



## **ADV Part 2A**

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This Brochure provides information about the qualifications and business practices of Confluence Investment Management LLC ("Confluence," "the firm," "we," "us," or "our"). If you have any questions about the contents of this Brochure, please contact us at 314-743-5090 and/or [compliance@confluenceim.com](mailto:compliance@confluenceim.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Confluence is registered with the SEC as an investment adviser under the U.S. Investment Advisers Act of 1940. Registration as an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information to use in your determination of whether to hire or retain an adviser. Additional information about Confluence is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this website by using our name or by using a unique identification number known as a CRD number. The CRD number for Confluence is 146019.

**Item 2 – Material Changes**

There has been one material change since the last Brochure amendment that was filed on March 21, 2025. Beginning in 2026, Confluence will no longer include portfolio appraisals in the quarterly mailing for dual contract clients. If you would like to continue receiving quarterly portfolio appraisals, please email [info@confluenceim.com](mailto:info@confluenceim.com). Confluence routinely makes updates to the Brochure to clarify the descriptions of business practices, investment strategies, risks, and policies.

The Confluence Brochure can be requested by contacting Confluence at 314-743-5090 or [compliance@confluenceim.com](mailto:compliance@confluenceim.com). Our Brochure is also available on our website at [www.confluenceinvestment.com](http://www.confluenceinvestment.com), free of charge.

Additional information about Confluence is available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Confluence who are registered, or are required to be registered, as investment adviser representatives of Confluence.

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**Item 4 – Advisory Business**

Confluence was formed in December 2007 and registered as an investment adviser with the SEC in January 2008. Confluence was started by former investment management and investment banking professionals from A.G. Edwards & Sons and its investment management subsidiary, Gallatin Asset Management, Inc. The firm is 100% employee-owned, with Mark Keller and Brian Hansen as the principal owners. On April 30, 2018, Confluence acquired the assets of Grady & Company, LLC, an international and global equity adviser.

Confluence offers clients portfolio management services focused on an array of equity strategies, asset allocation strategies, balanced strategies, alternative, and sector strategies. Our clients include individuals (including high net worth individuals) and entities such as financial institutions (on behalf of their clients), corporations and corporate pension and profit-sharing plans, Taft-Hartley plans, other investment advisers (on behalf of their clients), charitable institutions, foundations, endowments, and registered investment companies.

Confluence services are offered primarily through financial advisors (“Financial Advisors”) and the accounts are maintained with the client’s broker-dealer, bank, investment advisory firm, or other financial institution (“Financial Institution”). Financial Advisors work with clients to examine the client’s current financial situation and financial goals, to understand the risk tolerance and investment time horizon and to develop the overall financial plan/investment strategy for their clients. As part of the overall strategy, clients (or the Financial Advisor) utilize one or more Confluence strategies with respect to a portion of the client assets at the Financial Institution. In some instances, Confluence offers services directly to clients. Services provided by Confluence are limited to portfolio management and do not include financial planning, wealth management, accounting, retirement planning, legal, tax advice, or any other related or unrelated services.

Confluence offers its services on either a “discretionary” or a “non-discretionary” basis. In a discretionary account (typically referred to as a separately managed account (“SMA”)), at the outset of the contractual relationship, Confluence is granted the authority by a client to determine the securities or other assets to purchase or sell in the account. This discretion will remain in effect unless revoked by the client or their Financial Advisor. Confluence will monitor the SMA and will purchase and sell securities and other assets in the account consistent with the investment strategy or strategies selected by the client or the Financial Advisor (on client’s behalf) as part of the overall investment plan (subject to any reasonable restrictions provided in writing to Confluence).

In a non-discretionary account, Confluence makes recommendations to the Financial Advisor or Financial Institution concerning securities and other assets, but Confluence does not have the authority to implement such recommendations. Rather, the Financial Advisor or Financial Institution (on client’s behalf) has the sole authority to determine whether securities or other assets in the account are purchased or sold on the client’s behalf in accordance with Confluence recommendations and to determine the Financial Institution through which such transactions are implemented. Non-discretionary accounts also include those for which Confluence supervises the securities or other assets in the account, without any discretionary authority.

As of December 31, 2025, Confluence managed or supervised an aggregate of approximately \$12.5 billion of assets, of which \$6.7 billion are assets under management held in discretionary accounts and \$5.7 billion are assets under advisement in non-discretionary accounts. Confluence does not custody or take possession of client assets, and all such discretionary and non-discretionary assets are held with the Financial Institution or other qualified custodian (“Custodian”) selected by the client.

When Confluence acts as an investment adviser, we are required to act in our clients’ best interests and not put our interests ahead of our clients. At the same time, the way we make money creates some conflicts of interest. Please refer to the following sections for a description of conflicts of interest: Item 5 - Fees and Compensation; Item 7 - Types of Clients; Item 10 - Other Financial Industry Activities and Affiliations; Item 11 - Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading; and Item 12 - Brokerage Practices. Additional information regarding conflicts and standards of conduct are included in the Confluence Client Relationship Summary, which is available on our website and available upon request.

Confluence and its investment professionals manage assets for clients that are employee benefit plans or retirement accounts covered under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Confluence provides services as an ERISA “fiduciary” and the Internal Revenue Code (as applicable), which are laws governing retirement accounts. Confluence is a registered investment adviser under the Investment Advisers Act of 1940. Confluence provides a written description of the services to be provided for ERISA accounts.

### **DISCRETIONARY ADVISORY SERVICES**

Confluence negotiates and enters into agreements to provide discretionary portfolio management and investment advisory services to clients. Confluence provides discretionary advisory services primarily through SMAs, which are offered through the client’s Financial Advisor or Financial Institution. In these instances, clients open an account with their Financial Advisor at the Financial Institution to select third-party investment advisory firms (such as Confluence) to manage all or a portion of the assets in the account. Confluence’s SMA arrangements can be “single contract,” in which Confluence enters into contract with the Financial Institution to provide discretionary advisory services to the clients of such Financial Institution, or can be “dual contract,” in which Confluence enters into a contract directly with the client to provide discretionary advisory services to the client; this contract is in addition to the client’s contractual agreement with such Financial Institution. Confluence manages investments for clients at various Financial Institutions.

Confluence does not take possession of client assets, as all securities and monies are held by the Custodian of the client’s choice. Confluence offers SMAs utilizing various investment strategies, and SMAs within a particular investment strategy generally hold the same securities at the similar percentage of assets in the strategy (depending on when the account is funded). Clients can impose reasonable restrictions on investing in certain securities or industry sectors and other limitations on our investment discretion as mutually agreed upon.

Confluence’s discretionary investment strategies are offered by Financial Institutions as part of unified managed account (“UMA”) programs at the Financial Institutions. In a UMA program, the client holds in a single account a wide variety of investments and investment strategies, including individual

securities, mutual funds, exchange-traded funds, and other assets. As described more fully below, Confluence's discretionary investment strategies typically are offered by Financial Institutions as part of wrap account ("Wrap Account") programs at the Financial Institutions.

#### *WRAP ACCOUNT PROGRAMS*

Confluence participates as an investment adviser providing portfolio management and investment advisory services to clients of Wrap Accounts sponsored by respective Financial Institutions. Confluence's portfolio management and investment advisory services to the clients in Wrap Account programs are similar to its discretionary advisory services provided to its other clients. Confluence manages the SMAs in a Wrap Account in accordance with the guidelines provided to us by the program sponsor. In single contract Wrap Accounts, the program sponsor is responsible for the client relationship, client servicing, reporting, and billing.

Clients in a Wrap Account are charged a bundled fee by the Financial Institution sponsoring the program ("Sponsor"), typically based on a percentage of the market value of the assets in the Wrap Account and is not based directly on the execution of transactions in a client's account. The bundled fee generally covers charges for custody services, brokerage commissions, investment management, and other services as negotiated between the client and the Sponsor. Clients who participate in a Wrap Account should be aware that services similar to those provided as a participant in a Wrap Account may be available at a lower cost elsewhere separately or on an unbundled basis. Out of the bundled fee, the Sponsor pays Confluence a quarterly fee for providing portfolio management and investment advisory services with respect to that portion of the client's assets over which Confluence has been delegated discretionary authority. However, for dual contract Wrap Accounts, Confluence's fee may be paid directly by the client. Our fee is based on a percentage of the market value of the assets in the SMA for which we provide portfolio management and investment advisory services. For additional information regarding fees, please see Item 5 of this Brochure, titled Fees and Compensation.

Because the bundled fee in Wrap Accounts typically includes charges for brokerage services, Sponsors and their clients generally expect Confluence to place trade orders through the Sponsor. If we execute trades for a Wrap Account with broker-dealers other than the Sponsor, the client will likely be subject to additional commissions, trade-away fees, and other charges assessed by the Sponsors. For information regarding directed brokerage accounts, please see Item 12 of this Brochure, titled Brokerage Practices.

#### *REGISTERED INVESTMENT COMPANIES*

Confluence sub-advises an actively managed exchange-traded fund, FT Confluence BDC & Specialty Finance Income ETF (NYSE: FBDC), and sub-advised an open-end mutual fund, First Trust/Confluence Small Cap Value Fund (FOVIX, FOVAX and FOVCX). Confluence has sub-adviser agreements with First Trust Advisors L.P. ("FTA"), the investment adviser to both funds, with fees to be paid to Confluence based on a percentage of assets under management in the respective funds. On June 30, 2025, FTA announced the completion of the reorganization of the First Trust Specialty Finance and Financial Opportunities Fund (NYSE: FGB), a closed-end management investment company managed by FTA and sub-advised by Confluence, into the FT Confluence BDC & Specialty Finance Income ETF (NYSE: FBDC), an actively managed exchange-traded fund managed by FTA and sub-advised by Confluence.

On December 9, 2025, FTA announced the approval of the liquidation of the First Trust/Confluence Small Cap Value Fund. The fund was liquidated on February 20, 2026.

**NON-DISCRETIONARY ADVISORY SERVICES**

Confluence provides non-discretionary investment advisory services to certain Financial Institutions. Such non-discretionary advice typically takes the form of model portfolios, which represent Confluence recommendations as to the composition of a portfolio of securities that would be reasonably appropriate to meet a stated investment objective, based on criteria provided by the client to their Financial Institution. Confluence's role is solely to provide these Financial Institutions with recommendations as to the securities composing the portfolio and advice on changes to the portfolio. The Financial Institution will utilize Confluence recommendations in managing the accounts of the clients of the Financial Institution. The Financial Institutions retain full discretion to accept, modify, or reject our recommendations and retain trading authority over their clients' accounts. The non-discretionary accounts at the Financial Institutions for their clients include Wrap Accounts, UMAs or other types of accounts. These clients are clients of the respective Financial Institution and are not Confluence clients.

The model portfolios that Confluence develops as part of the non-discretionary investment advisory services are similar to the portfolios in the SMAs with the same investment strategy that Confluence manages as part of the discretionary portfolio management and investment advisory services described above. Although Confluence discretionary SMAs and non-discretionary model portfolios utilizing the same investment strategy will likely perform similarly, performance differences are expected to occur between them because Confluence does not have trading discretion over the model portfolios. For example, in an effort to accommodate Financial Institution clients to which we provide model portfolios, and to minimize trades, the target investment percentages for each security holding in the portfolio can differ slightly between the model portfolio and the comparable SMA. In addition, Financial Institutions utilizing the Confluence model portfolio recommendations retain full discretion to modify or reject recommendations, and the portfolio of securities (or the respective weighting of securities in the portfolio) in the accounts of the clients of such Financial Institutions can differ from the portfolios in comparable SMAs for which we have discretionary authority. Clients should speak to their Financial Advisor about the similarities and differences associated with discretionary SMAs and non-discretionary model account programs.

*MODEL ASSET ALLOCATION PORTFOLIO PROGRAMS*

Confluence provides non-discretionary model portfolios to asset allocation strategy programs sponsored by Financial Institutions as part of their UMA platform. Under these programs, Confluence provides non-discretionary recommendations to assist in the development of a portfolio of investments in exchange-traded funds that the respective sponsor determines to be suitable for its clients using the program.

*REGISTERED INVESTMENT COMPANIES*

Confluence provides non-discretionary investment advisory services to certain Financial Institutions in connection with the formation of unit investment trusts ("UITs"). A UIT is a registered investment company that buys and holds a generally fixed portfolio of equities, bonds, or other securities or assets. Units in the UIT are sold by such Financial Institutions to clients. Confluence provides non-discretionary

services to such Financial Institutions in connection with the construction and monitoring of the UIT's portfolio.

### Item 5 – Fees and Compensation

Subject to applicable laws and regulations, Confluence retains full authority to negotiate the fees it charges to its clients for discretionary portfolio management and investment advisory services, including "single- and dual-contract" agreements with Financial Institutions to provide such services to the clients of such Financial Institutions as part of a UMA or Wrap Account arrangement, and to registered investment companies. Confluence also retains authority to negotiate the fees it charges for discretionary and non-discretionary investment advisory services, including agreements with Financial Institutions in connection with direct, mutual fund, model portfolio programs, and UITs. Confluence's fees can be modified based upon the size of the account and the nature and level of services provided by Confluence. Confluence offers certain clients, Financial Advisors, or Financial Institutions a fee schedule that is lower than that of other comparable clients. Confluence fees for discretionary accounts are based on a percentage of the value of the assets in the SMA for which Confluence is providing services, and the specific percentage amount is based upon the investment strategy selected and the amount of assets. Confluence fees for non-discretionary model portfolio recommendations are based on a percentage of the value of the overall assets at the Financial Institution with respect to which Confluence recommendations are made. Confluence retains full authority to negotiate the fees it charges for discretionary and non-discretionary advisory services. Confluence personnel and family pay reduced (as low as zero) management fees.

