

**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.

(Allocations as of 4/21/2022 rebalance)

**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

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

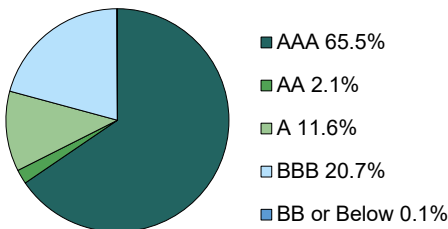
(WEIGHTED AVERAGE)

SEC Yield	2.8%
Duration	7.0
Maturity	8.4
ETF Expense Ratio	0.10%

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

iShares 7-10 Year Treasury Bond ETF - IEF	17.0%
iShares 20+ Year Treasury Bond ETF - TLT	11.0%
iShares MBS ETF - MBB	10.0%
iShares iBonds Dec 2030 Term Corp ETF - IBDV	8.0%
iShares iBonds Dec 2026 Term Corp ETF - IBDR	8.0%

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

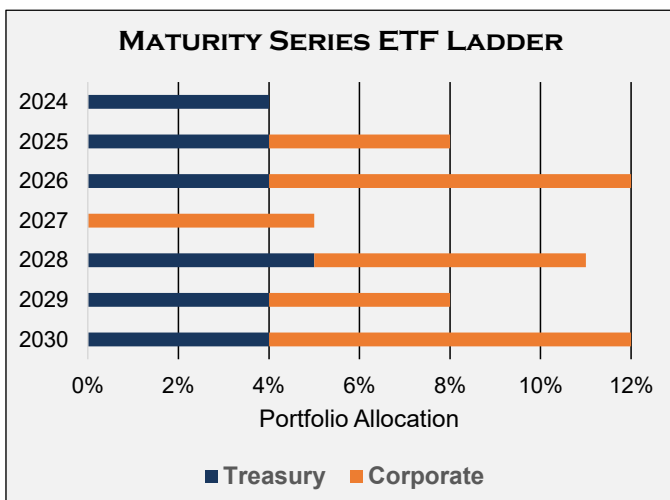


**SECTOR ALLOCATION<sup>1</sup>**

Treasury	55.0%
MBS	10.0%
Corporate	35.0%

<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 4/21/22 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 of the model portfolio as of 4/21/22. 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<sup>2</sup>**



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.

<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.

## APRIL 2022 FIXED INCOME TAXABLE MARKET OBSERVATIONS

- ◆ The bond market had one of its lowest quarterly returns in over 30 years as investors focused on risks from inflation and Fed policy.
- ◆ We find that intermediate maturity allocations provide significant yields without excessive interest rate risk. Laddering strategies may also help address rising rates.
- ◆ Our sector allocations continue to favor corporates, while remaining even-weight Treasuries and underweight (mortgage-backed securities (MBS). Portfolio duration is around 7.0 years.

For the first quarter, the Confluence Fixed Income Taxable strategy's gross return was slightly higher than that of the benchmark. The stronger performance was derived from overall security selection and was partially offset by an underweight exposure to MBS.

The total return from the bond market was one of its lowest in over 30 years as concerns regarding high levels of inflation and tighter Fed policy weighed heavily on bond prices. Treasury yields rose across the entire maturity curve during the quarter, including the two-year, which rose from 0.73% to 2.34%, and the 10-year, which rose from 1.51% to 2.34%. A significant portion of the increase in short-term rates was in response to the Fed's decision to begin raising short-term interest rates, a policy decision that began in March.

We believe the focus on intermediate maturities remains appropriate, given that this range captures most of the available yield, while avoiding excessive interest rate risk. Still, we maintain an allocation to longer maturities, which can help address risks from Fed policy mistakes, geopolitical events, and recession, while simultaneously providing upside in the event that inflation begins a cyclical decline, which may already be underway.

The maturity-series ETFs also help address rising interest rates as these securities naturally shorten in maturity with the passage of time and help facilitate efficient reinvestment in higher rates. The portfolio has also benefited from the structure and circumstance of the ETF market, with first quarter income distributions sequentially higher by around 11% on a weighted average basis, an increase even higher than recent inflation.

The portfolio's sector allocations remain roughly in line with the benchmark for Treasuries, overweight corporates, and underweight MBS. Corporates provide incremental yield against the backdrop of a relatively benign default environment. MBS have become more attractive but we are underweight as the Fed contemplates its balance sheet reduction. The overall portfolio duration is also similar to the benchmark at 7.0 years.

*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, 2022)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (BofA/US-Master)	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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**	2.8%	(0.3%)	2.7%	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*	2.2%	(0.8%)	2.3%	2012	7.7%	4.5%	4.4%	3.3%	3	\$1,459	\$1,272,265	N/A	N/A	0.1%
5-Year*	1.9%	(1.1%)	2.2%	2013	(1.0%)	(3.9%)	(2.3%)	1.3%	2	\$3,668	\$1,955,915	3.5%	2.8%	N/A
3-Year*	1.4%	(1.6%)	1.7%	2014	5.5%	2.4%	6.4%	(0.9%)	3	\$7,995	\$2,589,024	3.1%	2.8%	0.0%
1-Year	(4.4%)	(7.2%)	(4.1%)	2015	0.3%	(2.7%)	0.6%	(0.3%)	5	\$8,990	\$3,175,419	3.2%	3.1%	0.1%
YTD	(5.8%)	(6.6%)	(6.1%)	2016	1.4%	(1.6%)	2.6%	(1.2%)	7	\$9,259	\$4,413,659	3.4%	3.1%	0.0%
QTD	(5.8%)	(6.6%)	(6.1%)	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%
				2021	(2.3%)	(5.2%)	(1.6%)	(0.7%)	7	\$9,945	\$7,761,687	3.8%	3.5%	0.2%

\*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, 2020. 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.

<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 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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