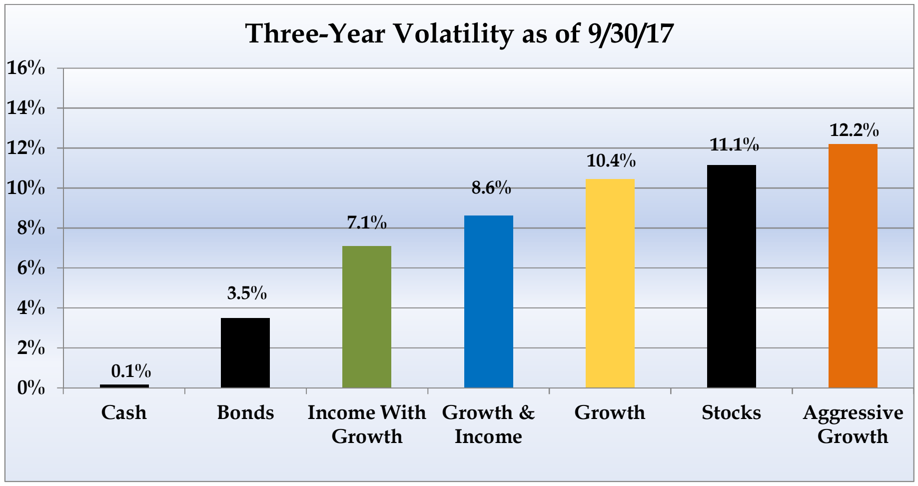
ASSET ALLOCATION QUARTERLY
Fourth Quarter 2017

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.

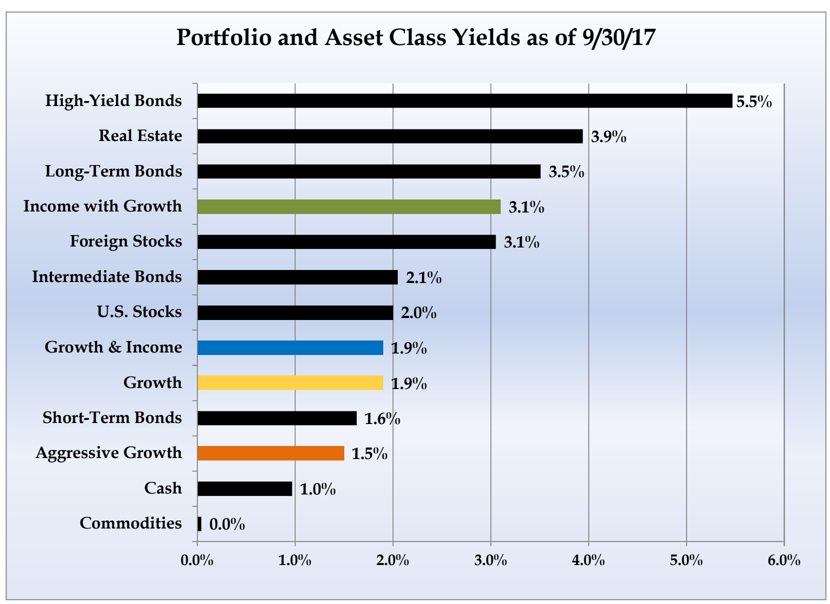


Source: Bloomberg, CIM. Cash is the ML 0-3 Month T-Bill Index; Bonds are the ML Domestic Master Index; Stocks are the S&P 500 Index. *See disclosures on page 6 for important details.

