

## OBJECTIVE

Primarily focused on reliable income exempt from federal taxation with a secondary focus on growth. Profile is similar to a well-diversified municipal 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 exempt from federal taxation, moderate volatility, long-term growth, and principal preservation
- ◆ Allocations in municipal bond fixed income asset classes, usually with an emphasis on U.S. investment-grade fixed income
- ◆ 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 municipal bond portfolio alongside an equity allocation
- ◆ Appropriate for investors with a conservative risk tolerance

## CHARACTERISTICS<sup>1</sup>

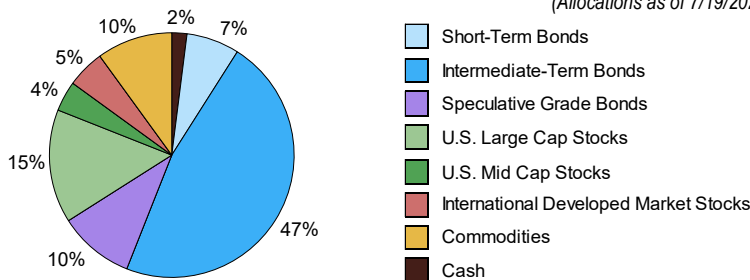
Weighted SEC Yield	2.4%
Volatility Ceiling	10.0%
Number of Securities	17
Annual Turnover (3-Year Rolling as of 12/31/21)	102%

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

iShares National Muni Bond ETF - MUB	25.6%
Invesco BulletShares 2030 Muni Bond - BSMU	12.9%
SPDR® Nuveen High Yield Muni Bond - HYMB	10.0%
iShares iBonds Dec2024 Term Muni Bond - IBMM	7.9%
iShares iBonds Dec2028 Term Muni Bond - IBMQ	7.6%

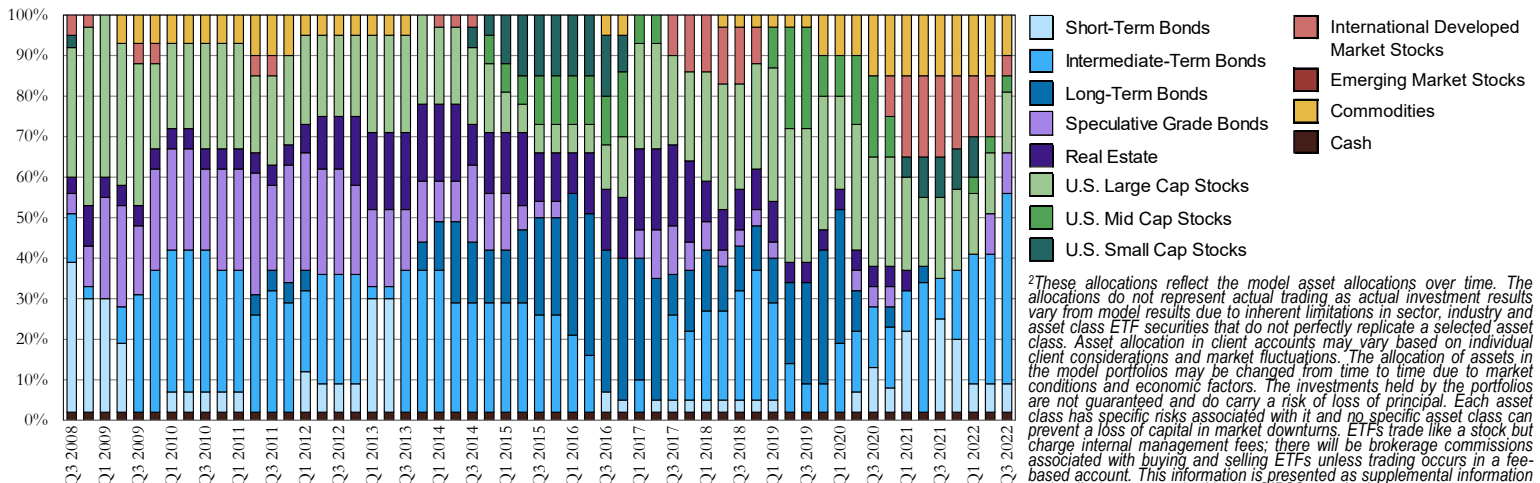
## ASSET ALLOCATION<sup>1</sup>

(Allocations as of 7/19/2022 rebalance)



<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 7/19/22 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 7/19/22. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2021.

