Confluence INVESTMENT MANAGEMENT

# GROWTH

FIRST QUARTER 2021

## OBJECTIVE

Primarily focused on capital appreciation. Profile is similar to that of a diversified all-equity portfolio.

## INVESTMENT PHILOSOPHY

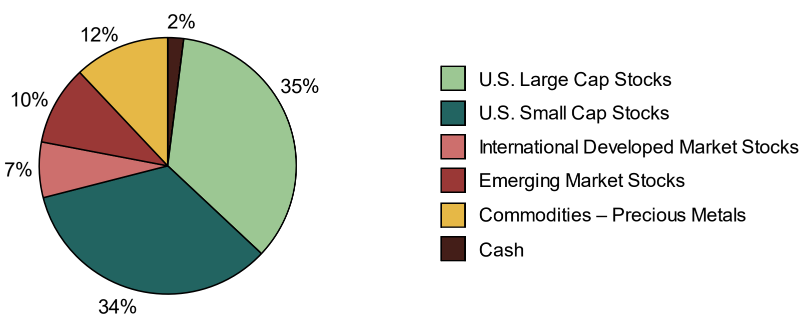
Asset allocation is a portfolio management process where various asset classes are combined in one portfolio. Properly implemented, asset allocation is a time-tested approach that addresses risk through diversification. The Confluence approach to asset allocation is different than traditional asset allocation approaches which rely on long-term historical averages for strategic capital market assumptions. Confluence recognizes that risk levels and return potential rise and fall over market and economic cycles. Therefore, we apply an adaptive process in which the Confluence team estimates the performance of 12 different asset classes in terms of risk, return and yield looking forward 3 years. This cyclical approach is not market *timing*. Rather, the intention is to remain within an acceptable risk profile, while changing the asset class mix to optimize return potential. We may adjust allocations in much shorter time frames, depending upon changing views of the marketplace and economy. Alternately, we may abstain from making significant allocation adjustments if we believe the existing posture remains optimal. The process may involve somewhat higher turnover than a more static strategic program, but usually involves less trading relative to tactical approaches.

The asset allocation portfolios utilize exchange-traded funds (ETFs). We may use ETFs that allow us to focus on or avoid particular industry sectors, bond maturities, commodities or countries.

## OVERVIEW

- Positioned to pursue capital appreciation
- Allocation may include equity asset classes ranging from small cap to large cap
- International allocations may include both developed and emerging markets
- Commodities, real estate and fixed income may be utilized for total return and diversification
- Profile is similar to that of a diversified all-equity portfolio
- Appropriate for equity-oriented investors with an average risk tolerance

## ASSET ALLOCATION[1]




## CHARACTERISTICS[1]

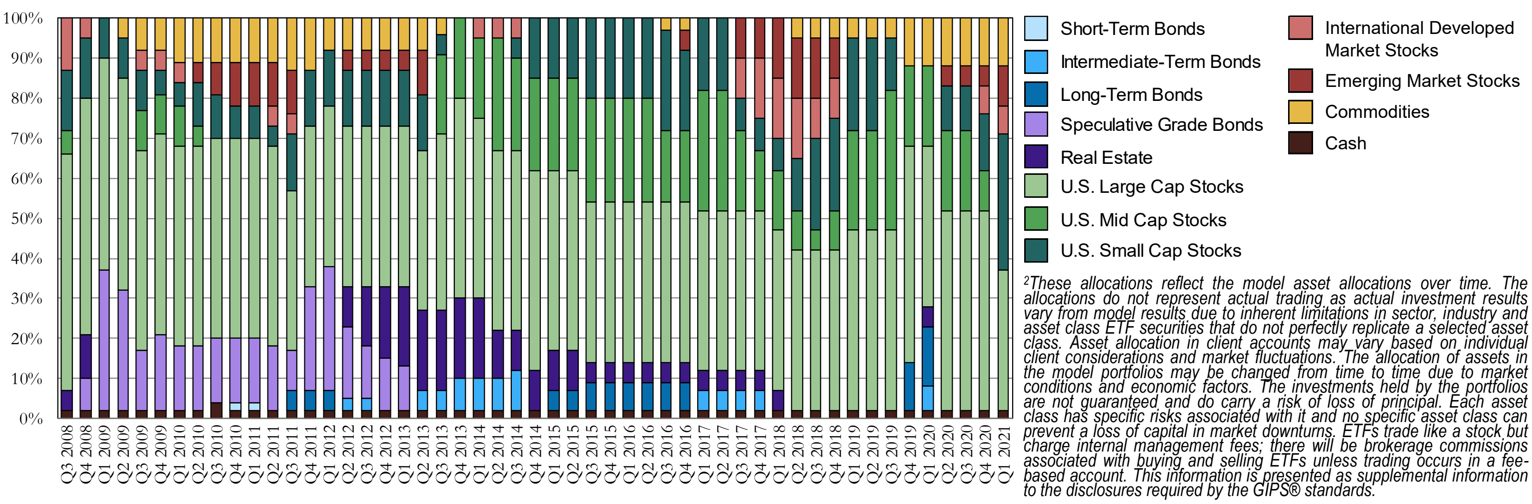
| | |
|---|---|
| Weighted SEC Yield | 1.3% |
| Number of Securities | 14 |
| Annual Turnover (3-Year Rolling) | 89% |

