

## OBJECTIVE

Combines objectives of growth and income exempt from federal taxation, with more emphasis on growth. Profile is similar to a portfolio with a blend of stocks and bonds.

## INVESTMENT PHILOSOPHY

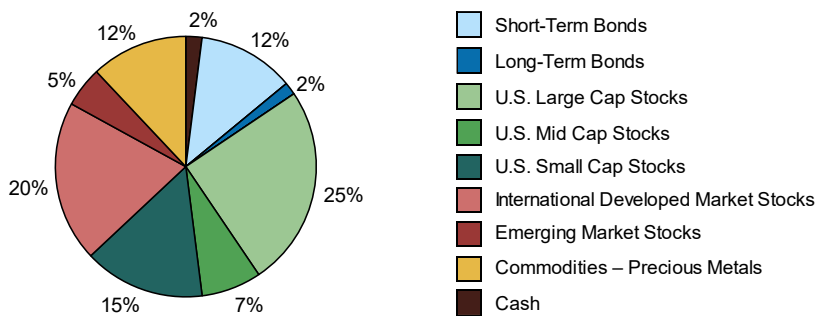
Asset allocation is a portfolio management process where various asset classes are combined in one portfolio. Properly implemented, asset allocation is a time-tested approach that addresses risk through diversification. The Confluence approach to asset allocation is different than traditional asset allocation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

- ◆ 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
- ◆ Municipal bond ETFs will normally form the foundation to pursue income objectives
- ◆ Profile is similar to that of a portfolio with a blend of stocks and bonds
- ◆ Appropriate for investors with a moderate risk tolerance

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



## CHARACTERISTICS<sup>1</sup>

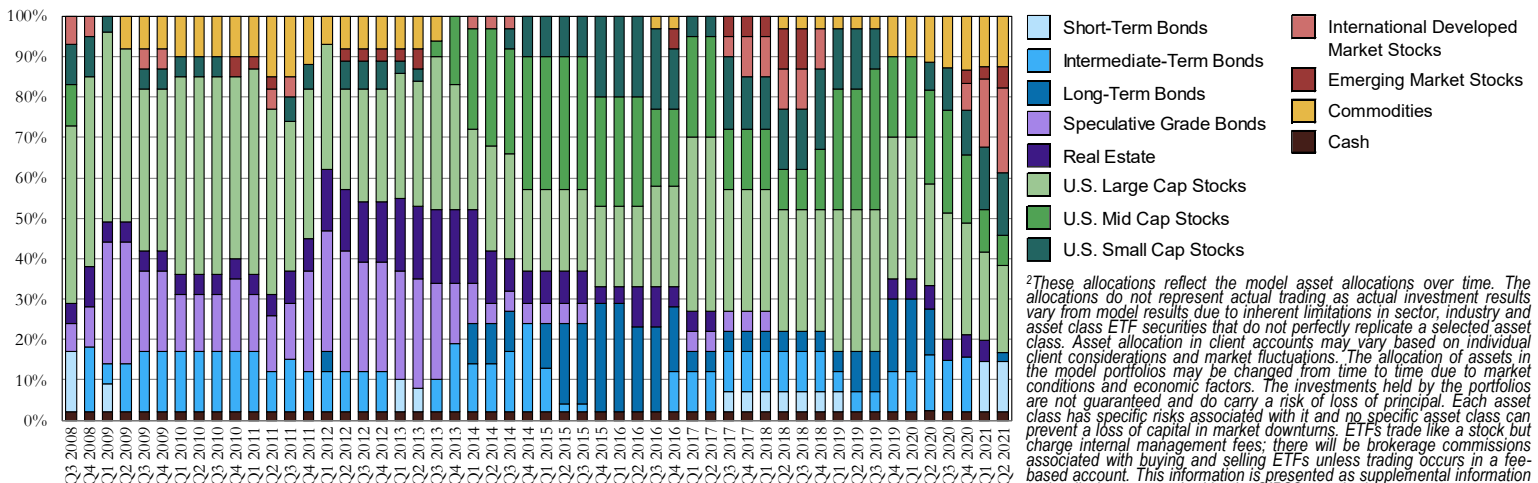
Weighted SEC Yield	1.1%
Number of Securities	19
Annual Turnover (3-Year Rolling)	83%

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

SPDR® Developed World ex-US - SPDW	16.0%
SPDR® S&P 500 Value - SPYV	11.7%
SPDR® S&P 600 Small Cap Value - SLYV	9.8%
iShares Gold Trust - IAU	9.0%
iShares iBonds Dec 2022 Muni Bond - IBMK	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 individual ETFs used in the model portfolios as of 4/20/2021 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 4/20/2021. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2020.

