



## **ADV Part 2A**

Confluence Investment Management LLC

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This Brochure provides information about the qualifications and business practices of Confluence Investment Management LLC ("*Confluence*", "*the firm*", "*we*", "*us*" or "*our*"). If you have any questions about the contents of this Brochure, please contact us at 314-743-5090 and/or [compliance@confluenceim.com](mailto:compliance@confluenceim.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("*SEC*") or by any state securities authority.

Confluence is registered with the SEC as an investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information to use in your determination of whether to hire or retain an adviser. Additional information about Confluence is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Clients can search this website by using our name or by using a unique identification number known as a CRD number. The CRD number for Confluence is 146019

**Item 2—Material Changes**

This item summarizes material changes that have been incorporated in this Brochure since Confluence's last update on March 10, 2017.

Item 4—Advisory Business – We revised this section to explain the various ways in which a client may access Confluence investment management services and announce Confluence's agreement to acquire Gratry & Company, LLC.

Item 10 – Other Financial Industry Activities and Affiliations – Announcement of Confluence's agreement to acquire Gratry & Company, LLC was added.

Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading – This section was revised to note that Confluence employees may invest in investment companies for which Confluence is the sub-adviser.

Item 12—Brokerage Practices – This section was revised to explain changes to Confluence trade rotation policy.

We will ensure that our clients receive, without charge, a summary of any material changes to this and subsequent brochures within 120 days of our fiscal year end. We may further provide other ongoing disclosure information about material changes as necessary, without charge.

Our Brochure may be requested by contacting Confluence at 314-743-5298 or [compliance@confluenceim.com](mailto:compliance@confluenceim.com). Our Brochure is also available on our website at [www.confluenceinvestment.com](http://www.confluenceinvestment.com), free of charge.

Additional information about Confluence is available via the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provides information about any persons affiliated with Confluence who are registered, or are required to be registered, as investment adviser representatives of Confluence.

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## Item 4—Advisory Business

Confluence was formed in December 2007 and registered as an investment adviser with the SEC in January 2008. Confluence is primarily comprised of former investment management and investment banking professionals from A.G. Edwards & Sons and its investment management subsidiary, Gallatin Asset Management, Inc. (“*Gallatin*”). The firm is 100% employee-owned, with Mark Keller and Brian Hansen as the principal owners.

On March 7, 2018, Confluence announced it entered into a definitive agreement to acquire the assets of Grady & Company, LLC (“*Grady*”), an international and global equity adviser in Beachwood, Ohio. Under the terms of the agreement, the Grady investment professionals will join Confluence and remain in place to continue management of the international and global equity products. The transaction, subject to closing conditions, is expected to close in the second quarter of 2018.

Confluence offers our clients portfolio management services focused on an array of equity strategies, asset allocation strategies, balanced strategies and alternative and sector strategies. Our clients include individuals (including high net worth individuals) and entities such as corporations and corporate pension and profit-sharing plans, Taft-Hartley plans, other investment advisers (on behalf of their clients), charitable institutions, foundations, endowments, municipalities, and registered investment companies. Confluence may also provide portfolio management services to investment vehicles it would sponsor.

We offer our portfolio management services on either a “discretionary” or a “non-discretionary” basis. In a discretionary account, Confluence is granted the authority to determine the securities or other assets to purchase or sell in the account, without the prior consent of the client. In a non-discretionary account, Confluence has the authority to recommend to the client (or a third-party acting on behalf of the client) the securities or other assets to be held in the account, but we do not have the authority to implement such recommendations; non-discretionary accounts also include those for which Confluence supervises the securities or other assets in the account, without any discretionary authority.

As of December 31, 2017, Confluence managed or supervised an aggregate of \$8.2 billion of assets, of which \$5.9 billion of assets were held in discretionary accounts and \$2.3 billion were held in non-discretionary accounts. Confluence does not take possession of client assets, and all such discretionary and non-discretionary assets are held with the broker-dealer, bank or other qualified custodian (“*Custodian*”) selected by the client.

### Discretionary Advisory Services

Confluence negotiates and enters into agreements to provide discretionary portfolio management and investment advisory services to clients. We provide our discretionary advisory services primarily through separately managed accounts (“*SMAs*”), which may be offered through the client’s financial or investment adviser or may be offered through a direct relationship with Confluence. In the former instance, clients open an account at a brokerage firm, bank, investment advisory firm or other financial institution (collectively, “*Financial Institutions*”), and work with their financial advisor at the Financial Institution to select third-party investment advisory firms—such as Confluence—to manage all or a portion of the assets in the account. Confluence’s SMA arrangements may be “single contract”, in which Confluence enters into a

contract with the Financial Institution to provide discretionary advisory services to the clients of such Financial Institution, or may be “dual contract”, in which Confluence enters into a contract directly with the client to provide discretionary advisory services to the client, which contract is in addition to the client’s contractual agreement with such Financial Institution. Confluence manages investments for clients at many Financial Institutions, including, but not limited to, Benjamin F. Edwards & Company; Charles Schwab & Co., Inc.; D.A. Davidson & Co.; Fidelity Brokerage Services LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Morgan Stanley Smith Barney LLC; Raymond James & Associates, Inc.; RBC Wealth Management, a division of RBC Capital Markets, LLC; Robert W. Baird & Co. Incorporated; Stifel, Nicolaus & Company, Incorporated; TD Ameritrade, Inc.; UBS Financial Services Inc.; and Wells Fargo Advisors, a subsidiary of Wells Fargo & Company.

