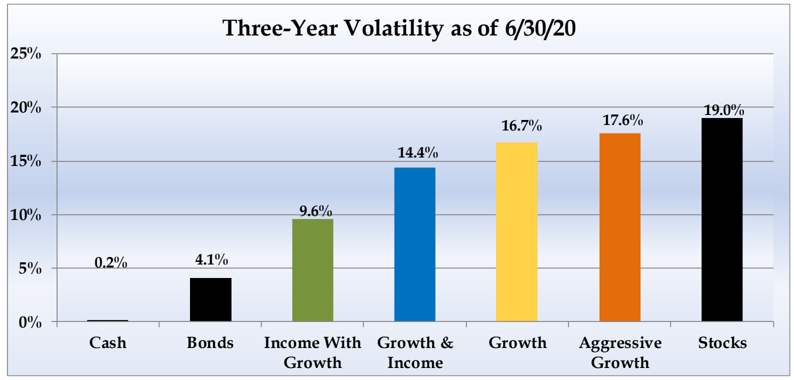
Asset Allocation Quarterly
Third Quarter 2020

The Confluence asset allocation process is centered upon risk management. Our asset allocation strategies offer a broad spectrum of risk profiles, ranging from a relatively 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 by the black bars for reference in the accompanying chart.



*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.**

The ebbs and flows of risk levels and return potential naturally occur over market and economic cycles. In anticipation, we employ flexible asset allocation through adaptive diversification, where we evaluate the economy, monetary and fiscal policies, interest rates, regulation, valuations and other investment variables in a forward-looking context. Although we seek return opportunities, we do so within risk constraints that are scaled for each strategy.

The asset allocation strategies are structured across an array of risk profiles, where the more conservative lean against potential volatility and accept more muted, though typically steadier, returns, while the more aggressive accept inherent volatility in the pursuit of potentially higher returns.

