

**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

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

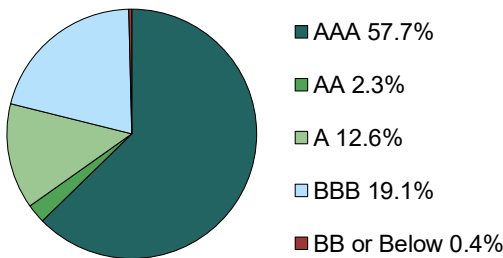
(WEIGHTED AVERAGE)

SEC Yield	1.0%
Duration	6.2
Maturity	7.3
ETF Expense Ratio	0.09%

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

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%

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

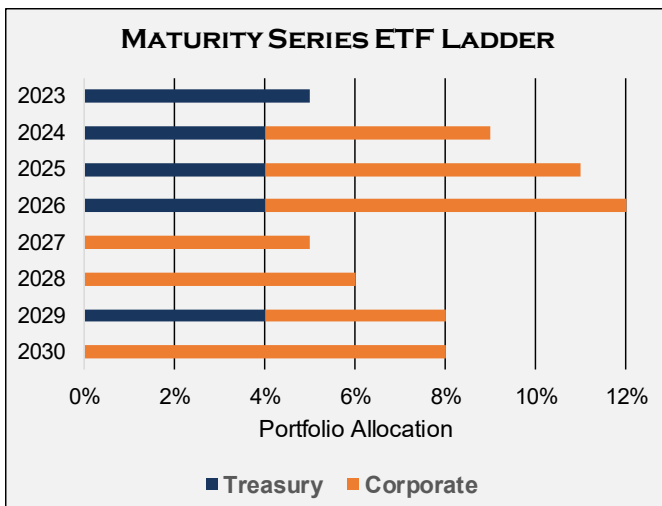


**SECTOR ALLOCATION<sup>1</sup>**

Treasury	48.0%
MBS	9.0%
Corporate	43.0%

<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 7/20/20 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 7/20/20. 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 2023 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.

## JULY 2020 FIXED INCOME TAXABLE MARKET OBSERVATIONS

- ◆ Easy Fed policy and low growth indicate ongoing low inflation and low interest rates.
- ◆ Corporate bonds remain relatively attractive, while MBS face default uncertainty.
- ◆ The portfolio ladder adjustment maintains the overall portfolio's maturity in line with the benchmark.

The impact of the COVID-19 virus has been deep and widespread, spanning across borders, industries and demographics. The market impact has also been broad and deep, affecting stocks, bonds, real estate and commodities. Most asset classes have experienced significantly higher volatility, including most bond sectors. However, bonds generally maintained much lower volatility relative to other asset classes, particularly when compared to stocks.

Another important utility that bonds have delivered has been a low, or even negative, correlation relative to stocks. This characteristic has played a particularly helpful role during recent market turmoil. Oftentimes, when stocks have declined, bonds have moved in different directions, sometimes even rising in the case of Treasuries. Thus, combining bonds with stocks played a significant role in addressing risk in the first half of 2020.

Still, it hasn't been all good news for bond investors. The Federal Reserve responded to COVID-19 by lowering rates and aggressively buying bonds. As bond yields declined so, too, has the income they provide. The Fed's actions provided important market liquidity and helped avoid a financial crisis, but it's unlikely that easy monetary policy creates near-term economic growth or inflation. Accordingly, we expect interest rates, along with bond income, to remain low for an extended time frame.

The corporate sector allocation remains overweight relative to the benchmark. Many corporations have taken advantage of high levels of liquidity by issuing debt at low rates. We believe this environment improves the return/risk profile of corporates. The Treasury allocation is roughly even weight, while mortgage-backed securities are underweight due to rising mortgage defaults and their potential impact on MBS.

Portfolio ladders with maturity-series ETFs remain focused on short and intermediate maturities. The ladder rungs include the corporate and Treasury sectors, shaping the weighted portfolio maturity to around 7.3 years, a tenor in line with the benchmark. Laddering facilitates participation in intermediate bond yields, while shorter rungs provide protection against rising interest rates. As shorter rungs begin to near their maturities, they can be reinvested in longer rungs. To that end, this quarter we sold and trimmed the 2022 and 2023 corporate bond rungs, respectively, and initiated positions in 2029 and 2030 corporates.

*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 JUNE 30, 2020)

	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**	4.0%	0.9%	3.9%	2010**	1.8%	0.3%	1.1%	0.7%	1	\$1,334	\$751,909	N/A	N/A	N/A
10-Year*	4.0%	0.9%	3.9%	2011	6.3%	3.2%	7.9%	(1.5%)	2	\$1,376	\$937,487	N/A	N/A	0.1%
5-Year*	4.1%	1.0%	4.4%	2012	7.7%	4.5%	4.4%	3.3%	3	\$1,459	\$1,272,265	N/A	N/A	0.1%
3-Year*	5.3%	2.2%	5.5%	2013	(1.0%)	(3.9%)	(2.3%)	1.3%	2	\$3,668	\$1,955,915	3.5%	2.8%	N/A
1-Year	8.7%	5.4%	9.0%	2014	5.5%	2.4%	6.4%	(0.9%)	3	\$7,995	\$2,589,024	3.1%	2.8%	0.0%
YTD	6.1%	4.5%	6.3%	2015	0.3%	(2.7%)	0.6%	(0.3%)	5	\$8,990	\$3,175,419	3.2%	3.1%	0.1%
QTD	3.6%	2.8%	2.9%	2016	1.4%	(1.6%)	2.6%	(1.2%)	7	\$9,259	\$4,413,659	3.4%	3.1%	0.0%
*Average annualized returns				2017	3.2%	0.1%	3.6%	(0.5%)	8	\$9,676	\$5,944,479	3.2%	2.9%	0.0%
**Inception is 7/1/2010				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%

#### Portfolio Benchmark

The benchmark is the ICE BofA U.S. Corporate, Government & Mortgage Index (Domestic Master) (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 12/31/2018. 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 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 manager. 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. 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 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

Mark Keller, CFA  
Gregory Ellston  
William O'Grady

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 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:

Wayne Knowles National Sales Director (314) 526-0914 wknowles@confluenceim.com	Ron Pond   West Sr. Regional Sales Director (314) 526-0759 rpond@confluenceim.com	Steve Mikez   North-Central Sr. Regional Sales Director (314) 526-0776 smikez@confluenceim.com	Jason Gantt   East Regional Sales Director (314) 526-0364 jgantt@confluenceim.com	Jim Taylor   Mid-South Regional Sales Director (314) 526-0469 jtaylor@confluenceim.com
---	--	---	--	---