Confluence does not take possession of client assets, as all securities and monies are held by the Custodian of the client’s choice. Confluence offers SMAs utilizing various investment strategies, and SMAs within a particular investment strategy generally hold the same securities at the same percentage of assets in the strategy (depending on when the account is funded). Clients may impose reasonable restrictions on investing in certain securities or industry sectors, and other limitations on our investment discretion as mutually agreed.

With respect to the assets we manage for clients that are employee benefit plans covered under Rule 408(b)(2) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), Confluence provides services as an ERISA “fiduciary” (as defined in Section 3(21) of ERISA) and is a registered investment adviser under the Investment Advisers Act of 1940.

Confluence’s discretionary investment strategies may be offered by Financial Institutions as part of a unified managed account (“UMA”) program at the Financial Institution. In a UMA program, the client may hold in a single account a wide variety of investments and investment strategies, including individual securities, mutual funds, exchange-traded funds, SMAs (offered by Confluence as well as other investment advisers) and other assets. As described more fully below, Confluence’s discretionary investment strategies may also be offered by Financial Institutions as part of a wrap account (“Wrap Account”) program at the Financial Institution. In a Wrap Account program, the client is charged a specified fee or fees by the Financial Institution sponsoring the program, which fee is not based directly on transactions in a client’s account for investment advisory services (which may include portfolio management or advice concerning the selection of other advisers) and execution of client transactions. Confluence’s fees for providing portfolio management and investment advisory services are paid from the fee charged for the Wrap Account. Clients who participate in Wrap Account programs should be aware that services similar to those provided as a participant in a Wrap Account Program may be available at a lower cost elsewhere separately or on an unbundled basis.

#### —Wrap Account Programs

Confluence participates as an investment adviser providing portfolio management and investment advisory services to clients of Wrap Account programs sponsored by respective Financial Institutions. Confluence’s portfolio management and investment advisory services to the clients in Wrap Account programs are similar to its discretionary advisory services provided to its other clients. We manage the SMAs in a Wrap Account program in accordance with the guidelines provided to us by the program sponsor. In single contract Wrap Accounts, the program sponsor is responsible for the client relationship, client servicing, reporting and billing.

Clients in a Wrap Account program are charged a bundled fee by the Financial Institution sponsoring the program (“*Sponsor*”), typically based on a percentage of the market value of the assets in the Wrap Account. The bundled fee generally covers charges for custody services, brokerage commissions, investment management and other services as negotiated between the client and the Sponsor. Out of the bundled fee, the Sponsor pays Confluence a quarterly fee for providing portfolio management and investment advisory services. However, for dual contract Wrap Accounts, Confluence’s fee may be paid directly by the client. Our fee is based on a percentage of the market value of the assets in the SMA for which we provide portfolio management and investment advisory services. For information regarding our fees, please see Item 5 of this Brochure, titled Fees and Compensation.

Because the bundled fee in Wrap Account programs typically includes charges for brokerage services, Sponsors and their clients generally expect Confluence to place trade orders through the Sponsor. If we execute trades for a Wrap Account with broker-dealers other than the Sponsor, the client may be subject to additional commissions, trade-away fees and other charges assessed by the Sponsors. For information regarding directed brokerage accounts, please see Item 12 of this Brochure, titled Brokerage Practices.

#### —Registered Investment Companies

Confluence sub-advises a closed-end fund, First Trust Specialty Finance and Financial Opportunities Fund (NYSE: FGB), and an open-end mutual fund, First Trust Confluence Small Cap Value Fund (FOVIX, FOVAX, FOVCX, FOVRX). Confluence has a sub-adviser agreement with First Trust Advisors L.P., the investment adviser to both funds, with fees to be paid to Confluence based on a percentage of assets under management in the respective funds.

#### Non-Discretionary Advisory Services

Confluence provides non-discretionary investment advisory services to certain Financial Institutions. Such non-discretionary advice typically takes the form of model portfolios, which represent Confluence recommendations as to the composition of a portfolio of securities that would be reasonably appropriate to meet a stated investment objective, based on criteria provided by the client. Confluence’s role is solely to provide to these Financial Institutions recommendations as to the securities composing the portfolio, and advice on changes to the portfolio. The Financial Institution may utilize our recommendations in managing the accounts of the clients of the Financial Institution. The Financial Institutions retain full discretion to accept, modify or reject our recommendations and retain trading authority over their clients’ accounts. The non-discretionary accounts at the Financial Institutions for their clients may be Wrap Accounts, UMAs or other types of accounts. These clients are clients of the respective Financial Institution and are not Confluence clients.

The model portfolios that we develop as part of our non-discretionary investment advisory services may be similar to the portfolios in the SMAs with the same investment strategy that we manage as part of our discretionary portfolio management and investment advisory services described above. Although Confluence discretionary SMAs and non-discretionary model portfolios utilizing the same investment strategy may perform similarly, there are expected to be performance differences between them because Confluence does not have trading discretion over the model portfolios. For example, in an effort to accommodate our Financial Institution clients to which we provide model portfolios, and to minimize trades, the target investment

percentages for each security holding in the portfolio may differ slightly between the model portfolio and the comparable SMA. In addition, Financial Institutions utilizing our model portfolio recommendations retain full discretion to modify or reject our recommendations, and the portfolio of securities (or the respective weighting of securities in the portfolio) in the accounts of the clients of such Financial Institutions may differ from the portfolios in comparable SMAs for which we have discretionary authority. Clients should speak to their financial advisor about the similarities and differences associated with discretionary SMAs and non-discretionary model account programs, so they fully understand their specific account structure.