Confluence fees are generally payable quarterly in advance, but certain Sponsors and accounts are billed in arrears as agreed between the client and Confluence, and clients authorize fees to be deducted from their accounts by the Custodian, or by direct payment by the client. Confluence advisory agreements generally can be terminated at any time by either party by giving 30 days' written notice of such termination to the other party. Upon termination of the advisory agreement, the fee amount is generally prorated through the termination date and, for fees in advance, the difference is refunded. For accounts in which Confluence calculates fees, the firm does not rebate fees for partial withdrawals of monies from or bill fees for additions of monies to existing accounts during the billing period. As described under Item 4—Advisory Business, Confluence sub-advises registered investment funds for which it receives fees from the funds' investment adviser for managing the investments. The exchange-traded fund invests in business development companies ("BDCs") and in real estate investment trusts ("REITs") that, in turn, receive management fees for managing portfolio investments held by the BDCs or REITs. As such, the fund's direct fees and expenses, including the applicable management fee to the fund's investment adviser and to Confluence, as sub-adviser, coupled with the compensation of the underlying managers of the BDCs and REITs, result in multiple levels of fees. Additional details regarding the fees charged to an investor in any such fund can be found in the fund's prospectus and statement of additional information.

The following fee schedules are representative of fees for discretionary portfolio management and investment advisory services only and do not include transaction or execution costs incurred by the client. Clients incur certain charges imposed by custodians, brokers, third-party investment, and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot

differentials, exchange fees, SEC fees, transfer taxes, wire transfer and electronic fund fees, and other fees (including Wrap Account fees) and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds charge management fees and other expenses, which are disclosed in a fund’s prospectus. Such charges, fees, and commissions are exclusive of and in addition to Confluence’s fee, and Confluence shall not receive any portion of these commissions, fees, and costs. In addition, there can be brokerage commissions, including step-out costs, which are described below under Item 12 of this Brochure, titled Brokerage Practices. The Brokerage Practices section also describes the factors that Confluence considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

The standard fee schedule by strategy for discretionary SMA accounts offered through Financial Advisors and to institutional clients is as follows:

Strategy	All Cap Value Equity Income Select Equity Income Large Cap Value Increasing Dividend Equity Account Customized Balanced	Balanced IDEA 60/40 Balanced Large Cap Value 60/40 Balanced Select Equity Income 60/40	Asset Allocation Fixed Income Target Date	Global Equity Income Global Hard Assets Global Large Cap International Developed International Equity Income International Growth Multi-Asset Income	IDEA Plus REIT Specialty Finance BDC	Small Cap Value Value Opportunities Emerging Markets International Opportunities Small-Mid Cap Value Global Opportunities
<b>Advisor Based</b>						
Account Assets	Annual Fee	Annual Fee	Annual Fee	Annual Fee	Annual Fee	Annual Fee
First \$500,000	0.60%	0.52%	0.40%	0.60%	0.80%	1.00%
Next \$500,000	0.55%	0.47%	0.35%	0.55%	0.70%	0.90%
Over \$1,000,000	0.50%	0.42%	0.30%	0.50%	0.60%	0.75%
<b>Institutional</b>						
Account Assets	Annual Fee	Annual Fee	Annual Fee	Annual Fee	Annual Fee	
First \$10,000,000	0.75%	0.71%	Negotiated	0.75%	0.75%	1.00%
Next \$40,000,000	0.40%	0.38%	Negotiated	0.40%	0.60%	0.80%
Over \$50,000,000	0.30%	0.28%	Negotiated	0.30%	0.50%	0.75%
<b>Direct Accounts</b>						
Annual fees range from 0% to 1.00% of account assets.						

Confluence sales personnel are compensated based on a portion of the fees paid to Confluence for advisory services, creating a conflict in that they have an incentive to recommend higher fee-generating products. Other Confluence personnel are compensated based on individual performance and the growth of Confluence’s overall business.

**Item 6 – Performance-Based Fees and Side-By-Side Management**

Confluence does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

**Item 7 – Types of Clients**

Confluence provides portfolio management services to individuals (including high net worth individuals) and entities such as financial institutions (on behalf of their clients), corporations and corporate pension and profit-sharing plans, Taft-Hartley plans, other investment advisers (on behalf of their clients), charitable institutions, foundations, endowments, municipalities, and registered investment companies. Confluence generally requires Advisor Based accounts (which are generally single-contract or dual-contract arrangements, including Wrap Account programs, offered through Financial Institutions) to have a minimum account value of \$100,000 (\$200,000 in the case of Balanced

accounts and \$50,000 for Asset Allocation strategies), and Institutional accounts to have a minimum account value of \$5 million.

Confluence allows firm personnel and their family members to maintain accounts that Confluence manages. In addition, some Confluence personnel invest in the fund that Confluence sub-advises. Confluence personnel can suggest a fund/strategy that Confluence sub-advises/manages to Financial Advisors and certain clients. This presents a conflict of interest in that it creates an incentive for Confluence to favor this funds/strategy over others as it receives fees and compensation.

## **Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss**

### **METHODS OF ANALYSIS**

Confluence employs fundamental and cyclical security analysis methods, which vary by the type of portfolio strategy provided. Confluence's Equity strategies, which are comprised of common equity securities of companies, utilize a bottom-up, fundamental approach. Confluence's Asset Allocation and Fixed Income strategies, and the fixed income portion of our Balanced accounts, are implemented using exchange-traded funds ("ETFs") and utilize a top-down, cyclical approach. An ETF is an individual security that trades on an exchange and represents a basket of securities or other assets that are typically designed to track the performance of targeted indices, sectors, or asset classes. The firm's Global Hard Assets strategy, which is primarily comprised of common equity securities and a portion of ETFs, utilizes a combination of the above two approaches. Confluence also manages sector-specific strategies (e.g., Business Development Companies, Real Estate Investment Trusts, and Utilities) that utilize both top-down and bottom-up approaches.

For the Increasing Dividend Equity Account Plus strategy, which is an equity strategy combined with a covered call option strategy on the S&P 500 Index, the firm analyzes option securities for their strike price, premium, volatility, and term for the covered call portion, while the stock selection utilizes quantitative screens as well as qualitative and fundamental analyses.

A substantial portion of investment research is generated in-house. Confluence also utilizes external research sources, such as Bloomberg, Macrobond Financial, Strategas, Morningstar, Ned Davis, and FactSet and various governmental banking and agency data. Confluence will also utilize analytics from other private market research institutions.

### **INVESTMENT STRATEGIES - METHODOLOGY**

#### ***EQUITY STRATEGIES***

##### *Value Equity Strategies*

Confluence's Value Equity strategies include All Cap Value, Equity Income, Select Equity Income, Increasing Dividend Equity Account ("IDEA"), IDEA Plus, Large Cap Value, Small Cap Value, Small-Mid Cap Value, and Value Opportunities. Value Equity portfolios consist primarily of equity securities of U.S. issuers and U.S.-listed securities of non-U.S. issuers. The IDEA Plus strategy utilizes, in addition to such equity securities, broad-based equity index ETFs and covered call options thereon. Confluence utilizes a team-based approach in which all equity investment committee members are fundamental analysts first and foremost. Each analyst is responsible for companies within specific industries and brings ideas

to the Value Equities Investment Committee for vetting of investment theses and analyzing new developments with the goal of ensuring that each security in a portfolio has the attributes Confluence looks for in its equity investments (e.g., sustainable competitive advantages, free cash flow, capable management, trading at a discount to intrinsic value, among other considerations).

Confluence analysts begin by compiling data, including independent and Wall Street research, on individual securities. Data gathering includes reviews of specific company and SEC documents, company visits, management interviews, newspaper and other media stories, industry publications, competitors' information, and research reports. Much of the analysts' time is spent qualitatively analyzing this information to determine if a company possesses a sustainable competitive advantage that allows for product pricing flexibility, with additional time spent on a quantitative cash flow analysis to determine estimates of fair value of the company's equity securities.

Typically, the process begins with an equity analyst or portfolio manager analyzing and writing a report on a proposed company (or recommendation) in his or her respective industry coverage. The information is disseminated to the Value Equities Investment Committee and subsequently vetted by the Committee. The vetting process is thorough, often requiring additional information or analysis. If investment in that company is approved, the Portfolio Management Committee decides placement into a portfolio based on weighting/contribution. Each portfolio has an established target number of holdings. The portfolio will become fully invested over time as targeted investments become available within the stated pricing discipline.

Before investing in any equity security of a company, Confluence conducts a rigorous investment review to:

- Determine if the company's business has a sustainable competitive advantage. This advantage usually protects its business or allows it to maintain market share leadership over time.
- Examine a company's free cash flow. Free cash flow is the amount of cash available after paying expenses and making necessary capital expenditures. Free cash flow can be used to build shareholder value through such things as dividends, stock buybacks and/or acquisitions. Confluence analyzes each business and forecasts cash flows, including future free cash flows, to approximate the intrinsic value. Confluence then invests in those companies whose stocks trade below our estimates of intrinsic value.
- Review a company's return on invested capital. A well-managed company should be able to reinvest capital to improve or grow its business. A company with high or increasing return on capital meets Confluence's criteria.
- Analyze a company's management team. Focused, passionate management teams are likely to make decisions in the best interests of shareholders with the goal of capital appreciation. Confluence has particular interest in the level of a management team's capital allocation skills. Confluence also values corporate managers with large personal investments in their companies' stocks.

### Buy Discipline

Confluence generally invests in companies whose stocks trade below our estimates of intrinsic or fair value, which we determine by analyzing historical and forecasted cash flow, including free cash flow, in an attempt to estimate what a knowledgeable buyer would pay to purchase 100% of the company in an all-cash transaction. Buy limits generally are set at a 25% - 50% discount to Confluence's estimate of intrinsic value. We do not use buy limits in IDEA or IDEA Plus portfolios; however, we seek to invest in high-quality companies when they are trading at a reasonable discount to our internal estimates of intrinsic value.

### Sell Discipline

In seeking to preserve capital, portfolio positions are reviewed continually. A company's stock may be sold if any of the following occurs:

- The share price reaches our estimates of full valuation.
- The business underperforms relative to its peer group or new market entrants.
- The company's fundamentals deteriorate.

There are other circumstances that can cause all or part of a stock position to be sold. Such instances may include a stock's value in the portfolio becoming disproportionately large or a more attractive investment opportunity presenting itself.

### *International and Global Equity Strategies*

Confluence offers International Equity strategies, focused on investing in the equity securities of issuers located in countries other than the U.S. ("Foreign Securities"), and Global Equity strategies, focused on investing in Foreign Securities as well as equity securities of U.S. companies. Confluence offers the following International Equity strategies: International Developed (developed foreign countries only), International Equity Income (developed foreign countries only), International Growth (developed foreign countries and may include limited exposure to emerging markets, frontier, and standalone markets), International Opportunities (developed foreign countries and may include exposure to emerging, frontier, and standalone markets), and Emerging Markets (emerging markets and may include exposure to frontier and standalone markets, as well as limited exposure to developed markets and ETFs). Confluence also offers the following Global Equity strategies: Global Large Cap (developed countries including the U.S. and may include limited exposure to emerging markets), Global Developed (developed countries including the U.S.), Global Equity Income (developed countries including the U.S.), and Global Opportunities (developed countries including the U.S. and may include exposure to emerging, frontier, and standalone markets). The Global Equity strategies are managed in conjunction with the Value Equity team. In its implementation of the International Equity and Global Equity strategies, Confluence utilizes Foreign Securities consisting primarily of U.S.-listed securities of non-U.S. issuers, including Foreign Securities listed directly on U.S. securities exchanges and U.S.-listed American Depository Receipts ("ADRs") for Foreign Securities. Confluence may utilize Foreign Securities listed on securities exchanges outside of the U.S.

The investment process for the International Equity and Global Equity strategies combines top-down macro analysis with bottom-up fundamental equity analysis to identify equity investments in favorable

geographies, sectors, and currencies. Confluence utilizes a team-based approach in which each member of the committee is either a macro strategist or an equity analyst first and foremost. Portfolio management decisions are made as a team.

Our top-down macro analysis aims to identify favorable geographies (both countries and super-regions), sectors, and currencies. Committee members who are macro strategists continuously review a wide array of global economic, geopolitical, macro-financial, and other data to ascertain important secular trends that affect the investable universe. Macro team presentations may focus on a notable economic region, currency, market cycle, or specific geopolitical issue during committee meetings as well as discussing any other major economic developments and answering committee inquiries about factors that may affect specific equity holdings. Macro analysis draws on numerous resources, including independent research from original sources (government and private sector data), databases, publications, and outside research. Our internal macro team also conducts a wide variety of thorough statistical analysis to evaluate trends within regions and countries in terms of economic conditions, fiscal and monetary policy, politics and geopolitics, currency, relative valuation, and other factors. This process and discussion lead to the identification of regions, sectors, and currencies that we believe are either attractive or unattractive based on our rigorous analysis of these trends and conditions. This analysis helps to determine the aggressiveness or defensiveness of the portfolio structure.

