

**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 BofAML 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.

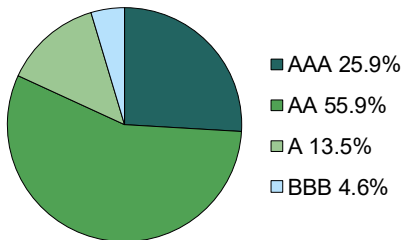
The strategy invests in a range of maturity-date ETFs to construct a portfolio similar to a diversified bond ladder, and complements these positions with traditional fixed income ETFs with more “static” maturity profiles, allowing for more precise exposures to maturities and sectors of the bond market. 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

**RATING CATEGORIES<sup>1</sup>**



**SECTOR ALLOCATION<sup>1</sup>**

General Obligation	38.3%
Advance Refunded	2.2%
Revenue	59.5%

<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. Sector allocations shown represent the model portfolio as of 10/15/19 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. Furthermore, application of the investment strategy as of a later date will likely result in changes to the listing. Contact Confluence for a complete list of holdings. Yield data source: Morningstar; 30-day SEC yield for the model portfolio as of 10/15/19. 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.

**CHARACTERISTICS<sup>1</sup>**

(WEIGHTED AVERAGE)

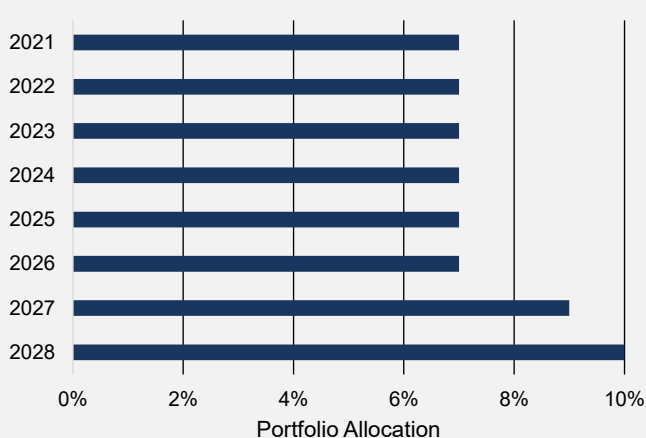
SEC Yield	1.4%
Tax-Equivalent SEC Distribution Yield Estimate*	2.2%
*Assumes Federal Income Tax Rate of 35%	
Duration	6.0
Maturity	10.5
ETF Expense Ratio	0.19%

**5 LARGEST HOLDINGS<sup>1</sup>**

VanEck Vectors AMT-Free Long Muni ETF - MLN	27.0%
iShares iBonds Dec 2028 Term Muni ETF - IBMQ	10.0%
iShares iBonds Dec 2027 Term Muni ETF - IBMP	9.0%
iShares iBonds Dec 2026 Term Muni ETF - IBMO	7.0%
iShares iBonds Dec 2025 Term Muni ETF - IBMN	7.0%

**MATURITY SERIES ETF PROFILE<sup>2</sup>**

**MATURITY SERIES ETF LADDER**



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 2021 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.

<sup>2</sup> 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.

## FOURTH QUARTER 2019 FIXED INCOME TAX-EXEMPT MARKET OBSERVATIONS

- ◆ Around the world, economic growth, inflation and interest rates remain low.
- ◆ Although yields are low, bonds continue to provide diversification and can help address volatility.
- ◆ We continue to include high-quality corporate, Treasury and MBS, while utilizing a laddered strategy.

Economic growth around the world has slowed in 2019 and we are beginning to see early signs that U.S. growth trends may follow suit. In response, the Federal Reserve began lowering short-term interest rates twice in the third quarter and followed through with another rate cut in October. The Fed has signaled to the market that easing interest rates lower has provided a bit of insurance to help protect the U.S. economy from challenges arising overseas.

Slower economic growth, low inflation and easy monetary policy have created a low interest rate environment not just across maturities, but also around the world. In fact, in Europe and Japan, many bonds continue to trade at negative yields, meaning that principal and interest derived from these bonds are less than their purchase prices. In the U.S., rates are certainly low, but they are much higher relative to rates in other developed countries.