#### —Model Portfolio Programs

Confluence provides non-discretionary model portfolios to asset allocation strategies programs sponsored by Benjamin F. Edwards & Company and by Stifel, Nicolaus & Company Incorporated as part of its Unified Managed Account (UMA) platform. Under these programs, Confluence provides non-discretionary recommendations to assist in the development of a portfolio of investments in exchange-traded funds (which are passively managed index funds designed to track the index performance of a specific industry or sector, asset class or country benchmark) that the respective sponsor determines to be suitable for its clients using the program. The Stifel UMA program also includes model portfolios based on certain other strategies. Confluence also provides non-discretionary models portfolios to many Financial Institutions, including, but not limited to, Wells Fargo Advisors, LLC for its Diversified Managed Allocations (DMA) program; to Morgan Stanley Smith Barney LLC for its Select UMA program; to Envestnet, Inc. for its UMA program; to Adhesion Wealth Advisor Solutions Inc. for its UMA program; to Oppenheimer Asset Management Inc. for its UMA program; and to Wedbush Securities Inc. for its model portfolio program.

#### —Registered Investment Companies

Confluence provides non-discretionary investment advisory services to certain Financial Institutions in connection with the formation of unit investment trusts (“UITs”). A UIT is a registered investment company that buys and holds a generally fixed portfolio of equities, bonds, other securities or assets. Units in the UIT are sold by such Financial Institutions to investors. Confluence provides non-discretionary services to such Financial Institutions in connection with the construction and monitoring of the UIT’s portfolio.

### **Item 5—Fees and Compensation**

Subject to applicable laws and regulations, Confluence retains full authority to negotiate the fees it charges to its clients for discretionary portfolio management and investment advisory services, including “single contract” agreements with Financial Institutions to provide such services to the clients of such Financial Institutions as part of a UMA or Wrap Account arrangement, and to registered investment companies. Confluence also retains authority to negotiate the fees it charges for non-discretionary investment advisory services, including agreements with Financial Institutions in connection with model portfolio programs, and to UITs. Confluence’s fees may be modified based upon the size of the account and the nature and level of services provided by Confluence. Confluence may agree to offer certain clients a fee schedule that is lower than that of any other comparable client. Confluence fees are generally payable quarterly in advance and clients may authorize fees to be deducted from their accounts by the custodian. Confluence

advisory agreements generally may be terminated at any time by either party by giving thirty (30) days written notice of such termination to the other party. Since clients generally pay fees in advance, upon termination of the advisory agreement the fee amount is prorated through the termination date and the difference is refunded to the client.

Confluence is not affiliated with any broker-dealer. Clients have the option to purchase investment products directly through Confluence or through the Financial Institutions for which we provide services.

Confluence sub-advises an open-end mutual fund and a closed-end fund for which it receives fees from the fund's investment adviser for managing the investments. The closed-end fund invests in "business development companies" ("BDCs") that, in turn, receive management fees for managing portfolio investments held by the BDCs. As such, the closed-end fund's direct fees and expenses, including the applicable management fee to the fund's investment adviser and to Confluence, as sub-adviser, coupled with the compensation of the underlying managers of the BDCs, results in two levels of fees and greater expense than would be associated with direct investment in the BDCs. The closed-end fund's expenses constitute a higher percentage of net assets than expenses associated with other types of investment entities, such as mutual funds.

The following fee schedules are representative of fees for discretionary portfolio management and investment advisory services only, and do not include transaction or execution costs that may be incurred by the client. Confluence's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third-party investment and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, exchange fees, SEC fees, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange-traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Confluence's fee, and Confluence shall not receive any portion of these commissions, fees and costs. In addition, there can be brokerage commissions, including step-out costs, which are described below under Item 12 of this Brochure, titled Brokerage Practices. The Brokerage Practices section also describes the factors that Confluence considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).



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**Strategy**


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**Asset Allocation**

All Cap Value, Balanced, Equity Income, Global Hard Assets, Increasing Dividend Equity Account (IDEA), Large Cap Value, REIT and Utility

BDC, Global Macro, IDEA Plus, Small Cap Value and Value Opportunities

**Advisor Based**

	<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>
First	\$500,000	0.40%	First	\$500,000	0.60%	First	\$500,000	1.00%
Next	\$500,000	0.35%	Next	\$500,000	0.55%	Next	\$500,000	0.90%
Over	\$1,000,000	0.30%	Over	\$1,000,000	0.50%	Over	\$1,000,000	0.75%

**Private Wealth**

	<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>
First	\$2,500,000	0.90%	First	\$2,500,000	1.00%	First	\$2,500,000	1.00%
Next	\$2,500,000	0.80%	Next	\$2,500,000	0.90%	Next	\$2,500,000	1.00%
Over	\$5,000,000	0.70%	Over	\$5,000,000	0.80%	Over	\$5,000,000	Neg.