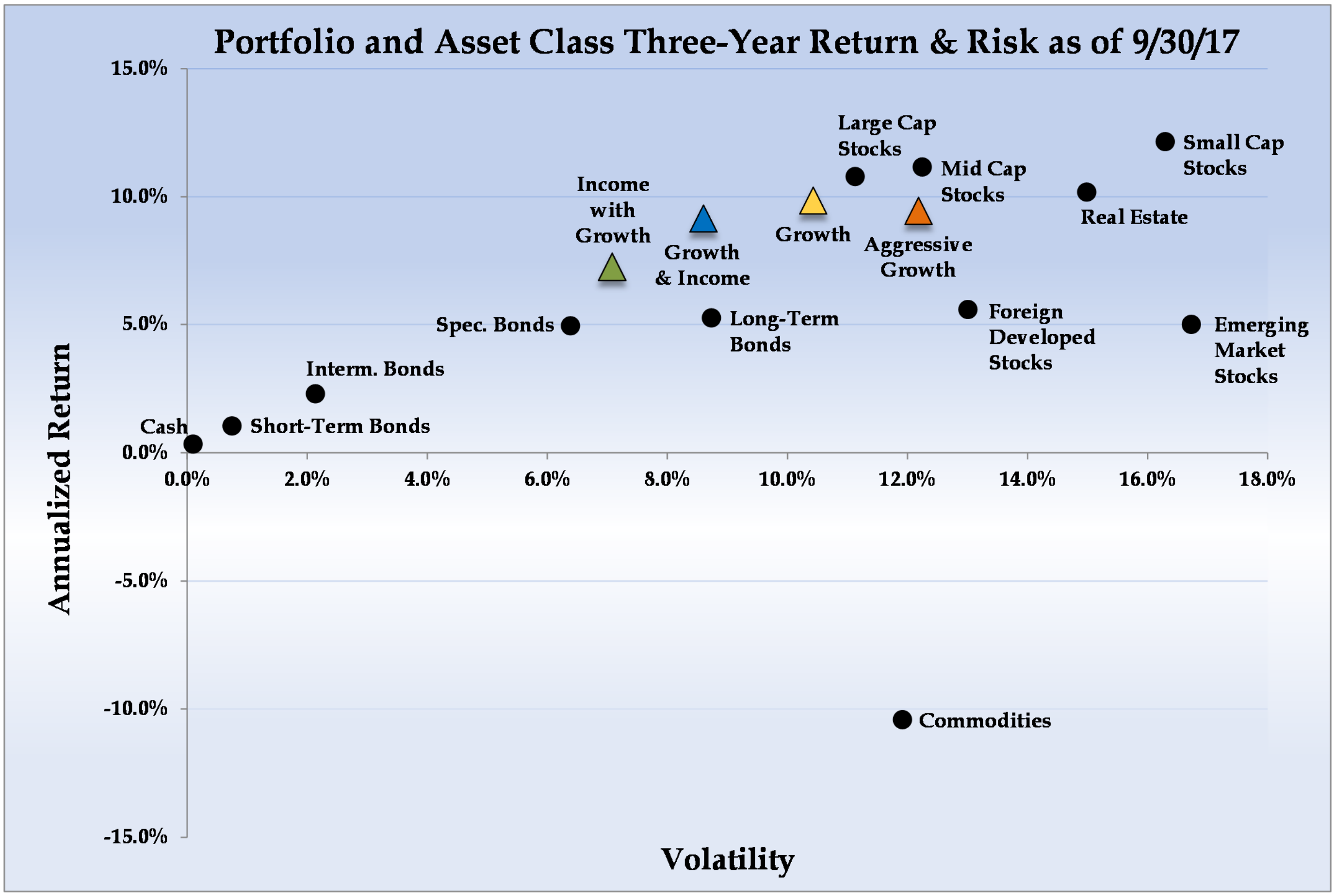
The Confluence asset allocation process is centered upon risk management. Our portfolios offer a broad spectrum of risk profiles, ranging from a fairly conservative posture in Income with Growth (green) to a more risk tolerant profile in Aggressive Growth (orange). The primary asset classes of cash, 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 the rolling three-year period ending September 30, 2017.

The past several years have remained constant in that the strategies positioned for lower volatility have also experienced more muted returns. As measured by standard deviation, our outlook for risk has aided our return expectations, which has worked in a stepwise progression from the Income with Growth strategy through the Growth portfolio. While the Aggressive Growth model has been a modest outlier, the portfolios have generally followed the expected cadence for each unit on the risk/return spectrum.

