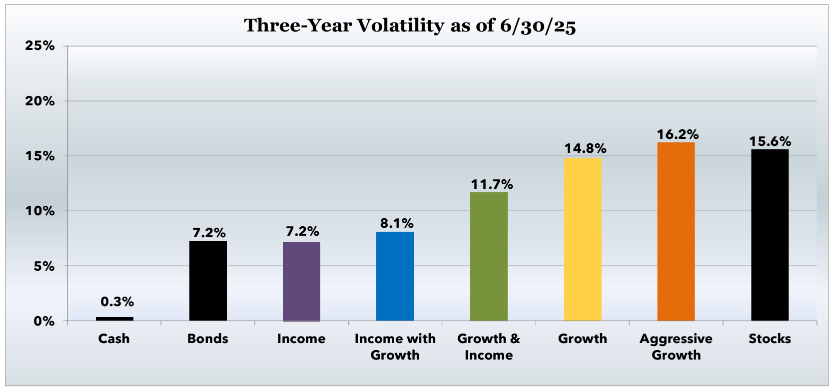
Asset Allocation Quarterly

Third Quarter 2025



*Source: Bloomberg, Confluence. Cash is represented by the ML 0-3 Month T-Bill Index; Bonds are the Bloomberg US Agg Bond Index; Stocks are the S&P 500 Index.**

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 (purple) to a risk-accepting profile in Aggressive Growth (orange). The volatilities of the primary asset classes of cash, bonds, and stocks are illustrated by the black bars for reference in the accompanying chart.

Risk levels among asset classes tend to shift over time with changes in market and economic conditions. As these cycles evolve, we work to keep each strategy aligned with its intended volatility range. Our asset allocation decisions are guided by a forward-looking framework that considers a variety of factors, including economic trends, policy developments, interest rates, regulatory changes, and valuations. This approach helps us maintain diversified portfolios that adapt to changing conditions, while staying within established risk parameters.

The Confluence Asset Allocation strategies are structured to offer differing risk profiles. More conservative portfolios prioritize stability, taking on lower volatility in exchange for steadier, though typically more modest, returns. Our more aggressive portfolios accept higher volatility with the goal of achieving potentially greater returns over time. This structured approach ensures that each portfolio is aligned with its intended risk and return objectives.

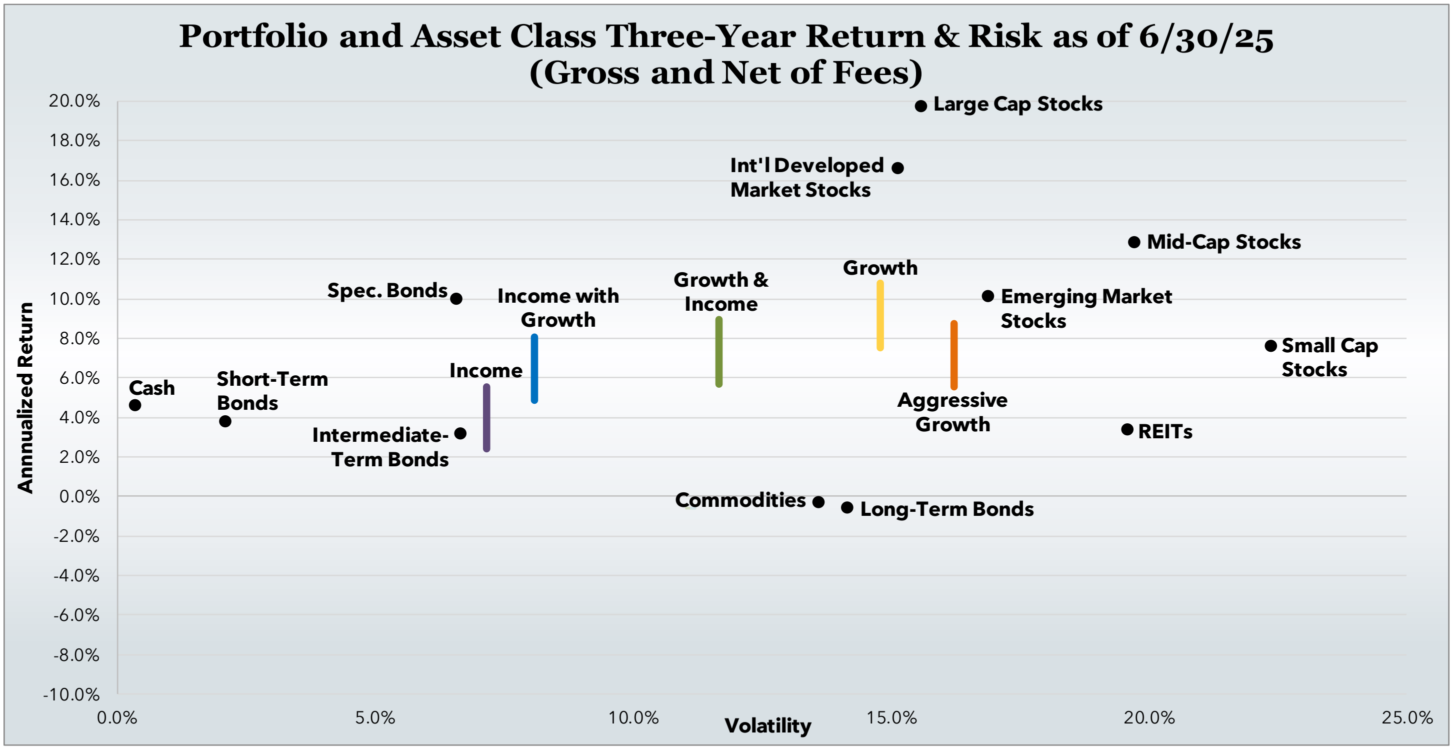
The past three years have been marked by significant volatility across equity and fixed income markets. This past quarter, risk markets rebounded, with both domestic and international equities sharply higher. Market responses to macro and geopolitical developments have become more muted, indicating a greater degree of adaptability to announced policy shifts, despite ongoing uncertainty. International equities were the best-performing asset class as the US dollar weakened and foreign flows turned away from US markets. We expect these trends to continue.