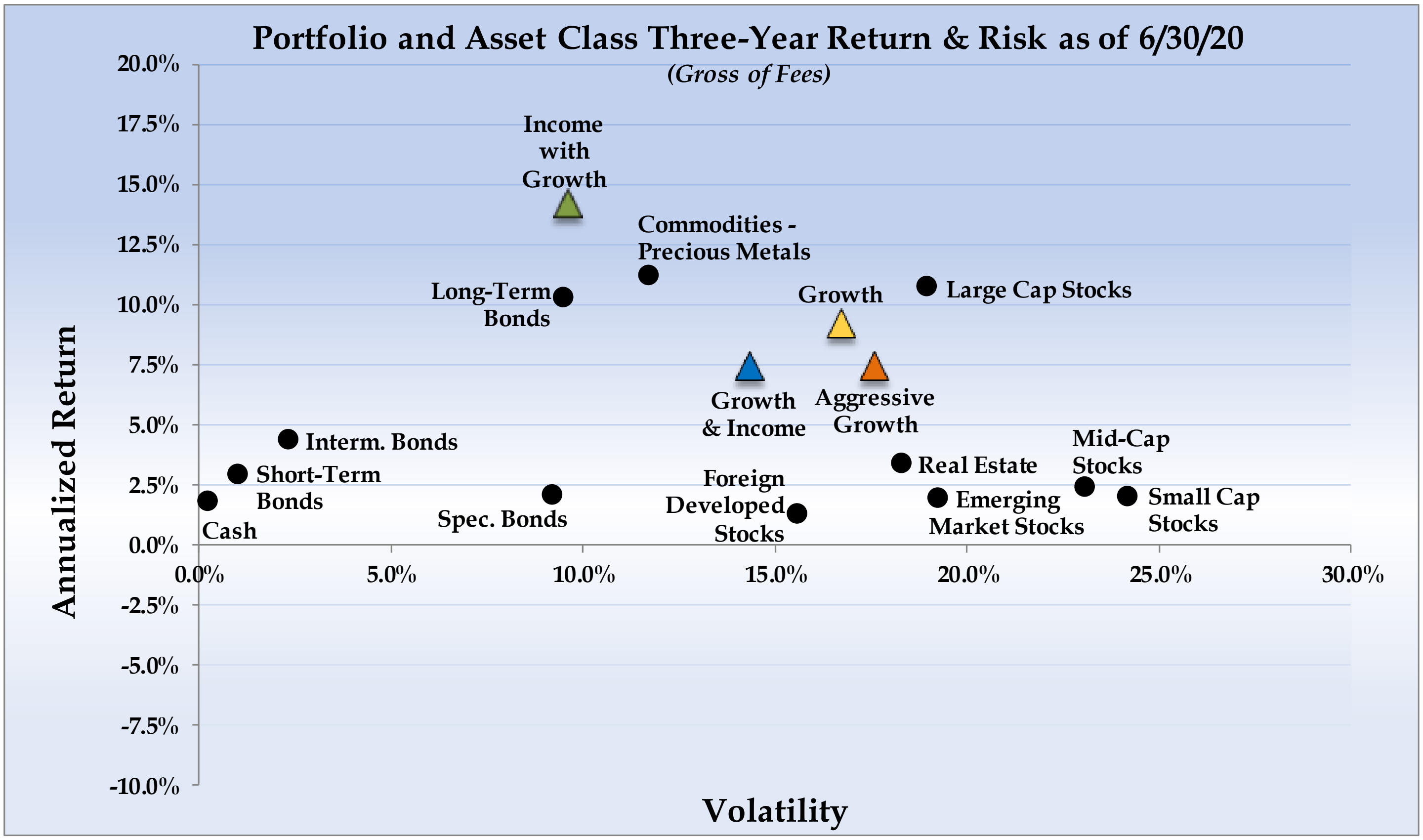
As the table below illustrates, return variance among asset classes from quarter-to-quarter can change drastically. Over the past three years, we have witnessed bouts of sizable gains from U.S. stocks, punctuated by dramatic retreats. In contrast, bonds exhibited more muted returns, although long-term bonds in several quarters have recorded returns rivaling equities. Nevertheless, rarely have long-term bonds moved in close correlation with equities. Similarly, precious metals have exhibited a lack of correlated returns to either stocks or bonds, making them an attractive diversification element as conditions warrant.

Quarterly Asset Class Returns as of 6/30/20

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Cash	0.26%	0.28%	0.35%	0.45%	0.49%	0.56%	0.60%	0.64%	0.56%	0.46%	0.57%	0.02%
U.S. Short-Term Bonds	0.34%	-0.18%	-0.19%	0.29%	0.35%	1.17%	1.22%	1.49%	0.70%	0.61%	1.59%	1.22%
U.S. Intermediate-Term Bonds	0.94%	0.03%	-1.86%	-0.38%	0.21%	1.97%	3.79%	3.94%	2.34%	0.19%	2.42%	4.92%
U.S. Long-Term Bonds	1.46%	2.66%	-3.46%	-1.23%	-0.67%	1.25%	6.17%	6.45%	6.56%	-1.34%	7.24%	5.35%
Speculative Grade Bonds	2.04%	0.41%	-0.91%	1.00%	2.44%	-4.67%	7.40%	2.57%	1.22%	2.61%	-13.12%	9.61%
REITs	0.94%	1.51%	-8.20%	10.04%	1.23%	-6.73%	16.33%	1.24%	7.80%	-0.76%	-27.30%	11.82%
U.S. Large Cap Stocks	4.48%	6.64%	-0.76%	3.43%	7.71%	-13.52%	13.65%	4.30%	1.70%	9.07%	-19.60%	20.54%
U.S. Mid-Cap Stocks	3.22%	6.25%	-0.77%	4.29%	3.86%	-17.28%	14.49%	3.05%	-0.09%	7.06%	-29.70%	24.07%
U.S. Small Cap Stocks	5.67%	3.34%	-0.08%	7.75%	3.58%	-20.20%	14.58%	2.10%	-2.40%	9.94%	-30.61%	25.42%
Non-U.S. Developed Stocks	5.40%	4.23%	-1.53%	-1.24%	1.35%	-12.54%	9.98%	3.68%	-1.07%	8.17%	-22.83%	14.88%
Emerging Market Stocks	7.89%	7.44%	1.42%	-7.96%	-1.09%	-7.46%	9.91%	0.61%	-4.25%	11.84%	-23.60%	18.08%
Commodities - Precious Metals	2.76%	1.95%	0.31%	-5.04%	-5.44%	7.05%	0.55%	8.26%	4.40%	3.49%	2.11%	13.30%