**Institutional**

	<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>		<u>Account Assets</u>	<u>Annual Fee</u>
First	\$10,000,000	0.80%	First	\$10,000,000	0.75%	First	\$10,000,000	1.00%
Next	\$40,000,000	0.50%	Next	\$40,000,000	0.40%	Next	\$40,000,000	0.80%
Over	\$50,000,000	0.40%	Over	\$50,000,000	0.30%	Over	\$50,000,000	0.75%

Confluence sales personnel may receive a portion of the fees paid to Confluence for investment advisory services, creating a potential conflict in that they may be incented to recommend higher fee-generating products.

### Item 6—Performance-Based Fees and Side-By-Side Management

Confluence does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### Item 7—Types of Clients

Confluence provides portfolio management services to individuals (including high net worth individuals) and entities such as corporations and corporate pension and profit-sharing plans, Taft-Hartley plans, other investment advisers (on behalf of their clients), charitable institutions, foundations, endowments, municipalities, and registered investment companies. Confluence may also provide portfolio management services to investment vehicles it would sponsor. Confluence generally requires Advisor Based accounts (which are generally single contract or dual contract arrangements, including Wrap Account programs, offered through Financial Institutions) to have a minimum account value of \$100,000 (\$200,000 in the case of balanced equity strategies); Private Wealth accounts (which are generally high net worth individuals) to have a minimum account value of \$500,000; and Institutional accounts to have a minimum account value of \$5 million. Confluence does not have the ability to impose minimum values on model portfolio program accounts.

Confluence does allow its employees and their family members to maintain accounts that Confluence manages. Some Confluence employees also invest in the mutual fund and closed-end fund that we sub-advise. We may also recommend investment companies that we manage to certain clients. This presents a possible conflict of interest, in that it could create an incentive for us to favor these funds over other clients. We maintain investment and trade allocation policies and procedures designed to manage such conflicts of interest. In addition, we have developed procedures to compare performance among client accounts managed using similar investment styles to detect favoritism or unusual investment results.

## **Item 8—Methods of Analysis, Investment Strategies and Risk of Loss**

### Methods of Analysis

Confluence employs fundamental, technical and cyclical security analysis methods, which vary by the type of portfolio strategy provided. Confluence's Equity Strategies, which are comprised of specific company securities, utilize a bottom-up, fundamental approach. Confluence's Asset Allocation strategies and the fixed income portion of our Balanced Strategies are implemented using exchange-traded funds ("*ETFs*"), and utilize a top-down, cyclical approach. An ETF is an individual security that trades on an exchange and represents a basket of securities or other assets that are designed to track the performance of targeted indices, sectors or asset classes (e.g., XLP: Consumer Staples Select Sector SPDR Fund, which seeks to track the performance of the Consumer Staples Select Sector Index). The firm's Global Hard Assets strategy, which is primarily comprised of common equity securities with a portion of ETFs, is a combination of the above two approaches. Confluence's Global Macro strategy is comprised solely of ETFs and is analyzed and managed similarly to the Asset Allocation strategies. Confluence also manages sector specific strategies (e.g., Business Development Companies, Real Estate Investment Trusts and Utilities) that utilize both top-down and bottom-up approaches.

For the Increasing Dividend Equity Account (IDEA) Plus strategy, which is an Equity Strategy combined with a covered call option strategy on the S&P 500 Index, the firm analyzes option securities for their strike price, premium, volatility and term. Approximately seventy-five percent of the portfolio is the IDEA portfolio of common equity securities, in which the stock selection utilizes qualitative analyses in an attempt to identify high-quality companies with long track records of distributing earnings to shareholders through dividends. The remaining twenty-five percent consists of an ETF position in the S&P 500 Index with a corresponding covered call position, although this allocation can range at times from 15% to 40% of the portfolio.

Most research is generated in-house. Confluence also utilizes external research sources, such as Bloomberg, Haver Analytics, Ned Davis, FactSet and various governmental banking and agency data. Confluence may also utilize analytics from other private market research institutions.

## Investment Strategies

### *Asset Allocation*

Asset allocation is the process of developing a diversified investment portfolio by combining different assets in varying proportions. A portfolio's long-term performance is determined primarily by the apportionment of dollars in an account among the asset classes. Our Asset Allocation portfolios are formed principally from ETFs. Specific Asset Allocation strategies (e.g., Income with Growth, Growth & Income, Growth and Aggressive Growth) are developed to meet investors' risk tolerance, investment goals and time frames.

Confluence's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven approach. Confluence's portfolio management philosophy begins by assessing risk and follows through by positioning clients to seek to achieve income and growth objectives. Confluence's approach to asset allocation is more dynamic than many traditional strategic allocation strategies. Confluence extends the traditional approach by incorporating forward-looking analytics that address changing opportunities and risks as we move through economic and market cycles.

Investment objectives vary between growth and income, or may include a combination of the two, subject to limitations of overall portfolio volatility and risk. Equity allocations are typically the primary means to pursue growth objectives and may include ETFs focused on U.S. large-, mid- and small-cap equity securities, while foreign equities may include ETFs focused on equity securities of issuers in foreign developed countries or in emerging markets. Foreign allocations may involve a focus or avoidance of certain countries or regions. Sector specific analysis may be involved in certain equity asset classes, particularly in large-cap equities. Growth and value style biases may also be included in allocation decisions.

