

## 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.

## INVESTMENT PHILOSOPHY

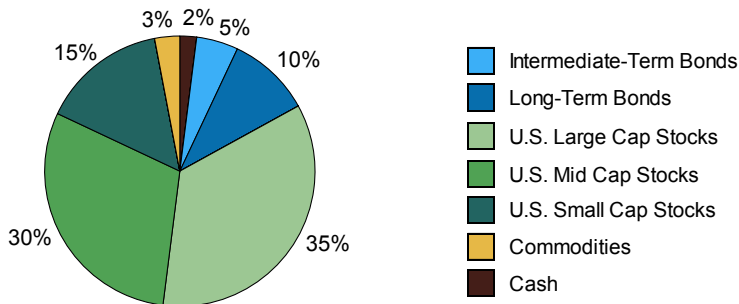
Asset allocation is a portfolio management process where various asset classes are combined in one portfolio. Properly implemented, asset allocation is a time-tested approach that addresses risk through diversification. The Confluence approach to asset allocation is different than traditional asset allocation 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 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 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.

## PORTFOLIO OVERVIEW

- ◆ 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 and diversification benefits
- ◆ Fixed income and real estate will normally form the foundation to pursue income objectives
- ◆ Profile is similar to that of a portfolio with a blend of stocks and bonds
- ◆ Suitable for investors with a moderate risk tolerance

## ASSET ALLOCATION<sup>1</sup>



## CHARACTERISTICS<sup>1</sup>

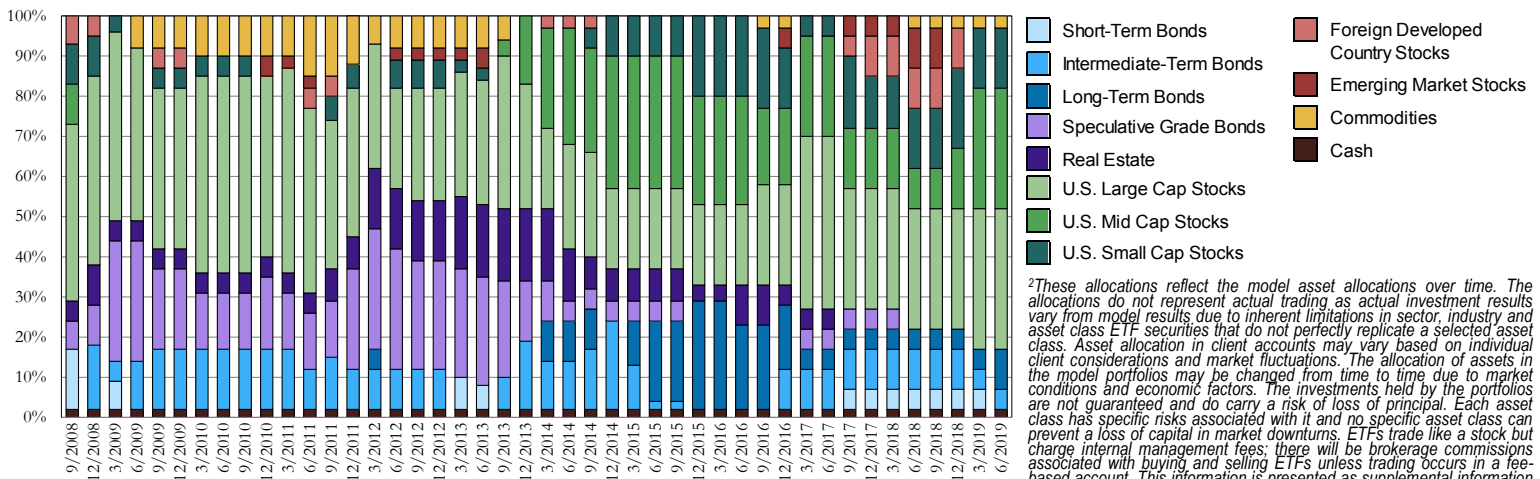
Weighted SEC Yield	1.7%
Number of Securities	17-21
Annual Turnover	50-90%

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

iShares S&P Mid-Cap 400 Growth ETF - IJK	15.0%
iShares S&P Mid-Cap 400 Value ETF - IJJ	15.0%
iShares S&P 500 Growth ETF - IVW	14.0%
iShares S&P 500 Value ETF - IVE	14.0%
iShares S&P Small-Cap 600 Value ETF - IJS	8.0%

<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). Asset allocations shown 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. 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. Yield data source: Morningstar. 30-day SEC yield for the model portfolio as of 4/16/19.

## HISTORICAL MODEL ALLOCATIONS<sup>2</sup>



<sup>2</sup>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 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 evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's 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 500 years of combined financial experience and 300 years of portfolio management experience.