Our bottom-up, fundamental equity analysis is intensely research-driven, seeking to identify high-quality companies that are trading at a reasonable discount to our estimate of fair value and growth prospects. Each committee member who is an equity analyst is responsible for companies within specific industries and brings ideas to the committee for vetting of investment theses and analyzing new developments with the goal of ensuring that each security in a portfolio has the attributes Confluence looks for in its equity investments (e.g., sustainable competitive advantages, free cash flow, capable management, reasonable valuation given its growth prospects, among other considerations). Our International Equity and Global Equity portfolios also seek companies whose sales and cash flow growth are favorable in its given sector and when compared to its peers. We take a long-term approach to investing in individual securities.

Confluence analysts begin by compiling data, including independent and Wall Street research, on individual securities. Data gathering includes reviews of specific company and regulatory documents, company calls and management interviews, newspaper and other media stories, industry publications, competitors' information, and research reports. Much of the analysts' time is spent qualitatively analyzing this information to determine if a company possesses a sustainable competitive advantage that allows for product pricing flexibility. We do not use buy limits in International Equity or Global Equity portfolios; however, we seek to invest in high-quality companies when they are trading at a reasonable discount to our internal estimate of fair value.

Typically, the equity research process begins with an equity analyst analyzing and writing a report on a proposed company (or recommendation) as well as compiling a quantitative model in their respective industry coverage. The information is disseminated to the International Equities Investment Committee and subsequently vetted by the committee. The vetting process is thorough, often requiring additional information or analysis. Portfolio management decisions are made at the committee level.

Before investing in any specific equity, Confluence conducts a rigorous investment review to determine that the investment reflects the attributes of our investment philosophy:

- Sustainable competitive advantages. These advantages usually protect the company's business, allow it to control product pricing, and/or allow it to maintain market share leadership over time.
- Strong free cash flow. Free cash flow is the amount of cash flow that can be used to build shareholder value through investing in the business or returning capital to the shareholders.
- Business growth orientation. We seek companies with faster growth in sales and/or cash flow in a given sector and in excess of its peers, consistent market share growth, and whose margins are stable or expanding.
- Capable management team. A focused management team with a demonstrated ability to effectively allocate capital is most likely to make decisions that are in the best interests of shareholders. We also value the alignment of shareholder and management's interests through large personal investments by the top management in the company.

#### Buy Discipline

Our investment philosophy is sensitive to valuations paid for a stock and we seek to pay reasonable valuations for investments, especially when viewed in relation to the company's growth prospects. We believe avoiding excessive valuations is one of the key metrics in managing risk, while maximizing total return potential over an investment cycle. Most of the metrics that we utilize to measure valuations are based on price relative to future earnings potential of the company, such as Enterprise Value/EBITDA, Price/Free Cash Flow, Price/Earnings ratio, Price/Book ratio, and other valuation measures.

#### Sell Discipline

In seeking to preserve capital, portfolio positions are reviewed continually. A company's stock may be sold if any of the following occurs:

- The share price reaches and/or exceeds our estimates of full valuation.
- The underlying macro conditions deteriorate for the geography, currency, or sector. Our committee is continuously reviewing both top-down and bottom-up fundamentals.
- The business underperforms relative to its peer group or new market entrants and this underperformance is believed to continue.
- The company's fundamentals deteriorate.

There are other circumstances that may cause all or part of a stock position to be sold. Such instances may include a stock's value in the portfolio becoming disproportionately large or a more attractive investment opportunity presenting itself.

**ETF STRATEGIES***Asset Allocation Strategies*

The Asset Allocation strategies encompass risk-based allocations designed to adjust exposures to asset classes based upon expected economic conditions in both the U.S. and globally over a forecast period consisting of a rolling three-year outlook. These strategies are aligned across the spectrum of risk profiles and represent risk tolerances for the investment life stages of accumulation, protection, and distribution.

In recognition of the fact that economies move through cycles, Confluence designs its Asset Allocation strategies to attempt to manage risk through changing economic conditions. This process is supported by seminal academic work from 1952 stating that expected risk and returns should be used as the capital market assumptions that underlie an effective asset allocation program. Accordingly, Confluence uses a rolling three-year time frame as its forecast period to seek to address opportunities and associated risks and incorporate flexible allocations that are modified each quarter to reflect appropriate exposures as expectations of macroeconomic factors and market conditions change. Macroeconomic factors may include issues related to inflation, economic growth, Fed policy, currency trends, commodity prices, quantitative easing or tightening, the regulatory environment, trade policies, budget deficits, and national debt as well as foreign central bank policies, global inflation, and foreign economic growth rates. Market condition evaluations may involve the outlook for the Fed's overnight target rate, SOFR and other money-market rates, the shape of the yield curve, credit underwriting trends, corporate default rates, corporate bond spreads, corporate profitability, equity valuations, U.S. dollar exchange rates, capital flows, and fundamental factors affecting commodities.

Each quarter, and in rare instances more frequently should macroeconomic factors and market conditions dictate, Confluence's Asset Allocation Committee ("AAC") convenes to review, study, and align the strategies in accordance with the AAC's updated forecasts given the then-current economic environment and outlook. The AAC uses its internally generated capital market assumptions for each asset class to optimize each strategy within the combination of each strategy's distinct and strict risk budget and, where income is a component, yield governor to construct the allocations to 12 asset classes. Within the asset classes, the AAC examines each strategy for the appropriate ETFs to utilize to seek the optimal risk-adjusted outcome given the AAC's assessment of economic and market factors. Beyond the quarterly examinations and any resultant changes, the AAC regularly monitors the strategies relative to expectations and market conditions intra-quarter.

All strategies are comprised of ETFs. The core of the strategies typically uses ETFs that mimic the performance of the desired index for each asset class utilized. The strategies that include an element of income can hold a material portion of their bond exposures in target maturity ETFs in the form of bond ladders. These vary in length and duration according to the respective strategy. Tax-exempt versions of the strategies with income as an element use ETFs consisting of municipal bonds for their fixed income allocations. Where appropriate, specialized ETFs are incorporated to overweight or underweight particular elements. These can be in the form of sectors, industries, and/or factors for U.S. equity exposures, regions, countries, and/or sectors for international equity exposures, and duration, sector, and/or target maturity and target duration ETFs for bond exposures. In each instance where specialized ETFs are employed, the AAC seeks to ensure that they are in accordance with the desired

positioning for the forecasted economic environment and assist in either enhancing opportunities or reducing risk.

There are five risk-based strategies including Aggressive Growth, Growth, Growth & Income, Income with Growth, and Income, with the latter three having tax-exempt income versions available. In addition, there are currently four available Target Date strategies: Target Date 2030, Target Date 2035, Target Date 2040, and Target Date 2045. As the accompanying table depicts, each Target Date strategy mirrors a risk-based strategy and will shift its allocation every five years to the adjacent risk-based strategy in a succession of increasingly conservative steps. The final shift to mirroring the risk-based Income strategy will occur in the same year as the name of the Target Date strategy.

Calendar Year	Confluence AA Target Date 2030	Confluence AA Target Date 2035	Confluence AA Target Date 2040	Confluence AA Target Date 2045
2026	Income with Growth	Growth & Income	Growth	Aggressive Growth
2027	Income with Growth	Growth & Income	Growth	Aggressive Growth
2028	Income with Growth	Growth & Income	Growth	Aggressive Growth
2029	Income with Growth	Growth & Income	Growth	Aggressive Growth
2030	Income	Income with Growth	Growth & Income	Growth
2031	Income	Income with Growth	Growth & Income	Growth
2032	Income	Income with Growth	Growth & Income	Growth
2033	Income	Income with Growth	Growth & Income	Growth
2034	Income	Income with Growth	Growth & Income	Growth
2035	Income	Income	Income with Growth	Growth & Income
2036	Income	Income	Income with Growth	Growth & Income
2037	Income	Income	Income with Growth	Growth & Income
2038	Income	Income	Income with Growth	Growth & Income
2039	Income	Income	Income with Growth	Growth & Income
2040	Income	Income	Income	Income with Growth
2041	Income	Income	Income	Income with Growth
2042	Income	Income	Income	Income with Growth
2043	Income	Income	Income	Income with Growth
2044	Income	Income	Income	Income with Growth
2045	Income	Income	Income	Income

*Fixed Income Strategies*

The investment objectives for the Fixed Income strategies are to deliver similar income and volatility characteristics of a diversified, investment-grade, intermediate-maturity, domestic fixed income allocation. The Fixed Income strategies invest exclusively in fixed income ETFs. The Fixed Income Taxable strategy utilizes ETFs that have exposure to fixed income holdings that pay interest generally not exempt from federal income taxes, including U.S. Treasuries, mortgage-backed securities (MBS), and investment-grade corporate bonds. Alternately, the Fixed Income Tax-Exempt strategy focuses on ETFs with municipal bond holdings that pay interest generally exempt from federal income taxes. It is important to note that the Fixed Income Tax-Exempt strategy is not managed with regard to state income taxes and Confluence does not provide advice, guidance, interpretation, or any details regarding income taxes. Investors should seek guidance regarding the taxability of income independently from information provided by Confluence.

Both the Fixed Income Taxable and the Fixed Income Tax-Exempt strategies seek exposure to ETFs with investment-grade, domestically oriented benchmarks. Investment decisions are made by the

Fixed Income Strategy Committee, which meets at least quarterly to review and monitor strategy performance and positioning, while also evaluating a variety of macroeconomic factors and market conditions. Macro factors may include issues related to inflation, economic growth, Fed policy, currency trends, commodity prices, quantitative easing or tightening, the regulatory environment, trade policies, budget deficits, and national debt as well as foreign central bank policies, global inflation, and foreign economic growth rates. Market condition evaluations may involve the outlook for the Fed's overnight target rate, SOFR and other money-market rates, the shape of the yield curve, credit underwriting trends, corporate default rates, corporate bond spreads, corporate profitability, MBS option-adjusted spreads and convexity, the nature of supply and demand for MBS caused by changes in the size of the Fed's balance sheet, marginal tax rates, the fiscal health of states and municipalities, domestic and global capital flows, liquidity trends, and foreign sovereign yield curves.

The Fixed Income Strategy Committee adjusts the duration, maturity profile, and sector exposure of the strategies by combining ETFs with a variety of characteristics. The Committee evaluates the ETFs individually as well as collectively, building and seeking to maintain a profile that positions the strategies to pursue their investment objectives against the backdrop of current and projected economic and market conditions. Although the strategies usually maintain an intermediate duration and maturity profile, the Committee may adjust the strategies to have a shorter or longer duration profile depending upon its view of risk and return in the fixed income markets. The Committee may adjust sector exposures according to its view of risk and return within and across various fixed income sectors. Sector allocations are focused on investment-grade exposures and the Committee avoids the inclusion of ETFs with below-investment-grade benchmarks.

The strategies typically contain a laddered nucleus of target maturity ETFs. The Committee has found bond ladders to be helpful in addressing interest rate risk and changing market conditions. The bond ladder is complemented with more traditional duration-targeted ETFs, which help adapt sector, duration, and maturity exposures according to the Committee's assessment of macroeconomic and market conditions.

### **BALANCED STRATEGIES**

Balanced accounts are constructed through a combination of either the Fixed Income Taxable strategy or the Fixed Income Tax-Exempt strategy with one of the Value Equity strategies, managed together in a single account. The allocations are generally set in 10% increments, with a few exceptions allowed for 5% increments. As an example, clients can elect to invest in a 50/50 Balanced account using Large Cap Value and Fixed Income Taxable. In this example, 50% of the portfolio would be invested in the Large Cap Value strategy and managed in identical form relative to previously described Value Equity portfolios. The other 50% allocation would be invested in the Fixed Income Taxable strategy and managed in identical form relative to the previously described fixed income strategies. Clients can select from a range of equity and fixed income strategy combinations, subject to certain custodial limitations.

Although the equity and fixed income allocations in a Balanced account are invested and managed independently from one another, Confluence regularly provides portfolio management oversight to both allocations by monitoring portfolio proportions and by evaluating natural drift that occurs between the allocations. Tolerance bands, also known as guardrails, are placed around each Balanced

account and if the allocations drift outside of the guardrails, the overall allocation is updated to maintain proportions near the client's initial target. To accommodate allocation drift within the guardrails, individual positions at the security level are adjusted and maintained at levels that may be slightly above or below portfolio model targets.

While Balanced accounts have allocations across both equity and fixed income, they differ from the Asset Allocation strategies in that Balanced accounts utilize the Fixed Income Taxable and Fixed Income Tax-Exempt strategies and do not include ETFs that invest in speculative grade bonds.

### **ALTERNATIVE AND SECTOR STRATEGIES**

Confluence has developed strategies focusing on alternative asset classes and sector-specific investments, which we believe have the potential to achieve attractive risk-adjusted returns. Management of these strategies begins with top-down evaluations of the geopolitical environment, fundamental macroeconomic trends, and technical patterns in the target markets.

#### *Alternative Strategies*

Confluence's Global Hard Assets strategy is focused on investments in "hard assets" which Confluence defines as tangible commodities, such as gold, oil, or metals. The portfolio is comprised of the common stocks of companies engaged in the hard assets sector or various hard asset ETFs, thus giving the portfolio exposure to physical commodities. The companies in the hard assets sector are directly responsible for mining, extracting, or producing the hard assets. The Confluence investment philosophy seeks to identify companies that have the ability to increase production and grow reserves over time, thus appreciating capital. Confluence's investment process utilizes a top-down approach to identify investable sectors, coupled with bottom-up security selection. The Confluence geopolitical and global macro analyses define the sector weights along with acceptable geographic locations of reserves. Overall allocation is decided once this process is complete, based upon views of hard asset sector company equities and hard asset ETFs.

