



## Growth & Income Taxable Portfolio

**Portfolio Objective:** The Growth & Income Taxable portfolio combines objectives of growth and income, with more emphasis on growth. The profile of this portfolio is similar to a portfolio with a blend of stocks and bonds.

### Portfolio Overview

The Growth & Income Taxable portfolio combines objectives of growth and income, with more emphasis on growth. The growth allocation may include equity asset classes ranging from small cap to large cap, with both domestic and international equities. Commodities may be utilized for total return as well as diversification benefits. Fixed-income and real estate allocations will normally form the foundation to pursue income objectives. The profile is similar to that of a portfolio with a blend of stocks and bonds.

### Investment Process

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 a dynamic 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 are comprised of exchange-traded funds (ETFs). We may use ETFs that allow us to focus on or avoid particular industry sectors, bond maturities, commodities or countries.

### Portfolio Characteristics<sup>1</sup>

	Portfolio
Dividend Yield (as of 3/31/18)	2.1%
Number of Securities	22-26
Annual Turnover	50-90%

### Five Largest Holdings<sup>1</sup> (as of 4/17/18)

iShares S&P 500 Growth - IVW  
 iShares S&P 500 Value - IVE  
 iShares S&P SmallCap 600 Growth - IJT  
 iShares S&P MidCap 400 Growth - IJK  
 iShares S&P SmallCap 600 Value - IJS

*The listing of "Five Largest Holdings" is not a complete list of all securities in the portfolio or which Confluence may be currently recommending. Furthermore, application of the investment strategy as of a later date will likely result in changes to the listing. Contact Confluence for a complete list of holdings.*

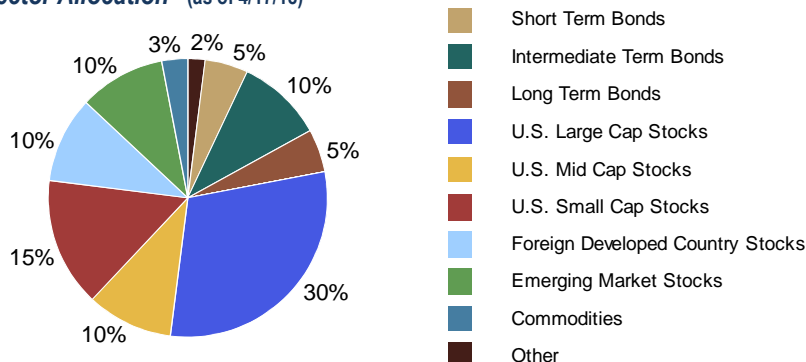
<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. Information presented reflects wrap account composites with "Plus" strategies & taxable income (if applicable).

### Second Quarter 2018 Growth & Income Taxable Market Observations

Allocations shift slightly among the major asset classes due to the elimination of the small speculative grade bond exposure. Allocations to equities are at historically high levels for the strategy and reflect our positive outlook. Within the equity sub-asset classes, we trim U.S. mid-cap equities in favor of an increased exposure to small cap equities, double the prior small weight to emerging market equities and introduce a minor exposure to gold. We retain a 60% tilt toward growth in U.S. equities given our expectations of continued economic expansion. Beyond eliminating speculative grade bonds, there were no changes to the bond exposures, where we retain a bond ladder with a heavier weight to the intermediate segment. In the longer maturity areas, most of the allocation is in Treasuries due to the fact that spread compression among corporates has reduced their attractiveness from a return/risk standpoint.

We maintain the foreign developed allocation and increase emerging market equities due to favorable fundamentals combined with our expectations for a softer U.S. dollar and attendant benefits for U.S.-based investors.

### Sector Allocation<sup>1</sup> (as of 4/17/18)



<sup>1</sup>Note: The asset allocation shown represents the allocation of assets in the Growth & Income Taxable model portfolio as of the second quarter of 2018 and does not represent the 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. ETFs trade like a stock but charge internal management fees; there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. This information is presented as supplemental information to the disclosures required by the GIPS® standards.

**Growth & Income Taxable – Plus Composite Returns**  
For Periods Ending 3/31/18

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	70stock/30bond	Inflation
<b>QTD</b>	(0.4%)	(1.2%)	(0.9%)	0.5%
<b>YTD</b>	(0.4%)	(1.2%)	(0.9%)	0.5%
<b>1-year</b>	10.5%	7.3%	10.1%	1.8%
<b>3-year</b>	7.2%	4.1%	7.9%	1.6%
<b>5-year</b>	9.0%	5.8%	9.9%	1.7%
<b>Since Inception*</b>				
<b>Annualized</b>	7.4%	4.3%	8.5%	1.6%

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	70stock/30bond	Inflation
<b>2017</b>	15.5%	12.1%	16.1%	1.8%
<b>2016</b>	12.2%	8.9%	9.2%	1.5%
<b>2015</b>	(0.9)%	(3.8)%	1.3%	1.4%
<b>2014</b>	13.6%	10.3%	11.5%	1.8%
<b>2013</b>	11.7%	8.4%	21.0%	2.0%
<b>2012</b>	11.4%	8.1%	12.6%	2.0%
<b>2011</b>	1.3%	(1.7)%	4.1%	1.9%
<b>2010</b>	13.1%	9.8%	12.9%	1.6%
<b>2009</b>	26.4%	22.7%	20.2%	1.1%
<b>2008**</b>	(24.1)%	(24.9)%	(19.9)%	(0.0)%

\*Inception is 9/1/08

\*\*Results for 2008 represent partial period performance from 9/1/2008 through 12/31/2008.

The benchmark is calculated monthly and consists of a blend of 70% S&P 500 and 30% ML US Corporate, Government, and Mortgage Bond Index (Source: Bloomberg).

Inflation is provided as additional information and is represented by the US 5-year TIP breakeven spread (Bloomberg: USGGBE05 Index), which had 3yr 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.

The benchmark was changed retroactively on 7/1/13 to be more simplified. The custom benchmark prior to 7/1/13 (calculated monthly) consisted of: ML US Corporate, Government, and Mortgage 38%, S&P 500 30%, S&P 400 15%, Russell 2000 10%, MSCI EAFE (gross) 5%, ML T-Bill 2%.

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

<sup>1</sup> Pure gross-of-fees returns are shown as supplemental information to the disclosures required by the GIPS® standards. The Growth & Income Taxable - Plus Composite was created on September 1, 2008. 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-of-fees and net-of-fees and include the reinvestment of all income.

<sup>2</sup> Net-of-fees 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.

The Growth and Taxable Income - Plus Composite contains fully discretionary Growth and Taxable Income - Plus wrap accounts. The Growth & Income Taxable 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 & Income Taxable strategy. The growth allocation may include equity asset classes ranging from small cap to large cap, with both domestic and international equities. Commodities may be utilized for total return as well as diversification benefits. Fixed-income and real estate allocations will normally form the foundation to pursue taxable income objectives. This portfolio may be appropriate for investors with a moderate risk tolerance. A GIPS-compliant presentation and/or the firm's list of composite descriptions can be requested by contacting Confluence. Yield data source: FactSet. Weighted average dividend yield of holdings in the portfolio, calculated based on annualized current dividends.

**Firm Overview**

**The Confluence Team**

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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 LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm's investment philosophy is based upon independent, fundamental research that integrates our evaluation of market cycles, macroeconomics and geopolitical analysis with our value-driven, fundamental company-specific approach. Confluence's portfolio management philosophy begins by assessing risk, and follows through by positioning clients to achieve their income and growth objectives. The Confluence team has more than 400 years of combined financial experience and 200 years of portfolio management experience.

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