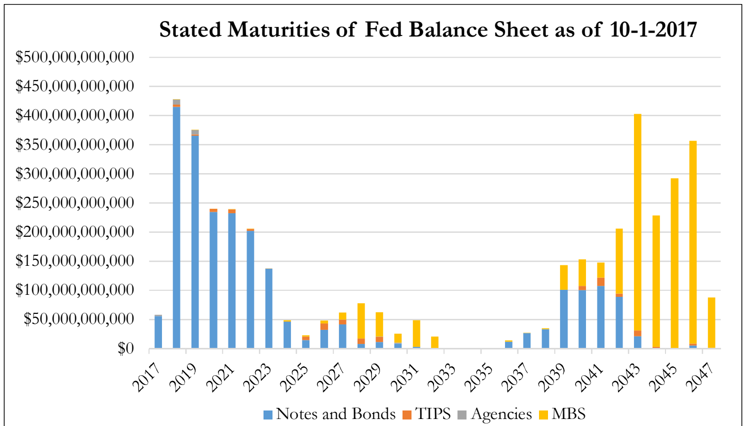
The accommodative monetary policies and an increase in investor risk appetites that have prevailed over the past three years are borne out in the chart above. In this environment, equity holders have been amply rewarded. In the Confluence strategies where income is an objective, allocations to equities remain high by historical standards. Though elevating the volatility, the exposures have assisted in capturing higher returns. In contrast to the past several years, the long-term bond exposures in the income-oriented strategies have been steadily trimmed since the middle of 2016. The longer duration exposures proved to be highly beneficial, but the significant attraction they previously held has waned. One exposure that was noticeably absent since mid-2013 was non-U.S. equities, which proved beneficial during the U.S. dollar's rally through the end of 2016. However, due to our expectations for a softer U.S. dollar and favorable valuations abroad, non-U.S. positions were introduced last quarter to all of the strategies in risk-adjusted proportions and had a positive impact on overall performance.

We have enjoyed a favorable economic landscape over the past several years, which is reflected in the figures on the chart above. While the outlook harbors solid expectations and continued positive investor sentiment, we regularly reassess signals that could change our macroeconomic outlook and expected returns and volatility for each asset class constituent. We remain cognizant that Fed policies, legislative efforts and the contentment of investors may shift to the degree where risk exposures need to be reevaluated. Consequently, we make only modest adjustments to our exposures for the balance of the year, but any changes that might occur to the comfortable economic backdrop would cause us to adopt a more risk-averse posture for the strategies.

FOURTH QUARTER 2017 ASSET ALLOCATION OUTLOOK

- **Our inflation outlook remains benign and economic data continues to be modestly positive.**
- **We do not anticipate a recession in the near term.**
- **Though the composition of the Fed will change over the next four months, we expect policy to continue toward tightening through increases in the fed funds rate and a reduction in the size of the Fed's balance sheet.**
- **The larger allocation to intermediate-term investment grade bonds remains intact. However, we reduce exposure to speculative grade bonds due to spreads grinding to their tightest post-recession levels.**
- **Our growth/value even weight of 50/50 remains unchanged.**
- **We increase our exposure to non-U.S. developed and emerging market equities, the former with a tilt toward Europe, due to expectations for continued U.S. dollar softness and attractive valuations overseas.**

ECONOMIC VIEWPOINTS



(Sources: New York Federeal Reserve Bank; CIM)

There are a number of potential pending changes to the policy and complexion of the U.S. Federal Reserve as of this writing. First, there are currently three, and soon to be four, open positions on the Board of Governors, the most important of which is the Fed chair. Though we are not expecting a dramatic near-term shift in the trajectory the current Fed has taken, the new arrangement could alter its policies as it is absorbed over the next few quarters. Second, the process of normalizing the nearly $4.5 trillion balance sheet is expected to commence in October as the Fed begins to slowly stop reinvesting the proceeds it receives from maturing bonds. Though the Fed stated it will start with a reduction of just $10 billion a month, over the next year the Fed's current intention is to increase the amount to $50 billion each month. As this chart illustrates, a level of $50 billion each month will soon have the effect of shrinking the balance sheet.