The Confluence Multi-Asset Income strategy seeks to produce an above-average level of income consistent with a tolerable level of risk. Capital appreciation is a secondary objective. Confluence seeks to mitigate risk to capital by diversifying into multiple asset classes and sectors. Confluence utilizes macroeconomic and market analyses to guide the investment in both equity and fixed income investments, and to determine investment characteristics within those categories. Such investment characteristics include the weights of sectors within the equity investments, or credit quality and duration within the fixed income investments. The selection of individual equities and other securities will be based on the analysis of the underlying companies and entities. The investable universe consists of common stocks, preferred stocks, master limited partnerships ("MLPs"), equity and mortgage REITs, convertible securities, ETFs, and investment funds such as BDCs. The fixed income investments of the strategy will be made primarily via ETFs. The fixed income portion of the strategy can utilize ETFs that invest in investment-grade corporate, non-investment-grade corporate, floating rate, mortgage, international, and U.S. Treasury securities. The equity portion of the strategy can be in any equity class but is expected to be weighted toward the higher-yielding sectors such as financial, energy, utility, and real estate securities.

*Sector-Specific Strategies*

Confluence also manages sector-specific strategies, such as BDC, REIT, and Utilities, that are concentrated by industry or asset class. Business Development Companies (“BDCs”) lend in the private debt markets, known as the “middle market,” principally providing capital to small and mid-sized businesses. Most borrowers are private companies with EBITDA in the \$5-\$100 million range. Companies in the middle market are often not large enough to access the liquid public markets and usually have financing needs that go beyond what typical commercial banks are willing to provide. Some BDCs may focus on industry niches, such as venture lending, healthcare, or asset-based loans; however, most apply a more generalized approach. Although BDCs capture and deliver return and risk from the private markets, publicly traded BDCs may over shorter time frames perform similarly to small cap financials.

The Specialty Finance BDC portfolio invests in publicly traded BDCs and is focused on a very specific part of the financial sector. This focus has greater volatility relative to a more fully diversified portfolio. In addition, BDCs are regulated under the Investment Company Act of 1940, which has specific requirements for how BDCs are managed. These regulations range across many factors, including limitations on the amount of income and gains a BDC can retain, limitations on the amount of debt a BDC can incur, the nature of how equity capital can be raised, mandates on the profile of BDC borrowers, the nature of how BDC income is earned, and requirements for BDC asset diversification. While BDC regulations provide a measure of protection for investors, they can also create situations where BDC managers may have limited access to certain sources of capital. Investing in BDCs also creates an indirect exposure to middle-market borrowers, including small and mid-sized companies, who may have more credit risk relative to larger companies. It should be noted that many publicly traded BDCs are small cap stocks, which tend to have higher market volatility relative to large cap stocks.

Confluence considers a multiplicity of factors in selecting securities for the Specialty Finance BDC portfolio. The quality of BDC manager is of central importance and factors that are evaluated include (but are not limited to): experience and track record, platform resources, workout capabilities, lending focus, industry reputation, fees and expenses, capital allocation policies, stock valuation, and stock liquidity. Individual positions are considered against the backdrop of overall portfolio construction. Portfolio positions may be sold with consideration of these same factors, particularly when more attractive opportunities arise.

REITs are companies that own, operate, or finance income-producing real estate, including offices, apartment buildings, warehouses, hotels, retail centers, data centers, casino gaming, and medical facilities. Most REITs operate traditional business models which are driven by leasing space and collecting rent on their owned or financed real estate properties. REITs can provide steady dividend income and long-term capital appreciation. With comparatively low correlation with other asset classes, REITs can contribute to asset class diversification and can assist in controlling overall portfolio risk.

Utilities securities include companies engaged in the production, transmission, or distribution of electric energy or natural gas; the operation of water supply networks or wastewater or sewage treatment facilities; the provision of telephone, mobile communication, and other telecommunications

services; or the provision of other utility or utility related goods or services, including entities engaged in solid waste, electric generation, or in the provision of waste disposal systems.

#### *Expert Network Providers*

Confluence uses expert network providers to assist with the research process from time to time. Expert network providers are firms that facilitate contact between individuals or organizations, typically professionals with specialized information that are used by investment managers looking to build fundamental understanding of an industry and/or company of interest. Experts can include academics, scientists, engineers, doctors, lawyers, suppliers, and professional participants, including political experts, in the relevant industry, including in some cases former employees of industry companies. Expert network providers are used to supplement the research process and not as a substitute for our fundamental analysis. The firm has implemented policies designed to prevent the receipt of material non-public information. Additionally, the firm has policies in place if material non-public information is received.

### **INVESTMENT STRATEGIES – CERTAIN RISKS**

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. The order of the risk factors below does not indicate the significance of any particular risk factor.

### **EQUITY STRATEGIES**

#### *Value Equity Strategies*

Value Equity strategies invest in a portfolio of equity securities which Confluence believes are undervalued or inexpensive relative to other investments. These types of securities present risks in addition to the general risks associated with investing in equity securities, including the risk that Confluence's estimates of the intrinsic value of the stock may never be realized by the market or that the price goes down. Equity securities generally are selected based on views of an issuer's business and economic fundamentals or the security's current and projected credit and profit profiles, relative to current market price. Such securities are subject to the risk of misestimating certain fundamental factors. Further, because the prices of value-oriented securities tend to correlate more closely with economic cycles than growth-oriented securities, they generally are more sensitive to changing economic conditions, such as changes in interest rates, corporate earnings, and industrial production. Disciplined adherence to a value investment mandate during periods in which that style is out of favor can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible style mandates.

Confluence Value Equity portfolios will typically hold securities of fewer issuers than a broadly diversified equity mutual fund. Confluence Value Equity portfolios may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility, and be concentrated in certain issues. Furthermore, because Value Equity portfolios have a relatively small number of issuers, the portfolios have greater susceptibility to adverse developments in one issuer or group of issuers.

Confluence's Value Equity strategies sometimes utilize ADRs, which are U.S.-listed receipts for securities of non-U.S. companies and are typically issued by a U.S. bank or trust company and represent ownership of the underlying non-U.S. securities. While ADRs are typically U.S. dollar-denominated (which is not necessarily in the same currency as the securities into which they may be converted), many of the risks associated with non-U.S. securities often apply to ADRs as well. Issuers of non-U.S. securities are not generally subject to uniform accounting, auditing, and financial standards comparable to those applicable to U.S. public companies. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the return on such investments. Although ADRs are typically denominated in U.S. dollars, they may be vulnerable to currency risks in the event that changes in foreign currency exchange rates adversely affect the value of the underlying non-U.S. securities.

The Small Cap Value, Equity Income, IDEA, Small-Mid Cap Value, Value Opportunities, and All Cap Value strategies can include smaller capitalization companies that, due to their size, generally are more vulnerable to adverse general market or economic developments than larger, more established companies. The securities of small companies often have abrupt and greater price volatility and may be less liquid because of limited financial resources, management inexperience, and less publicly available information, among other factors. The Value Opportunities strategy has a shorter investment horizon, greater portfolio turnover, and is typically more concentrated (e.g., 8 to 12 positions) than other Confluence Value Equity strategies.

The IDEA strategy is focused on high-quality companies with long track records of distributing earnings to shareholders through dividends. Also of importance in securities selection is the anticipated dividend growth rate of the aggregate portfolio. However, companies are not required to continue to pay dividends and the IDEA strategy is subject to the risk that any or all of the portfolio companies could reduce or eliminate their dividends in the future, which would adversely affect the performance of the portfolios utilizing the strategy. Dividend-producing equity securities, in particular those whose market price is closely related to their yield, can exhibit greater sensitivity to interest rate changes.

The IDEA Plus strategy is a combination of the IDEA strategy with a covered call option strategy on the S&P 500 Index. Approximately 75% of the portfolio consists of the IDEA portfolio and the remaining portion of the portfolio consists of an ETF position in the S&P 500 Index with a corresponding covered call option position. Confluence will write (sell) covered call options on all or a portion of the ETF position held in the IDEA Plus portfolio as determined to be appropriate, consistent with the strategy's investment objective. In addition to the risks associated with the IDEA strategy, the IDEA Plus strategy is subject to options risk. There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when, and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction can be unsuccessful to some degree because of market behavior or unexpected events. As the writer of a covered call option, the IDEA Plus portfolio forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but the portfolio has retained the risk of loss should the price of the underlying security decline. Covered calls provide downside protection only to the extent of the premium received and limit upside potential to the strike price plus premium received. The writer of an option has no control over the time when it

may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot generate a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price.

#### *International and Global Equity Strategies*

*Foreign Securities Risk* – Investments in Foreign Securities involve certain risks not involved in securities of U.S. issuers that can increase the chances that an investor will lose money.

*Foreign Economy Risk* – The economies of certain foreign markets may not compare favorably with the economy of the U.S. with respect to such factors as growth of gross domestic product, reinvestment of capital, resources, and balance of payments position. Certain foreign economies rely heavily on particular industries or foreign capital and are more vulnerable to diplomatic developments, the imposition of economic sanctions against a particular country or countries, changes in international trading patterns, trade barriers, and other protectionist or retaliatory measures. Investments in foreign markets can also be adversely affected by governmental actions such as the imposition of capital controls, nationalization of companies or industries, expropriation of assets, or the imposition of punitive taxes. In addition, the governments of certain countries can prohibit or impose substantial restrictions on foreign investments in their capital markets or in certain industries. Any of these actions could severely affect securities prices or impair Confluence's ability to purchase or sell Foreign Securities. Other potential foreign market risks include foreign exchange controls, difficulties in pricing securities, difficulties in enforcing legal judgments in foreign courts, and political and social instability. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism, and war, could affect the economies, industries, securities and currency markets, and the value of Foreign Securities. U.S.-based custodians can stop trading a foreign-based company's securities listed in the U.S. as part of a wider action against a country or company. These factors are extremely difficult, if not impossible, to predict and to incorporate in the management of International Equity and Global Equity strategies.

*Governmental Supervision and Regulation/Accounting Standards* – Many foreign governments do not supervise and regulate capital markets, brokers, and the sale of securities to the same extent as such regulations exist in the United States. They often do not have laws to protect investors that are comparable to U.S. securities laws. For example, some foreign countries have no laws or rules against insider trading. Insider trading occurs when a person buys or sells a company's securities based on material, non-public information about that company. In addition, some countries have legal systems that make it difficult to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Accounting standards in other countries are not necessarily the same as in the United States. If the accounting standards in another country do not require as much detail as U.S. accounting standards, it can be harder for Confluence to completely and accurately determine a company's financial condition. In addition, dividend and interest income on Foreign Securities can be subject to withholding and other foreign taxes, which can adversely affect the return on such investments.

*Emerging Markets Risk* – The risks of Foreign Securities investments are usually much greater for emerging markets (or lesser developed countries, including countries that are considered frontier or

standalone markets). Confluence follows MSCI guidelines in defining countries as developed, emerging, or frontier/standalone market countries.

Investments in emerging markets can be considered speculative. Emerging markets are riskier than more developed markets because they tend to develop unevenly and may never fully develop. They are more likely to experience hyperinflation and currency devaluations, which adversely affect returns to U.S. investors. In addition, many emerging markets have far lower trading volumes and less liquidity than developed markets. Since these markets are often small, they can be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions, or the actions of a few large investors. In addition, traditional measures of investment value used in the United States, such as Price/ Earnings ratios, may not apply to certain small markets. Also, there is often less publicly available information about issuers in emerging markets than would be available about issuers in more developed capital markets, and such issuers are not subject to accounting, auditing, and financial reporting standards and requirements comparable to those to which U.S. companies are subject.

Many emerging market countries have histories of political instability and abrupt changes in policies. As a result, their governments are more likely to take actions that are hostile or detrimental to private enterprise or foreign investment than those of more developed countries, including expropriation of assets, confiscatory taxation, high rates of inflation, or unfavorable diplomatic developments. In the past, governments of such nations have expropriated substantial amounts of private property, and most claims of the property owners have never been fully settled. There is no assurance that such expropriations will not reoccur. In such an event, it is possible that investors could lose the entire value of their investments in the affected country. Some countries have pervasive corruption and crime that hinder investments. Certain emerging market countries face other significant internal or external risks, including the risk of war, and ethnic, religious, and racial conflicts. In addition, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which impairs investment and economic growth. National policies that may limit investment opportunities include restrictions on investment in issuers or industries deemed sensitive to national interests.

*Frontier and Standalone Markets Risk* – In addition to the risks included for emerging markets, frontier and standalone market countries generally have smaller economies and less mature capital markets than emerging market countries. Moreover, frontier and standalone market countries are generally more restrictive in providing investor access to their capital markets. As a result, the risks associated with investing in emerging market countries are magnified in frontier markets and even more so in standalone markets. Frontier and standalone markets are more susceptible to abrupt changes in currency values, have less mature settlement practices, and typically have lower trading volumes that can lead to more price volatility and lower liquidity.

*Currency and/or Country Bloc Risk*– Risks are associated with a bloc of countries united in an economic or currency bloc. In the past, the European financial markets have experienced volatility and adverse trends due to concerns about economic downturns in, or rising government debt levels of, several European countries that could spread to affect the greater EU/Eurozone region. These events can spread to other countries in the bloc. Responses to the financial problems by individual governments,

central banks, and others, including austerity measures and reforms, may not work, result in social unrest, limit future growth and economic recovery, or have other unintended consequences. Further defaults or restructurings by governments and others of their debt could have additional adverse effects on economies, financial markets, and asset valuations around the world. The impact of these actions, especially if they occur in a disorderly fashion, is not clear but could be significant and far reaching.

