Growth & Income Tax-Exempt Portfolio

Portfolio Objective: The Growth & Income Tax-Exempt 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 Tax-Exempt 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. Municipal fixed-income and real estate allocations will normally form the foundation to pursue income objectives. Speculative grade bonds may also be utilized; note that these bonds are taxable corporate bonds, not high yield munis. The profile is similar to 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 and notes (ETFs and ETNs). We may use ETFs that allow us to focus on or avoid particular industry sectors, bond maturities, commodities or countries.

Portfolio Characteristics[1]

	Portfolio
Dividend Yield (as of 9/30/17)	1.9%
Number of Securities	22-26
Annual Turnover	50-90%

Five Largest Holdings[1] (as of 10/24/17)

iShares National AMT-Free Muni - MUB
iShares S&P MidCap 400 Growth - IJK
iShares S&P MidCap 400 Value - IJJ
VanEck Long Municipal Index - MLN
iShares Technology Sector - IYW

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.

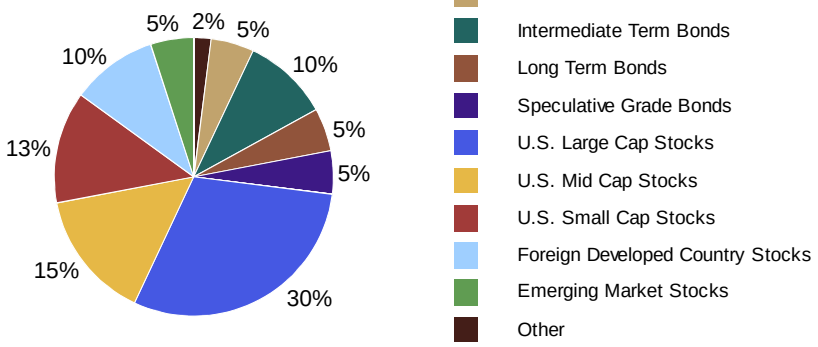
[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards. Information presented reflects wrap account composites with "Plus" strategies & taxable income (if applicable).

Fourth Quarter 2017 Growth & Income Tax-Exempt Market Observations

There were no changes to the bond positions in the Growth & Income Tax-Exempt strategy. The concentration remains on the intermediate segment of the municipal bond curve and we retain exposure to short and long municipals to balance duration and influence overall yield. In addition, we maintain a modest 5% weight to speculative grade bonds to gain the benefit of their diversified sources of yield that are remote from influences of the municipal bond market.

This quarter, we make a small adjustment to the equity sleeve of the portfolio. While the allocations to U.S. large cap and mid-cap exposures remain unchanged, we trim a portion of the U.S. small cap exposure in order to increase the non-U.S. developed equity allocation by 5%. The non-U.S. allocation includes an emphasis on European equities due to firming economic conditions on the continent and our view of favorable corporate fundamental valuations relative to U.S. counterparts. In addition, we expect continued U.S. dollar softness, which could have a positive effect on the holdings for U.S.-based investors.

Sector Allocation[1] (as of 10/24/17)



[1]Note: The asset allocation shown represents the allocation of assets in the Growth & Income Tax-Exempt model portfolio as of the fourth quarter of 2017 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, and 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 Tax-Exempt Portfolio

as of 9/30/17

Growth & Income Tax-Exempt – Plus Composite Returns (%)

For Periods Ending 9/30/17

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	70stock/30muni	Inflation
QTD	3.7	2.9	3.5	0.4
YTD	10.6	8.2	11.3	1.4
1-year	11.3	8.0	13.1	1.8
3-year	9.0	5.7	8.6	1.5
5-year	9.2	6.0	10.9	1.7
Since Inception* Annualized	7.0	3.8	8.8	1.6

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	70stock/30muni	Inflation
2016	10.3	7.0	8.5	1.5
2015	0.9	(2.1)	2.2	1.4
2014	12.4	9.1	12.6	1.8
2013	11.5	8.2	20.8	2.0
2012	11.0	7.7	13.5	2.0
2011	1.2	(1.8)	5.1	1.9
2010	11.7	8.4	11.5	1.6
2009	25.7	21.9	23.4	1.1
2008**	(24.3)	(25.1)	(22.2)	(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 Municipal 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.
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 Municipal 38%, S&P 500 30%, S&P 400 15%, Russell 2000 10%, MSCI EAFE (gross) 5%, and ML T-Bill 2%.

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

[1] *Pure gross-of-fees returns are shown as supplemental information to the disclosures required by the GIPS® standards. The Growth & Income Tax-Exempt - 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.*

[2] *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 Income Tax-Exempt - Plus Composite contains fully discretionary Growth and 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. A GIPS-compliant presentation and/or the firm's list of composite descriptions can be requested by contacting Confluence.

Firm Overview

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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, SEC 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 300 years of combined financial experience and 100 years of portfolio management experience.

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