With the recent publication of the Fed's minutes from the September meeting, the near-term trajectory seems fairly certain with expectations for another hike in the fed funds rate in December already priced into the market. Fed fund futures currently have an implied 80% probability of a December rate hike. However, the prospect for increases in the rate through 2018 as well as further implementation of quantitative tightening through the reduction in the balance sheet are dependent upon the composition of the Fed's board. Given the Trump administration's desire to strike a more populist appeal, it would not be surprising if the Fed adopts a more dovish posture in 2018. Such a pose would imply an extension of softness for the U.S. dollar versus other currencies.

Regarding other domestic economic themes, inflation and unemployment remain at low levels, while consumer and business sentiment are elevated. Although the effects of the disastrous hurricane season and wildfires in northern California will likely weigh on GDP and employment over the next several quarters, we believe the dislocations will prove temporary.

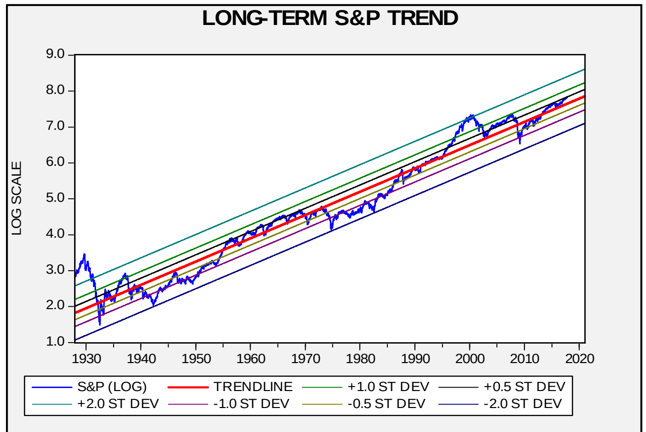
Outside the U.S., the European Central Bank (ECB) announced its intention to begin tapering the amount of its bond purchase program, but also indicated it would be extended further by nine months. We view this as the ECB maintaining its accommodative positioning while recognizing the strength in the underlying economy. It also underscores the ECB's caution toward the myriad political developments in Europe, including Brexit, German and Austrian election results, the separatist movement in Spain and Italian elections in early 2018. The consequent economic impact holds a large degree of uncertainty, leading the ECB to lengthen its stimulus timeline.

In the realm of geopolitics, though concerns attract headlines, we do not think the current issues hold meaningful implications for asset prices. Naturally, the prospect of armed conflicts with North Korea and/or Iran, or a complete revision of NAFTA, would have tremendous economic impact, but at this stage we do not find reason to be less than sanguine. Accordingly, our allocation of assets among each of the strategies currently reflects an accommodation of risk.

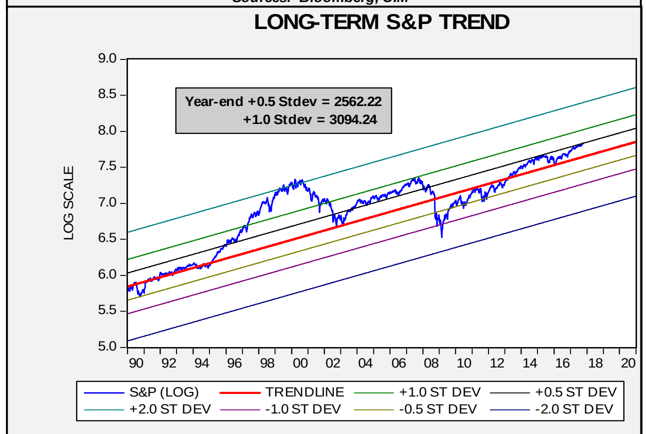
STOCK MARKET OUTLOOK

The benign inflationary environment has been a positive backdrop for equity valuations and our expectations are that it should remain favorable. Though this year's equity market advances thus far have been stronger than many experts expected, we remain positive on the outlook for equities over the forecast period absent an exogenous event or a surprising change in inflation expectations. While we recognize that equity pricing, particularly in large caps, remains close to historical highs as measured by traditional valuation metrics of Price/Earnings, Price/Book and Price/Cash Flow, we remain optimistic over the near term. Moreover, we harbor some concerns that equity markets could exhibit a "melt up" over the next 1-2 years as investors who have remained on the sidelines since the beginning of this bull market capitulate and put their excess cash to work, thereby fueling demand for equities and inflating prices further.