Income objectives in our Asset Allocation strategies are typically pursued through allocations to fixed income-oriented securities. In pursuing fixed income objectives, Confluence utilizes ETFs that represent a basket of bonds or other income securities that are designed to track the performance of targeted indices, sectors or asset classes (e.g., SPIB: SPDR Portfolio Intermediate Corporate Bond ETF, which seeks to track the performance of the Bloomberg Barclay's Intermediate U.S. Corporate index). Allocations are actively managed to target specific duration or credit quality profiles, and may include speculative grade allocations. As described below, we utilize a similar methodology in pursuing the income objectives of our Balanced Strategies (although our Balanced Strategies generally do not include income-oriented ETFs that invest in speculative grade bonds).

Real estate and commodity allocations may be included for income, capital appreciation or diversification opportunities. This process draws upon Confluence's extensive experience of investing, on behalf of its clients, in a wide range of equity and fixed income securities during various market cycles in an attempt to provide attractive, risk-adjusted returns to its clients.

Allocations among the various asset classes are modified generally once a quarter, with the portfolios typically rebalanced mid-way through the first month of the quarter.

### *Equity Strategies*

Confluence's Equity Strategies include All Cap Value, Equity Income, Increasing Dividend Equity Account (IDEA), IDEA Plus, Large Cap Value, Small Cap Value and Value Opportunities. Portfolios utilizing our Equity Strategies consist primarily of equity securities of U.S. issuers and U.S. listed securities of foreign issuers. The IDEA Plus strategy utilizes, in addition to such equity securities, broad-based equity index ETFs and covered call options thereon. Confluence utilizes a team-based approach in which all equity investment committee members are fundamental analysts first and foremost. Each analyst is responsible for specific industries and brings ideas to the investment committee for vetting of investment theses and analyzing new developments with the goal of ensuring that each security in a portfolio has the attributes Confluence looks for in its equity investments (e.g., sustainable competitive advantage, free cash flow, capable management, trading at a discount to intrinsic value, etc.)

Confluence analysts begin by compiling data, including independent and Wall Street research, on individual securities. Data gathering includes reviews of specific company and SEC documents, company visits, management interviews, newspaper and other media stories, industry publications, competitors' information and research reports. Much of the analyst's time is spent qualitatively analyzing this information to determine if a company possesses a sustainable competitive advantage that allows for pricing flexibility, with additional time spent on a quantitative cash flow analysis to determine estimates of fair value of the company's equity securities.

Typically, the process begins with an equity analyst or portfolio manager analyzing and writing up a proposed company name in their respective industry coverage. The information is disseminated to the equity investment committee and subsequently vetted by the committee. The vetting process is thorough, often requiring additional information or analysis. If investment in that company is approved, the portfolio management committee decides placement into a portfolio based on weighting/contribution. Each portfolio has an established target number of holdings. The portfolio will become fully invested over time as targeted investments become available within the stated pricing discipline.

Before investing in any equity security of a company, Confluence conducts a rigorous investment review to:

- Determine if the company's business has a sustainable competitive advantage. This advantage usually protects its business or allows it to maintain market share leadership over time.
- Examine a company's free cash flow. Free cash flow is the amount of cash available after paying expenses and making necessary expenditures. Free cash flow can be used to build shareholder value through such things as dividends, stock buybacks and/or acquisitions. Confluence analyzes each business and forecasts future free cash to approximate the intrinsic value. Confluence then invests in those companies whose stocks trade below our estimates of fair value.
- Review a company's return on invested capital. A well-managed company should be able to reinvest capital to improve or grow its business. A company with high or increasing return on capital meets Confluence's criteria.

- Analyze a company's management team. Focused, passionate management teams are likely to make decisions in the best interest of shareholders with the goal of capital appreciation. Confluence looks for corporate managers with large personal investments in their companies' stocks.

—Buy Discipline

Confluence generally invests in companies whose stocks trade below our estimates of intrinsic or fair value, which we determine by analyzing historical and forecasted free cash flow in an attempt to estimate what a knowledgeable buyer would pay to purchase 100% of the company in an all-cash transaction. Buy limits generally are set at a 25% - 50% discount to Confluence's estimate of intrinsic value.

—Sell Discipline

In seeking to preserve capital, portfolio positions are reviewed continually. A company's stock may be sold if any of the following occurs:

- The share price reaches our estimates of full valuation.
- The business underperforms relative to its peer group or new market entrants.
- The company's fundamentals deteriorate.

There are other circumstances that may cause all or part of a stock position to be sold. Such instances may include a stock's value in the portfolio becoming disproportionately large or a more attractive investment opportunity presenting itself.

*Balanced Strategies*

Confluence's Balanced Strategies allow investors to combine our Equity Strategies with fixed income allocations—either taxable fixed income or tax-exempt fixed income—in a single account. The equity portion of the Balanced Strategy account is managed in an identical manner to the Equity Strategies described above, whereas the fixed income portion is managed utilizing income-oriented ETFs in a similar fashion to the fixed income portion of the Asset Allocation strategies described above. A principal difference relative to the Asset Allocation strategies is that Balanced Strategies generally do not include ETFs that invest in speculative grade bonds.