Quarterly Asset Class Returns as of 6/30/2025

	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Cash	0.5%	0.9%	1.1%	1.2%	1.3%	1.4%	1.3%	1.3%	1.4%	1.2%	1.1%	1.1%
US Short-Term Bonds	-2.4%	1.3%	1.8%	-0.6%	0.1%	3.6%	0.2%	0.8%	3.6%	-0.8%	2.1%	1.5%
US Intermediate-Term Bonds	-3.8%	1.7%	2.4%	-0.8%	-1.9%	5.5%	-0.4%	0.5%	4.6%	-2.1%	2.6%	1.5%
US Long-Term Bonds	-9.0%	2.5%	5.6%	-1.5%	-8.7%	11.9%	-2.4%	-1.7%	7.9%	-7.4%	3.4%	-0.1%
Speculative Grade Bonds	-0.7%	4.2%	3.6%	1.8%	0.5%	7.2%	1.5%	1.1%	5.3%	0.2%	1.0%	3.5%
REITs	-9.9%	5.2%	2.7%	2.6%	-7.1%	16.2%	-0.2%	0.1%	16.1%	-6.2%	0.9%	-1.2%
US Large Cap Stocks	-4.9%	7.6%	7.5%	8.7%	-3.3%	11.7%	10.6%	4.3%	5.9%	2.4%	-4.3%	10.9%
US Mid-Cap Stocks	-2.5%	10.8%	3.8%	4.9%	-4.2%	11.7%	10.0%	-3.5%	6.9%	0.3%	-6.1%	6.7%
US Small Cap Stocks	-5.2%	9.2%	2.6%	3.4%	-4.9%	15.1%	2.5%	-3.1%	10.1%	-0.6%	-8.9%	4.9%
Int'l Developed Market Stocks	-9.4%	17.3%	8.5%	3.0%	-4.1%	10.4%	5.8%	-0.4%	7.3%	-8.1%	6.9%	11.8%
Emerging Market Stocks	-11.6%	9.7%	4.0%	0.9%	-2.9%	7.9%	2.4%	5.0%	8.7%	-8.0%	2.9%	12.0%
Commodities	-10.3%	3.4%	-4.9%	-2.7%	16.0%	-10.7%	10.4%	0.7%	-5.3%	3.8%	4.9%	-2.8%

*Source: Morningstar Direct, Confluence.**

**Past performance is not indicative of future results. See last page for asset class composition/benchmark details and other important disclosures.*



*Source: Bloomberg, Confluence, using monthly data inclusive of gross and max net returns. See disclosures on last page for fee description; actual investment advisory fees may vary. Past performance is not indicative of future results. See last page for asset class composition/benchmark details and other important disclosures.**

Portfolio and Asset Class Commentary

The chart above illustrates three-year volatilities and returns of 12 sub-asset classes and each of the five Confluence Asset Allocation strategies represented by the colored vertical bars. Note that the Confluence strategies exhibit a range of returns that denote gross-of-fee returns on the top end of each bar with the bottom of the bar representing net returns that assume an industry-designated maximum fee of 3.00%.

