Fixed Income (Tax-Exempt)

Second Quarter 2021

Objective

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 & Process

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 and its benchmark is the ICE BofA U.S. Municipal Securities Index. The Confluence Fixed Income Strategy Committee may adjust the portfolio duration and maturity to be longer, shorter or in line with this benchmark. The investment committee 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 investment 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 equity strategies in one portfolio.

Overview

- Strives to deliver income and lower volatility traditionally available from a diversified municipal bond portfolio
- 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 Balanced accounts combined with equity strategy

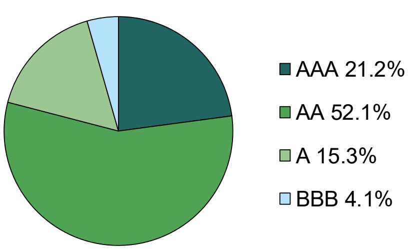
Characteristics[1] (Weighted Average)

SEC Yield	1.1%
Tax-Equivalent SEC Distribution Yield Estimate* **Assumes Federal Income Tax Rate of 35%*	1.6%
Duration	6.6
Maturity	10.4
ETF Expense Ratio	0.18%

5 Largest Holdings[1]

VanEck Vectors AMT-Free Long Muni ETF - MLN	27.0%
iShares iBonds Dec 2028 Term Muni Bd ETF - IBMQ	10.0%
iShares iBonds Dec 2027 Term Muni Bd ETF - IBMP	9.0%
Xtrackers Municipal Infras Rev Bd ETF - RVNU	7.0%
iShares iBonds Dec 2026 Term Muni Bd ETF - IBMO	7.0%

Rating Categories[1]

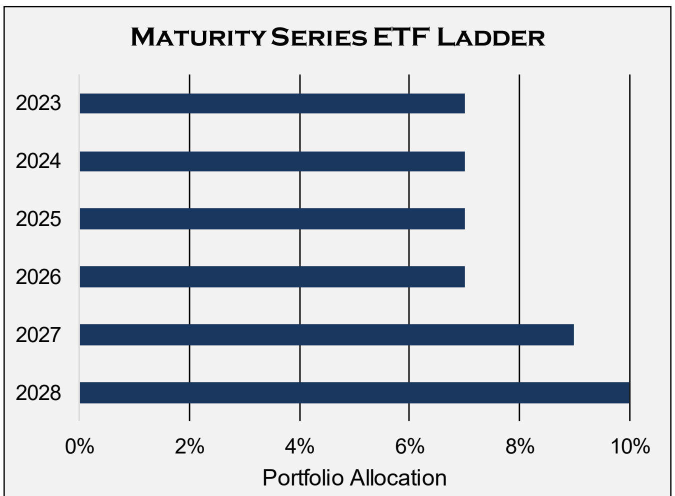


Sector Allocation[1]

General Obligation	28.0%
Advance Refunded	1.2%
Revenue	70.9%

[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards. Sector allocations shown represent the model portfolio as of 4/20/21 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. The allocation of assets in the model portfolio may change from time to time due to market conditions and economic factors. Investments are not guaranteed and do carry a risk of loss of principal. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. The listing of "5 Largest Holdings" is not a complete list of all ETFs in the portfolio or which Confluence may be currently recommending. Application of the investment strategy as of a later date will likely result in changes to the listing. Individual client portfolios may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings. Yield data source: Morningstar; 30-day SEC yield for the model portfolio as of 4/20/21. Duration and maturity figures shown are based on all holdings in the model portfolio as of the rebalance date. ETF expense ratio is in addition to Confluence management fees. Rating categories reflect S&P ratings; source: Morningstar.

Maturity Series ETF Profile[2]



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 2023 and 2028. 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.

[2] Holdings in client accounts may vary based on individual client considerations and market fluctuations. The model portfolio may change from time to time due to market conditions and economic factors. Investments are not guaranteed and do carry a risk of loss of principal. Although fixed income ETFs, including maturity-series ETFs, invest in bonds, they have many differences relative to an individual bond and may trade significantly above or below the stated net asset value. ETFs trade like a stock but charge internal management fees; there will be brokerage commissions associated with buying and selling ETFs. This information is presented as supplemental information to the disclosures required by the GIPS® standards.

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April 2021 Fixed Income Tax-Exempt Market Observations

- Yields rose rapidly in the first quarter of 2021, reflecting expectations of economic expansion and concerns of inflation.
- Cyclical growth may be elevated, but we believe longer-term inflation will remain low, bowing to disinflationary pressure from factors such as labor supply, globalization, and a weaker U.S. dollar.
- Portfolio duration of 6.6 years is in line with the benchmark and municipal sector weights mirror the index in revenue bonds and general obligation bonds.

Bond investors have long paired rising economic growth with the expectation of rising interest rates. The logic reflects the presumption that higher growth creates inflation, something that not only erodes bond returns, but also prompts tighter monetary policy from the Fed. Given the history of economic cycles and Fed policy, this presumption is firmly grounded. However, the relationships are nuanced and some important distinctions are noteworthy in the current cycle.

