

OBJECTIVE

Invests in fixed income Exchange Traded Funds (ETFs), diversified across maturities and corporate, Treasury, and MBS sectors. Strives to deliver the income and lower volatility traditionally available from a diversified bond portfolio.

INVESTMENT PHILOSOPHY & PROCESS

Fixed Income Taxable invests in fixed income ETFs with domestically oriented, investment-grade benchmarks. It is constructed to have characteristics similar to a traditional, laddered bond portfolio and its benchmark is the ICE BofA U.S. Corporate, Government & Mortgage 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 may also adjust the exposure to corporate, Treasury and MBS sectors according to its viewpoints regarding Fed policy, the shape of the yield curve, relative yields, credit spreads, default rates and other market factors.

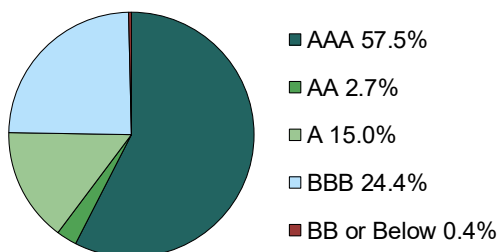
The strategy invests in a range of maturity-date ETFs to construct a portfolio similar to a diversified bond ladder, and complements these positions with traditional fixed income ETFs with more "static" maturity profiles, allowing for more precise exposures to maturities and sectors of the bond market.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

Fixed Income Taxable 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 bond portfolio
- ◆ Uses high-quality ETFs following investment grade benchmarks with domestic orientation
- ◆ 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.
- ◆ Diversified across maturities and sectors
- ◆ Available as a standalone portfolio or in Balanced accounts combined with equity strategy

RATING CATEGORIES¹



SECTOR ALLOCATION¹

| | |
|-----------|-------|
| Treasury | 48.0% |
| MBS | 9.0% |
| Corporate | 43.0% |

¹This information is presented as supplemental information to the disclosures required by the GIPS® standards. Sector allocations shown represent the model portfolio as of 1/13/21 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 1/13/21. 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.

CHARACTERISTICS¹

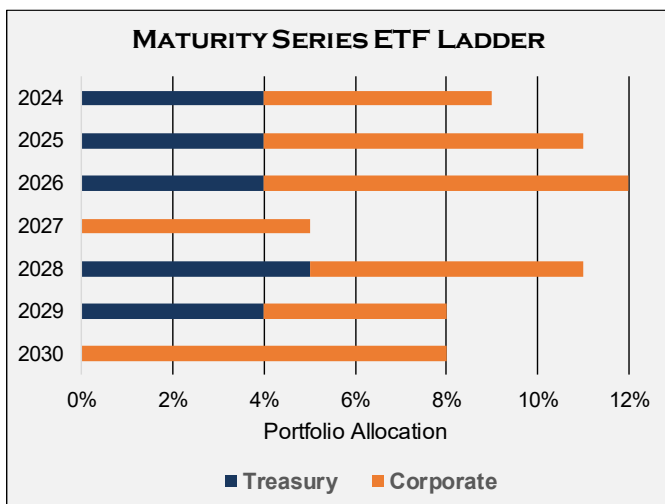
(WEIGHTED AVERAGE)

| | |
|-------------------|-------|
| SEC Yield | 1.0% |
| Duration | 6.3 |
| Maturity | 7.3 |
| ETF Expense Ratio | 0.10% |

5 LARGEST HOLDINGS¹

| | |
|--|-------|
| iShares 7-10 Year Treasury Bond ETF - IEF | 21.0% |
| iShares MBS ETF - MBB | 9.0% |
| iShares iBonds Dec 2030 Term Corp ETF - IBDV | 8.0% |
| iShares iBonds Dec 2026 Term Corp ETF - IBDR | 8.0% |
| Invesco BulletShares 2025 Corp Bd ETF - BSCP | 7.0% |

MATURITY SERIES ETF PROFILE²



Fixed Income Taxable 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 2024 and 2030, with more emphasis in the middle of the range. 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.

JANUARY 2021 FIXED INCOME TAXABLE MARKET OBSERVATIONS

- ◆ The Fixed Income strategy delivered a high level of diversification when paired with equities in 2020.
- ◆ The portfolio allocations reflect our expectation for ongoing economic recovery, easy monetary policy, and low inflation.

The fourth quarter ended a year of surprise, challenge, and dramatic change in the financial markets. Security prices declined sharply in many asset classes as the pandemic and economic shutdown unfolded. Then, as the Federal Reserve calmed the markets, the country adjusted to new conditions, helped by stimulus provided by the federal government. Together, monetary and fiscal policy opened a pathway to a dramatic improvement in prices, particularly in equities and other risky asset classes. During periods of crisis, asset classes considered to be safe havens, like long-maturity Treasuries, often performed in opposite form, rising in price as equities fell.