## 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 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.

## SECOND QUARTER 2021 GROWTH & INCOME TAX-EXEMPT MARKET OBSERVATIONS

- ◆ Monetary and fiscal stimulus are expected to help propel the U.S. economy through recovery into expansion over our three-year forecast period.
- ◆ Global central banks have been, and should continue to be, excessively accommodative as the world emerges from lockdowns caused by the pandemic.
- ◆ Inflation numbers may appear stark over the next several months, but we expect overall inflation to settle below the Fed's threshold over the full forecast period.
- ◆ The allocation to equities among all strategies remains elevated with an increased tilt toward value and an overweight to small capitalization stocks, where risk appropriate.
- ◆ More risk-tolerant strategies have a higher allocation this quarter to international stocks due to our expectations of overseas growth combined with the potential for a waning value of the U.S. dollar.
- ◆ Commodity exposure is retained across all strategies, with heavier concentration in the more risk-averse strategies.

In the Growth & Income Tax-Exempt strategy this quarter, we reduced mid-cap stocks and eliminated REITs in order to increase the weightings to international developed and emerging market stocks as well as introduce a small allocation to long-term municipal revenue bonds. The developed market exposure includes an overweight to large cap U.K. stocks. The incremental changes to the strategy reflect what we believe to be the proper positioning for a moderate risk profile in the middle of a global economic recovery. The elevated equity allocation is crafted toward a cyclical exposure with risk mitigation in the form of a continuing heavy weight to short-term municipal bonds. A modest allocation to long-term municipal bonds coupled with commodity exposure, in the form of a broad basket with an emphasis on precious metals, provide lower correlated allocations to aid in balancing risk.

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 MARCH 31, 2021)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (70stock/30muni)	Inflation	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (70stock/30muni)	Inflation	Difference (Gross-Bchmrk)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Bchmrk 3yr Std Dev	Composite Dispersion
Since Inception**	8.4%	5.1%	9.8%	1.6%	2008**	(24.3%)	(25.1%)	(22.2%)	(0.0%)	(2.1%)	9	\$1,847	\$291,644	N/A	N/A	N/A
10-Year*	9.4%	6.1%	11.3%	1.7%	2009	25.7%	21.9%	23.4%	1.1%	2.3%	62	\$13,297	\$533,832	N/A	N/A	0.3%
5-Year*	12.2%	8.9%	12.6%	1.7%	2010	11.7%	8.4%	11.5%	1.6%	0.2%	87	\$19,644	\$751,909	N/A	N/A	0.1%
3-Year*	12.7%	9.4%	13.5%	1.7%	2011	1.2%	(1.8%)	5.1%	1.9%	(3.9%)	78	\$19,329	\$937,487	15.6%	13.0%	0.1%
1-Year	49.4%	45.0%	39.6%	1.7%	2012	11.0%	7.7%	13.5%	2.0%	(2.4%)	86	\$22,080	\$1,272,265	11.9%	10.3%	0.1%
YTD	6.9%	6.1%	4.2%	0.6%	2013	11.5%	8.2%	20.8%	2.0%	(9.3%)	93	\$24,622	\$1,955,915	9.7%	8.3%	0.2%
QTD	6.9%	6.1%	4.2%	0.6%	2014	12.4%	9.1%	12.6%	1.8%	(0.2%)	66	\$17,945	\$2,589,024	6.9%	6.5%	0.1%
					2015	0.9%	(2.1%)	2.2%	1.4%	(1.4%)	68	\$18,325	\$3,175,419	7.4%	7.4%	0.2%
					2016	10.3%	7.0%	8.5%	1.5%	1.7%	45	\$6,439	\$4,413,659	7.8%	7.3%	0.1%
					2017	15.5%	12.0%	16.7%	1.8%	(1.2%)	50	\$7,999	\$5,944,479	7.2%	6.8%	0.1%
					2018	(7.6%)	(10.3%)	(2.5%)	2.0%	(5.0%)	44	\$6,392	\$5,486,737	8.6%	7.5%	0.1%
					2019	20.7%	17.1%	24.1%	1.6%	(3.5%)	49	\$9,345	\$7,044,708	9.9%	8.3%	0.1%
					2020	19.9%	16.3%	15.0%	1.3%	4.9%	44	\$8,895	\$6,889,798	14.8%	13.3%	0.2%

\*Average annualized returns

\*\*Inception is 9/1/2008

#### Portfolio Benchmark

The benchmark is calculated monthly and consists of a blend of 70% S&P 500 and 30% ML Municipal 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 Municipal 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 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 & Income Tax-Exempt-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.

<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 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 & Income Tax-Exempt-Plus Composite contains fully discretionary Growth & Income Tax-Exempt-Plus wrap accounts. The Growth & Income Tax-Exempt 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 Tax-Exempt 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 income objectives. This portfolio may be appropriate for investors with a moderate 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.

#### Confluence Asset Allocation Committee

Mark Keller, CFA  
 Gregory Ellston  
 William O'Grady  
 David Miyazaki, CFA

Patty Dahl  
 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.

#### FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM:

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