*Greater China Risk* – Investments in greater China involve a higher degree of risk than other regions and economies, as the economy, industries, and securities and currency markets of greater China are particularly vulnerable to the region’s dependence on exports and international trade and increasing competition from Asia’s other low-cost emerging economies. The government of the People’s Republic of China exercises significant control over the economy, industries and individual companies in China and may at any time alter or discontinue economic reforms. A reduction in spending on Chinese products and services, institution of tariffs or other trade barriers, or a downturn in any of the economies of China’s key trading partners can have an adverse impact on the securities of Chinese issuers. Investments in greater China are subject to the risk of confiscatory taxation, nationalization or expropriation of assets, potentially frequent changes in the law, and imperfect information because companies in the China region are not subject to the same disclosure, accounting, auditing, and financial reporting standards and practices as U.S. companies. There are also specific restrictions on investments in Chinese companies. For example, the president of the United States signed an Executive Order in June 2021 affirming and expanding the U.S. policy prohibiting U.S. persons from purchasing or investing in publicly traded securities of companies identified as “Chinese Military-Industrial Complex Companies.” The list of such companies can change from time to time, and losses can occur as a result of forced selling or an inability to participate in an investment.

*Russia Risk* – Russian President Putin commenced an invasion into Ukraine in 2022, which could have a continued negative impact on the global economy and business activity, including in the countries in which Confluence invests, and therefore could adversely affect the performance and liquidity of certain investments. To the extent that third parties, investors, or related customer bases have material operations or assets in Russia or Ukraine, they may have adverse consequences related to the ongoing and escalating conflict in Ukraine and the continued and increasing sanctions being imposed on Russia. Following Russia’s invasion of Ukraine, the president of the United States signed Executive Orders in February 2022 prohibiting U.S. persons from entering transactions with the Central Bank of Russia and in March 2022 prohibiting U.S. persons from importing oil and gas from Russia as well as other Russian exports. Additionally, the European Union has also imposed various sanctions on Russian government agencies, companies, and individuals.

*Depositary Receipts Risk* – In its implementation of the International Equity and Global Equity strategies, Confluence invests primarily in Foreign Securities listed directly on U.S. securities exchanges and U.S.-listed ADRs for Foreign Securities. ADRs are certificates evidencing ownership of securities of a foreign issuer and are typically denominated in U.S. dollars, which is different than that of the underlying securities. These certificates are issued by depositary banks, and the underlying shares are held in trust by a custodian bank or similar financial institution in the issuer’s home country. ADRs can be sponsored or unsponsored. A sponsored ADR is issued by a depositary which has an exclusive relationship with the foreign issuer of the underlying security. An unsponsored ADR may be issued by

any number of depositaries. Under the terms of most sponsored arrangements, depositaries agree to distribute notices of shareholder meetings and voting instructions, and to provide shareholder communications and other information to the ADR holders at the request of the foreign issuer of the deposited securities. The depositary of an unsponsored ADR, on the other hand, is under no obligation to distribute shareholder communications received from the foreign issuer of the deposited securities or to pass through voting rights to ADR holders in respect of the deposited securities. Confluence can invest in either sponsored or unsponsored ADRs. Unsponsored ADRs trade at the discretion of the ADR sponsor, while sponsored ADRs are listed at the discretion of the underlying company. At any time, the ADR sponsor or the underlying company could delist or change the ADRs.

*Direct Foreign Securities Investment Risks* – In its implementation of the International Equity and Global Equity strategies, Confluence may utilize Foreign Securities listed on securities exchanges outside of the United States. Securities traded in foreign markets have often (though not always) performed differently from securities traded in the United States. Because there may be fewer investors on foreign exchanges and a smaller number of securities traded each day, it may be more difficult to buy and sell securities on those exchanges. Also, it is often more expensive for investors to buy, sell, and hold securities in certain foreign markets than in the United States. Settlement and clearance procedures in certain foreign markets differ significantly from those in the United States. Foreign settlement and clearance procedures and trade regulations also may involve certain risks (such as delays in payment for or delivery of securities) not typically associated with the settlement of U.S. investments. At times, settlements in certain foreign countries have not kept pace with the number of securities transactions. These problems may make it difficult for Confluence to carry out transactions. If a transaction implemented by Confluence on behalf of an investor cannot settle or is delayed in settling, the investor may miss attractive investment opportunities and certain assets may be uninvested with no return earned thereon for some period. If a transaction implemented by Confluence on behalf of an investor cannot settle or is delayed in settling, the investor may lose money if the value of the security then declines. Confluence may need to use brokers and counterparties that are less well capitalized, and custody and registration of assets in some countries can be unreliable. The possibility of fraud, negligence, undue influence being exerted by the issuer, or refusal to recognize ownership exists in some foreign markets, and, along with other factors, could result in ownership registration being completely lost. Also, in addition to withholding taxes on investment income, some countries may impose differential capital gains taxes on foreign investors. Securities in certain non-U.S. countries may be less liquid, more volatile, and less subject to governmental supervision than in the U.S. The value of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, sanctions programs, trading halts or suspensions on foreign stock exchanges, and economic and monetary policy.

### **ASSET ALLOCATION AND FIXED INCOME STRATEGIES**

Confluence's Asset Allocation strategies involve apportioning the strategy's assets among various asset classes, the success of which depends upon Confluence's facility with its capital market assumptions of expected returns, volatility, yield, and correlations of the 12 asset classes. Expected returns, volatility, and yield for different asset classes vary over time as do the correlations among asset classes. If Confluence's capital market assumptions of expected returns, risk, and yield prove to be deficient, the strategies could significantly underperform the markets and other asset allocation strategies. If the assessment of the correlations among different asset classes is incorrect, the portfolio may not achieve

the level of diversification that Confluence anticipated, which can increase the risk of underperformance or negative performance.

Confluence's Asset Allocation and Fixed Income strategies are implemented using ETFs, which own a basket of securities that track a particular market index. Changes in the price of an ETF, before deducting expenses, typically track the movement of the associated index closely. ETFs charge their own management fees and other expenses that come directly out of the ETF returns. An ETF's performance, especially those that are constructed using sampling methodology, may not perfectly track the targeted index the ETF seeks to mirror. ETFs are subject to various risks, most notable being the ability of the ETF's managers to manage appropriately the ETF's portfolio when the underlying securities are redeemed or sold during periods of market turmoil and as investors' perceptions regarding ETFs or their underlying investments change. There is no guarantee that an ETF will track its targeted index and therefore achieve its investment objective even during normal market environments. Market disruptions and regulatory restrictions could have an adverse effect on an ETF's ability to adjust its exposure to the required levels in order to track the targeted index. Errors in index data, index computations, and/or the construction of the targeted index in accordance with its methodology may occur, which may have an adverse impact on the ETF and its shareholders, including clients invested in Confluence's Asset Allocation and Fixed Income strategies.

Unlike traditional open-end mutual funds, the shares of which can be purchased or redeemed at prices equal to the mutual fund's net asset value at the end of a business day, shares of ETFs trade on a securities exchange and are purchased or sold at market prices transacted on the exchange throughout the trading day. ETFs enter into agreements with certain designated Authorized Participants (APs) who may create and redeem large blocks of the ETF's shares, termed "creation units," at the then-current net asset value. Such purchases and redemptions are intended to maintain the approximate equivalence of the market price and net asset value of the ETF's shares. To the extent that one or more of such designated APs cease to or are unable to proceed transacting creation units, and no other designated AP is willing or able to make such transactions, the market price of the ETF's shares is more likely to trade at a premium or discount to net asset value and the shares could have limited liquidity. During periods of severe market volatility or disruption, these premiums or discounts could be magnified, and the exchange could impose trading halts on and/or delisting of the shares of the ETF.

Industry-specific ETFs by design provide concentrated risks in industries. For example, a REIT ETF has investments in companies that are subject to changes in the real estate market, vacancy rates and competition, volatile interest rates, and economic recession. Confluence's Asset Allocation strategies can include commodity-oriented ETFs. Buying commodities allows for a source of potential diversification in consideration for the assumption of the risks inherent in the commodities markets, which include the global supply and demand for commodities being influenced by U.S. and foreign interest rates and inflation rates and global or regional political, economic, or financial events and situations. Any commodity investment represents a transaction in a non-income-producing asset and is considered speculative.

Certain fixed income ETFs invest in investment-grade and, at times, speculative grade bonds. Investment-grade securities are subject to numerous risks including interest rates, economic recession,

deterioration of the investment-grade market or investors' perceptions thereof, possible downgrades, and defaults of interest and/or principal. Changes in interest rates affect the value of investments in fixed income ETFs. Rising interest rates cause the prices of debt securities to fall, which is more pronounced in longer-duration securities. The credit rating or financial condition of an issuer may affect the value of the debt security. Generally, the lower the quality rating of a security, the greater the risk that issuer will fail to pay interest fully and return principal in a timely manner. Credit ratings are not an absolute standard of quality, but rather general indicators that reflect only the view of the originating rating agencies from which an explanation of the significance of such ratings may be obtained. If an issuer defaults or becomes unable to honor its financial obligations, the security can lose some or all of its value. Speculative grade bonds are usually issued by less creditworthy and/or highly leveraged (indebted) companies. Compared with investment-grade bonds, speculative grade bonds carry a greater degree of risk and are less likely to make timely payments of interest and principal.

Fixed income ETFs are not bonds. ETFs may trade at discounts or premiums to the net asset value of the underlying portfolio of securities, particularly during market disruptions, which can directly affect the return on an investment in the ETF. Liquidity can also vary depending on market conditions. These and other differences highlight the fact that fixed income ETFs vary in performance relative to direct investments in bonds.

With respect to the Target Date strategies, the principal value of the strategies is not guaranteed at any time, including on or after the target date. The overall level of risk will directly correspond to the risks of the underlying investments. By investing in various underlying investments, the strategy has exposure to the risks of different segments of the market. No Target Date strategy is considered a complete investment program and there is no guarantee of principal invested.

### **BALANCED STRATEGIES**

Confluence's Balanced accounts combine a specific equity strategy with either the Fixed Income Taxable strategy or the Fixed Income Tax-Exempt strategy. The risks associated with the equity portion of a Balanced account are described in the Equity Strategies section and the risks associated with the fixed income portion are described in the Fixed Income section. The combination of two strategies in one account creates an exposure to a continuous drift away from or toward the targeted allocation. Allocation drift may cause portfolio performance to vary relative to the targeted allocation. To address drift, guardrails around the targeted allocation are utilized, referencing the proportion of the equity allocation. Larger equity proportions have wider guardrails, while smaller equity proportions have narrower guardrails. Portfolios are periodically rebalanced to their targeted allocation when allocations drift outside their guardrails. During the fourth quarter of the calendar year, portfolios may be allowed to drift outside their guardrails to help limit or avoid end-of-year taxable gain realizations. In these situations, guardrail drift is generally addressed in the first quarter of the new year.

### **ALTERNATIVE AND SECTOR STRATEGIES**

Confluence's Alternative strategies, such as Global Hard Assets, include securities and asset classes that typically have greater price volatility than the Asset Allocation and Equity strategies. The Global Hard Assets strategy is subject to commodity pricing, supply and demand, and regulatory risks, in addition to the U.S. and non-U.S. equities, non-diversification, and currency risks described above. Prices of various commodities and natural resources can be affected by factors such as war, droughts,

floods, weather, changes in storage costs, changing supply and demand relationships, transportation costs, embargoes, tariffs, and other regulatory developments as well as foreign currency exchange rates and international interest rates, many of which factors are unpredictable.

Confluence's Multi-Asset Income strategy is subject to the equity, BDC, ETF, and REIT risks described above as well as the risks associated with investments in preferred securities and MLPs. Preferred securities are typically subordinate to bonds and other debt instruments of the issuer and are subject to greater credit risk. Distributions payable to preferred securities may be skipped or deferred by the company without causing a default. Preferred securities may be substantially less liquid than common stocks, and the issuer may redeem the preferred securities prior to a specified date. Investments in MLP units involve risks that differ from an investment in common stock of a corporation. Holders of MLP units typically have limited control and limited voting rights, and conflicts of interest may exist between common unit holders and the general partner of the MLP, including arising from incentive distribution payments. MLPs are also subject to interest rate risk and, to the extent MLPs invest in a specific economic sector, the MLP will be subject to the risks specific to that sector. Much of the expected benefits derived from investments in MLPs result from the unique tax characterization of the MLP as a partnership (rather than a corporation) and not being subject to federal income tax at the partnership level. Investors in MLP units are required to include in their taxable income their allocable share of the MLP's income, gains, losses, and expenses, regardless of whether the MLP distributes cash to its unitholders.

Confluence's sector-specific strategies are concentrated by design and thus the portfolios do not provide investors with broad diversification. The focus of these strategies on specific sectors may present more risks than if a portfolio was broadly spread over numerous sectors of the economy. Adverse economic, political, or regulatory occurrences affecting one or more of those sectors will have a larger impact on the sector-specific portfolio than on a portfolio that does not concentrate solely in those specific sectors. At times, the performance of companies in those sectors will lag the performance of other sectors or the broader market as a whole.

