FIXED INCOME
(TAXABLE)

FOURTH QUARTER 2022

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

- 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 Confluence Balanced account combined with value equity strategy
- Strategy assets: $27.1 million[1]

[1] Total strategy assets include assets under management (AUM) and assets under advisement (AUA). As of 12/31/21, AUM = $13.2 million and AUA = $13.9 million.

CURRENT PORTFOLIO[2]

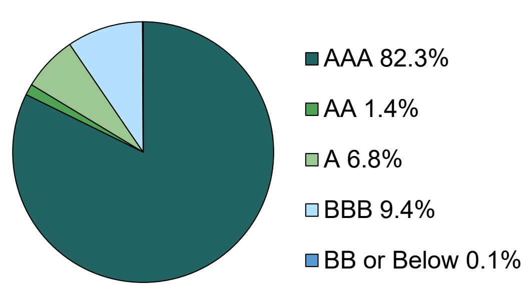
(As of 10/19/2022 rebalance)

CHARACTERISTICS	WEIGHTED AVERAGE
SEC Yield	4.4%
Duration	5.1
Maturity	5.9
ETF Expense Ratio	0.07%

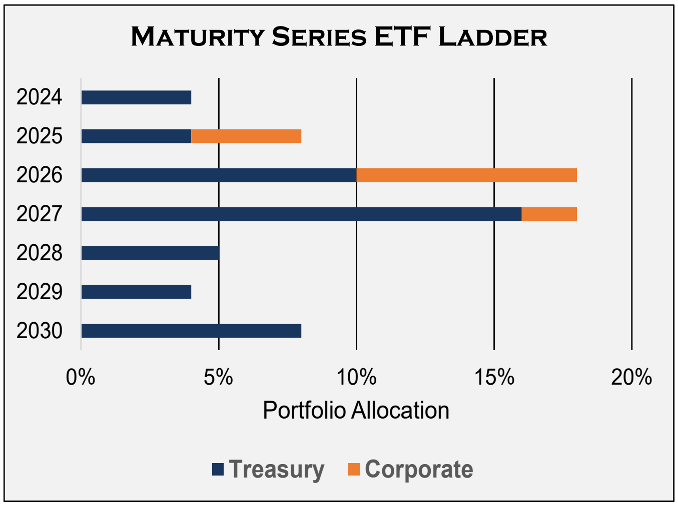
5 LARGEST HOLDINGS	WEIGHT
SPDR® Portfolio Mortgage Backed Bd ETF - SPMB	24.0%
iShares iBonds Dec 2027 Term Treasury ETF - IBTH	16.0%
iShares iBonds Dec 2026 Term Treasury ETF - IBTG	10.0%
iShares iBonds Dec 2030 Term Treasury ETF - IBTK	8.0%
iShares iBonds Dec 2026 Term Corp ETF - IBDR	8.0%

SECTOR ALLOCATION	WEIGHT
Treasury	58.0%
MBS	24.0%
Corporate	18.0%

RATING CATEGORIES



Maturity Series ETF Profile[3]



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.

October 2022 Market Observations & Recent Portfolio Changes[4]

- The Fed is postured to fight inflation, even if it causes a recession.
- We believe inflation will decline, but not to pre-pandemic levels.
- In the most recent rebalance following the end of the third quarter, we have shortened portfolio duration and shifted to underweight corporates, evenweight mortgage-backed securities (MBS), and overweight Treasuries.

During the third quarter of 2022, the Confluence Fixed Income Taxable return was -4.6% (gross of fees), which was slightly higher than the benchmark's return of -4.9%. On a year-to-date basis, the strategy's gross return was -14.3%, again slightly higher than the benchmark at -14.8%. *[Strategy net-of-fees returns for the same periods were -5.3% QTD and -16.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

It was another challenging quarter and yields rose across a wide range of maturities. The Fed and its tightening policy remain as central issues. The Fed has confirmed a strong commitment to lowering inflation, even if it involves a recession. Treasury yields have risen in response, while risk premiums have moved higher across all sectors as investors priced in growing uncertainty. Geopolitical risks have compounded the challenges, including those related to the war in Ukraine, ongoing tensions with China, volatile currency markets, and the possibility of severe recession overseas.

Oftentimes, bonds have been a safe haven during periods of uncertainty, providing greater stability relative to equities. However, in this cycle, the bond market had to rapidly adjust to the rather sudden shift by the Fed to aggressively bring down inflation, a change which resulted in negative returns across a wide spectrum. Looking forward, we don't anticipate interest rates will continue their rapid escalation and we believe it's possible for bonds to provide better diversification and lower volatility, while delivering higher yields than just a few quarters ago.

Still, as we look at the shape of the yield curve, we have some concern regarding the flat and inverted regions beyond short maturities. The shape reflects expectations of a recession and the potential for inflation to decline. While we share these expectations, we also believe inflation is unlikely to return to pre-pandemic levels, despite the Fed's strong rhetoric. In such an environment, we expect upside pressure to interest rates in the 10- to 30-year tenor. Accordingly, with the most recent rebalance in October, we have shortened the portfolio duration to around 5.1 years, which is shorter than that of the benchmark level of 6.3 years.

Our sector allocations have also changed following the end of the third quarter as we increased MBS and Treasuries, while lowering the corporate exposure. MBS spreads have widened significantly, and we find the return/risk profile attractive. On the corporate side, wider spreads are also attractive, but we have concerns that they could widen further if defaults were to rise in a recession. Following these changes, the portfolio is now evenweight MBS, underweight corporates, and overweight Treasuries.

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Performance Composite Returns[5] (For Periods Ending September 30, 2022)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Fixed Income Taxable *Pure Gross-of-Fees[6]*	1.9%	0.8%	(0.3%)	(3.6%)	(14.6%)	(14.3%)	(4.6%)
Max Net-of-Fees[7]	(1.2%)	(2.2%)	(3.3%)	(6.4%)	(17.1%)	(16.2%)	(5.3%)
Benchmark (BofA/U.S. Master)	1.8%	0.9%	(0.3%)	(3.4%)	(14.8%)	(14.8%)	(4.9%)

Calendar Year	Pure Gross-of-Fees[6]	Max Net-of-Fees[7]	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
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%
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
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%
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%
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:
BofA/U.S. Master – ICE BofA U.S. Corporate, Government & Mortgage Index (Domestic Master) *(Source: Bloomberg)*

Disclosures

[2] **Current Portfolio—**Sector allocations shown represent the model portfolio as of 10/19/22 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 10/19/22. Duration and maturity figures shown are based on al 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.

[3] **Maturity Series ETF Profile—**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.

[4] **Market Observations & Recent Portfolio Changes—**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.

[5] **Performance Composite Returns—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, 2021. 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 incepted 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.

[6] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[7] 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.