Confluence Investment Management

Income with Growth

Third Quarter 2019

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

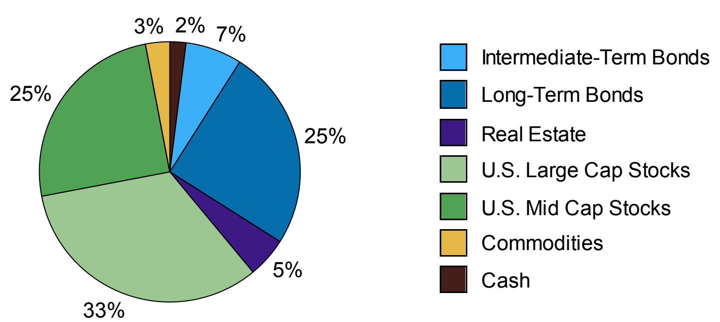
Asset allocation is a portfolio management process where various asset classes are combined in one portfolio. Properly implemented, asset allocation is a time-tested approach that addresses risk through diversification. The Confluence approach to asset allocation is different than traditional asset allocation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

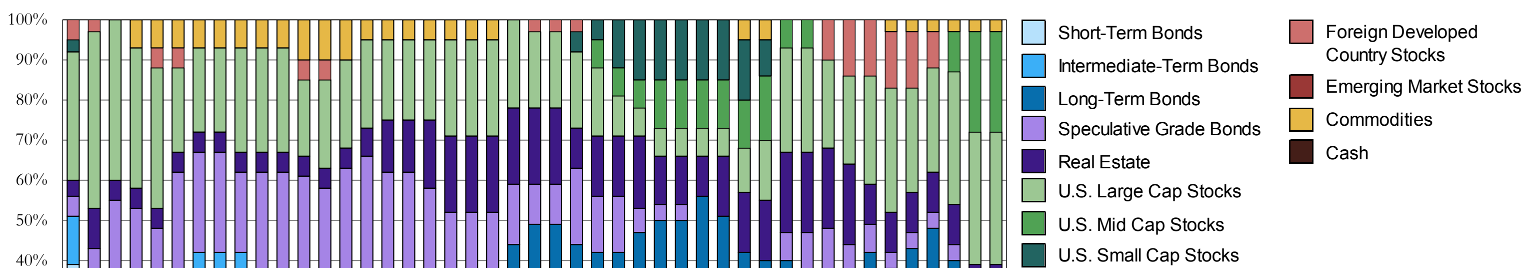
Weighted SEC Yield	2.0%
Number of Securities	15-21
Annual Turnover	30-70%

5 Largest Holdings[1]

iShares 20+ Year Treasury Bond ETF - TLT	16.7%
iShares S&P 500 Value ETF - IVE	13.4%
iShares S&P 500 Growth ETF - IVW	13.0%
iShares S&P Mid-Cap 400 Growth ETF - IJK	12.5%
iShares S&P Mid-Cap 400 Value ETF - IJJ	12.5%

[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 7/17/19 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. 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 7/17/19.

Historical Model Allocations[2]



[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 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 approach. Confluence's portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

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Third Quarter 2019 Income With Growth Market Observations

- We maintain our sanguine view of the economy and markets, though it is more guarded than last quarter.
- We expect the Federal Reserve to implement easier policy in the third quarter, marking its first rate reduction since 2008.
- In the absence of a recession, which is not in our forecast, the rate reduction should lead to a healthy environment for U.S. equities.
- Although economic weakness abroad is forecast to persist in the near-term, such weakness will only modestly impact the U.S. economy.
- The Fed's accommodation and our expectations for continued, albeit muted, U.S. growth encourages our decision to maintain historically high allocations to U.S. equities in the strategies.

The sole change in the Income with Growth strategy this quarter was a 5% reduction in intermediate-term bonds in favor of increasing long-term bonds to one-quarter of the strategy's assets. We retain the laddered structure in the remaining intermediate-term bond exposure and an emphasis on long-term Treasuries occupies the longer end. Speculative grade bonds continue to be absent in this strategy and we maintain the 5% allocation to REITs for their diversified income stream. The strategy's historically high equity allocation persists with an outsized weight to mid-cap stocks, where we find valuations attractive relative to large caps and believe mid-caps offer advantages in the latter stages of an economic cycle. The split between growth and value remains neutral, and the Industrials, Technology and Materials sectors continue to be overweight within the large cap allocation. We maintain the modest 3% weighting to gold for its potential to reduce overall strategy risk accruing from geopolitical uncertainty and its attractiveness in the event of a decline in the value of the U.S. dollar.

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 June 30, 2019)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	Benchmark (40stock/ 60bond)	Inflation
Since Inception**	9.7%	6.5%	8.4%	1.7%
10-Year*	9.2%	6.0%	8.3%	1.7%
5-Year*	6.3%	3.2%	6.2%	1.7%
3-Year*	6.5%	3.4%	7.1%	1.8%
1-Year	10.2%	7.0%	9.5%	1.8%
YTD	13.1%	11.4%	11.3%	0.9%
QTD	3.8%	3.0%	3.8%	0.4%

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

	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%

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.

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