*Alternative and Sector Strategies*

Confluence has developed strategies focusing on alternative asset classes and sector-specific investments, which we believe have the potential to achieve attractive risk-adjusted returns. Management of these strategies begins with top-down evaluations of the geopolitical environment, fundamental macroeconomic trends and technical patterns in the target markets.

Our Global Hard Assets portfolio is focused on investments in "hard assets" which Confluence defines as tangible commodities, such as a gold bar, a barrel of oil or a ton of potash. The portfolio is comprised of the common stocks of companies engaged in the hard assets sector or various hard asset ETFs or exchange-traded notes ("ETNs"), thus giving the portfolio exposure to physical commodities. The companies in the hard assets sector are directly responsible for mining, extracting or producing the hard assets. Our investment philosophy seeks to identify companies that have the ability to increase production and grow reserves over time, thus appreciating capital. Confluence's investment process utilizes a top-down approach to identify

investable sectors, coupled with bottom-up, security selection. Our geopolitical and global macro analyses define the sector weights along with acceptable geographic locations of reserves. Overall allocation is decided once this process is complete, based upon our view of hard asset sector company equities and hard asset ETFs and ETNs.

Our Global Macro portfolio seeks to take advantage of major macroeconomic trends in four primary asset classes: equities (domestic and international), fixed income, commodities and currencies. The portfolio's objective is to maximize absolute total return by investing in market categories using Confluence's evaluation of the geopolitical environment, fundamental macroeconomic trends and technical patterns. Confluence's investment process utilizes a top-down, macro-based approach driven by proprietary research. The investable universe includes exchange-traded products (ETFs and ETNs), tradable open-end mutual funds, closed-end funds and, in limited cases, individual equity securities (with no more than 10% of the portfolio invested in any single stock). The portfolio can employ leveraged exchanged traded products ("ETPs") and has the ability to invest in inverse ETPs; however, margin and shorting are not used in the management of the portfolio. The portfolio may at times be concentrated. However, no mutual fund or ETF can exceed 40% of the portfolio's value (at cost) and no single market category can make up more than 50% of the portfolio.

Confluence also manages sector-specific strategies, such as Business Development Companies ("*BDCs*"), Real Estate Investment Trusts ("*REITs*") and Utilities that are by nature concentrated by industry or asset class. The BDC portfolio is focused on a niche of the financial sector in which specialty finance companies lend to, and invest in the private debt and equity of, private small and middle market U.S. companies. REITs are companies that own, operate or finance income-producing real estate, including offices, apartment buildings, warehouses, hotels, retail centers and medical facilities. Utilities securities include companies engaged in the production, transmission or distribution of electric energy or natural gas; the operation of water supply networks or wastewater or sewage treatment facilities; the provision of telephone, mobile communication and other telecommunications services; or the provision of other utility or utility related goods or services, including entities engaged in solid waste electric generation or in the provision of waste disposal systems.

### Risk of Loss

Past performance is not a guarantee of future returns. Investing in securities involves the risk of loss of the amount invested that clients should be prepared to bear.

### *Asset Allocation*

Confluence's Asset Allocation strategies involve apportioning the portfolio's assets among various asset classes, the success of which generally depends upon our ability to estimate the expected returns, volatility, and correlations of the relevant markets for such assets. Expected returns and volatility for different asset classes vary over time, as do the correlations of different asset classes. Therefore, we apply a dynamic process, one that evaluates economic and market variables in a forward-looking context. Our approach evaluates the investing landscape against the backdrop of the pending business cycle—a rolling time frame continuously looking forward at the next two to four years. Our 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 continue for several quarters without making significant allocation adjustments if we believe the existing posture remains optimal.

While this flexibility is generally expected to result in diversification of the portfolio across multiple asset classes, asset classes may not perform as expected and may not display the level of correlation that we anticipated. If our assessment of the risk and return potential of asset classes is incorrect, the portfolio could significantly underperform the markets in general, particular markets, or other asset allocation strategies. If our assessment of the correlations between different asset classes is incorrect, the portfolio may not achieve the level of diversification that we anticipated, which may increase the risk of underperformance or negative performance.

Confluence's Asset Allocation strategies are implemented using ETFs, which own a basket of securities that track a particular market index. Changes in the price of an ETF, before deducting expenses, typically track the movement of the associated index relatively closely. ETFs charge their own management fee and other expenses that come directly out of the ETF returns. In addition, a commission on each purchase or sale of shares of the ETF may be charged by the executing broker-dealer, and these commission expenses will reduce the performance of the client's portfolio. An ETF's performance sometimes may not perfectly correlate with the targeted index the ETF seeks to track. ETFs are subject to various risks, including the ability of the ETF's managers to meet the investment objective, and to manage appropriately the ETF's portfolio when the underlying securities are redeemed or sold, particularly during periods of market turmoil and as investors' perceptions regarding ETFs or their underlying investments change. There is also no guarantee that an ETF will achieve a high degree of correlation to its targeted index and therefore achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the ETF's ability to adjust its exposure to the required levels in order to track the targeted index. Errors in index data, index computations and/or the construction of the targeted index in accordance with its methodology may occur from time to time and may not be identified and corrected by the provider of the targeted index for a period of time or at all, which may have an adverse impact on the ETF and its shareholders, including Confluence clients in its asset allocation strategies.