Over the past three years, risk assets have demonstrated significant volatility, yielding a broad range of returns. This period has been characterized by shifts in economic and policy regimes as well as escalating geopolitical tensions. Over this time frame, the two best-performing asset classes were domestic large cap equities and international developed market equities. Domestic large caps have generally outperformed over the three-year time period, while international markets have rallied recently over the past year. International developed equities benefited from a weaker US dollar and potential fiscal stimulus in Europe. Bonds, traditionally viewed as a stabilizing force in turbulent markets, have underperformed as the yield curve un-inverted.

The Confluence Asset Allocation strategies have generated positive returns over the past three years. Strategies with larger allocations to risk markets have generally seen both higher returns and greater volatility. Aggressive Growth has underperformed relative to expectations, primarily due to its higher exposure to lower capitalization domestic stocks and episodic positions in international equities. Despite their attractive valuations, these assets have lagged the S&P 500, which benefited disproportionately from large cap growth leadership.

At the core of our Asset Allocation approach is the principle that each strategy adheres to a specific and fixed volatility limit. For strategies with lower volatility thresholds, such as Income, bonds are more heavily utilized than stocks. Conversely, in strategies that have higher volatility ceilings, like Aggressive Growth, stocks play a larger role. This structured approach also explains the varying levels of exposure to sub-asset classes across different strategies. Sub-asset classes with higher volatility, such as small cap stocks, are more prevalent in the more risk-tolerant strategies like Aggressive Growth. While small cap stocks can potentially deliver higher returns, they also carry a greater level of risk. By aligning asset class exposures with the volatility targets of each strategy, we aim to optimize the balance between risk and return for each portfolio.

As the likelihood of recession has declined, we have added to our equity risk profile, balancing it with targeted fixed income positions and a gold holding. Our approach involves continuously evaluating a broad range of macroeconomic factors, including inflation pressures, market sentiment, growth outlooks, valuations, credit conditions, exchange rates, and policy changes. Our adaptive asset allocation strategy emphasizes diversification, driven by in-depth fundamental economic and market analysis. We selectively invest in assets that offer favorable risk/reward profiles, constructing portfolios that align with both long-term economic trends and current market conditions, while considering the investor's risk tolerance.

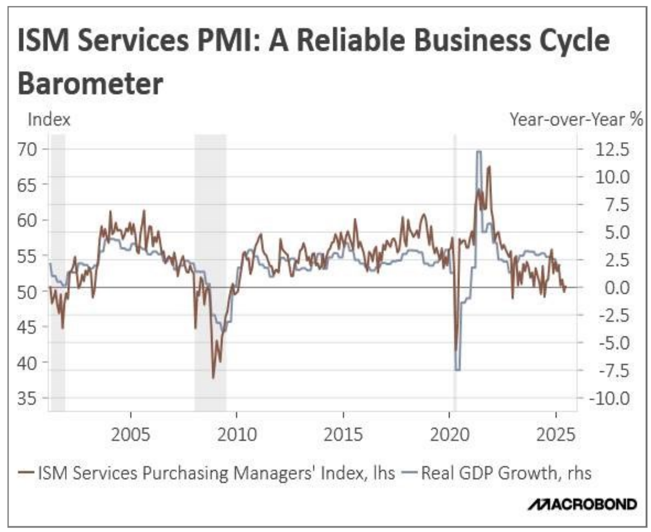
Third Quarter 2025 Asset Allocation Outlook

- The likelihood of recession has declined during our three-year forecast period, as such we increased equity exposure.
- We anticipate below-trend economic growth due to persistent trade and fiscal policy ambiguity weighing on business investment, as well as consumer and investor confidence.
- Domestic equity exposure includes large and mid-caps, with an even-weighted value-growth tilt.
- We added to international developed equities which are supported by a weakening US dollar and attractive relative valuations.
- Gold and Treasurys remain in the portfolios as strategic allocations to help dampen volatility.

Economic Viewpoints

The economy is expected to avoid a recession over the next three years, supported by the fiscal policy backdrop, including tax cut extensions and industrial policy initiatives. Despite continued uncertainty surrounding trade policy, there is a growing expectation that the administration will stop short of destabilizing the economy or the markets. Although potential for a policy error remains elevated, continued fiscal support and the prospect of easier monetary policy are expected to support risk markets. While recession risks have receded, the economic expansion will likely be restrained until trade policies are finalized and their resultant impact on businesses and consumers are known.