To illustrate these trends, we compare the S&P 500 (lower line on the chart) with the Bloomberg Barclays U.S. Treasury Long Index (upper line). Although these two indices hewed very different paths in 2020, their destinations in total return were very similar, with the S&P 500 coming in at 18.3% and long Treasuries at 17.7%. We normalize a common starting point for returns at the beginning of the year.

We see that during periods of equity market decline, long-dated Treasuries increased in price or held steady. March had the most extreme variance, when the S&P declined by over 30%, while long Treasuries peaked at over 28%. In portfolio parlance, these two asset classes were negatively correlated by 19% during the year.

Negative correlations in a portfolio are good for investors as they help lower overall volatility. For this reason, pairing our Fixed Income strategy with one of our value equity strategies in a Balanced account can be beneficial to investors. We note the Fixed Income portfolio is much different than the long-maturity Treasuries in the graph, as it includes corporate, MBS, and Treasuries of various maturities. Nevertheless, the strategy delivered low volatility and diversification throughout the year.



(Source: Bloomberg, CIM)

Looking forward, Fixed Income Taxable remains overweight the corporate sector, while being underweight MBS and evenweight Treasuries, with an average maturity profile around 6.7 years, which is in line with the benchmark. This position reflects our expectation for ongoing economic recovery, easy monetary policy, and low inflation.

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 DECEMBER 31, 2020)

| | Pure Gross-of-Fees ¹ | Net-of-Fees ² | Benchmark (BofA/US-Master) | Calendar Year | Pure Gross-of-Fees ¹ | Net-of-Fees ² | Benchmark (BofA/US-Master) | Difference (Gross-Benchmark) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | Benchmark 3yr Std Dev | Composite Dispersion |
|-------------------|---------------------------------|--------------------------|----------------------------|---------------|---------------------------------|--------------------------|----------------------------|------------------------------|-----------------|-------------------------|--------------------------|-----------------------|-----------------------|----------------------|
| Since Inception** | 3.9% | 0.8% | 3.8% | 2010** | 1.8% | 0.3% | 1.1% | 0.7% | 1 | \$1,334 | \$751,909 | N/A | N/A | N/A |
| | | | | 2011 | 6.3% | 3.2% | 7.9% | (1.5%) | 2 | \$1,376 | \$937,487 | N/A | N/A | 0.1% |
| 10-Year* | 3.9% | 0.9% | 3.9% | 2012 | 7.7% | 4.5% | 4.4% | 3.3% | 3 | \$1,459 | \$1,272,265 | N/A | N/A | 0.1% |
| 5-Year* | 4.2% | 1.1% | 4.5% | 2013 | (1.0%) | (3.9%) | (2.3%) | 1.3% | 2 | \$3,668 | \$1,955,915 | 3.5% | 2.8% | N/A |
| 3-Year* | 5.4% | 2.3% | 5.5% | 2014 | 5.5% | 2.4% | 6.4% | (0.9%) | 3 | \$7,995 | \$2,589,024 | 3.1% | 2.8% | 0.0% |
| 1-Year | 7.1% | 3.9% | 7.6% | 2015 | 0.3% | (2.7%) | 0.6% | (0.3%) | 5 | \$8,990 | \$3,175,419 | 3.2% | 3.1% | 0.1% |
| YTD | 7.1% | 3.9% | 7.6% | 2016 | 1.4% | (1.6%) | 2.6% | (1.2%) | 7 | \$9,259 | \$4,413,659 | 3.4% | 3.1% | 0.0% |
| QTD | 0.5% | (0.3%) | 0.6% | 2017 | 3.2% | 0.1% | 3.6% | (0.5%) | 8 | \$9,676 | \$5,944,479 | 3.2% | 2.9% | 0.0% |
| | | | | 2018 | (0.3%) | (3.2%) | 0.0% | (0.3%) | 9 | \$9,684 | \$5,486,737 | 3.1% | 2.9% | 0.0% |
| | | | | 2019 | 9.7% | 6.4% | 9.0% | 0.7% | 13 | \$13,158 | \$7,044,708 | 3.1% | 3.0% | 0.1% |
| | | | | 2020 | 7.1% | 3.9% | 7.6% | (0.5%) | 13 | \$17,013 | \$6,889,798 | 3.7% | 3.5% | 0.1% |

*Average annualized returns

**Inception is 7/1/2010

Portfolio Benchmark

ICE BofA U.S. Corporate, Government & Mortgage Index (Domestic Master) (Source: Bloomberg)

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 Taxable strategy was inceptioned on July 1, 2010, and the current Fixed Income Taxable Composite was created on July 1, 2013. 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 July 1, 2013, 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 July 1, 2013, is based on the Fixed Income Taxable-Direct Composite which was created on July 1, 2010. The Fixed Income Taxable-Direct Composite includes accounts that pursue the Fixed Income Taxable strategy, but do not have bundled fees. Gross returns from the Fixed Income Taxable-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 Taxable Composite contains fully discretionary Fixed Income Taxable wrap accounts. The Fixed Income Taxable portfolio utilizes bond ETFs to earn taxable income. **Results shown for the year 2010 represent partial period performance from July 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

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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.

FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM:

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