*Source: Morningstar Direct, CIM.**

*This information is presented as supplemental information to the disclosures required by GIPS® standards.
Past performance is not indicative of future results. See page 6 for asset class composition/benchmark details and other important disclosures.



*Source: Bloomberg, CIM, using monthly data and gross returns. Net composite returns shown on page 6.**

Portfolio and Asset Class Commentary

The whipsaw of the equity markets through the first six months of this year heavily influenced the three-year volatility metrics. All risk asset classes exhibited heightened volatility, as measured by standard deviation, and most registered barely positive returns over the past 36 months. As is typical in volatile markets for risk assets, bonds played an important role as portfolio stabilizers. Not only did investment-grade bonds register higher returns with lower risk, they exhibited negative correlation to the S&P 500 over the past six months, underscoring their diversification benefits.

The Confluence strategies are represented by the colored triangles. While all the strategies generated positive returns over the past three years, the variability in risk was most heavily influenced by the mix of stocks and bonds held in each strategy. As one would expect, the strategies with higher exposure to bonds produced lower levels of realized volatility. This is entirely consistent with our construct of the strategies whereby each strategy is held to a distinct and unchanging volatility governor. As a result, bonds are used more extensively in strategies with a lower volatility ceiling, such as Income with Growth, as compared to the highest volatility ceiling of Aggressive Growth. While this may seem intuitive, it also explains the differential exposures of each strategy to the sub-asset classes. A more volatile sub-asset class is more likely to be employed in a strategy with a higher volatility ceiling. A pertinent example is the differential of returns and risk between the Growth and Aggressive Growth strategies. Over the past three years, Growth had a higher weighting to U.S. large cap stocks and Aggressive Growth held larger allocations to mid-cap and small cap stocks. Lower market capitalizations can lead to higher returns, albeit with higher levels of risk. However, given the turbulence in the equity markets, exposures to lower market cap stocks proved to hamper returns.

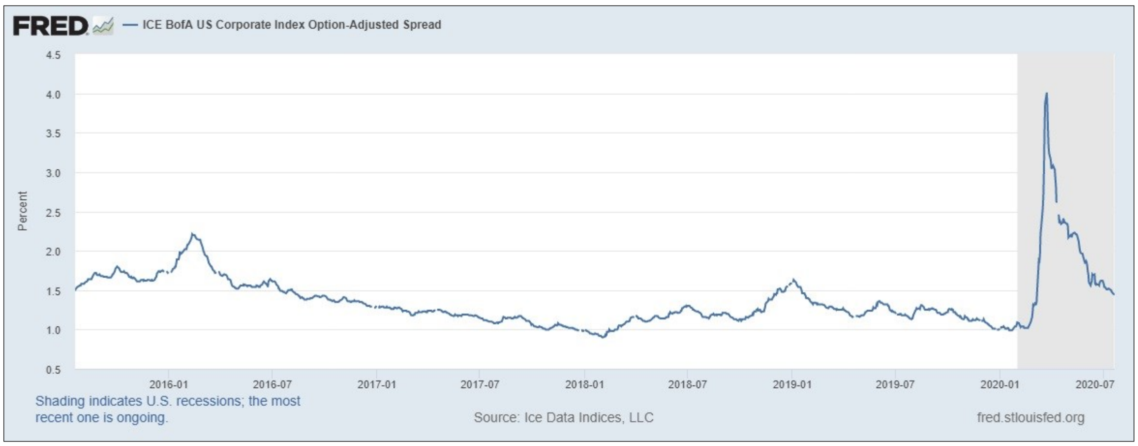
The elevated exposure to stocks across all strategies that was enacted at the beginning of last quarter are retained this quarter as the Asset Allocation Committee [AAC] believes that over the full three-year forecast period an economic recovery will prove beneficial to equities. However, we recognize the potential exists for a policy misstep or an increase in global geopolitical risk. The AAC regularly assesses and reviews a wide array of data affecting the macroeconomic environment including sentiment, growth prospects, and credit, among other elements. Should we detect an enduring shift, we will naturally adjust the risk exposure in each strategy as appropriate.

