

OBJECTIVE

Balanced Large Cap Value combines equity and fixed income allocations in a single account. The equity portion invests in large capitalization companies with an investment objective of capital appreciation and a secondary objective of divided income. The fixed income portion is invested in fixed income Exchange Traded Funds (ETFs), diversified across maturities and sectors.

OVERVIEW

Balanced accounts are an efficient way for long-term investors to combine equity and fixed income exposure in a single account, while providing diversification and a more tailored level of volatility. Five different portfolio allocations are available, ranging from 30% fixed income/70% equity to 70% fixed income/30% equity, in increments of 10%. Balanced Large Cap Value is appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income from equities, along with stability from bonds.

- ◆ **Value Equity portfolio:** Security selection, position sizes, industry and sector exposures, and buy limits (if applicable) are all applied through Confluence’s disciplined value equity portfolio management process, a fundamental approach implemented by the firm’s deep team of equity analysts.
- ◆ **Fixed Income portfolio:** Security selection, sector allocations, maturity and duration targets, and laddered maturity exposures are employed through Confluence’s fixed income portfolio management, driven by consensus views of the investment committee. Investors may choose between taxable and municipal bond ETF portfolios.
- ◆ **Rebalancing:** Portfolio allocations are regularly monitored for general market drift. As drift occurs, allocations are rebalanced closer to target. Each portfolio has “guardrails” applied to its allocation, and if the proportion drifts beyond the guardrail, the allocation is reset to the stated allocation target. Guardrails are scaled according to the equity allocation target, so accounts with larger equity allocation targets will have a wider drift tolerance, while larger bond allocation targets will have a narrower tolerance.

It is important to note that fixed income ETFs are not bonds. An ETF can be viewed as a portfolio of investments, created with unique, transparent specifications, with each share representing a pro rata interest in that portfolio. In this manner, the ETF structure is similar to open-ended mutual funds. So, while a fixed income ETF isn’t a bond, its attributes tend to mimic that of a bond portfolio. Fixed income ETFs are available in a wide range of maturities across corporate, agency and treasury sectors. The overall fixed income allocation average maturity can be adjusted by increasing or decreasing the focus on ETFs with longer or shorter maturities.

Investors should be aware there are limitations in utilizing fixed income ETFs. There may be times when the performance of an ETF may vary relative to its targeted benchmark. While ETFs generally trade very close to their net asset values, during times of market disruption, they can trade at discounts or premiums, which can directly affect an investor’s performance. Liquidity is also generally good but can vary depending upon market conditions. A fixed income ETF also does not mature like an individual bond. These and various other differences highlight the fact that fixed income ETFs may vary in performance relative to direct investments in bonds.

EQUITY PORTFOLIO HOLDINGS¹

CHARACTERISTICS		MARKET CAP		5 LARGEST HOLDINGS
Dividend Yield	1.2%	Largest Market Cap (\$B)	1,527.4	Berkshire Hathaway Inc. (Class B)
Number of Positions	23-25	Median Market Cap (\$B)	97.4	Lowe’s Cos. Inc.
Annual Turnover (5-Yr Rolling as of 12/31/22)	10%	Smallest Market Cap (\$B)	1.7	Stryker Corp.
				TJX Cos. Inc.
				Alphabet Inc.

FIXED INCOME PORTFOLIO HOLDINGS² (AS OF 7/20/2023 REBALANCE)

CHARACTERISTICS	WEIGHTED AVERAGE	5 LARGEST HOLDINGS
SEC Yield	4.5%	SPDR® Portfolio Mortgage Backed Bond ETF - SPMB
Duration	4.3	iShares iBonds Dec 2027 Term Treasury ETF - IBTH
Maturity	5.2	iShares iBonds Dec 2026 Term Treasury ETF - IBTG
ETF Expense Ratio	0.07%	iShares iBonds Dec 2030 Term Treasury ETF - IBTK
		iShares iBonds Dec 2026 Term Corporate ETF - IBDR

EQUITY INVESTMENT PROCESS

SECURITY SELECTION: GREAT COMPANIES AT BARGAIN PRICES

Our disciplined investment process is research-driven, seeking to uncover “great companies” trading at bargain prices. We define great companies as those with the following attributes:

Durable Competitive Advantages

- ◆ Meaningful pricing power
- ◆ High barriers to entry
- ◆ Superior return on capital over extended periods of time

Free Cash Flow

- ◆ Substantial amount available to benefit shareholders
- ◆ Should far exceed the capital expenditures needed to maintain and grow the business

Capable Management

- ◆ Demonstrated ability to effectively allocate capital
- ◆ Alignment of management’s interest with investors through large personal investments in company stock

BUY DISCIPLINE: INVEST BASED ON PRICE AND PATIENCE

We believe focusing on high-quality companies and purchasing only when they’re being offered at prices below our estimate of intrinsic value is an effective means for limiting downside risk while maximizing total return potential over an investment cycle.

- ◆ Primary focus is price paid for a stock (discount to intrinsic value)
- ◆ Each portfolio company is evaluated to determine the full value of the business / intrinsic value of the security
- ◆ The entry point is generally set at a 25%-50% discount to our internal estimate of intrinsic value
- ◆ Entry points are continually re-assessed
- ◆ Risk is defined as *the probability of a permanent loss of capital* as opposed to tracking error of a benchmark

New accounts may not be fully invested at inception if companies are trading above current entry points.

SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- ◆ Share price reaches or exceeds our estimate of full valuation
- ◆ Company's fundamentals deteriorate
- ◆ More attractive opportunities are identified

FIXED INCOME INVESTMENT PROCESS

Fixed Income Taxable invests in fixed income ETFs with domestically oriented, investment-grade benchmarks. It is constructed to have characteristics similar to a traditional, laddered bond portfolio and its benchmark is the ICE BofA U.S. Corporate, Government & Mortgage Index. The Confluence Fixed Income Strategy Committee may adjust the portfolio duration and maturity to be longer, shorter or in line with this benchmark. The investment committee may also adjust the exposure to corporate, Treasury and MBS sectors according to its viewpoints regarding Fed policy, the shape of the yield curve, relative yields, credit spreads, default rates and other market factors.

The strategy invests in a range of maturity-date ETFs to construct a portfolio similar to a diversified bond ladder, and complements these positions with traditional fixed income ETFs with more “static” maturity profiles, allowing for more precise exposures to maturities and sectors of the bond market. The Fixed Income Strategy Committee continuously monitors the portfolio, rebalancing at least annually, but may elect to rebalance over shorter time frames at its discretion. The investment committee may direct larger allocations to certain ETFs to alter the amount of credit or interest rate risk in a portfolio.

Fixed Income Taxable is available as a standalone portfolio and may also be available as part of a Balanced account, which allows investors to combine this fixed income strategy with one of the firm's equity strategies in one portfolio.

ALLOCATION ADJUSTMENTS

Clients are encouraged to establish long-term strategic allocations. However, allocations may be easily adjusted to address changing objectives and risk tolerances.

Confluence Value Equities Investment Committee

Mark Keller, CFA Tom Dugan, CFA John Wobbe Dustin Hausladen Blair Brumley, CFA
Daniel Winter, CFA Tore Stole Joe Hanzlik Kaisa Stucke, CFA Brett Mawhiney, CFA

Confluence Fixed Income Strategy Committee

Mark Keller, CFA Gregory Ellston Patrick Fearon-Hernandez, CFA
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DISCLOSURES

¹**Equity Portfolio Holdings**—Presented as supplemental information to the disclosures required by the GIPS® standards. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses. Sector weightings/holdings of individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet. Annual turnover 5-yr rolling calculated from sample accounts for periods ending 12/31/2022.

²**Fixed Income Portfolio Holdings**—Sector allocations shown represent the model portfolio as of 7/20/23 and do not represent the precise allocation in an actual client account. Allocations in client accounts may vary based on individual client considerations and market fluctuations. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. Individual client portfolios may differ, sometimes significantly, from these listings. Yield data source: Morningstar; 30-day SEC yield of the model portfolio as of 7/20/23. Duration and maturity figures shown are based on all holdings in the model portfolio as of the rebalance date. ETF expense ratio is in addition to Confluence management fees. Rating categories reflect S&P ratings; source: Morningstar.