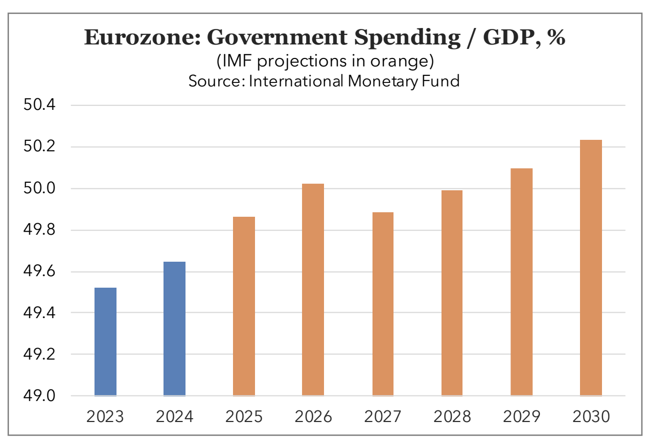
Inflation is expected to moderate within a 2–3% range; however, tariff policies, global supply chain realignment, and persistent wage pressures are likely to keep inflation uneven. In the interim, under Chair Powell, the federal funds rate is likely to remain relatively stable. With a change in Fed leadership anticipated in May 2026, we expect a gradual decline in rates over the next three years.



Recent indicators point to continued, albeit slowing, economic growth. The ISM Services PMI (in brown on the chart), which comprises the majority of US economic activity, remains above the critical 50 level, signaling ongoing expansion in the services sector. However, the level does not reflect robust growth. This moderation is also mirrored in real GDP growth (in blue), which has softened but remains in positive territory, reinforcing our base case for a soft landing. While the Q1 real GDP declined 0.5% quarter-over-quarter, real year-over-year GDP grew 2.0%, indicating a slowing rate of expansion.

The US shift toward more protectionist trade policy has accelerated global diversification, prompting investors to allocate capital toward regions with independent growth prospects. Europe stands to benefit, supported by substantial fiscal initiatives, including increased defense spending and the Recovery and Resilience Facility, which are driving investment into defense, infrastructure, and strategic manufacturing. Easing regulations in Europe around fiscal stimulus have enabled policy actions that were previously considered politically or structurally unlikely, creating a more supportive environment for investment.

This chart highlights a projected rise in eurozone government spending as a share of GDP, with IMF forecasts (in orange) indicating a steady upward trend through 2030. This increase reflects expanded fiscal commitments to support growth. However, the scale of bond issuance required to fund these initiatives raises questions about long-term debt sustainability. Yield levels and market appetite will remain key indicators to watch. A failure to maintain fiscal discipline could reintroduce fragmentation risks within the eurozone.



Stock Market Outlook

Lower recession risk prompted us to rebalance our growth-value tilt to 50/50 to capture upside while managing valuation risk. The recently passed "One Big Beautiful Bill" includes significant provisions for immediate R&D expensing and capital investment incentives, designed to stimulate innovation and bolster long-term industrial competitiveness. This should further support domestic equities. Large cap equities should continue to benefit from passive flows, while mid-cap equities offer valuation expansion potential. We continue to hold dividend-focused ETFs in the large and mid-cap allocations as dividends become more important as volatility rises. In sector weights, we maintain the exposure to advanced military technologies given continued geopolitical tensions. With the reduced likelihood of recession, we exited the Consumer Staples overweight position. We remain void of small cap stocks. US small cap equities may face stronger headwinds as a result of tariff policies due to potentially higher costs of capital, tighter financial conditions, and margin compression due to limited pricing power.

We expect the US dollar to weaken as a result of both policy shifts and macroeconomic factors, enhancing the return potential of foreign assets for US-based investors. We increased the allocation to foreign developed markets as valuations remain attractive, with Europe particularly well-positioned to benefit from its gradually improving growth outlook. Within international developed equities, we maintain a broad-based index and added a Europe-focused allocation and an international developed small cap value equity position. International developed small cap value stocks may outperform amid global trade realignment as they're less exposed to cross-border disruptions and benefit directly from regional fiscal stimulus. With high allocations to industrials and materials, they are well-positioned for infrastructure and defense spending. Valuation and profitability screens further enhance return potential in this segment. At the same time, we exited the Swiss franc currency ETF in favor of more attractive opportunities in general European equities.