As we recently published in our *Asset Allocation Weekly* (10/13/17), the parameters surrounding long-term S&P 500 trends remain supportive. Although a recession or geopolitical event would carry consequent risk to equity prices, the regression trend lines on the accompanying charts indicate that the S&P 500 is trading within one-half standard error of the 6% average yearly trend. For context, the top chart displays log-transformed weekly Friday closes of index data since 1929, while the lower chart shows a more recent period beginning in 1990. The same regression trend lines are used on both charts.



Sources: Bloomberg, CIM



Sources: Bloomberg, CIM

The Confluence Asset Allocation Committee recognizes that the U.S. economy is well advanced in terms of the economic cycle. In fact, the end of October will mark the 100th month for the current economic expansion, making this the third longest on record. However, economic conditions and associated market values fail to conform to the rigor of a calendar. We remain cognizant of the length of the expansion and are wary of the potential of a slowdown in economic growth over the forecast period. Nevertheless, as equity markets continue to advance, the Confluence Cyclical Asset Allocation strategies retain their historically high allocations to equities, inclusive of non-U.S. equities. It should be noted that this quarter's rebalance further increases non-U.S. equity exposure, owing to the committee's prevailing view that there is a likelihood of continued softness in the U.S. dollar coupled with favorable non-U.S. equity valuation metrics as compared to U.S. counterparts.

Within U.S. large caps, we favor energy, health care, industrials and materials and underweight telecom, utilities and consumer staples. We maintain a neutral growth/value style bias.

BOND MARKET OUTLOOK

Despite the Fed's decision to leave the fed funds rate unchanged at its September meeting, the probability for a 0.25% hike in December has increased. Over the forecast period, we envision the terminal rate of fed funds to be between 1.75% and 2.50%, with the differential dependent upon the make-up of the Fed's Board of Governors and overall economic conditions. Given these expectations, there is the increased likelihood of a continued flattening of the Treasury yield curve due to tighter monetary conditions. Among corporate bonds, spreads for both investment grade and speculative grade bonds versus maturity equivalent Treasuries have tightened to post-recession lows.

Considering current conditions and expectations, we lengthen the overall duration slightly, though with an increase in Treasury exposure and a continued concentration in the intermediate segment of the yield curve. In addition, we decrease the overall exposure to speculative grade bonds, a position we find appropriate given tighter spreads and as the Fed embarks upon normalizing its balance sheet.

OTHER MARKETS

Similar to last quarter, we determined that commodities do not hold near-term appeal. Commodities can be helpful to a diversified portfolio in an environment of faster economic growth and/or a surge in inflation expectations; however, as these conditions remain absent, commodities are not currently represented in the strategies.

Fourth 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%	-	5%	-	-	-	-	-
Intermediate Term Bonds	17%	(4%)	10%	-	5%	-	-	-
Long Term Bonds	15%	5%	5%	-	-	-	-	-
Speculative Grade Bonds	7%	(5%)	5%	-	-	-	-	-
Real Estate	20%	-	-	-	5%	-	-	-
U.S. Large Cap Stocks	22%	-	30%	-	40%	-	-	-
U.S. Mid Cap Stocks	-	-	15%	-	15%	(5%)	25%	-
U.S. Small Cap Stocks	-	-	13%	(5%)	8%	-	40%	(8%)
Foreign Developed Country Stocks	14%	4%	10%	5%	15%	5%	13%	3%
Emerging Market Stocks	-	-	5%	-	10%	-	20%	5%
Commodities	-	-	-	-	-	-	-	-
Total	*100%*		*100%*		*100%*		*100%*	

INCOME WITH GROWTH

This quarter, we make a small shift from intermediate to longer term bonds, but the focus remains in the intermediate sector for the Income with Growth strategy. The slightly larger allocation to longer maturities is through Treasuries due to the significant contribution to income as well as the important diversification benefits they afford to conservative investors. We pare the exposure to speculative grade bonds, stemming from their post-recession tight spreads to Treasuries. While the exposure to speculative bonds has been favorable, the spread compression has made them less attractive.