The Confluence Specialty Finance BDC strategy is specifically focused on business development companies and is therefore not diversified across sectors or industries. At the same time, because many BDCs have small market capitalizations, volatility can be higher than that of larger capitalization companies. Also, BDC trading liquidity can vary significantly over time and stocks can become very volatile during times of market disruption.

BDCs typically lend to and invest in small to medium-sized, U.S. companies, including many that are private. These companies often do not have access to public capital markets and may have fewer financial resources relative to large, publicly traded corporations. Private market loans and investments can be difficult to value, so BDC asset values, which must be marked to market each quarter, inherently involve a measure of subjectivity and can change in unpredictable ways. Liquidity may also be low, which may limit a BDC management team's ability to quickly sell loans and investments at the reported value.

The small to medium-sized companies BDCs lend to often have substantial amounts of debt. This profile can create a higher risk of default, which would adversely affect a BDC. In addition, this higher level of debt can complicate workouts and restructurings, which could lengthen the amount of time to

resolution and limit recoveries. For these reasons, credit risk is often the single greatest risk to BDC operations.

Although BDCs are lenders, they are similar to other financial companies and typically borrow capital themselves. BDCs have many borrowing resources available to them. Certain BDCs also participate in a borrowing program offered by the Small Business Administration. All these borrowing sources have conditions and/or covenants, which can limit a BDC management team's flexibility. BDC leverage is subject to regulations that typically limit borrowings to less than two times balance sheet equity. This leverage enhances both gains and losses for investors.

As lenders, BDCs are guided by decisions of their management teams, who inherently play an important role in managing operational risks on behalf of shareholders. Hiring, developing, and retaining talented professionals, along with having the correct incentives, require continuous managerial oversight. Therefore, the return and risk outcomes for BDCs are often driven by key management personnel. Like many financial sector companies, one of the largest costs for a BDC is compensation paid to personnel managing the business. Some BDCs have their own employees and are managed internally, while most BDCs are managed through an advisory agreement with an external arrangement. The employment costs of both structures are significant and BDC investors can be adversely affected if compensation is excessive or incentives are misaligned with the interests of shareholders. BDCs are regulated under the Investment Company Act, which allows BDCs to avoid federal income taxation so long as almost all income and gains are distributed to shareholders. At the same time, BDC income paid to shareholders is generally not a qualified dividend. One consequence of this structure is that BDCs are normally not able to retain significant earnings and capital gains and are therefore dependent upon capital markets and lenders for incremental capital. Capital from these resources can, at times, become very expensive and/or quite limited, depending upon market conditions, and sourcing capital from them at the wrong time may adversely affect BDC investors.

The Confluence Utilities strategy is subject to risks that are intrinsic to public utility companies including difficulty in obtaining an adequate return on invested capital, difficulty in financing large construction programs during inflationary periods, restrictions on operations and increased cost and delays attributable to environmental considerations and regulation, difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets, technological innovations that can render existing plants, equipment, or products obsolete, the potential impact of natural or man-made disasters, increased costs and reduced availability of certain types of fuel, occasional reduced availability and high costs of natural gas and other fuels, the effects of energy conservation, the effects of a national energy policy and lengthy delays and greatly increased costs and other problems associated with the design, construction, licensing, regulation, and operation of nuclear facilities for electric generation, including, among other considerations, the problems associated with the use of radioactive materials, the disposal of radioactive wastes, shutdown of facilities or release of radiation resulting from catastrophic events, disallowance of costs by regulators reduces profitability, and changes in market structure that increase competition.

The Confluence REIT strategy is subject to risks inherent in the REIT industry, including the risk that the strategy's performance will be closely linked to the performance of the real estate markets. Historically, real estate has experienced significant variations and cycles in value and local market

conditions, which may result in reductions in the value of real property and, possibly, the income generated by real property. Real estate-related investments are subject to the risk that a general downturn in either the national or local economy will weaken real estate prices and revenues. Property values can fall due to increasing vacancies or declining rents resulting from economic, legal, cultural, or technological developments. Values of the REIT securities will fall, among other reasons, because of the failure of borrowers from such REITs to pay their loans or because of poor management of the real estate properties owned by such REITs. Many REITs utilize leverage (and some are highly leveraged), which increases investment risk and could adversely affect a REIT's operations and market value in periods of rising interest rates. REITs operate within particular sectors of the real estate industry, such as apartments, office and industrial, regional malls and community centers, storage, hotels and lodging, and the health care sector, that are subject to specific sector-related risks. REITs are subject to highly technical and complex provisions of the Internal Revenue Code of 1986, as amended, which permit a REIT to avoid or limit its exposure to federal corporate income tax. Failure of a REIT to qualify for such provisions could adversely affect its operations and the investment returns to investors in the REIT's securities.

### **OTHER RISK OF LOSS**

Investing in securities involves risk of loss that clients should be prepared to bear. Confluence does not guarantee any rates of return on investments. All clients assume the risk that investment returns can be negative or below the rates of return of other investment advisers or market indexes. Past performance does not guarantee future results and there is no guarantee that investment objectives will be achieved. The investments or strategies discussed may not be suitable for all clients. Certain other risks are described below:

*Risk Associated with Recent Market Events* – Periods of market volatility remain, and will continue to occur in the future, in response to various political, social, and economic events (such as natural disasters, epidemics and pandemics, terrorism, conflicts, and social unrest) both within and outside the United States. These conditions have resulted in, and in many cases continue to result in, greater price volatility, less liquidity, widening credit spreads, and a lack of price transparency, with many securities remaining illiquid and of uncertain value. As global systems, economies, and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region, or financial market will, more frequently, adversely impact issuers in other countries, regions, or markets, including in established markets such as the United States. These impacts can be exacerbated by protectionist trade policies and by failures of governments and societies to adequately respond to an emerging event or threat. Such conditions can adversely affect client portfolios, including by making the valuation of some portfolio securities uncertain and/or result in sudden and significant valuation increases or declines in the portfolio holdings.

Risks resulting from any future debt or other economic crisis could also have a detrimental impact on the global economic recovery and the financial condition of financial institutions. Market and economic disruptions have affected, and can in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. To the extent that uncertainty regarding the U.S. or global economy negatively impacts consumer confidence and consumer credit factors, the value of securities in client portfolios could be

significantly and adversely affected. Downgrades to the credit ratings of major banks could result in increased borrowing costs for such banks and negatively affect the broader economy. Moreover, Federal Reserve policy, including with respect to certain interest rates, can also adversely affect the value, volatility, and liquidity of dividend- and interest-paying securities.

*Government Intervention in Financial Markets* – Governmental and quasi-governmental authorities and regulators throughout the world have in the past responded to major economic disruptions with a variety of significant fiscal and monetary policy changes, including but not limited to, direct capital infusions into companies, new monetary programs, and dramatic changes in interest rates. Any public health emergency or an outbreak of other existing or new epidemic diseases, or the threat thereof, and any resulting governmental market intervention or associated financial and economic market uncertainty could have a significant adverse impact on the value and risk profile of a client's portfolio.

In addition, instability in the financial markets during and after the 2008-2009 financial crisis also led the U.S. government and governments across the world to take a number of actions designed to affect market rates of interest, support certain financial institutions and segments of the financial markets that experienced extreme volatility, and in some cases a lack of liquidity. The value of securities in which clients invest is generally subject to the risk of future local, national, or global economic disturbances based on unknown weaknesses in the markets. In the event of such a disturbance, issuers of securities held by a client can experience significant declines in the value of their assets and even cease operations or can receive government assistance accompanied by increased restrictions on their business operations or other government intervention. In addition, it is not certain that the U.S. government will intervene in response to a future market disturbance and the effect of any such future intervention cannot be predicted. The administration changeover following the 2024 U.S. national elections could result in significant changes to international trade relations, tax and immigration policies, and other aspects of the national and international political and financial landscape, which could affect, among other things, inflation and the securities markets generally.

*Market Disruption and Geopolitical Risk* – Risks outside of the financial markets, economics, and politics affect the underlying investments, often at times significantly. The occurrence of events in recent years can result in market volatility, have long-term effects on the U.S. and worldwide financial markets, and cause further economic uncertainties in the U.S. and worldwide. Examples of such events include (but are not limited to): the aftermath of the political and military conflicts in Iraq and Afghanistan; instability in the greater Middle East; military conflicts in Ukraine; alleged cyber-attacks by Russia and North Korea; ongoing epidemics of infectious diseases that can be spread within a country, region, or globally; terrorist attacks in the U.S. and around the world; social and political discord; debt crises; sovereign debt downgrades; increasingly strained relations between the U.S. and a number of foreign countries, including traditional allies, such as certain European countries, and historical adversaries, such as North Korea, Iran, China, and Russia, and the international community generally; new and continued political unrest in various countries, such as Venezuela; the exit or potential exit of one or more countries from the EU or the EMU; and changes in the U.S. presidency and new administrations, among others. The outbreak of an infectious virus developed into a global pandemic, which resulted in numerous disruptions in the market, significant economic impact, and general concern and uncertainty. The impact of epidemics and pandemics that may arise in the future can affect the

economies of many nations, individual companies, and the market in ways that cannot necessarily be foreseen.

The occurrence of any of these above events could have a significant adverse impact on the value and risk profile of a client's portfolio. Confluence does not know how long the securities markets will be affected by similar events and cannot predict the effects of similar events in the future on the U.S. economy and securities markets. There can be no assurances that similar events and other market disruptions will not have other material and adverse implications.

*Fixed Income Risk* – Investments in fixed income securities owned through ETFs are subject to risk, including market risk, default risk, and liquidity risk.

*Inflation Risk* – Inflation risk is the risk that the value of assets or income from investment will be worth less in the future, as inflation decreases the value of money. As inflation increases, the real value of securities and distributions with respect to those securities can decline.

*Deflation Risk* – Deflation risk is the risk that prices throughout the economy decline over time, which can have an adverse effect on the market valuation of companies, their assets, and their revenues. In addition, deflation can have an adverse effect on the creditworthiness of issuers of fixed income securities and can make issuer default more likely.

*Model Risk* – Investment analysis from models can perform differently than expected and there is no guarantee that any model will achieve its objective due to underlying factors such as not performing in line with historical trends or data. The effectiveness of models can be reduced over time as a result of changing market conditions as models are often based on historical data.

*Management Risk* – A strategy used by the investment team can fail to produce the intended results.

*Risks Related to Company Size* – Certain Confluence strategies invest in small capitalization and mid-capitalization stocks, which are often more volatile and less liquid than investments in larger companies. The frequency and volume of trading in securities of smaller and mid-size companies is often substantially less than is typical of larger companies. Therefore, the securities of smaller and mid-size companies can be subject to greater and more abrupt price fluctuations. In addition, smaller and mid-size companies can lack the management experience, financial resources, and product diversification of larger companies, making them more susceptible to market pressures and business failure.

*Equity Market Risk* – Overall stock market risks affect the value of the investments in equity strategies causing the market value of securities to move up and down, sometimes rapidly and unpredictably. These fluctuations can cause a security to be worth less than the price that was originally paid, or less than it was worth at an earlier time. Market risk can affect a single issuer, an industry, a sector of the economy, or the market as a whole. Equity markets are affected by factors such as economic growth and market conditions, interest rates, currency exchange rates, and political events in the U.S. and abroad, as well as the expectations that market participants have of those factors.

*Issuer Risk* – The value of a security can decline for a number of reasons which directly relate to the issuer, such as management performance, financial advantage, and reduced demand for the issuer’s products or services.

*Environmental, Social and Governance (“ESG”) Characteristics* – In connection with our equity strategies, clients can impose mutually agreed upon reasonable restrictions on investing in certain securities or industry sectors, which may include considering specific ESG, impact, or sustainability characteristics of a company in selecting equity securities. Confluence will consider the characteristics it deems relevant or additive when making investment decisions for a client that has imposed such restrictions. ESG considerations may affect exposure to certain companies or industries and a client imposing ESG restrictions may forego certain investment opportunities.

*Country, Industry and Market Sector Risk* – An investment strategy can result in significant over- or under-exposure to certain countries, industries, or market sectors, which can cause a portfolio’s performance to be more or less sensitive to developments affecting those countries, industries, or sectors.

*Allocation Risk* – Asset classes in which the strategy seeks investment exposure can perform differently than each other at any given time so the strategy will then be affected by its allocation among the various asset classes. If the strategy favors exposure to an asset class during a period when that class underperforms, performance can decline.

*Concentration Risk* – The risk that if an account concentrates its investments in issuers within the same country, state, industry, or economic sector, an adverse economic, business, or political development may affect the value of the account’s investments more than if its investments were not so concentrated.

*Dividend Risk* – The risk that one or more securities will not increase their dividends, will reduce their dividends, or will eliminate their dividends.

*Derivative Risk* – Options, futures, and other derivatives are riskier than other types of investments because they can be more sensitive to changes in economic and market conditions. Specifically, prices of derivative instruments can fluctuate widely and rapidly. Derivatives subject a portfolio to counterparty risk including the credit risk of the derivative counterparty. A small investment in derivatives can have a large impact on the strategy’s performance. The use of derivatives involves risks different from the risks associated with investing directly in the underlying assets.

*Risks Related to Tax-Loss Harvesting* – For accounts that elect tax-loss harvesting, this involves certain risks, including, among others, the risk that the new investment could have higher costs than the original investment and could introduce tracking error. There can also be unintended tax implications. Investors should consult with their tax or legal advisor prior to engaging in any practices of tax-loss harvesting.

*Counterparty Risk* – A counterparty to a transaction can default or fail to meet certain terms of the agreement.