Low bond yields can be disappointing for bond investors, particularly those who seek reliable income from their bond allocations. Oftentimes, the knee-jerk reaction to low yields is to reach into riskier investments in order to compensate. However, we believe it's prudent in the current environment to focus on high-quality bonds, even if their yields are low. Bonds continue to provide important diversification in a portfolio and can help address volatile equity environments.

The decline in the general level of interest rates during the third quarter proved advantageous for the Fixed Income Tax-Exempt strategy. The compression in rates was especially pronounced on the long end, where the strategy holds an outsized position and thus was highly beneficial. In addition, continuing investor appetite for municipal bonds created a favorable environment for tax-exempt bonds. Our outlook is for slower economic growth, steady improvement in the fiscal health of state and local governments, and continued demand from investors who seek to avoid federal income taxes through investment in tax-free municipals. Therefore, we expect this year's favorable environment for municipal bonds to continue. Accordingly, we maintain a laddered, intermediate-maturity focus with an average maturity and duration slightly longer than the benchmark. The balance between general obligation municipals (GOs) and revenue bonds is skewed toward revenue. While the maturity series ETFs that we employ in the laddered portion of the Fixed Income Tax-Exempt strategy hold roughly half of their holdings in GOs, the broader municipal bond ETFs have two-thirds of their holdings in revenue bonds. As a result, the Fixed Income Tax-Exempt strategy is modestly overweight GOs versus the benchmark.

*Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice or a recommendation. 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.*

### PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING SEPTEMBER 30, 2019)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (BofAML/Muni)	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (BofAML/Muni)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion	
Since Inception**	2.1%	(1.0%)	4.1%	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
5-Year*	2.3%	(0.7%)	3.7%	2012	2.0%	(1.0%)	7.3%	(5.3%)	1	\$52	\$1,272,265	N/A	N/A	N/A
3-Year*	1.9%	(1.1%)	3.2%	2013	(1.1%)	(4.1%)	(2.9%)	1.7%	1	\$52	\$1,955,915	2.4%	4.4%	N/A
1-Year	6.8%	3.6%	8.7%	2014	4.0%	0.9%	9.8%	(5.8%)	3	\$600	\$2,589,024	2.2%	4.1%	N/A
YTD	5.1%	2.7%	7.1%	2015	1.9%	(1.2%)	3.6%	(1.7%)	4	\$2,678	\$3,175,419	2.1%	3.7%	0.0%
QTD	1.0%	0.3%	1.6%	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%

\*\*Inception is 10/1/2010

\*Average annualized returns

#### Portfolio Benchmark

The benchmark is the ICE BofAML U.S. Municipal Securities Index (Source: Bloomberg)

**Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 12/31/2017. A copy of the verification report is available upon request.** Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. 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 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.

<sup>1</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>2</sup> 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. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion is an equal-weighted standard deviation calculated for accounts in the composite for the entire year. 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.

#### Confluence Fixed Income Committee

Mark Keller, CFA  
William O'Grady  
Gregory Ellston

David Miyazaki, CFA  
Kaisa Stucke, CFA  
Patrick Fearon-Hernandez, CFA

#### 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 was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm'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, fundamental company-specific approach. Confluence's portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

#### FOR MORE INFORMATION CONTACT ONE OF OUR SALES TEAM MEMBERS:

Wayne Knowles  
National Sales Director | Southeast  
(919) 604-7604  
wknowles@confluenceim.com

Ron Pond  
Regional Mktg Rep | Southwest  
(858) 699-7945  
rpond@confluenceim.com

Steve Mikez  
Regional Mktg Rep | North-Central  
(480) 529-8741  
smikez@confluenceim.com

Jason Gantt  
Regional Mktg Rep | Northeast  
(203) 733-9470  
jgant@confluenceim.com

Jim Taylor  
Regional Mktg Rep | Mid-South  
(630) 605-7194  
jtaylor@confluenceim.com