

**OBJECTIVE**

Primarily focused on reliable income. Profile is similar to a diversified bond portfolio with a small portion allocated to equities, when appropriate.

**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**

- ◆ Focus is reliable income with principal preservation; an element of long-term growth can be used to mitigate risk associated with inflation
- ◆ Majority of its allocation in fixed-income asset classes with the core being a ladder of target maturity ETFs, with each of the next 10 years representing a fixed percentage of assets
- ◆ A small portion of the portfolio may include real estate, equities, and commodities to contribute growth potential and diversification benefits
- ◆ Appropriate as a complementary strategy for investors in the distribution phase for their investments
- ◆ Strategy assets: \$32.0 million<sup>1</sup>

<sup>1</sup> Total strategy assets include assets under management (AUM) and assets under advisement (AUA). As of 12/31/22, AUM = \$0.9 million and AUA = \$31.1 million.

**CURRENT PORTFOLIO<sup>2</sup>**

(As of 1/19/2023 rebalance)

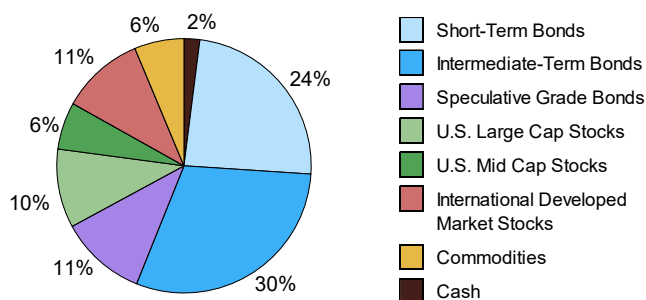
**CHARACTERISTICS**

|                                                    |      |
|----------------------------------------------------|------|
| Weighted SEC Yield                                 | 3.7% |
| Volatility Ceiling                                 | 7.0% |
| Number of Securities                               | 25   |
| Annual Turnover<br>(3-Year Rolling as of 12/31/22) | 89%  |

**5 LARGEST HOLDINGS**

|                                                  |       |
|--------------------------------------------------|-------|
| iShares BB Rated Corporate Bond ETF - HYBB       | 11.0% |
| SPDR® Portfolio Developed World ex-US ETF - SPDW | 11.0% |
| SPDR® Portfolio Mortgage Backed Bond ETF - SPMB  | 6.5%  |
| iShares 1-3 Year Treasury Bond - SHY             | 4.5%  |
| SPDR® Gold MiniShares ETF - GLDM                 | 4.5%  |