Bond Market Outlook

In the near-term, we expect the federal funds rate to remain relatively stable, while inflation stays above the Fed's longstanding 2% target due to tariff-induced pressures. Beyond that, we foresee a gradual decline in rates over the next three years, following a change in leadership at the Federal Reserve in early 2026. As a result, we anticipate an upward-sloping yield curve to reemerge, shaped by a few Fed rate cuts and a normalization of intermediate-term rates relative to long rates. Importantly, we believe rates will continue to be in excess of inflation, offering continued real returns for fixed income investors.

We hold a barbell duration strategy — balancing shorter maturities with longer-dated exposures to capture attractive yields, while managing interest rate sensitivity. Credit markets are expected to experience some spread widening from currently tight levels over the forecast period, though we do not anticipate a spike that is normally associated with a default cycle. A key driver of the widening will be the substantial corporate refinancing needs that must be addressed before the end of the forecast period. Within the fixed income allocation, we continue to emphasize US Treasurys and mortgage-backed securities (MBS). Many MBS loans were originated during the low-rate environment. Because these loans remain well below current mortgage rates, seasoned MBS prepayment speeds are very low, limiting duration extension risk. At the same time, discounted prices on seasoned MBS provide potential upside if interest rates move lower.

For income-seeking strategies, we have added modest exposure to speculative grade bonds, focusing exclusively on higher-quality BB-rated credits. These positions offer attractive yields with less sensitivity to economic softness than lower-rated speculative bonds.

Other Markets

We maintain gold exposure across all strategies. Persistent central bank accumulation highlights gold's relevance as both a reserve asset and an inflation hedge. Rising geopolitical tensions, along with global efforts to diversify away from US dollar dependence, are expected to sustain demand, reinforcing gold's strategic value in a diversified, risk-aware asset allocation framework.

Third Quarter 2025

	Income		Income With Growth		Growth & Income		Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change	Current	Change
Cash	1%	-	1%	-	1%	-	1%	-	1%	-
Short-Term Bonds	13%	-	10%	10%	5%	5%	-	-	-	-
Intermediate-Term Bonds	36%	(7%)	22%	(12%)	13%	(14%)	-	-	-	-
Long-Term Bonds	21%	-	15%	-	15%	-	4%	(8%)	-	(8%)
Speculative Grade Bonds	15%	5%	5%	-	4%	4%	-	-	-	-
Real Estate	-	-	-	-	-	-	-	-	-	-
US Large Cap Stocks	7%	-	15%	-	20%	-	30%	-	20%	-
US Mid Cap Stocks	-	-	10%	-	15%	-	25%	-	26%	-
US Small Cap Stocks	-	-	-	-	-	-	-	-	-	-
Int'l Developed Market Stocks	4%	2%	17%	2%	20%	5%	28%	8%	38%	8%
Emerging Market Stocks	-	-	-	-	-	-	-	-	-	-
Commodities	3%	-	5%	-	7%	-	12%	-	15%	-
Total	*100%*		*100%*		*100%*		*100%*		*100%*	

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

Income

We added to the equity and speculative grade allocations in the Income strategy this quarter. The laddered maturity bond core is now dominated by Treasurys, yet with a larger allocation to MBS in intermediate bonds due to their favorable spreads and low extension risk. Speculative grades remain in the higher-quality BB-rated segment. In domestic equities, we adjusted the growth-value profile to even-weight and maintained the dividend-focused ETF. We added to international developed equities, and gold remains in the strategy due to its effectiveness as a geopolitical hedge.

Income with Growth

In Income with Growth, we added to international developed equities and reduced interest rate sensitivity by shortening duration. The portfolio's domestic equity allocation is now evenly weighted between growth-value, with an emphasis on dividend-paying and defensive sectors. The international developed equity exposure includes a diversified broad-based allocation, a Europe-focused position, and a dedicated small cap component. We maintain gold as a strategic anchor in the portfolio, offering diversification and serving as a hedge amid elevated geopolitical risks.

Growth & Income

We increased our allocation to high-yield bonds, while barbelling duration to manage interest rate sensitivity within the Growth & Income strategy. We shifted the domestic equity allocation to a balanced growth-value profile, with continued emphasis on dividend-paying and defense-oriented sectors. Attractive valuations and the potential for fiscal stimulus-induced growth prompted us to increase exposure to international developed equities. In particular, Europe and international developed small caps should benefit in the current global trade backdrop. Gold remains a strategic position in the portfolio, benefiting from global central bank purchases and offering stability.