Third Quarter 2020 Asset Allocation Outlook

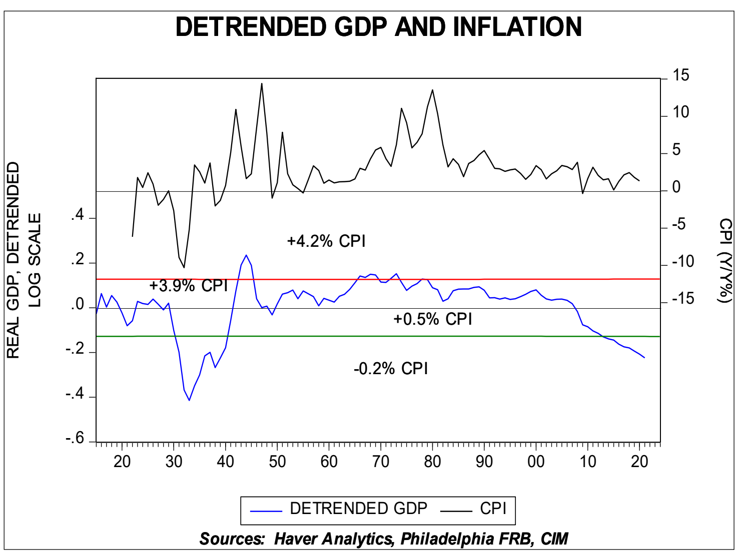
- **We expect the current U.S. recession to be deep, yet brief, with a long period of recovery and the potential for expansion toward the latter portion of our forecast period.**
- **The Federal Reserve has stabilized the financial markets and ensured the continued functioning of the corporate debt market.**
- **Long-term Treasuries served the strategies well, especially through the first half of this year, but appear to have run their course and are now absent from all strategies.**
- **We retain a favorable outlook for equities. Therefore, elevated exposures are maintained and the former overweight to growth has been brought to an even weight with value.**
- **Valuations are favorable for lower capitalization stocks, which are represented in each of the strategies.**
- **Precious metals occupy an increased weight in each strategy with gold supplemented by a modest exposure to silver.**

Economic Viewpoints

The coma into which the U.S. economy was placed created the deepest decline in GDP since the 1930s and in the shortest order ever recorded. Over a period of only a few weeks, seven years of employment gains were wiped away and unemployment rates surged to double-digit levels. The monetary and fiscal responses have been extraordinary, totaling over $4.5 trillion in the aggregate, inclusive of the $2.3 trillion Coronavirus Aid Relief and Economic Security Act and the Federal Reserve's multitude of acronym laden programs designed to calm and ensure the integrity of financial markets. The effects have been encouraging as markets have rebounded. Perhaps the broadest direct and indirect impact on the markets has been the Fed's shoring up of the corporate debt market through its purchases of broad-based ETFs as well as selected issues. This has had the effect of narrowing spreads on corporates from levels last seen in the Great Recession to more traditional levels, as illustrated in this first chart.