U.S. economic growth should continue on a positive trend, given the progress in societal immunity to COVID-19. Still, while rebounding cyclical growth is likely to be much higher than long-term averages, labor availability remains elevated, indicating relatively mild wage pressure. In addition, we expect the combination of rising imports and a weaker U.S. dollar to keep high inflation at bay. Accordingly, our view is that should inflation emerge, it is likely to be a short cycle.

Will the Fed tighten to pre-empt inflation? In the past, this monetary approach was more likely. The Fed has committed to not tighten too early, particularly if inflation appears transitory. So, until inflation consistently exceeds the Fed’s 2% target—something we don’t see on the horizon—we don’t expect tighter policy.

One recent inflationary concern has come from rising fiscal deficits. Higher fiscal expenditures paired with an economic contraction caused the federal budget deficit to rise during the pandemic. Looking forward, large stimulus efforts like the proposed infrastructure bill put yet another log on this fire of concern. While worth monitoring, the relationship between larger deficits and higher inflation is actually very weak in the U.S., and we don’t expect that to change any time soon.

With this outlook, have rates moved up too far, too fast? Probably not. The recent move appears appropriate for the cycle. Our models incorporate many variables (Fed policy, inflation, commodity prices, currencies, etc.), and while modest upside pressure is possible, we don’t expect large spikes or high volatility.

The March stimulus package included $350 billion for state and local governments. The fiscal effects of the pandemic on municipal budgets have been uneven, with those relying heavily on hospitality and sales taxes and oil and gas revenues faring much worse, but in the aggregate the situation was not as stark as was expected a year ago. Nevertheless, the stimulus will help shore up municipal finances. With fiscal positions of state and local governments more stable, the supply of municipal bonds is anticipated to decline. Against this lower amount is strong demand from individuals seeking income exempt from federal income taxes as well as banks that are able to include muni bonds in their liquidity coverage ratios. Consequently, muni bond prices have advanced to the point where the municipal-to-Treasury yield ratios are close to or at historic lows.

The tight supply of municipal bonds, particularly revenue bonds, may be relieved should an infrastructure package emerge from Washington. Such spending would naturally impact airports, bridges, roads, and ports, while also aiding schools, affordable housing, and hospitals. The potential for bond issuance in these areas encourages our even weight to revenue bonds from the portfolio’s traditional overweight. Similarly, the duration posture remains neutral to the benchmark at 6.6 years, with a majority of the portfolio being distributed among the rungs of a ladder of target maturity municipal bond ETFs stretching from 2024 to 2030.

Performance Composite Returns (For Periods Ending March 31, 2021)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	Benchmark (BofA/Muni)
Since Inception**	2.2%	(0.8%)	4.1%
10-Year*	2.6%	(0.5%)	4.7%
5-Year*	2.6%	(0.4%)	3.5%
3-Year*	3.9%	0.8%	4.9%
1-Year	5.2%	2.1%	5.6%
YTD	(0.8%)	(1.6%)	(0.4%)
QTD	(0.8%)	(1.6%)	(0.4%)

**Average annualized returns*
***Inception is 10/1/2010*

Portfolio Benchmark
ICE BofA U.S. Municipal Securities Index
(Source: Bloomberg)

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	Benchmark (BofA/ Muni)	Difference (Gross-Bnchmrk)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Bnchmrk 3yr Std Dev	Composite Dispersion
2010**	(3.4%)	(4.1%)	(4.5%)	1.1%	1	$48	$751,909	N/A	N/A	N/A
2011	6.5%	3.3%	11.2%	(4.7%)	1	$51	$937,487	N/A	N/A	N/A
2012	2.0%	(1.0%)	7.3%	(5.3%)	1	$52	$1,272,265	N/A	N/A	N/A
2013	(1.1%)	(4.1%)	(2.9%)	1.7%	1	$52	$1,955,915	2.4%	4.4%	N/A
2014	4.0%	0.9%	9.8%	(5.8%)	3	$600	$2,589,024	2.2%	4.1%	N/A
2015	1.9%	(1.2%)	3.6%	(1.7%)	4	$2,678	$3,175,419	2.1%	3.7%	0.0%
2016	(0.8%)	(3.8%)	0.4%	(1.3%)	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%	3.2%	0.0%
2018	0.8%	(2.2%)	1.0%	(0.2%)	4	$2,961	$5,486,737	3.5%	3.3%	0.0%
2019	5.5%	2.4%	7.7%	(2.2%)	3	$2,931	$7,044,708	2.2%	2.4%	0.0%
2020	5.4%	2.3%	5.3%	0.2%	3	$3,210	$6,889,798	3.9%	4.1%	0.0%

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, 2019. 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 incepted 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 U.S. Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[2] 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.

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The Confluence Mission

Our mission is to provide our clients with superior investment solutions and exceptional client service with the highest standards of ethics and integrity. Our team of investment professionals is committed to delivering innovative products and sound, practical advice to enable investors to achieve their investment objectives.

About Confluence Investment Management LLC

Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence’s investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm’s value-driven approach. The investment team’s portfolio management philosophy begins by addressing risk and follows through by positioning clients to achieve income and growth objectives.

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