*Operational Risk/Service Provider Oversight* – Confluence is subject to various operational/service provider risks. As a result, operational events can occur in connection with the management of client accounts. The firm relies on various third-party service providers. These service providers can experience disruptions or operating errors that could negatively impact Confluence. Moreover, disruptions (for example, pandemics and health crises) that cause prolonged periods of remote work or personnel absences at the service providers could impact the ability to conduct certain client account operations. While service providers are expected to have appropriate policies and procedures, their methods of operational risk management can differ in the setting of priorities, personnel, and resources available or the effectiveness of relevant controls. Confluence has a service provider oversight program to manage risks around the utilization of firms that are granted access to Confluence information or provide critical business services or software. The Confluence Technology Risk and Information Security Committee is responsible for the service provider oversight program. It is not possible for Confluence or service providers to identify all of the operational risks that affect client accounts or to develop processes and controls to completely eliminate or mitigate their occurrence or effects.

*Cybersecurity/Information Security Risks* – Cybersecurity is a term used to describe the technology, processes, and practices designed to protect networks, systems, computers, programs, and data from “hacking” by other computer users, other unauthorized access, denial of service, or malicious acts targeting networks, systems, computers, programs, and data and the resulting damage and disruption of hardware and software systems, loss or corruption of data or business as well as misappropriation of confidential information. Information security risks are significant, in part, because of new technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists, and other external parties, including foreign state actors. A breach of security also can adversely affect the ability to effect transactions, service clients, and manage exposure to risk. Cyberattacks include, among other items, stealing or corrupting data maintained online or digitally, gaining unauthorized access to or releasing confidential information, shutting down systems through denial-of-service attacks, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption. Successful cyberattacks against Confluence or third-party service providers could cause systems to fail, not operate properly or become disabled, overloaded, or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, which could have a negative effect on our ability to conduct business activities. If Confluence fails to continue to upgrade technology infrastructure to ensure effective cybersecurity relative to the type, size, and complexity of operations, the firm could become more vulnerable to cyberattack(s).

While the firm employs resources to protect assets and personally identifiable information, the firm cannot guarantee the protection of all such information, nor assure against all related losses in consideration of the real and evolving cybersecurity risks. An event that results in the loss of information would require the firm to reconstruct lost data or reimburse clients for data and credit monitoring services, which could be costly and have a negative impact on our business and reputation. Further, even if not directed at the firm, attacks on financial or other institutions important to the overall functioning of the financial system or on counterparties could affect, directly or indirectly, aspects of Confluence’s business. If a cybersecurity breach were to occur, Confluence would incur substantial costs, including those associated with forensic analysis of the origin and scope of the breach, increased

and upgraded cybersecurity, investment losses from sabotaged trading systems, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information, and reputational damage. The techniques to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and can be difficult to detect for long periods of time.

Confluence maintains a business continuity/disaster recovery and incident response plan designed to reasonably ensure the essential business functions of the firm are promptly restored in the event of a disaster event/incident. While the firm strives to establish and maintain comprehensive processes, the firm cannot ensure it will be able to continue business operations in the event of every disaster event, given the unknown nature and scope of future disaster events, which could include floods, fires, tornadoes, hurricanes, earthquakes, acts of war, terrorism, accidents, and sabotage.

Due to the firm's interconnectivity with third-party vendors, advisers, and financial institutions, the firm would be adversely affected if any of them are subject to a successful cyberattack or other information security event, including those arising due to the use of mobile technology or a third-party cloud environment. The firm routinely transmits and receives personal, confidential, or proprietary information by email and other electronic means. The firm collaborates with clients and third parties to develop effective transmission capabilities.

*Force Majeure* – Investments can be affected by force majeure events (i.e., events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of an infectious disease, pandemic or any other serious public health concern, war, terrorism, labor strikes, major plant breakdowns, pipeline or electricity line ruptures, failure of technology, defective design and construction, accidents, demographic changes, government macroeconomic policies, social instability, etc.).

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that have occurred in the last 10 years that would be material to a client's or prospective client's evaluation of Confluence or the integrity of Confluence's management. Confluence has no information applicable to this item to disclose.

### **Item 10 – Other Financial Industry Activities and Affiliations**

Confluence professionals from time to time assist other financial services organizations through providing advisory services for which they can be remunerated. These outside business activities are vetted by management prior to their involvement and are routinely reviewed to ensure Confluence clients are not disadvantaged.

Mark Keller, CEO and Chief Investment Officer of Confluence, is a member of the board of directors of Benjamin Edwards, Inc. ("BEI"), the holding company of Benjamin F. Edwards & Company ("BFEC") and Edwards Wealth Management ("EWM"). Mr. Keller has a private investment in the equity securities of BEI. Although he has no day-to-day decision-making responsibilities for BEI, as a member of their board of directors he is involved in the development of strategy, policy, and other important matters

affecting the firm. Confluence offers its discretionary and non-discretionary investment advisory services to BFEC, EWM, and their clients, as described above under Item 4 of this Brochure, titled Advisory Business. As part of Mr. Keller's professional responsibilities with Confluence, he is involved in making investment decisions concerning portfolios of individual clients of BFEC and EWM. BFEC and EWM and their representatives do not receive any additional or different sales compensation in connection with recommendations to clients concerning Confluence versus any Financial Institution in comparable circumstances. Confluence and Mr. Keller do not receive any additional compensation in connection with client investments placed with Confluence through BFEC and EWM due to Mr. Keller's position on the board. Mr. Keller is compensated for his service as a board member of BEI on the same terms as other independent board members.

Brian Hansen, President and Chief Operating Officer of Confluence, is the sole owner of Hansen Investment Partners LLC ("HIP"). HIP provides non-investment advisory services to corporate clients for which it receives fixed fees. HIP and Confluence have a mutual client: First Trust Portfolios L.P. ("First Trust"), a Financial Institution for which Confluence provides discretionary portfolio management and investment advisory services by acting as a sub-advisor to an actively managed exchange-traded fund for which an affiliate of First Trust serves as investment adviser. Additionally, the Confluence Growth & Income Alpha strategy includes allocations to certain First Trust-sponsored ETFs. Confluence will from time to time provide services to First Trust in connection with the creation and supervision of unit investment trust portfolios sponsored by First Trust.

Mr. Hansen is also a board member and investment committee member of certain religious organizations. These organizations engage consultants to evaluate investment managers, such as Confluence, for management of the organization's investments. These consultants also may engage Confluence to manage their clients' investments. Mr. Hansen is not the sole decision-maker when a board decides to retain a consultant or an investment manager.

Certain Confluence investment personnel can hold board positions with private companies. As a general matter, Confluence does not invest in these private companies and maintains insider trading and code of ethics procedures to address potential conflicts.

### **Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

Pursuant to SEC Rule 204A-1 under the Advisers Act, Confluence has adopted a Code of Ethics for personnel describing its high standards of business conduct, conflicts of interest, and fiduciary duties to clients. The Code of Ethics is designed to reinforce Confluence's commitment to integrity by placing the interests of clients first and to ensure compliance with federal securities laws. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on political contributions, personal trading, outside business activities, and gifts and entertainment. Personnel are prohibited from providing or receiving gifts or entertainment that could be considered excessive or inappropriate or are intended to influence a recipient. Personnel at Confluence must acknowledge the Code of Ethics annually and compliance with the Code of Ethics is a condition of employment. A serious violation of the Code of Ethics or related policies could result in dismissal. A copy of the Code of Ethics will be provided to any client or prospective client upon request. The Code of Ethics is distributed to personnel upon hire and at least annually thereafter.

**PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**

Confluence permits its personnel to engage in personal securities transactions. A personal securities transaction by an employee raises a potential conflict of interest if an employee trades in a security that is considered for purchase or sale for an investment strategy managed by Confluence. The Code of Ethics is designed to ensure that those persons at the firm who are responsible for developing or implementing our investment advice or who provide the investment advice to clients are not able to act thereon to the disadvantage of clients. The Code of Ethics requires personnel to put clients' interests ahead of their own and to report personal securities transactions. In most circumstances, personal securities transactions are required to be pre-approved. The Code of Ethics further prohibits Confluence's personnel from using any material, non-public information in securities trading. Confluence and its personnel provide initial funding for establishing new investment strategies that will subsequently be offered to clients. Although Confluence will seek to manage such strategies in a manner substantially the same as if such strategies had opened for investment to clients, no assurance can be given that the investment performance of such strategies will be the same than if such strategies had been more widely available for investment by clients.

It is Confluence's current policy that the firm will generally not affect any principal or agency cross securities transactions for client accounts. Cross trades between client accounts are allowed in limited circumstances when in the best interests of the client and are properly documented with all parties.

Confluence will compensate consultants, turnkey asset management providers/data platforms, Financial Institutions, and/or Financial Advisors to participate in and sponsor conferences, webinars, training and educational seminars, meetings, meals, entertainment, events, or other functions, and for financial advisor data and other analytics.

Confluence personnel will attend educational seminars and events hosted by consultants, vendors, turnkey asset management providers, Financial Institutions, or outside parties. These entities often pay for reasonable travel, lodging, and other expenses related to the event. These activities create conflicts of interest as Confluence will have an incentive to use firms that participate in the activities above. Confluence does not consider these benefits provided by outside parties when selecting investment products for client portfolios.

**PUBLIC OFFERING PARTICIPATION**

From time to time, Confluence is presented, in connection with its discretionary portfolio management and investment advisory services, with opportunities to participate in public offerings of securities. Certain Confluence clients, including those in certain Wrap Accounts, are often prohibited from participating in such offerings by their respective Financial Institution. Certain other clients are unable to participate in such offerings if their respective Financial Institution did not participate in the initial distribution of securities in such offering, depending on their particular Financial Institution or Custodian. Public offerings are generally allocated pro-rata among eligible accounts. Accordingly, Confluence's policy is to not purchase shares in such public offerings for Wrap Accounts. In contrast, the funds for which Confluence serves as sub-adviser and institutional clients are not similarly restricted and are therefore allowed to participate in public offerings.

**Item 12 – Brokerage Practices**

As described under Item 4 of this Brochure, titled Advisory Business, Confluence offers portfolio management services on either a “discretionary” or a “non-discretionary” basis.

In a discretionary account (typically referred to as an SMA), at the outset of the contractual relationship, Confluence is granted the authority by a client to determine the securities or other assets to purchase or sell in the account. This discretion will remain in effect unless revoked by the client or their Financial Advisor (on client’s behalf). Confluence will monitor the SMA and will purchase and sell securities and other assets in the account consistent with the investment strategy or strategies selected by the client or the Financial Advisor (on client’s behalf) as part of the overall investment plan (subject to any reasonable restrictions provided in writing to Confluence).

In a non-discretionary account, Confluence makes recommendations to the Financial Advisor or Financial Institution concerning securities and other assets, but Confluence does not have the authority to implement such recommendations. Rather, the Financial Advisor or Financial Institution (on client’s behalf) have the sole authority to determine whether securities or other assets in the account are purchased or sold in accordance with the Confluence recommendations and to determine the Financial Institutions through which such transactions are implemented. Accordingly, Confluence is not involved in the selection of the Financial Institutions through which transactions are implemented. Non-discretionary accounts also include those for which Confluence supervises the securities or other assets in the account without any discretionary authority.

**FACTORS USED TO SELECT BROKER-DEALERS FOR DISCRETIONARY ACCOUNTS**

For discretionary client accounts in which Confluence has discretion to select broker/dealers to execute purchase and sale transactions, Confluence is responsible for the execution of the client’s transactions, the negotiation of the commissions to be paid on brokered transactions, and the allocation of portfolio brokerage and dealer business. Confluence selects broker-dealers to execute transactions on behalf of clients with the broker-dealer that Confluence believes is most qualified to handle a trade for a specific security. This applies to accounts over which Confluence has brokerage discretion but does not apply to clients who instruct Confluence to use a particular broker-dealer or participate in Wrap Accounts. The Confluence Best Execution/Trading Committee is currently responsible for monitoring broker-dealers selected by Confluence, including evaluation of execution quality and approving the use of each broker-dealer prior to initiating trading. The research provided by each broker is reviewed by members of the committee.

As a matter of policy, Confluence seeks to obtain the best overall qualitative execution for transactions given the particular circumstances of the transaction. The determinative factor is not necessarily the lowest possible commission cost, but whether the transaction represents the best qualitative execution. When executing client orders in such instances, Confluence will consider a range of execution factors. The best execution responsibility applies to the circumstances of each particular transaction and Confluence considers the full range and quality of a broker-dealer’s services, including execution capability, costs/commission rates, value of any research provided to Confluence, price at which the transaction is executed, financial responsibility, speed/likelihood of execution, speed/likelihood of settlement, size/nature of order, operational efficiency, ability to effect transactions in less liquid,

smaller capitalized or closely held issues, responsiveness, and any other consideration relating to the execution of the order.

Confluence recommends that clients choose their own Financial Advisor and Financial Institution. If requested by a client, Confluence could provide a recommendation. Confluence does not take possession of or custody client assets and is not affiliated with any Custodian. The services provided by any Custodian so recommended by Confluence are not contingent upon Confluence committing to such Custodian any specific amount of business (assets in custody or trading).

When broker-dealers are selected on the basis of their research services, Confluence can negotiate commissions that can be higher than for "execution only" transactions but are nevertheless deemed reasonable in light of the value of such services provided, viewed in terms of either a particular transaction or the overall responsibilities of Confluence as to the accounts over which it exercises investment discretion.