## 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.

## THIRD QUARTER 2022 INCOME TAX-EXEMPT WITH GROWTH MARKET OBSERVATIONS

- ◆ Global growth is clearly slowing and the probability of a recession in the U.S. over the next year is significantly elevated.
- ◆ The Fed is continuing its aggressive attack on inflation through rapid increases in the fed funds rate and accelerating its balance sheet reduction.
- ◆ Economic data from overseas depicts difficulties, especially in Europe and China.
- ◆ The potential exists for defaults of selected emerging market sovereigns beyond Sri Lanka.
- ◆ Equity allocations are underweight and bond exposures were increased.
- ◆ BB-rated bonds are used as an equity proxy across the array of strategies.
- ◆ U.S. stock exposure remains heavily tilted toward value, with overweights to defensive sectors.

The allocation to international developed market stocks in the Income Tax-Exempt with Growth strategy was reduced significantly and the commodity exposure trimmed in order to increase the exposure to intermediate-term municipal bonds. Stocks remain at a historical underweight in the strategy. The remaining exposure to commodities is utilized for the potential risk reduction benefits of gold and the advantages afforded from the broad-based commodity position, which includes an emphasis on oil and its derivatives.

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, 2022)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (40stock/60muni)	Inflation	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Benchmark (40stock/60muni)	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**	7.0%	3.8%	5.7%	1.8%	2015**	(0.7%)	(2.9%)	1.8%	1.0%	(2.5%)	1	\$111	\$3,175,419	N/A	N/A	N/A
5-Year*	7.8%	4.6%	5.7%	2.0%	2016	7.1%	3.9%	5.1%	1.5%	2.0%	6	\$771	\$4,413,659	N/A	N/A	N/A
3-Year*	9.2%	6.0%	4.4%	2.1%	2017	10.0%	6.8%	11.7%	1.6%	(1.7%)	21	\$3,894	\$5,944,479	N/A	N/A	0.1%
1-Year	(4.2%)	(7.1%)	(9.3%)	2.9%	2018	(3.0%)	(5.9%)	(0.9%)	1.9%	(2.1%)	22	\$3,400	\$5,486,737	5.3%	4.5%	0.1%
YTD	(7.2%)	(8.5%)	(13.6%)	1.5%	2019	17.3%	13.9%	17.0%	2.0%	0.4%	22	\$3,804	\$7,044,708	5.9%	4.8%	0.1%
QTD	(5.2%)	(5.9%)	(8.5%)	0.7%	2020	18.8%	15.2%	11.1%	2.0%	7.7%	23	\$4,516	\$6,889,798	10.3%	8.2%	0.2%
					2021	11.4%	8.1%	12.0%	2.6%	(0.7%)	31	\$6,421	\$7,761,687	10.0%	7.7%	0.1%

\*Average annualized returns

\*\*Inception is 4/1/2015

#### Portfolio Benchmark

The benchmark is calculated monthly and consists of a blend of 40% S&P 500 and 60% ICE BofA Municipal Bond Index (Source: Bloomberg)

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.

**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.

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The Income Tax-Exempt with Growth strategy was inceptioned on December 1, 2008, and the current Income Tax-Exempt with Growth-Plus Composite was created on April 1, 2015. 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 Income Tax-Exempt with Growth-Plus Composite contains fully discretionary Income Tax-Exempt with Growth-Plus wrap accounts. The Income Tax-Exempt 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 Tax-Exempt with Growth strategy. Although the portfolio typically favors an allocation to tax-exempt fixed income asset classes, a smaller portion of the portfolio may include real estate, equities, commodities, or other asset classes. These allocations provide 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 2015 represent partial period performance from April 1, 2015, through December 31, 2015. 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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Kaisa Stucke, CFA  
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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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