

# Fixed Income (Tax-Exempt)

## Objective

First Quarter 2026

Invests in municipal bond Exchange Traded Funds (ETFs), diversified across maturities and a wide variety of municipalities. These ETFs produce income generally exempt from federal income taxes. Strives to deliver the income and lower volatility traditionally available from a diversified municipal bond portfolio.

## Investment Philosophy

Fixed Income Tax-Exempt invests in municipal bond ETFs with domestically oriented, investment-grade benchmarks. These ETFs produce income that is generally exempt from federal income taxes. The investment approach incorporates ETFs with a national, not state-specific, posture. It is constructed to have characteristics similar to a traditional, laddered bond portfolio. The Confluence Fixed Income Strategy Committee may adjust the portfolio duration and maturity to be longer, shorter, or in line with the benchmark. The investment committee incorporates its viewpoints regarding Fed policy, the shape of the yield curve, relative yields, credit spreads, default rates, and other market factors into the portfolio construction process.

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

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

## Overview

- Uses high-quality ETFs following investment-grade benchmarks with domestic orientation that provide income exempt from federal income tax
- Similar characteristics to traditional bond ladder or diversified bond index by combining use of maturity-date ETFs with traditional fixed income ETFs
- Allocations incorporate viewpoints on Fed policy, yield curve shape, relative yields, credit spreads, default rates, etc.
- Nationally diversified across maturities and municipalities; not managed on a state-specific basis
- Available as a standalone portfolio or in a Confluence Balanced account combined with value equity strategy
- Strategy assets: \$2.9 million<sup>1</sup>

<sup>1</sup>Total strategy assets include \$0.5 million assets under management (AUM) and \$2.4 million assets under advisement (AUA); as of 6/30/2025.

## Current Holdings<sup>2</sup>

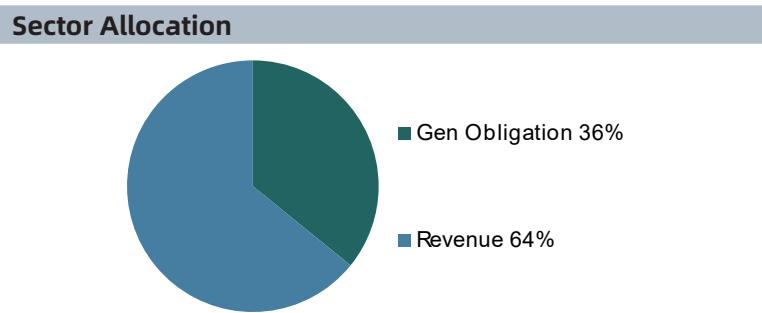
(As of 1/27/2026 rebalance)

Characteristics	Weighted Average
SEC Yield	3.3%
Tax-Equivalent SEC Distribution	
Yield Estimate*	5.1%
<small>*Assumes Federal Income Tax Rate of 35%</small>	
Duration	6.6
Maturity	12.4
ETF Expense Ratio	0.17%

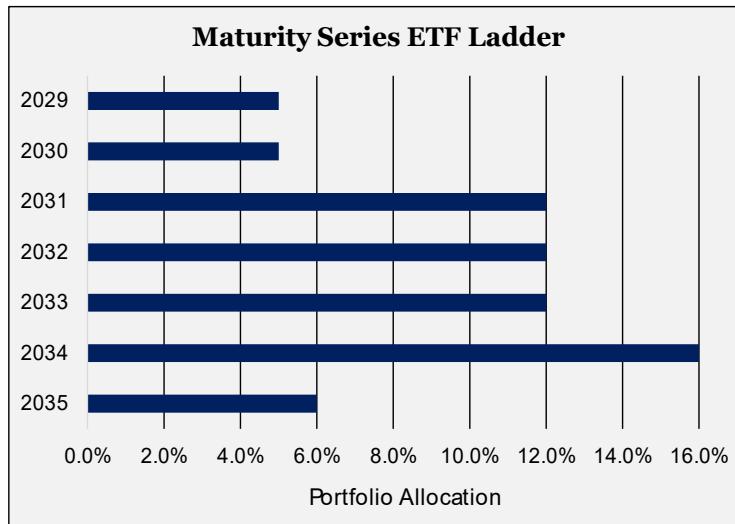
Ratings Categories	Weight
AAA	20.0%
AA	61.6%
A	16.5%
BBB	1.9%
BB or Below	0%