## SECOND QUARTER 2019 GROWTH & INCOME MARKET OBSERVATIONS

- ◆ The Federal Reserve shifted fully from its hawkish stance at the beginning of the year. We anticipate that the committee will maintain its newly dovish stance with the potential for further monetary accommodation.
- ◆ Though the employment/population ratio has improved, we find it still indicates slack in the labor force, blunting the full impact of wage growth on inflation.
- ◆ Should trade agreements be reached with China and the European Union, and Congress approves the replacement for NAFTA, U.S. equity markets will respond positively.
- ◆ Despite weakness abroad, we expect the U.S. economy to continue to grow through the balance of this year and into next.
- ◆ The Fed's accommodation and our expectations for continued U.S. growth over the next two years encourages our continued historically high weighting to U.S. equities in the strategies.

The largest change to the Growth & Income strategy was moving the 5% position in short-term bonds to long-term bonds, which now have a 10% allocation. The bond ladder still serves as the nucleus of the intermediate section and comprises a third of the total bond exposure. Overall, we lengthen duration from last quarter owing to our forecasts for a return to a normally sloped yield curve with yield compression across maturities. The allocation to stocks remains at historically high levels due to expectations for an accommodative Fed and continued corporate profitability. The style bias between growth and value stocks remains neutral and we introduce overweight sectors of Industrials and Technology, replacing Health Care and Energy, and retain the overweight to Materials. The split among capitalizations remains intact from last quarter, with mid-cap stocks at 30% and small cap stocks at 15%, representing a sizable overweight to both sub-asset classes. We retain the small weighting to gold as a hedge against geopolitical risk and due to the opportunity it affords against a potentially weaker U.S. dollar.

## Confluence Asset Allocation Committee

Mark Keller, CFA      David Miyazaki, CFA  
William O'Grady      Patty Dahl  
Gregory Ellston      Kaisa Stucke, 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.

## PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING MARCH 31, 2019)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (70stock/30bond)	Inflation
QTD	10.8%	9.9%	10.4%	0.4%
YTD	10.8%	9.9%	10.4%	0.4%
1-Year	2.3%	(0.7%)	8.3%	1.9%
3-Year*	8.4%	5.2%	10.1%	1.8%
5-Year*	7.3%	4.2%	8.6%	1.7%
10-Year*	11.6%	8.3%	12.3%	1.7%
Since Inception**	7.0%	3.8%	8.5%	1.6%

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

The Growth and Taxable Income - Plus Composite was created on September 1, 2008. Confluence Investment Management LLC is an independent registered investment adviser. 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. 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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 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.

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

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (70stock/30bond)	Inflation	Difference (Gross-Bchmk)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2018	(8.1%)	(10.8%)	(2.8%)	2.0%	(5.2%)	289	\$60,638	\$5,486,737	8.9%	7.5%	0.1%
2017	15.5%	12.1%	16.1%	1.8%	(0.6%)	259	\$63,074	\$5,944,479	7.7%	6.8%	0.1%
2016	12.2%	8.9%	9.2%	1.5%	3.0%	187	\$34,169	\$4,413,659	8.5%	7.4%	0.2%
2015	(0.9%)	(3.8%)	1.3%	1.4%	(2.2%)	442	\$85,189	\$3,175,419	7.8%	7.4%	0.1%
2014	13.6%	10.3%	11.5%	1.8%	2.1%	331	\$71,109	\$2,589,024	7.2%	6.3%	0.2%
2013	11.7%	8.4%	21.0%	2.0%	(9.3%)	483	\$99,018	\$1,955,915	9.7%	8.2%	0.1%
2012	11.4%	8.1%	12.6%	2.0%	(1.1%)	483	\$88,475	\$1,272,265	11.8%	10.2%	0.2%
2011	1.3%	(1.7%)	4.1%	1.9%	(2.8%)	473	\$76,475	\$937,487	15.7%	13.1%	0.2%
2010	13.1%	9.8%	12.9%	1.6%	0.3%	474	\$69,570	\$751,909	N/A	N/A	0.2%
2009	26.4%	22.7%	20.2%	1.1%	6.2%	274	\$40,177	\$533,832	N/A	N/A	0.1%
2008**	(24.1%)	(24.9%)	(19.9%)	(0.0%)	(4.2%)	17	\$2,070	\$291,644	N/A	N/A	N/A

\*\*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.

### Portfolio Benchmark

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). 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: ML US Corporate, Government, and Mortgage 38%, S&P 500 30%, S&P 400 15%, Russell 2000 10%, MSCI EAFE (gross) 5%, and ML T-Bill 2%. 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, 0.1% 2018.

### FOR MORE INFORMATION CONTACT ONE OF OUR SALES TEAM MEMBERS:

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