Unlike traditional open-end mutual funds, the shares of which can be purchased or redeemed at prices equal to the mutual fund's net asset value at the end of a business day, shares of ETFs trade on a securities exchange and are purchased or sold at market prices established on the exchange. ETFs enter into agreements with certain designated institutional investors who may purchase and redeem during the trading day large blocks of the ETF's shares at the then-current net asset value, which such purchases and redemptions are intended to (and in normal market conditions frequently do) maintain the approximate equivalence of the market price and net asset value of the ETF's shares. To the extent that one or more of such designated institutional investors cease to or are unable to proceed with such purchases and redemptions, and no other designated institutional investor is willing or able to make such purchases and redemptions, the market price of the ETF's shares may be more likely to trade at a premium or discount to net asset value and the shares could have limited liquidity; during periods of severe market volatility or disruption, these premiums or discounts could be significant and the exchange could impose trading halts on and/or delisting of the shares of the ETF.

There are also risks associated with the asset class in which the ETFs invest. The risks associated with equity-oriented ETFs include the risk that the equity securities in an ETF will

decline in value due to factors affecting the issuing companies, their industries or the equity markets generally.

Industry specific ETFs by design provide concentrated risks in industries. For example, a REIT ETF has investments in companies that are subject to changes in the real estate market, vacancy rates and competition, volatile interest rates and economic recession. Confluence's Asset Allocation strategies can include commodity-oriented ETFs. Buying commodities allows for a source of potential diversification in consideration for the assumption of the risks inherent in the commodities markets, which include the global supply and demand for commodities being influenced by U.S. and foreign interest rates and inflation rates and global or regional political, economic or financial events and situations. Any commodity investment represents a transaction in a non-income-producing asset and is highly speculative.

Certain fixed income ETFs invest in investment grade and, at times, speculative securities. Investment grade securities are subject to numerous risks including higher interest rates, economic recession, deterioration of the investment grade market or investors' perceptions thereof, possible downgrades and defaults of interest and/or principal. Changes in interest rates could affect the value of investments in fixed income ETFs. Rising interest rates tend to cause the prices of debt securities (especially those with longer maturities) to fall. The credit rating of financial condition of an issuer may affect the value of the debt security. Generally, the lower the quality rating of a security, the greater the risk that issuer will fail to pay interest fully and return principal in a timely manner. Credit ratings are not an absolute standard of quality, but rather general indicators that reflect only the view of the originating rating agencies from which an explanation of the significance of such ratings may be obtained. If an issuer defaults or becomes unable to honor its financial obligations, the security may lose some or all of its value. Speculative securities are usually issued by smaller, less credit worthy and/or highly leveraged (indebted) companies. Compared with investment-grade bonds, speculative bonds carry a greater degree of risk that are less likely to make payments of interest and principal.

Regarding the fixed income portion of Asset Allocation strategies and Balanced Strategies, there are risks associated with the use of ETFs and ETNs. Fixed income ETFs and ETNs are not bonds. During market disruptions, there may be times when they can trade at discounts or premiums to the net asset value of the underlying portfolio of securities, which can directly affect the return on an investment in the ETF or ETN. Liquidity can also vary depending on market conditions. A fixed income ETF does not mature like an individual bond. These and other various differences highlight the fact that fixed income ETFs may vary in performance relative to direct investments in bonds.

### *Equity Strategies*

Confluence's Equity Strategies are value-oriented strategies in which Confluence believes the portfolio securities are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in them, including the risk that our estimate of the intrinsic value of the stock may never be realized by the market or that the price goes down. Equity securities generally are selected on the basis of our views on an issuer's business and economic fundamentals or the securities' current and projected credit and profit profiles, relative to current market price. Such securities are subject to the risk of misestimating certain fundamental factors. Disciplined adherence to a value investment mandate during periods in which that style is out of favor can result in significant



underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible style mandates.

Portfolios utilizing our Equity Strategies will typically hold securities of fewer issuers than, for example, a broadly diversified equity mutual fund. Our Equity Strategies portfolios may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility, and be concentrated in certain issues. Furthermore, because our Equity Strategies portfolios have a relatively small number of issuers, the portfolios have greater susceptibility to adverse developments in one issuer or group of issuers.

Confluence's Equity Strategies sometimes utilize American Depositary Receipts (ADRs), which are typically issued by a U.S. bank or trust company and represent ownership of underlying foreign securities. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. Issuers of foreign securities are not generally subject to uniform accounting, auditing and financial standards comparable to those applicable to U.S. public companies. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the return on such investments. Although ADRs are typically denominated in U.S. dollars, they may be vulnerable to currency risks in the event changes in foreign currency exchange rates adversely affect the value of the underlying foreign securities.

The Small Cap Value, Equity Income, Value Opportunities and All Cap Value strategies can be comprised of smaller capitalization companies that, due to their size, generally are more vulnerable to adverse general market or economic developments than larger, more established companies. These small companies' securities often have abrupt and greater price volatility and may be less liquid because of limited financial resources, management inexperience and less publicly available information, among other factors. The firm's Value Opportunities strategy has a shorter investment horizon, has greater portfolio turnover and is typically more concentrated (e.g., 10 to 12 positions) than our other Equity Strategies.

