Income with Growth

Second Quarter 2020

Objective

Primarily focused on reliable income with a secondary focus on growth. Profile is similar to a well-diversified bond portfolio alongside an equity allocation.

Investment Philosophy

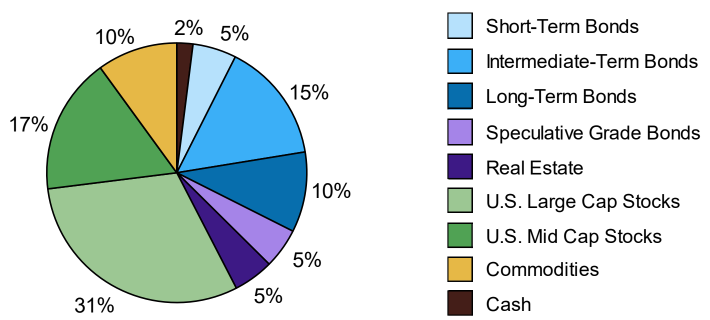
Asset allocation is a portfolio management process where various asset classes are combined in one portfolio. Properly implemented, asset allocation is a time-tested approach that addresses risk through diversification. The Confluence approach to asset allocation is different than traditional asset allocation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

- Focus is oriented toward reliable income, moderate volatility, long-term growth and principal preservation
- Typically has the majority of its allocation in fixed-income asset classes
- Smaller portion of the portfolio may include real estate, equities, commodities or other asset classes that contribute growth potential and diversification benefits
- Profile similar to that of a diversified bond portfolio alongside a smaller proportion of equities
- Suitable for investors with a conservative risk tolerance

Asset Allocation[1]



Characteristics[1]

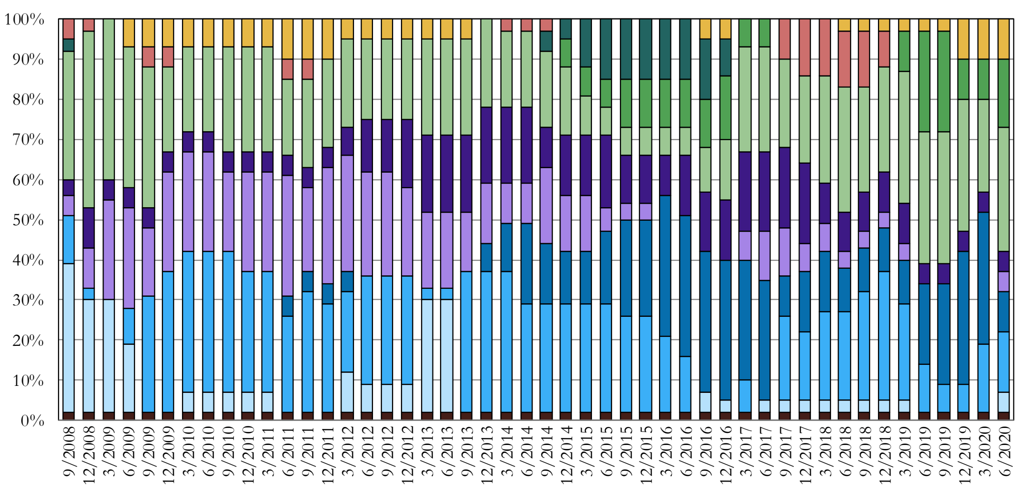
Weighted SEC Yield	2.3%
Number of Securities	15-21
Annual Turnover (3-Year Rolling)	85%

5 Largest Holdings[1]

iShares iBoxx $ Invmt Grade Corp Bond - LQD	14.1%
SPDR Portfolio S&P 500 Growth ETF - SPYG	12.1%
SPDR S&P 400 Mid Cap Growth ETF - MDYG	10.2%
iShares Gold Trust - IAU	10.0%
SPDR Portfolio S&P 500 Value ETF - SPYV	8.1%

[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). Asset allocations shown represent the individual ETFs used in the model portfolios as of 3/30/20 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 3/30/20. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2019.*

Historical Model Allocations[2]



Short-Term Bonds
Intermediate-Term Bonds
Long-Term Bonds
Speculative Grade Bonds
Real Estate
U.S. Large Cap Stocks
U.S. Mid Cap Stocks
U.S. Small Cap Stocks
Foreign Developed Country Stocks
Emerging Market Stocks
Commodities
Cash

[2]*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.

