



Fixed Income (Tax-Exempt)

Objective

Third Quarter 2025

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: \$3.5 million¹

¹Total strategy assets include \$0.5 million assets under management (AUM) and \$3.0 million assets under advisement (AUA); as of 12/31/2024.

Current Holdings²

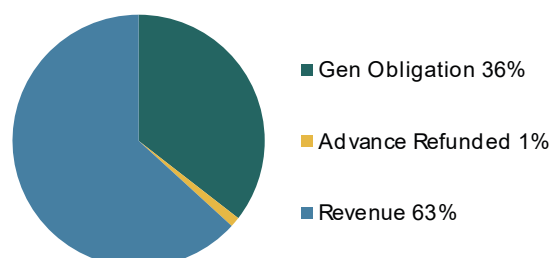
(As of 7/17/2025 rebalance)

Characteristics	Weighted Average
SEC Yield	3.5%
Tax-Equivalent SEC Distribution Yield Estimate*	5.4%
*Assumes Federal Income Tax Rate of 35%	
Duration	6.5
Maturity	11.5
ETF Expense Ratio	0.17%

Ratings Categories	Weight
AAA	19.3%
AA	61.3%
A	17.2%
BBB	2.2%
BB or Below	0.1%

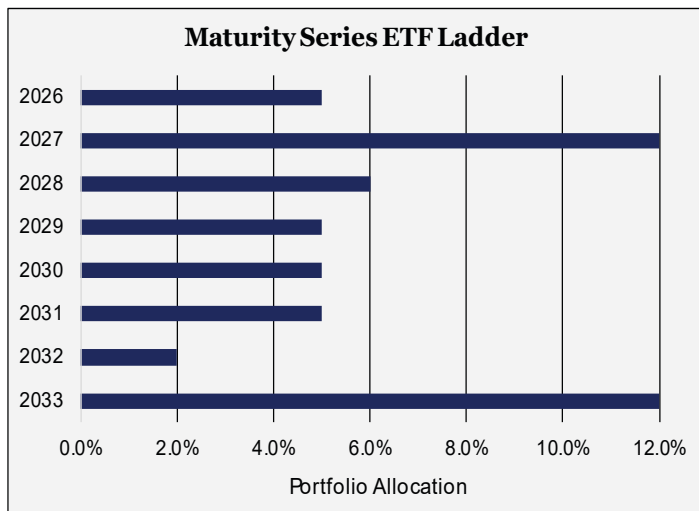
5 Largest Holdings	Weight
Dimensional National Municipal Bond ETF	21.0%
Invesco BulletShares 2034 Municipal Bond ETF	16.0%
Invesco BulletShares 2033 Municipal Bond ETF	12.0%
Invesco BulletShares 2027 Municipal Bond ETF	12.0%
Invesco National AMT-Free Municipal Bond ETF	10.0%

Sector Allocation



See GIPS Report on page 3

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 2026 and 2033. We believe this ladder 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 Changes³

- Sentiment across asset classes improved in the second quarter after some initial volatility.
- In contrast, bond market volatility has remained relatively low, even as investor sentiment has changed.
- The portfolio benefited from a large allocation to intermediate maturities.
- The portfolio remains overweight to general obligation (GO) bonds and underweight revenue bonds.
- Portfolio duration of 6.5 years is marginally shorter than the benchmark duration of 6.8 years.

The Confluence Fixed Income Tax-Exempt strategy’s gross return in the second quarter was 0.1%, which was above the benchmark return of -0.1%. Year-to-date, the strategy’s gross return was -0.2%, which was also higher than the benchmark return of -0.3%. [The strategy’s net-of-fees returns for the same periods were -0.7% QTD and -1.7% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]

In the second quarter, markets continued to adjust to an environment characterized by rapid policy changes coming out of Washington. The direction and magnitude of the policies have been unpredictable, often creating difficult conditions for investors. The initial response across asset classes was an increase in volatility and rapid shifts toward “risk-off” assets. However, some safe havens, including long-term Treasuries and the US dollar, were avoided. This condition exacerbated investor concerns as the market response departed from normal pathways. Municipal bonds were not immune from the broad increase in volatility; however, the change was fairly mild for intermediate, investment-grade municipals.

Ultimately, investors adjusted to the policies emanating from Washington, recognizing that initial declarations could subsequently be altered, and final decisions might end up being very different. Investors returned to a “risk-on” posture throughout the second quarter, which elevated returns across asset classes, even as volatility declined.

Within the municipal bond market, investors monitoring the progress of the tax bill as it made its way through Congress, with special attention to details surrounding the State and Local Tax provisions (SALT). The increase to the SALT provisions disproportionately affected the prices of municipal securities from higher tax states, notably New York, California, and Massachusetts. As the Fixed Income Tax-Exempt strategy has been underweight to these jurisdictions, this proved beneficial for relative returns. In addition, the strategy benefited from its concentration in the intermediate segment of the curve that led to a shorter duration posture than the benchmark.

From a sector perspective, the strategy’s return relative to its benchmark in the second quarter was held back by the underweight exposure to revenue bonds, which tended to outperform GOs. The complexion of the revenue exposure also mildly detracted as the strategy was underweight transports, which generally outperformed.

Looking forward, we expect municipal bonds to continue to deliver attractive risk-adjusted returns that should be higher than inflation. Moreover, the current fiscal health of state and local governments gives us comfort in continuing the slight overweight to GOs. Our duration posture (6.5 years) remains slightly shorter than the benchmark (6.8 years), even as we recently trimmed some exposure to the intermediate portion of the ladder to take advantage of the recent decline in yield in that segment of the bond market.

Confluence Fixed Income Strategy Committee

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

Performance Composite Returns⁴ (For periods ending June 30, 2025)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Fixed Income Tax-Exempt <i>Pure Gross-Of-Fees⁵</i>	1.4%	1.3%	(0.3%)	1.9%	1.4%	(0.2%)	0.1%
<i>Max Net-Of-Fees⁶</i>	(1.7%)	(1.7%)	(3.3%)	(1.1%)	(1.6%)	(1.7%)	(0.7%)
Benchmark (BB-Muni)	2.8%	2.2%	0.5%	2.5%	1.1%	(0.3%)	(0.1%)

Calendar Year	Pure Gross-Of-Fees ⁵	Max Net-Of-Fees ⁶	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%

*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 7/17/25 and do not represent the precise allocation in an actual client account. Allocations in client accounts may vary based on individual client considerations and market fluctuations. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. Individual client portfolios may differ, sometimes significantly, from these listings. Yield data source: Morningstar; 30-day SEC yield of the model portfolio as of 7/17/25. 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 inceptioned 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 equalweighted 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.