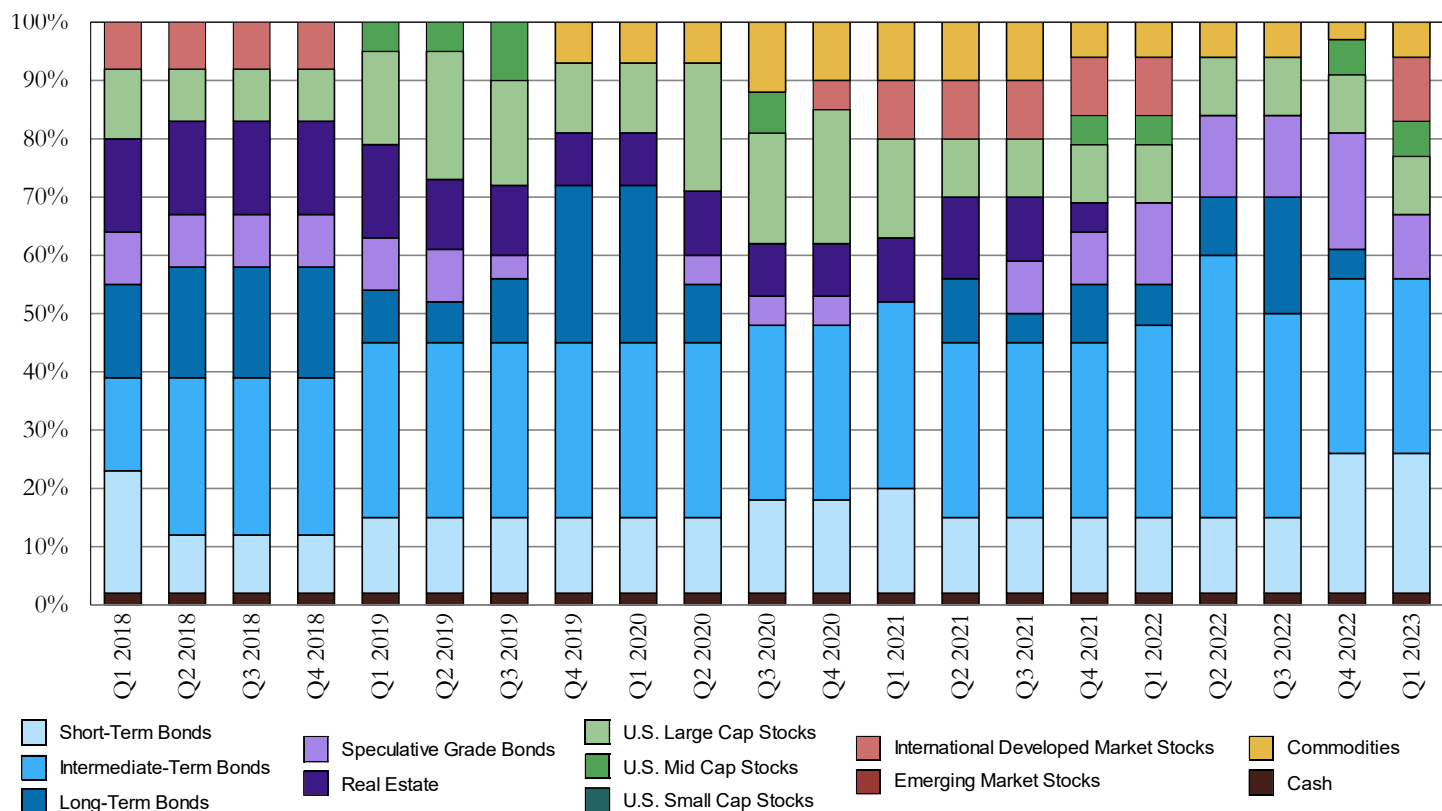
**ASSET ALLOCATION**



**RECENT PORTFOLIO CHANGES<sup>3</sup>**

The changes to the Income strategy this quarter included eliminating the ultra-long U.S. Treasury position, a sizable decrease to the BB-rated speculative bond exposure, the introduction of international developed market stocks, and a modest increase in the exposure to gold. The 10-year ladder maturity core of the strategy remains intact as do the allocations to U.S. large cap stocks, U.S. mid-cap stocks, and broad-based commodities. Although the total allocation to U.S. large cap stocks is unchanged, the composition moved from a defensive posture to being positioned for a recovery through the addition of overweights to industrials and metals/mining.

## HISTORICAL MODEL ALLOCATIONS<sup>4</sup>



## PERFORMANCE COMPOSITE RETURNS<sup>5</sup> (FOR PERIODS ENDING DECEMBER 31, 2022)

|                                       | Since Inception** | 3-Year* | 1-Year  | YTD     | QTD  |
|---------------------------------------|-------------------|---------|---------|---------|------|
| <b>Income (Taxable)</b>               |                   |         |         |         |      |
| <i>Pure Gross-of-Fees<sup>6</sup></i> | 5.3%              | 4.9%    | (11.7%) | (11.7%) | 2.8% |
| <i>Max Net-of-Fees<sup>7</sup></i>    | 2.2%              | 1.8%    | (14.4%) | (14.4%) | 2.1% |
| <b>Benchmark (20stock/80bond)</b>     | 2.1%              | (0.5%)  | (14.1%) | (14.1%) | 3.0% |
| <b>Inflation</b>                      | 2.1%              | 2.2%    | 2.8%    | 2.8%    | 0.6% |