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Second Quarter 2020 Income With Growth Market Observations

- The prospect of a recession in the U.S. is nearly a foregone conclusion. The depth will likely be severe, but the duration could be brief.
- Actions over the past two weeks by the U.S. Federal Reserve should help mitigate the economic crisis, potentially avoiding problems faced in past downturns.
- The stimulus package signed into law on March 27 offers further assistance for lessening the duration of the contraction.
- Our three-year forecast is for a recovery and even the potential for expansion toward the end of the forecast period.
- Risk assets, especially U.S. equities and even corporate bonds, are at attractive valuations in our view.
- Each strategy now has elevated exposure to equities with a tilt toward growth over value.
- Though long-term Treasuries have likely run their course, the use of gold as a stabilizer for the strategies remains appropriate.

Several changes were made to the Income with Growth strategy this quarter. Congruent with our thoughts on long-term bonds and the potential for risk assets over our three-year forecast period, the majority of exposure to long-term bonds was removed in favor of initiating a position in speculative grade bonds and increasing the weight to U.S. large cap and mid-cap equities. In the short and intermediate bond segments, the strategy retains the laddered maturity structure and incorporates maturity-term Treasury ETFs toward the back end of the intermediate maturity segment. Among U.S. equities, a tilt now exists in favor of growth over value and we increase the allocation to the quality factor focusing on profitability, earnings quality, and lower leverage. Within large cap sectors, we establish an overweight to Consumer Discretionary, given expectations for performance once constrained demand from COVID-19 is revived, while maintaining the overweight to Technology and Communication Services. We increase the formerly neutral weight to mid-cap stocks, further evidence of our risk-accepting posture for the strategy over the three-year forecast. However, we retain the stabilizer of gold owing to its potential to reduce overall strategy risk accruing from geopolitical uncertainty, along with the opportunity it affords in the event of continued global equity market volatility.

Performance Composite Returns (For Periods Ending March 31, 2020)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	Benchmark (40stock/60bond)	Inflation
Since Inception**	9.2%	6.0%	7.7%	1.7%
10-Year*	7.5%	4.3%	6.8%	1.7%
5-Year*	5.3%	2.2%	5.0%	1.6%
3-Year*	6.1%	2.9%	5.3%	1.7%
1-Year	5.8%	2.6%	3.0%	1.5%
YTD	(4.5%)	(5.2%)	(6.2%)	0.3%
QTD	(4.5%)	(5.2%)	(6.2%)	0.3%

*Average annualized returns
**Inception is 12/1/2008

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	Benchmark (40stock/60bond)	Inflation	Difference (Gross-Bchmrk)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Bchmrk 3yr Std Dev	Composite Dispersion
2008**	4.5%	4.3%	2.4%	(0.0%)	2.2%	80	$10,864	$291,644	N/A	N/A	N/A
2009	22.9%	19.3%	13.8%	1.1%	9.1%	14	$4,276	$533,832	N/A	N/A	N/A
2010	12.2%	8.9%	10.4%	1.6%	1.9%	25	$9,337	$751,909	N/A	N/A	0.3%
2011	4.9%	1.8%	5.9%	1.9%	(0.9%)	43	$14,679	$937,487	11.8%	7.6%	0.1%
2012	10.1%	6.9%	9.1%	2.0%	1.1%	53	$20,940	$1,272,265	7.7%	5.5%	0.1%
2013	7.8%	4.6%	10.5%	2.0%	(2.7%)	50	$20,925	$1,955,915	7.0%	4.7%	0.2%
2014	13.1%	9.8%	9.3%	1.8%	3.8%	54	$19,985	$2,589,024	5.5%	3.9%	0.1%
2015	(0.8%)	(3.7%)	1.1%	1.4%	(1.9%)	70	$27,222	$3,175,419	6.1%	4.5%	0.1%
2016	10.0%	6.7%	6.4%	1.5%	3.6%	27	$5,776	$4,413,659	7.0%	4.4%	0.1%
2017	10.5%	7.2%	10.6%	1.8%	(0.1%)	47	$11,956	$5,944,479	6.4%	4.0%	0.1%
2018	(3.8%)	(6.6%)	(1.5%)	2.0%	(2.3%)	52	$10,840	$5,486,737	6.3%	4.4%	0.1%
2019	20.7%	17.1%	17.8%	1.6%	2.9%	61	$13,757	$7,044,708	6.2%	4.8%	0.1%

Portfolio Benchmark

The benchmark is calculated monthly and consists of a blend of 40% S&P 500 and 60% ML U.S. 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 U.S. Corporate, Government, and Mortgage 48%, S&P 500 30%, S&P 400 10%, FTSE NAREIT 5%, 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.

Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 12/31/2018. A copy of the verification report is available upon request. Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
The Income Taxable with Growth–Plus Composite was created on December 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.
[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS ® standards.
[2] 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. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 Income Taxable with Growth–Plus Composite contains fully discretionary Income Taxable with Growth–Plus wrap accounts. The Income Taxable with Growth 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 with Growth 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.
**Results shown for the year 2008 represent partial period performance from December 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.

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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.

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