See GIPS Report on page 3

5 Largest Holdings	Weight
Dimensional National Municipal Bond ETF - DFNM	21.0%
Invesco BulletShares 2034 Municipal Bond ETF - BSMY	16.0%
Invesco BulletShares 2033 Municipal Bond ETF - BSSX	12.0%
Invesco BulletShares 2032 Municipal Bond ETF - BSMW	12.0%
Invesco BulletShares 2031 Municipal Bond ETF - BSMV	12.0%



## Maturity Series ETF Profile



Fixed Income Tax-Exempt utilizes a portfolio structure similar to that of a "bond ladder," a tactic often used when purchasing individual bonds. With our approach, we instead create a ladder of maturity-series ETFs. These ETFs hold large pools of bonds that mature near to, but always before, a specified end date. Accordingly, with the passage of time, the average maturity of this kind of ETF naturally shortens, thereby replicating some characteristics of an individual bond. It's not exactly the same, particularly because it doesn't mature at a par value. However, the maturity-series ETF has more credit risk diversification, while oftentimes also providing liquidity improvement, relative to an individual bond.

The strategy has ladder "rungs" from end dates ranging between 2029 and 2035. We believe this laddered approach positions investors to participate in a wider range of yields, while also providing a mechanism to help address the risk of rising interest rates. If rates were to rise, the shortest "rung" could be sold, or allowed to reach its end date. The proceeds could then be redeployed into a longer "rung," one with a higher yield.

## Market Observations & Recent Portfolio Changes<sup>3</sup>

- The municipal bond market and the Confluence Fixed Income Tax-Exempt strategy delivered solid returns in 2025.
- Solid fundamentals aided municipals during a period of challenges stemming from changes in federal funding and the government shutdown.
- Municipal yields relative to Treasurys compressed modestly throughout the year.
- We favor a laddered exposure in intermediate maturities to deliver attractive yields, while avoiding high levels of reinvestment risk in shorter bonds and interest rate risk in longer bonds.
- Portfolio duration of 6.6 years is slightly shorter than the benchmark duration of 6.7 years.

The Confluence Fixed Income Tax-Exempt strategy's gross return in the fourth quarter was 1.3%, which was shy of the benchmark's return of 1.6%. For the entire year, the portfolio delivered a return of 3.7% (gross of fees), which underperformed the benchmark return of 4.2%. [The strategy's net-of-fees returns for the same periods were 0.6% QTD and 0.6% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]

The fourth quarter wrapped up a solid year for the municipal bond market and the strategy. The financial markets had to work through a variety of challenges, some of which appeared suddenly and many of which rapidly dissipated, while bonds provided low volatility, steady performance, and mid-single-digit yields that were well above inflation. Furthermore, the correlation with equities generally declined over the year, allowing investors who combined stocks with bonds to benefit from diversification.

Through the first half of the year, the portfolio benefited from a shorter duration to the benchmark and an overweight to essential services revenue bonds. The amount of uncertainty regarding federal tax policy, especially the limits on state and local tax (SALT) deductions, favored essential services. Following approval of the tax legislation on July 4, general obligation (GO) bonds held greater allure for investors, leading us to elevate our GOs to an even-weight in the portfolio. However, maintaining a shorter duration relative to the benchmark detracted during the rally that the municipal market enjoyed over the past six months.

Looking forward, the portfolio remains even weight to GOs and revenue bonds as we find strong fundamentals in the former through solid tax bases and ample rainy day funds as well as revenue support in a growing economy. We maintain a laddered exposure with an intermediate-maturity focus, creating an overall portfolio duration of 6.6 years, which is a bit shorter than the benchmark duration of 6.7 years. This posture lowers exposure to declining short-term yields as the Fed eases, while limiting exposure to interest rate risk in longer maturities. We believe that municipal bonds, through a profile of low volatility and low correlation to other asset classes, should continue to deliver attractive after-tax yields that are above inflation.