| Calendar Year | Pure Gross-of-Fees <sup>6</sup> | Max Net-of-Fees <sup>7</sup> | Benchmark (20stock/80bond) | Inflation | Difference (Gross-Benchmark) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | Benchmark 3yr Std Dev | Composite Dispersion |
|---------------|---------------------------------|------------------------------|----------------------------|-----------|------------------------------|-----------------|-------------------------|--------------------------|-----------------------|-----------------------|----------------------|
| 2018          | (2.6%)                          | (5.5%)                       | (0.7%)                     | 2.0%      | (1.9%)                       | 1               | \$448                   | \$5,486,737              | N/A                   | N/A                   | N/A                  |
| 2019          | 15.0%                           | 11.6%                        | 13.3%                      | 1.6%      | 1.7%                         | 1               | \$210                   | \$7,044,708              | N/A                   | N/A                   | N/A                  |
| 2020          | 19.6%                           | 16.1%                        | 10.2%                      | 1.3%      | 9.4%                         | 1               | \$242                   | \$6,889,798              | 6.9%                  | 4.7%                  | N/A                  |
| 2021          | 9.4%                            | 6.2%                         | 3.9%                       | 2.6%      | 5.5%                         | 1               | \$247                   | \$7,761,687              | 6.5%                  | 4.6%                  | N/A                  |
| 2022          | (11.7%)                         | (14.4%)                      | (14.1%)                    | 2.8%      | 2.3%                         | 1               | \$201                   | \$6,931,635              | 8.5%                  | 7.6%                  | N/A                  |

\*Average annualized returns

\*\*Inception is 1/1/2018

See performance disclosures on last page.

### Portfolio Benchmark

**20% stock/80% bond** – The benchmark is calculated monthly and consists of a blend of 20% S&P 500 and 80% ICE BofA U.S. Corporate, Government, and Mortgage Bond Index. (Source: Bloomberg)

## Confluence Asset Allocation Committee

Mark Keller, CFA  
Gregory Ellston

William O'Grady  
David Miyazaki, CFA

Patty Dahl  
Kaisa Stucke, CFA

Patrick Fearon-Hernandez, CFA

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

Ron Pond, CFA | *Northwest*  
Director of Sales  
(314) 526-0759  
rpond@confluenceim.com

Jason Gantt | *East*  
Sr. Regional Sales Director  
(314) 526-0364  
jgantt@confluenceim.com

Jim Taylor | *Mid-South*  
Regional Sales Director  
(314) 526-0469  
jtaylor@confluenceim.com

Denis O'Grady | *East & Mid-South*  
Regional Sales Associate (Internal)  
(314) 743-5294  
dogrady@confluenceim.com

Wayne Knowles | *ID, MT, WY*  
Advisory Director  
(314) 526-0914  
wknowles@confluenceim.com

Steve Mikez | *Southwest*  
Sr. Regional Sales Director  
(314) 526-0776  
smikez@confluenceim.com

Michael Kelnosky | *North-Central*  
Regional Sales Director  
(314) 526-0622  
mkelnosky@confluenceim.com

Matt Winter | *Southwest & North-Central*  
Regional Sales Associate (Internal)  
(314) 526-0522  
mwinter@confluenceim.com

## DISCLOSURES

**<sup>2</sup>Current Portfolio**—Information presented reflects wrap account composites with taxable income (if applicable). Asset allocations shown represent the individual ETFs used in the model portfolios as of 1/19/23 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 of the model portfolio as of 1/19/23. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2022.

**<sup>3</sup>Recent Portfolio Changes**—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.

**<sup>4</sup>Historical Model Allocations**—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. 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.

**<sup>5</sup>Performance Composite Returns**—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, 2021. 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.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The Income Taxable strategy was inception on January 1, 2018, and the current Income Taxable-Plus Composite was created on July 1, 2019. 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>6</sup>Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>7</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. Subsequent to July 1, 2019, bundled fee accounts make up 100% of the composite. 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.

Performance prior to July 1, 2019, is based on the Income Taxable-Direct Composite which was created on January 1, 2018. This composite includes accounts that pursue the Income Taxable strategy, but have a different fee structure. Gross returns from the Income Taxable-Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

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 Income Taxable-Plus Composite contains fully discretionary Income Taxable-Plus wrap accounts. The 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 Income Taxable strategy. Although the portfolio typically has the majority of its allocation in taxable fixed income asset classes, a smaller portion of the portfolio may include real estate, equities, commodities or other asset classes. This minority allocation provides an aspect of growth potential, along with diversification benefits. This portfolio may be appropriate for investors with a conservative risk tolerance.

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.

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% 2018, 0.1% 2019, 0.1% 2020, 0.2% 2021, 0.2% 2022.