	11.3%	5.6%	7.0%	3.8%
Benchmark - S&P 500	6.1%	6.1%	17.2%	10.4%	13.3%	9.7%
Growth and Income Taxable - Gross of Fees	4.1%	4.1%	12.6%	8.0%	9.0%	7.1%
Growth and Income Taxable - Net of Fees	3.3%	3.3%	9.3%	4.8%	5.7%	3.9%
Benchmark - 70% S&P 500 and 30% ML Bond Index	4.5%	4.5%	11.9%	8.2%	10.1%	8.3%
Income Taxable with Growth - Gross of Fees	2.7%	2.7%	8.3%	6.6%	7.5%	10.4%
Income Taxable with Growth - Net of Fees	1.9%	1.9%	5.1%	3.4%	4.3%	7.1%
Benchmark - 40% S&P 500 and 60% ML Bond Index	2.9%	2.9%	6.9%	5.9%	6.8%	8.6%

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 3/31/17. 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 March 2017. Representations: U.S. stocks are the S&P 500; foreign stocks are the average of developed country and emerging markets.

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Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. We provide professional portfolio management and advisory services to institutional and individual clients. Our investment philosophy is based upon independent, fundamental research that evaluates global markets and economies, and continues all the way down to specific companies. Our portfolio management philosophy begins by addressing risk, and follows through by positioning clients to achieve income and growth objectives.