Growth

In the Growth strategy, we increased exposure to international developed equities at the expense of long-duration bonds as the recession likelihood has declined. International developed equities should continue to benefit from fiscal spending, while offering attractive valuations. The allocation includes broad-based, European, and small cap exposures. In domestic equities, our growth-value positioning is now balanced to even-weight, with targeted exposure to dividend-paying and defense-oriented sectors. We continue to hold the gold allocation.

Aggressive Growth

In Aggressive Growth, we increased exposure to international developed equities, while eliminating long-duration bond holdings. Within the international developed equity allocation, we added a broad-based holding along with focused exposure to Europe and small caps. Domestic equity positioning now reflects a balanced growth-value profile as recession risks have declined. We maintain the gold allocation, recognizing its role as a portfolio stabilizer amid elevated geopolitical uncertainty.

Performance & Disclosures

(For Periods Ending June 30, 2025)

Strategy	ITD	15 - year	10 - Year	5 - Year	3 - Year	1 - Year	YTD	QTD
Income Taxable - Gross of Fees	6.1%	-	-	4.8%	5.6%	7.9%	4.7%	1.9%
Income Taxable - Net of Fees	2.9%	-	-	1.7%	2.4%	4.7%	3.2%	1.2%
Benchmark - 20% S&P 500 and 80% Bloomberg US Agg Bond Index	4.0%	-	-	2.7%	5.9%	7.9%	4.5%	3.1%
Income Taxable with Growth - Gross of Fees	9.6%	8.8%	8.6%	8.1%	8.1%	8.5%	5.2%	3.9%
Income Taxable with Growth - Net of Fees	6.4%	5.6%	5.4%	4.8%	4.9%	5.3%	3.6%	3.1%
Benchmark - 40% S&P 500 and 60% Bloomberg US Agg Bond Index	7.7%	7.4%	6.6%	6.1%	9.3%	9.8%	5.0%	5.1%
Growth and Income Taxable - Gross of Fees	8.1%	9.7%	9.0%	10.2%	8.9%	6.3%	2.4%	3.5%
Growth and Income Taxable - Net of Fees	4.9%	6.5%	5.8%	6.9%	5.7%	3.2%	0.8%	2.8%
Benchmark - 70% S&P 500 and 30% Bloomberg US Agg Bond Index	9.4%	11.2%	10.2%	11.3%	14.5%	12.5%	5.7%	8.0%
Growth - Gross of Fees	8.9%	11.1%	10.4%	11.8%	10.8%	6.8%	1.9%	4.9%
Growth - Net of Fees	5.6%	7.8%	7.1%	8.5%	7.5%	3.6%	0.4%	4.2%
Benchmark - S&P 500	12.0%	14.9%	13.6%	16.6%	10.0%	15.1%	6.2%	10.9%
Aggressive Growth - Gross of Fees	7.9%	10.0%	8.6%	9.9%	8.8%	3.1%	(1.4%)	3.8%
Aggressive Growth - Net of Fees	4.7%	6.7%	5.4%	6.6%	5.5%	0.1%	(2.9%)	3.0%
Benchmark - S&P 500	12.0%	14.9%	13.6%	16.6%	19.7%	15.1%	6.2%	10.9%

ITD=Inception to Date. Inception Dates: Income Taxable: 1/1/18; Income Taxable with Growth: 12/1/08; Growth & Income Taxable: 9/1/08; Growth: 9/1/08; Aggressive Growth: 8/1/08.

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[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 & Income (Moderate), Income with Growth (Conservative), and Income (Conservative).

The asset allocations shown represent the individual ETFs used for the asset allocations in the model portfolios as of 7/17/2025 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 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 contains 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 6/30/2025. Investors cannot invest directly in an index. Past performance does not guarantee future performance. Asset class and benchmark index representation: Cash (ICE BofA 3M T-Bill); Short-Term Bonds (Bloomberg 1-3 Year US Corp&Govt); Intermediate-Term Bonds (Bloomberg 5-7 Year US Corp&Govt); Long-Term Bonds (Bloomberg 10+Yr US Corp&Govt); Speculative Grade/High-Yield Bonds (Bloomberg US High Yield); REITs (FTSE NAREIT Equity); Large Cap (S&P 500); Mid-Cap (S&P MidCap 400); Small Cap (S&P Small Cap 600); Foreign Developed Country (MSCI EAFE); Emerging Markets (MSCI Emerging Markets); Commodities (S&P GSCI).

The Asset Allocation Committee

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