### **DIRECTED/DESIGNATED BROKERAGE FOR DISCRETIONARY ACCOUNTS**

Clients in a Wrap Account or with a discretionary account in certain UMA programs are generally charged a bundled fee or fees by the Financial Institution sponsoring the program ("Sponsor"), typically based on a percentage of the market value of the assets in the Wrap Account or UMA. The bundled fee or fees generally covers charges for custody services, brokerage commissions, investment management, and other services as negotiated between the client and the Sponsor. Because of this, Confluence cannot negotiate commissions and cannot assure best execution. Confluence will generally place trades for clients in Wrap Account and UMA programs with the Sponsor of the program. In general, Confluence has determined that it is in the client's best interests to trade with the Sponsor, in consideration of the cost to trade through a different broker/dealer. Select Sponsors assess clients a trade away fee for trades not executed through the Sponsor. However, Confluence will trade away if we are able and believe we can obtain a better price for the client inclusive of any commissions or additional costs for a particular trade at another broker-dealer.

Discretionary account clients also can instruct Confluence to use a designated broker-dealer ("Designated Broker") for all or a portion of the transactions in their accounts. Such requests are evaluated on a case-by-case basis. Confluence cannot assure best execution on trades for client accounts when instructed to use a Designated Broker.

### **RESEARCH AND OTHER SOFT DOLLAR/COMMISSION SHARING BENEFITS**

Confluence seeks to conduct the trading for client accounts within the safe harbor or Section 28(e) of the Securities Exchange Act of 1934, which allows and provides a "safe harbor" for discretionary investment advisers to pay an increased commission, above what another broker-dealer would charge for executing a transaction, for eligible research and brokerage services, provided the adviser has made a good faith determination that the value of the research and brokerage services qualifies as reasonable in relation to the amount of commissions paid. Confluence utilizes client commissions to purchase eligible research and brokerage services when those services provide lawful and appropriate assistance in the investment decision-making process, and the amount of the client commission is reasonable in relation to the value of the products or services provided. Brokerage services within the safe harbor are broadly defined as those products and services that relate to the execution of the trade

from the point at which the adviser communicates with the broker-dealer for the purpose of transmitting an order for execution, through the point at which funds or securities are delivered.

Confluence receives research and brokerage services for both research/brokerage and non-research/brokerage purposes. In such instances, Confluence makes a good faith effort to determine the relative proportion of the products and services used. The proportion of the products and services attributable to research/brokerage purposes will be paid through brokerage commissions generated by client transactions, while the proportion attributable to non-research/brokerage purposes will be paid for or reimbursed by Confluence. Receipt of "mixed-use" products and services and the determination of an appropriate allocation between research/brokerage and non-research/brokerage purposes create a conflict of interest between Confluence and its clients. Only certain client transactions are used to generate soft dollars; however, most clients receive the benefit. Additionally, the research and brokerage services are not allocated to client accounts proportionately to the credits that the accounts generate.

The receipt of research and brokerage services by Confluence results in a conflict of interest given Confluence's discretion to select broker-dealers to trade for certain clients. When Confluence uses client brokerage commissions to obtain research and brokerage services, the firm receives a benefit because it does not need to pay for the research or brokerage services itself. As a result, Confluence can have an incentive to select a particular broker-dealer in order to obtain research, commission sharing arrangement payments or brokerage services from that broker-dealer rather than to obtain the lowest price for execution. Confluence seeks to mitigate this conflict by ensuring that the selection of trading firms is based on best execution (as described above) and by periodically assessing the services of the brokers. Confluence reviews conflicts associated with soft dollars/commission sharing arrangements.

Soft dollar credits are not used to offset losses from trading errors. Confluence can receive unsolicited research from firms used for execution. Confluence does not consider such unsolicited items as soft dollar research.

### **TRADE ORDER AGGREGATION AND ALLOCATION**

As described above, portfolio transactions in client accounts are executed through broker/dealers selected by Confluence (in the case of discretionary accounts for which Confluence has discretion to select broker/dealers), through Sponsors of Wrap Accounts and UMA discretionary accounts, through Designated Brokers selected by the client in a discretionary account, or by the Financial Institution with which Confluence has a non-discretionary or model or UMA portfolio account (collectively, "Eligible Broker/Dealers"). Confluence has developed policies with respect to the aggregation of trade orders and the allocations of trade execution among eligible broker/dealers, which we believe to be fair and equitable to clients. In some cases, however, these policies could have an adverse effect on the price or the amount of securities available to a client.

**AGGREGATION AND ALLOCATION OF TRADES**

For those discretionary accounts for which Confluence has discretion to select broker/dealers, Confluence seeks to aggregate trades for client accounts within a strategy or across multiple strategies (if multiple strategies are transacting in the same security) and enter trades in a single block order when we believe it is in the clients' best interests. Trades for discretionary UMA programs are aggregated by the Sponsor. It is Confluence's policy to allocate trades in a fair and equitable manner and the firm generally will allocate pro-rata. However, in the event of a partial fill of an aggregated order, Confluence can choose a random allocation process.

Depending on a portfolio manager's process for making investment decisions for a strategy and reviewing accounts (including the investment restrictions and cash availability in each account), a portfolio manager can place an order to purchase or sell a security for an account or group of accounts before or after an order for the same security for another account or group of accounts. If this occurs, the first order could be fully executed before the subsequent order is received for execution, in which case the subsequent order would not be aggregated and may not receive the same price as the first order.

Confluence typically does not have trading discretion over non-discretionary accounts, such as model portfolio accounts, and such accounts that are not eligible under our trade aggregation policies. Certain Financial Institutions that are model account clients may request that we assist in the implementation and execution of trades in such model accounts through such Financial Institution.

*Asset Allocation Strategies; Fixed Income Strategies; Balanced Strategies (Fixed Income Portion); International and Global Equity Strategies (International Portion); Sector-Specific Strategies; and Alternative Strategies*

As described above under Item 8, titled Methods of Analysis, Investment Strategies, and Risk of Loss, Confluence's Asset Allocation strategies, Fixed Income strategies, and the fixed income portion of the Balanced accounts are implemented, for both discretionary SMAs and non-discretionary model accounts, using ETFs. International and Global Equity strategies and certain Alternative strategies are typically implemented using mostly equity securities but may also contain ETFs. All client accounts within a particular investment strategy are generally treated alike with regard to the investment decisions made for that strategy. Confluence uses a rotational process to alternate the trading order between discretionary and non-discretionary accounts and utilizes a random generator to determine the rotation among Eligible Broker/Dealers within each group.

*Value Equity Strategies; Balanced Strategies (Equity Portion); Global Equity Strategies (Domestic Portion); and Alternative Strategies*

As described above under Item 8, titled Methods of Analysis, Investment Strategies, and Risk of Loss, our domestic Value Equity strategies, the equity portion of the Balanced accounts, the domestic portion of the Global Equity strategies, and sector-specific strategies for both discretionary SMAs and non-discretionary model accounts, are implemented using equity securities of U.S. issuers and U.S.-listed securities of non-U.S. issuers. All or a portion of certain Alternative strategies (such as the Global Hard Assets strategy) can be implemented using ETFs. All client accounts within a particular investment strategy are generally treated alike with regard to the investment decisions made for that strategy.

When Confluence determines to implement a portfolio change within such a strategy for such discretionary accounts, Confluence utilizes a random generator to alternate the trading order among Eligible Broker/Dealers with respect to such discretionary accounts which can include discretionary accounts for which Confluence does not have trading authority. In such a circumstance, Confluence may determine to provide notification to the respective Eligible Broker/Dealer and continue with the trade order, in which case Confluence will be trading concurrently with such Eligible Broker/Dealer. Alternatively, Confluence may determine to wait for trade confirmation from such Eligible Broker/Dealer before continuing with the trade rotation. Financial Institutions with which we have non-discretionary accounts are notified using a random method of purchase and sale recommendations after the execution of discretionary trades as described above.

There will be circumstances that cause a particular eligible broker/dealer to not be able to receive trade instructions in accordance with Confluence's trade rotation which will result in such entities moving to the end of the rotation. In such circumstances, such entities can receive different and perhaps less favorable prices for their transactions than they would have had such entities been able to receive the trade instructions in the original trade rotation. Trade aggregation and allocations may differ in the case of a major market or economic disruption.

Although Confluence takes reasonable steps to avoid errors, occasionally errors do occur. It is our policy that errors be identified and resolved promptly and in a manner consistent with Confluence's fiduciary duty.

### **Item 13 – Review of Accounts**

Investment and operations personnel review discretionary account portfolios on a regular basis to ensure that investments are made in conformity with information regarding a client's investment objectives provided to Confluence by the client's Financial Advisor. Reviews are made in light of such investment objectives, applicable economic or monetary developments, overall conditions in various markets, and specific market and related developments affecting individual securities. Additionally, oversight of other investment and trading activities is provided by various Confluence committees.

Beginning in 2026, Confluence will no longer include portfolio appraisals in the quarterly mailing for dual contact clients. If you would like to continue receiving quarterly portfolio appraisals, please email [info@confluenceim.com](mailto:info@confluenceim.com). Investment commentary letters and additional information are periodically provided to clients.

### **Item 14 – Client Referrals and Other Compensation**

Confluence does not currently compensate third-party solicitors or engage independent contractors for client referrals. Solicitors are broadly defined as persons/firms who receive compensation for directly or indirectly soliciting clients for, or referring clients to, an investment adviser.

### **Item 15 – Custody**

Other than obtaining authorization for deducting investment management fees, Confluence does not take possession of client assets, and all discretionary and non-discretionary assets are held with the Custodian selected by the client. Clients should receive statements at least quarterly from the

Custodian that holds and maintains the client's investment assets. Confluence reconciles accounts with custodial records and urges clients to carefully review such statements.

### **Item 16 – Investment Discretion**

For discretionary accounts, Confluence usually receives discretionary authority from the client or the Financial Advisor (on client's behalf) at the outset of an advisory relationship to select securities and amount to be bought or sold. This discretion will remain in effect unless revoked by the client or their Financial Advisor (on client's behalf). In all cases, however, such discretion is to be exercised in a manner consistent with the information regarding a client's investment objectives provided to Confluence by the client's Financial Advisor for the particular client account.

When selecting securities and determining amounts to purchase or sell, Confluence observes the investment policies, limitations, and restrictions provided by the client or the Financial Advisor (on client's behalf). Clients are able to restrict certain types of securities for social responsibility investing purposes or specific securities for other reasons. Investment guidelines and restrictions must be provided to Confluence in writing. Restrictions will affect the performance of the account, either positively or negatively. Additionally, accounts with restrictions will result in performance dispersion due to the security holdings and cash levels differing from other accounts in the same strategy. For registered investment companies, Confluence's authority to trade securities can also be limited by certain federal securities and tax laws that require diversification of investments.

Confluence does not have trading discretion over non-discretionary accounts, including certain UMA and model accounts.

### **Item 17 – Voting Client Securities**

For discretionary accounts, unless otherwise directed by the client or Financial Advisor (on the client's behalf), Confluence is responsible for voting proxies with respect to securities held in discretionary account portfolios. Confluence also has been delegated the responsibility for voting proxies with respect to portfolio securities held by the mutual fund and closed-end fund for which Confluence acts a sub-adviser. Confluence has adopted and implemented a policy which it believes is reasonably designed so that proxies are voted in the best interests of its clients. In pursuing this policy, proxies are voted in a manner that seeks to maximize value to its clients. Confluence maintains such records as required in connection with such activity. Confluence utilizes Broadridge Financial Solutions, Inc., a service provider to the global financial industry, to vote, coordinate, process, manage, and maintain the majority of electronic records of Confluence's proxy votes. Proxy statements received are voted using a custom Confluence template, which is based off the Broadridge Proxy Policies and Insights Shareholder Value Template ("Proxy Policies and Insights"). Proxy Policies and Insights seeks to maximize shareholder value in proxy voting and is created using voting trends of large, top fund families that seek to maximize shareholder value. Proxy Policies and Insights produces data-driven voting guidelines that reflect majority voting trends based on logic described in the Proxy Policies and Insights. Confluence will override these recommendations in the event Confluence determines that shareholder value is best served by voting differently than what management or the Proxy Policies and Insights might recommend. Additionally, Confluence may determine not to vote a particular proxy if the costs and burdens exceed the benefits of voting or if a determination is made that not voting is in

the best interests of the client. Confluence is generally responsible for responding to any corporate actions as well as addressing any proxy ballot issues for which a recommendation is not provided by Proxy Policies and Insights.

For the proxy statements of the FT Confluence BDC & Specialty Finance Income ETF, the Confluence Proxy Voting Policy is to vote such proxies in the same proportion as the vote of all other shareholders of the ETF (i.e., "echo vote" or "mirror vote").

Upon request, Confluence will provide the client with a copy of its Proxy Voting Policy as well as information concerning the voting of securities in such discretionary account portfolios. Confluence will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held in the client's account(s), including, but not limited to, the filing of "Proofs of Claim" in class action settlements. The Confluence Proxy Committee governs the proxy process, policy, and template. Confluence does not instruct or give advice to its clients on whether or not to participate in class actions.

### **Item 18 – Financial Information**

Confluence fees are generally payable quarterly in advance, although certain Wrap Sponsor firms bill fees in arrears. Confluence does not require such advance payment six months or more in advance of more than \$1,200 in fees per client. Confluence does not currently believe nor foresee any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients. Confluence has not been the subject of a bankruptcy petition.