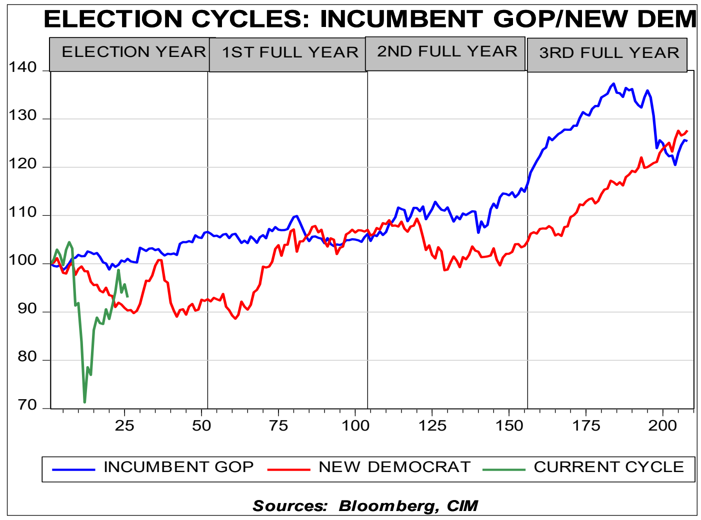


Our earlier forecast was for a dramatic decline in U.S. GDP recorded for the second quarter of this year, with the potential to stretch into the third and fourth quarters should a second wave of the virus assert itself. Though we now believe that the worst of the economic damage is behind us, our expectations are that the recovery period will be of a long duration. The Fed should be extremely accommodative over the next three years as Chair Jerome Powell noted during his recent testimony to the House Finance Committee. In an effort to aggressively suppress financial stress, the Fed's posture will keep fed funds rates near zero for the next two years and the Fed's balance sheet bloated. Even with the accommodation, we do not believe that inflation will become an issue over our three-year forecast period despite the extraordinary measures employed not only by the Fed, but also other global central banks. Given a world awash in liquidity, we find the natural landing spots to be equities and gold, the latter benefitting from global geopolitical uncertainties.



Stock Market Outlook

The process we employ in our quarterly cyclical congress led to an extension of where we arrived last quarter relative to expectations for equities. While the pace at which equities recovered over the past quarter was dramatic, the direction was completely within our expectations. We find that the prospects for continued repair and even growth for equities are positive, despite near-term declines in earnings per share, which Confluence estimates to be at $113.70 on the S&P 500 for 2020. The unleashing of pent-up demand, adaptations to work and leisure, and the realigning of supply chains and resultant inventory adjustments all hold positive implications for the U.S. equity market over the next three years. Naturally, there are inherent risks to this thesis, though we don't count the November U.S. elections as holding an outsized risk. As the accompanying chart exhibits, our analysis of a change in government implies similar results over the course of our forecast period. Although a switch will certainly create winners and losers among companies, industries, and sectors, the overall market is relatively unaffected. Much more risk could result from a potential policy mistake. A rapid withdrawal of stimulus money, further weaponization of the U.S. dollar, or a full monetization of debt are among policies that could unhinge investor behavior and lead to problems among equities. Nevertheless, we view the potential for a policy mistake of large magnitude to be remote, and thereby remain positive on the equity markets over the next three years.



Among U.S. equities, we find lower capitalization stocks to hold more favorable valuations. Accordingly, mid-cap equities are overweight in each strategy. In the strategies with higher risk tolerances, small cap stocks are also overweight. Across the capitalization spectrum we removed the overweight to growth, and now have a neutral posture between value and growth. However, the continued sector overweights to Technology, Communications Services, and Consumer Discretionary create a de facto tilt toward growth, yet not as explicit as the prior quarter.

Beyond the U.S., foreign developed market equities generally hold attractive valuations relative to U.S. counterparts. However, our consensus view over the forecast period is that U.S.-based investors are better positioned with domestic equity exposure due to the lack of a catalyst for the waning value of the U.S. dollar from its current strength. Although developed non-U.S. markets are currently absent from the strategies, emerging market stocks are represented in risk-appropriate strategies. Our view on China, which represents over 37% of emerging market exposure, is that while it engenders significant geopolitical risk, the massive stimulus measures the Chinese government announced at the end of May hold potential advantages for not only Chinese stocks, but also for those in other emerging countries as it is designed for both infrastructure and stimulation of private consumption.