## 5 LARGEST HOLDINGS[1]

| | |
|---|---|
| SPDR® S&P 600 Small Cap Value - SLYV | 20.4% |
| SPDR® S&P 500 Value - SPYV | 14.9% |
| SPDR® S&P 600 Small Cap Growth - SLYG | 13.6% |
| iShares Core MSCI Emerging Markets - IEMG | 10.0% |
| SPDR® S&P 500 Growth - SPYG | 9.8% |

*[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards. Information presented reflects wrap account composites with "Plus" strategies & taxable income (if applicable). Asset allocations shown represent the individual ETFs used in the model portfolios as of 1/19/2021 and do not represent the precise allocation of assets in an actual client account. Asset allocation in client accounts may vary based on individual client considerations and market fluctuations. The allocation of assets in the model portfolio may be changed from time to time due to market conditions and economic factors. The investments held by the portfolio 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 1/19/2021. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2020.*

## HISTORICAL MODEL ALLOCATIONS[2]




*[2]These allocations reflect the model asset allocations over time. The allocations do not represent actual trading as actual investment results vary from model results due to inherent limitations in sector, industry and asset class ETF securities that do not perfectly replicate a selected asset class. Asset allocation in client accounts may vary based on individual client considerations and market fluctuations. The allocation of assets in the model portfolios may be changed from time to time due to market conditions and economic factors. The investments held by the portfolios 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. ETFs trade like a stock but charge internal management fees; there will be brokerage commissions associated with buying and selling ETFs unless trading occurs in a fee-based account. This information is presented as supplemental information to the disclosures required by the GIPS® standards.*

### 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.

## First Quarter 2021 Growth Market Observations

- The economic recovery is still in the early stages and we maintain that the expected path will be long and slow moving.
- The Federal Reserve, along with other global central banks, will likely continue to be aggressively accommodative.
- Another round of fiscal stimulus is expected, which should be positive for equities.
- With the backdrop of an accommodative Fed and a low rate environment over the three-year forecast period, the weighting to equities is increased.
- The prior emphasis on cyclical equities is augmented by a tilt to value over growth.
- The prospect of a waning U.S. dollar in combination with a global economic recovery encourages an increased allocation to non-U.S. equities.
- Exposure to precious metals is retained, though a portion was repositioned to a broader basket of commodities given the advantages they confer during an economic recovery.

The Growth strategy experienced several changes to its equity allocation this quarter. The position in U.S. mid-cap stocks was eliminated and U.S. large cap stocks were trimmed in order to significantly increase the U.S. small cap exposure and double the emerging market stock position. While the overall allocation to equities has not changed from the end of last year, the changes create a tilt to an elevated risk exposure which is partially mitigated by maintaining allocations to gold and silver and initiating an emphasis on value stocks. Last quarter, we introduced an emphasis on cyclical stocks through sector overweights of Industrials and Materials and dedicated exposure to the housing segment. This quarter, we further this emphasis by creating an overweight to Financials in lieu of Consumer Discretionary as well as introducing an overweight to value relative to growth at 60%/40% among all U.S. market capitalizations.