## Confluence Fixed Income Strategy Committee

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See [Territory Map](#) on the Confluence website for sales coverage

## Performance Composite Returns<sup>4</sup> (For periods ending December 31, 2025)

		Since Inception**	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD	
Fixed Income Tax-Exempt		1.6%	1.8%	1.4%	(0.1%)	3.4%	3.7%	3.7%	1.3%	
Pure Gross-Of-Fees <sup>5</sup>										
Max Net-Of Fees <sup>6</sup>		(1.5%)	(1.2%)	(1.6%)	(3.0%)	0.3%	0.6%	0.6%	0.6%	
Benchmark (BB-Muni)		3.0%	3.3%	2.3%	0.8%	3.9%	4.2%	4.2%	1.6%	
Calendar Year	Pure Gross-Of-Fees <sup>5</sup>	Max Net-Of-Fees <sup>6</sup>	Benchmark (BB-Muni)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2010**	(3.4%)	(4.1%)	(4.2%)	0.8%	1	\$48	\$751,909	N/A	N/A	N/A
2011	6.5%	3.3%	10.7%	(4.2%)	1	\$51	\$937,487	N/A	N/A	N/A
2012	2.0%	(1.0%)	6.8%	(4.8%)	1	\$52	\$1,272,265	N/A	N/A	N/A
2013	(1.1%)	(4.1%)	(2.6%)	1.4%	1	\$52	\$1,955,915	2.4%	4.0%	N/A
2014	4.0%	0.9%	9.1%	(5.1%)	3	\$600	\$2,589,024	2.2%	3.7%	N/A
2015	1.9%	(1.2%)	3.3%	(1.4%)	4	\$2,678	\$3,175,419	2.1%	3.4%	0.0%
2016	(0.8%)	(3.8%)	0.2%	(1.1%)	5	\$2,983	\$4,413,659	3.3%	3.4%	0.1%
2017	4.1%	1.0%	5.4%	(1.3%)	5	\$3,073	\$5,944,479	3.4%	3.3%	0.0%
2018	0.8%	(2.2%)	1.3%	(0.4%)	4	\$2,961	\$5,486,737	3.5%	3.4%	0.0%
2019	5.5%	2.4%	7.5%	(2.0%)	3	\$2,931	\$7,044,708	2.2%	2.4%	0.0%
2020	5.4%	2.3%	5.2%	0.2%	3	\$3,210	\$6,889,798	3.9%	4.0%	0.0%
2021	0.8%	(2.2%)	1.5%	(0.7%)	3	\$3,274	\$7,761,687	4.0%	3.9%	0.0%
2022	(10.6%)	(13.2%)	(8.5%)	(2.0%)	2	\$513	\$6,931,635	6.3%	6.4%	0.0%
2023	5.4%	2.2%	6.4%	(1.0%)	2	\$536	\$7,200,019	6.3%	7.4%	0.0%
2024	1.1%	(1.9%)	1.1%	0.1%	2	\$407	\$7,280,773	6.3%	7.6%	0.0%
2025	3.7%	0.6%	4.2%	(0.6%)	2	\$461	\$6,769,052	4.0%	5.8%	0.0%

\*Average annualized returns

\*\*Inception is 10/1/2010

**Portfolio Benchmark:** BB-Muni - Bloomberg Municipal Bond Index (Source: Bloomberg)

## Disclosures

**2 Current Portfolio**—Sector allocations shown represent the model portfolio as of 1/27/26 and do not represent the precise allocation in an actual client account. Allocations in client accounts may vary based on individual client considerations and market fluctuations. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. Individual client portfolios may differ, sometimes significantly, from these listings. Yield data source: Morningstar; 30-day SEC yield of the model portfolio as of 1/27/26. Duration and maturity figures shown are based on all holdings in the model portfolio as of the rebalance date. ETF expense ratio is the weighted average expense based upon the holdings as of the date shown. ETF expense ratio is in addition to Confluence management fees. Rating categories reflect S&P ratings; source: Morningstar.

**3 Market Observations & Recent Portfolio Changes**—The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Opinions expressed are current as of the date shown and are subject to change.

**4 Performance Composite Returns**—Confluence Investment Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The Fixed Income Tax-Exempt strategy was inception on October 1, 2010, and the current Fixed Income Tax-Exempt Composite was created on May 1, 2014. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

**5** Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

**6** Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.40% on the first \$500,000; 0.35% on the next \$500,000; and 0.30% over \$1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Subsequent to May 1, 2014, bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

Performance prior to May 1, 2014, is based on the Fixed Income Tax-Exempt-Direct Composite which was created on October 1, 2010. The Fixed Income Tax-Exempt-Direct Composite includes accounts that pursue the Fixed Income Tax-Exempt strategy, but do not have bundled fees. Gross returns from the Fixed Income Tax-Exempt-Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Fixed Income Tax-Exempt Composite contains fully discretionary Fixed Income Tax-Exempt wrap accounts. The Fixed Income Tax-Exempt portfolio utilizes bond ETFs to earn tax-exempt income.

\*\*Results shown for the year 2010 represent partial period performance from October 1, 2010, through December 31, 2010. N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.