Bond Market Outlook

Yields across the U.S. Treasury curve remain historically low and spreads on corporate bonds, including all ratings of investment grade and speculative grade, have narrowed dramatically over the course of the past quarter. The Fed's entry as a market participant in corporate bonds, through its purchasing of broad-based ETFs and selected individual credits, implies a makeshift policy floor on prices and has instilled confidence in the bond market. Our consensus calls for low rates extending throughout the forecast period, with continued tightening of credit spreads. While we acknowledge the potential for a spike in default rates in high-yield credits as well as an elevated level of credit downgrades due to the effects of COVID-19, over the full forecast period we expect returns on short- and intermediate-term bonds to deliver coupon returns. The sole deviation from this expectation is in the long-term bond category. Although the strategies benefited handsomely from their exposures to long-term Treasuries, we don't believe that potential returns outweigh duration risk faced by longer-term instruments. Accordingly, they are now absent from all strategies.

Other Markets

Our consensus view on REITs is that in the aggregate they will earn their dividend over the forecast period. The office/retail segment is certainly struggling but represents less than 20% of the REIT index. More impactful are the data centers, storage, and cell towers that represent a growing proportion of the REIT index. Consequently, we believe REITs provide a differentiated source of income and are thereby positioned accordingly in the strategies where income is a component.

Gold has been an element in each of the strategies over the past several quarters, and allocations were enhanced this quarter. Not only is gold an important diversifier in an era of increased global risk, but the price of gold stands to benefit in a world swimming in liquidity that is in search of a haven. Gold is supplemented in each of the strategies with exposure to silver. We find the advantages of having silver are two-fold—the industrial uses for silver make it desirable during an economic recovery and our research indicates that the gold/silver ratio is at its highest level since the period following World War II.

Third Quarter 2020	Income With Growth		Growth & Income		Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Cash	2%	-	2%	-	2%	-	2%	-
Short Term Bonds	11%	5%	-	-	-	-	-	-
Intermediate Term Bonds	15%	-	12%	-	-	-	-	-
Long Term Bonds	-	(10%)	-	(10%)	-	-	-	-
Speculative Grade Bonds	5%	-	-	-	-	-	-	-
Real Estate	5%	-	5%	-	-	-	-	-
U.S. Large Cap Stocks	27%	(3%)	35%	-	50%	-	30%	-
U.S. Mid Cap Stocks	20%	3%	24%	4%	20%	-	20%	-
U.S. Small Cap Stocks	-	-	10%	4%	11%	-	24%	-
Foreign Developed Country Stocks	-	-	-	-	-	-	-	-
Emerging Market Stocks	-	-	-	-	5%	-	10%	-
Commodities - Precious Metals	15%	5%	12%	2%	12%	-	14%	-
Total	*100%*		*100%*		*100%*		*100%*	

See next page for disclosures and important details regarding portfolio allocations.

Income with Growth

We made a few changes to the Income with Growth strategy this quarter, the most significant of which was the elimination of exposure to long-term bonds as most of the long-term bond allocation was repositioned into short-term bonds. A portion of U.S. large cap equities was trimmed and added to the mid-cap equity allocation. We eliminated the former tilt to growth, with growth and value now equally weighted. There remains an inherent tilt to growth in large caps due to continued sector overweights to Technology, Communications Services, and Consumer Discretionary. The allocation to gold was increased and supplemented by exposure to silver. Both stand to benefit from ample global liquidity and silver has proven beneficial in the early stages of past recoveries.

Growth & Income

Changes in the Growth & Income strategy this quarter include the removal of the former exposure to long-term bonds in favor of increased weightings to U.S. mid-cap and small cap equities and the introduction of a modest position in silver. U.S. mid-cap and small cap equities are now overweights in the strategy. We eliminated the former tilt to growth, with growth and value now equally weighted. There remains an inherent tilt to growth in large caps due to continued sector overweights to Technology, Communications Services, and Consumer Discretionary. As noted, the allocation to gold was supplemented by new exposure to silver. Both stand to benefit from ample global liquidity and silver has proven beneficial in the early stages of past recoveries.