*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 (S&P 500) | Inflation |
|---|---|---|---|---|
| Since Inception** | 9.2% | 6.0% | 11.4% | 1.6% |
| 10-Year* | 11.1% | 7.8% | 13.9% | 1.7% |
| 5-Year* | 14.2% | 10.8% | 15.2% | 1.6% |
| 3-Year* | 14.0% | 10.7% | 14.2% | 1.6% |
| 1-Year | 33.1% | 29.1% | 18.4% | 1.3% |
| YTD | 33.1% | 29.1% | 18.4% | 1.3% |
| QTD | 15.6% | 14.7% | 12.1% | 0.4% |

**Average annualized returns*
***Inception is 9/1/2008*

| Calendar Year | Pure Gross-of-Fees[1] | Net-of-Fees[2] | Benchmark (S&P 500) | Inflation | Difference (Gross-Bchmrk) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | S&P 500 3yr Std Dev | Composite Dispersion |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2008** | (29.8%) | (30.5%) | (28.9%) | (0.0%) | (0.9%) | 2 | $252 | $291,644 | N/A | N/A | N/A |
| 2009 | 29.2% | 25.4% | 26.5% | 1.1% | 2.7% | 73 | $10,824 | $533,832 | N/A | N/A | 0.0% |
| 2010 | 14.5% | 11.1% | 15.1% | 1.6% | (0.5%) | 124 | $18,719 | $751,909 | N/A | N/A | 0.2% |
| 2011 | (1.5%) | (4.5%) | 2.1% | 1.9% | (3.7%) | 155 | $32,263 | $937,487 | 17.8% | 18.7% | 0.2% |
| 2012 | 11.0% | 7.7% | 16.0% | 2.0% | (5.0%) | 152 | $36,374 | $1,272,265 | 14.0% | 15.1% | 0.1% |
| 2013 | 17.7% | 14.2% | 32.4% | 2.0% | (14.7%) | 119 | $35,195 | $1,955,915 | 11.2% | 11.9% | 0.2% |
| 2014 | 14.6% | 11.2% | 13.7% | 1.8% | 0.9% | 115 | $38,771 | $2,589,024 | 8.5% | 9.0% | 0.3% |
| 2015 | (0.4%) | (3.3%) | 1.4% | 1.4% | (1.8%) | 133 | $35,486 | $3,175,419 | 9.5% | 10.5% | 0.1% |
| 2016 | 13.1% | 9.7% | 12.0% | 1.5% | 1.1% | 70 | $24,178 | $4,413,659 | 10.1% | 10.6% | 0.2% |
| 2017 | 16.0% | 12.5% | 21.8% | 1.8% | (5.8%) | 76 | $15,068 | $5,944,479 | 9.2% | 9.9% | 0.1% |
| 2018 | (10.1%) | (12.7%) | (4.4%) | 2.0% | (5.7%) | 65 | $11,109 | $5,486,737 | 10.5% | 10.8% | 0.2% |
| 2019 | 23.9% | 20.2% | 31.5% | 1.6% | (7.6%) | 60 | $15,524 | $7,044,708 | 11.7% | 11.9% | 0.2% |
| 2020 | 33.1% | 29.1% | 18.4% | 1.3% | 14.7% | 48 | $16,186 | $6,889,798 | 16.9% | 18.5% | 0.6% |

**Portfolio Benchmark**

The benchmark is the S&P 500® Index *(Source: Bloomberg)*

*The benchmark was changed retroactively on 7/1/13 to be more simplified. The custom benchmark prior to 7/1/13 was calculated monthly and consisted of: S&P 500 48%, S&P 400 15%, Russell 2000 15%, ML U.S. Corporate, Government, and Mortgage 10%, MSCI EAFE 10% (gross), and ML T-Bill 2%.* Inflation is provided as additional information and is represented by the U.S. 5-year TIP breakeven spread (Bloomberg: USGGBE05 Index), which had 3-year standard deviation as follows: 0.1% 2011, 0.1% 2012, 0.1% 2013, 0.1% 2014, 0.1% 2015, 0.1% 2016, 0.1% 2017, 0.1% 2018, 0.1% 2019, 0.1% 2020.

**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 Growth–Plus Composite was created on September 1, 2008. 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. 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.

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 Growth–Plus Composite contains fully discretionary Growth–Plus wrap accounts. The Growth strategy is implemented using ETFs and the investment objective is the pursuit of nominal returns (yield and growth) in excess of inflation, subject to the limitations of the risk constraint for the Growth strategy. The allocation may include equity asset classes ranging from small cap to large cap. International allocations may include both developed and emerging markets, while commodities, real estate and fixed income may be utilized for total return and diversification. This portfolio may be appropriate for equity-oriented investors with an average risk tolerance.

**Results shown for the year 2008 represent partial period performance from September 1, 2008, through December 31, 2008. 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.


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