While the exposure to U.S. equities remains unchanged, and is exclusively in large cap equities and REITs, we increase the allocation to non-U.S. developed markets. Continued favorable valuations and expectations for a softer U.S. dollar contributed to the decision to increase this exposure.

GROWTH & INCOME

There were no changes to the bond exposures in the Growth & Income strategy. The focus remains on intermediate-term bonds with a mix of Treasuries, mortgage-backed securities and corporate bonds. We retain the modest 5% allocation to speculative grade bonds to maintain the well-diversified combination of bond exposures.

Within the equity sleeve, the exposures to U.S. large cap and mid-cap equities remain unchanged given our positive outlook for the equity market. However, we trim a portion of the U.S. small cap exposure in order to increase the non-U.S. developed equity allocation. Favorable fundamentals and expectations of U.S. dollar softness drove our decision to increase exposure to non-U.S. equities, which provide an appropriate risk/expected return profile that complements the U.S. equity allocations for more moderate accounts.

GROWTH

Stable economic growth, modest inflation, low unemployment and measured tightening by the Fed provide a solid backdrop for U.S. equities. Consequently, the allocations to U.S. large cap and small cap equities remain unchanged in the Growth strategy. We increase the exposure to non-U.S. equities due to favorable fundamentals and the potential for a softening U.S. dollar. We sourced this increase from the U.S. mid-cap allocation.

We retain the modest allocations to REITs and intermediate-term bonds as they continue to deliver differentiated returns and, therefore, maintain the associated diversification benefits. The overall risk profile of the strategy is appropriate for investors with a moderate risk threshold.

AGGRESSIVE GROWTH

We increased the exposures to non-U.S. developed and emerging market equities in the Aggressive Growth strategy given the backdrop of attractive fundamentals and softening U.S. dollar. The developed foreign exposure retains a tilt toward Europe, where economic growth is strengthening and the ECB maintains an accommodative policy. In emerging markets, we retain the relative proportion of large caps to small caps, with modest increases to each.

This strategy continues to exclude U.S. large cap equities. The exposures to U.S. mid-caps and small caps still comprise the majority of the allocation given their attractive current ratios of P/E, P/B and P/CF relative to historic measures.

Performance & Disclosures

As of 9/30/17

Strategy	Quarter	YTD	1 - Year	3 - Year	5- Year	ITD
Income Taxable with Growth - Gross of Fees	2.0%	8.1%	6.2%	7.3%	7.7%	10.4%
Income Taxable with Growth - Net of Fees	1.2%	5.7%	3.0%	4.1%	4.5%	7.1%
Benchmark - 40% S&P 500 and 60% ML Bond Index	2.3%	7.5%	7.1%	6.1%	6.9%	8.6%
Growth and Income Taxable - Gross of Fees	3.7%	10.8%	11.2%	9.2%	9.5%	7.4%
Growth and Income Taxable - Net of Fees	2.9%	8.3%	7.9%	5.9%	6.3%	4.2%
Benchmark - 70% S&P 500 and 30% ML Bond Index	3.4%	10.8%	12.8%	8.5%	10.6%	8.6%
Growth - Gross of Fees	3.9%	10.3%	13.1%	9.9%	11.0%	7.3%
Growth - Net of Fees	3.2%	7.9%	9.8%	6.6%	7.7%	4.2%
Benchmark - S&P 500	4.5%	14.2%	18.6%	10.8%	14.2%	10.1%
Aggressive Growth - Gross of Fees	4.9%	8.7%	13.6%	9.4%	11.1%	7.4%
Aggressive Growth - Net of Fees	4.1%	6.3%	10.2%	6.2%	7.8%	4.2%
Benchmark - S&P 500	4.5%	14.2%	18.6%	10.8%	14.2%	10.2%

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 9/30/17. 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 September 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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