Growth

There were no changes to the asset class exposures in the Growth strategy from last quarter. Minor adjustments were made within U.S. equities, however, including the removal of the former tilt to growth, with growth and value now equally weighted. There remains an inherent tilt to growth in large caps due to continued sector overweights to Technology, Communications Services, and Consumer Discretionary. The only other change was the elimination of the quality factor. Although the quality factor proved beneficial during its use beginning in the fourth quarter of last year, especially as equity markets were under duress, we do not expect it to perform as admirably in the early stages of a recovery. Gold and a modest exposure to silver remain in the strategy as we believe both stand to benefit from ample global liquidity and silver has proven beneficial in the early stages of past recoveries.

Aggressive Growth

There were no changes to the asset class exposures in the Aggressive Growth strategy this quarter. Minor adjustments were made within U.S. equities, however, including the removal of the former tilt to growth, with growth and value now equally weighted. There remains an inherent tilt to growth in large caps due to continued sector overweights to Technology, Communications Services, and Consumer Discretionary. The only other change was the elimination of the quality factor. Although the quality factor proved beneficial during its use beginning in the fourth quarter of last year, especially as equity markets were under duress, we do not expect it to perform as admirably in the early stages of a recovery. As in the other strategies, gold and a modest exposure to silver remain as we believe both stand to benefit from ample global liquidity and silver has proven beneficial in the early stages of past recoveries.

Performance & Disclosures

as of 6/30/20

Strategy	ITD	10 - Year	5 - Year	3 - Year	1 - Year	YTD	QTD
Income Taxable with Growth - Gross of Fees	10.3%	9.2%	9.1%	9.9%	17.0%	9.7%	14.8%
Income Taxable with Growth - Net of Fees	7.0%	6.0%	5.9%	6.7%	13.5%	8.0%	14.0%
Benchmark - 40% S&P 500 and 60% ML Bond Index	8.4%	8.1%	7.2%	7.9%	9.0%	2.9%	9.8%
Growth and Income Taxable - Gross of Fees	7.3%	9.5%	7.9%	7.4%	8.5%	2.3%	17.0%
Growth and Income Taxable - Net of Fees	4.1%	6.2%	4.7%	4.2%	5.3%	0.8%	16.1%
Benchmark - 70% S&P 500 and 30% ML Bond Index	8.7%	11.1%	9.1%	9.5%	8.5%	0.1%	15.1%
Growth - Gross of Fees	7.6%	10.8%	8.9%	9.2%	14.7%	6.9%	21.2%
Growth - Net of Fees	4.4%	7.5%	5.7%	6.0%	11.3%	5.4%	20.3%
Benchmark - S&P 500	10.1%	14.0%	10.7%	10.7%	7.5%	(3.1%)	20.5%
Aggressive Growth - Gross of Fees	7.1%	10.0%	7.3%	7.4%	10.1%	3.5%	20.9%
Aggressive Growth - Net of Fees	3.9%	6.7%	4.1%	4.2%	6.8%	2.0%	20.0%
Benchmark - S&P 500	10.1%	14.0%	10.7%	10.7%	7.5%	(3.1%)	20.5%

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 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. 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.

The asset allocations shown represent the individual ETFs used for the asset allocations in the model portfolios as of 7/21/2020 and do not represent the precise allocation of assets in an actual client account. Asset allocation in client accounts may vary based on individual client considerations and market fluctuations. The allocation of assets in the model portfolio may be changed from time to time due to market conditions and economic factors. The investments held by the portfolio are ETFs and are not guaranteed and do carry a risk of loss of principal. 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 but charge internal management fees; 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 returns and volatility calculations utilize monthly data through 6/30/20. 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/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 - Precious Metals (S&P GS Precious Metals Total Return).

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