

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.

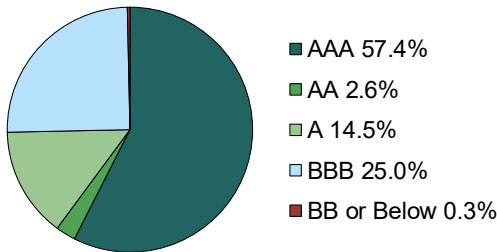
The strategy invests in a range of maturity-date ETFs to construct a portfolio similar to a diversified bond ladder, and complements these positions with traditional fixed income ETFs with more "static" maturity profiles, allowing for more precise exposures to maturities and sectors of the bond market.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

CHARACTERISTICS¹

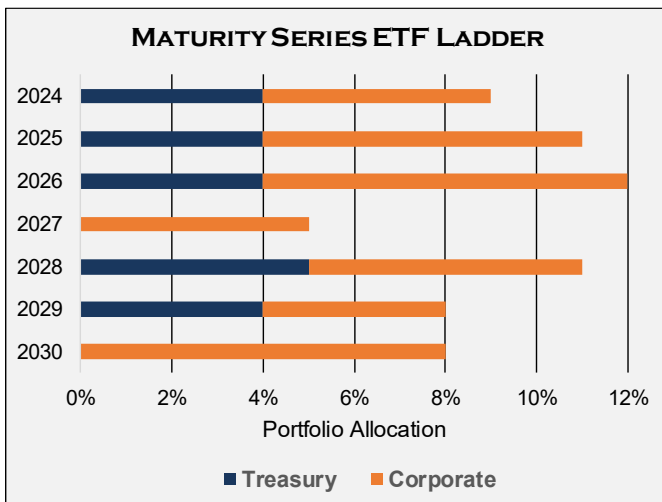
(WEIGHTED AVERAGE)

SEC Yield	1.4%
Duration	6.2
Maturity	7.1
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.

APRIL 2021 FIXED INCOME TAXABLE MARKET OBSERVATIONS

- ◆ Treasury 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 6.2 years is in line with the benchmark and remains overweight corporates, underweight MBS, and even-weight Treasuries.

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.

We agree with the consensus view that 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 inflation at bay, at least for the near term. Accordingly, our view is that should inflation emerge, it's likely to be a short-cycle phenomenon and we currently do not expect the beginning of long-term inflationary pressure.

Will the Fed tighten to pre-empt inflation? In the past, this monetary approach was much more likely. However, the Fed has telegraphed on numerous occasions a desire not to tighten too early, particularly if inflationary pressure appears transitory. Accordingly, until the Fed expects inflation to consistently exceed its 2% target—something we don't currently see on the horizon—we don't expect tighter policy.

On a different front, one recent inflationary concern has come from those watching the size of 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 actual relationship between larger deficits and higher inflation is actually very weak in the U.S., so we don't expect inflationary pressure from this metric any time soon.

Given our expectation for relatively benign inflation and ongoing easy monetary policy, have Treasury rates moved up too far, too fast? Probably not. The recent move appears appropriate for where we are in the cycle. Our models, which incorporate many variables, including Fed policy, inflation, commodity prices, and various currencies, indicate there could be some modest upside pressure. Still, we don't expect large spikes and believe interest rate volatility is likely to decline.

With the economic growth accelerating, we expect corporate default rates to remain low and thus we continue forward with an overweight to corporates. Tight MBS spreads extend our underweight exposure, although improving prepayment clarity has begun to form a more constructive outlook toward this sector for us. The portfolio duration of 6.2 years remains in line with the benchmark, reflecting our view that rates are unlikely to rise significantly and investors can benefit from an exposure that includes a diversity of bond maturities.

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 MARCH 31, 2021)

	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**	3.5%	0.4%	3.4%	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*	3.4%	0.4%	3.5%	2012	7.7%	4.5%	4.4%	3.3%	3	\$1,459	\$1,272,265	N/A	N/A	0.1%
				2013	(1.0%)	(3.9%)	(2.3%)	1.3%	2	\$3,668	\$1,955,915	3.5%	2.8%	N/A
5-Year*	2.9%	(0.2%)	3.1%	2014	5.5%	2.4%	6.4%	(0.9%)	3	\$7,995	\$2,589,024	3.1%	2.8%	0.0%
				2015	0.3%	(2.7%)	0.6%	(0.3%)	5	\$8,990	\$3,175,419	3.2%	3.1%	0.1%
3-Year*	4.7%	1.6%	4.7%	2016	1.4%	(1.6%)	2.6%	(1.2%)	7	\$9,259	\$4,413,659	3.4%	3.1%	0.0%
				2017	3.2%	0.1%	3.6%	(0.5%)	8	\$9,676	\$5,944,479	3.2%	2.9%	0.0%
1-Year	0.6%	(2.4%)	0.4%	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%
YTD	(3.8%)	(4.5%)	(3.7%)	2020	7.1%	3.9%	7.6%	(0.5%)	13	\$17,013	\$6,889,798	3.7%	3.5%	0.1%
QTD	(3.8%)	(4.5%)	(3.7%)											

*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 inception 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.

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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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