The Increasing Dividend Equity Account (IDEA) strategy is focused on high-quality companies with long track records of distributing earnings to shareholders through dividends. Also of importance in securities selection is the anticipated dividend growth rate of the aggregate portfolio. However, companies are not required to continue to pay dividends and the IDEA strategy is subject to the risk that any or all of the portfolio companies could reduce or eliminate their dividends in the future, which would adversely affect the performance of the portfolios utilizing the strategy.

The IDEA Plus strategy is a combination of the IDEA strategy with a covered call option strategy on the S&P 500 Index. Approximately 75% of the portfolio is comprised of the IDEA portfolio and the remaining portion of the portfolio consists of an ETF position in the S&P 500 Index with a corresponding covered call option position. Confluence may write (sell) covered call options on all or a portion of the ETF position held in the IDEA Plus portfolio as determined to be appropriate, consistent with the strategy's investment objective. In addition to the risks associated with the IDEA strategy, the IDEA Plus strategy is subject to options risk. There are several risks associated with transactions in options on securities. For example, there are significant differences between the securities and options markets that could result in an imperfect correlation between these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment,

and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. As the writer of a covered call option, the IDEA Plus portfolio forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but the portfolio has retained the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price.

### *Balanced Strategies*

Confluence's Balanced Strategies combine a specific Equity Strategy with fixed income allocations—either taxable fixed income or tax-exempt fixed income—utilizing income-oriented ETFs. The risks associated with the Equity Strategy portion of a Balanced Strategy account are described above in the Equity Strategies section and the risks associated with the fixed income portion of a Balanced Strategy account are described above in the Asset Allocation section.

### *Alternative and Sector Strategies*

Confluence's Alternative Strategies, such as Global Hard Assets and Global Macro, include securities and asset classes that typically have greater price volatility than our asset allocation and equity strategies. The Global Hard Assets strategy is subject to the commodity, U.S. and foreign equities, non-diversification and currency risks described above. In addition to these risks, the Global Macro strategy is also subject to the asset allocation and fixed income securities risks described above.

Confluence's Sector-Specific Strategies are concentrated by design and thus the portfolios do not provide investors with broad diversification. The focus of these strategies on specific sectors may present more risks than if a portfolio were broadly spread over numerous sectors of the economy. Adverse economic, political or regulatory occurrences affecting one or more of those sectors will have a larger impact on the sector-specific portfolio than on a portfolio that does not concentrate solely in those specific sectors. At times, the performance of companies in those sectors will lag the performance of other sectors or the broader market as a whole.

Our Business Development Companies ("BDCs") strategy is subject to risks inherent in the BDC industry. BDCs typically invest in and lend to small and medium-sized private and certain public companies that may not have access to public equity markets or capital raising. As a result, a BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or private debt fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. BDC portfolio companies may utilize a high degree of borrowing or leverage, may have limited financial resources and may be unable to meet their debt obligations, which may be accompanied by a deterioration of the collateral pledged to secure repayment of such obligations. Small and medium-sized companies also may have fewer lines of business so that changes in any one line of business may have a greater impact on the value of their stock than is the case with a larger company. Some BDCs invest substantially, or even exclusively, in one sector or industry group and therefore carry risk of that particular sector or industry group. To the extent a BDC focuses its investments in a specific

sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. Investments in BDCs are subject to various risks, including management's ability to meet the BDC's investment objective, and to manage the BDC's portfolio when the underlying securities are redeemed or sold, during periods of market turmoil and as investors' perceptions regarding a BDC or its underlying investments change. BDC shares are not redeemable at the option of the BDC shareholder and, as with shares of other closed-end funds, they may trade in the secondary market at a discount to their net asset value. BDCs may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income may fall if the interest rate on any borrowings rises.

Our Utilities strategy portfolios invest a significant portion of their assets in securities of public utility companies engaged in the production, transmission or distribution of electric energy, gas or telephone services. Risks that are intrinsic to public utility companies include difficulty in obtaining an adequate return on invested capital, difficulty in financing large construction programs during an inflationary period, restrictions on operations and increased cost and delays attributable to environmental considerations and regulation, difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets, technological innovations that may render existing plants, equipment or products obsolete, the potential impact of natural or man-made disasters, increased costs and reduced availability of certain types of fuel, occasional reduced availability and high costs of natural gas and other fuels, the effects of energy conservation, the effects of a national energy policy and lengthy delays and greatly increased costs and other problems associated with the design, construction, licensing, regulation and operation of nuclear facilities for electric generation, including, among other considerations, the problems associated with the use of radioactive materials, the disposal of radioactive wastes, shutdown of facilities or release of radiation resulting from catastrophic events, disallowance of costs by regulators which may reduce profitability, and changes in market structure that increase competition.

Our Real Estate Investment Trusts (“REITs”) strategy is subject to risks inherent in the REIT industry, including the risk that the strategy’s performance will be closely linked to the performance of the real estate markets. Property values may fall due to increasing vacancies or declining rents resulting from economic, legal, cultural or technological developments. Values of the REIT securities may fall, among other reasons, because of the failure of borrowers from such REITs to pay their loans or because of poor management of the real estate properties owned by such REITs. Many REITs utilize leverage (and some may be highly leveraged), which increases investment risk and could adversely affect a REIT’s operations and market value in periods of rising interest rates. REITs may operate within particular sectors of the real estate industry, such as apartments, office and industrial, regional malls and community centers, hotels and lodging and the health care sector, that are subject to specific sector-related risks. REITs are subject to highly technical and complex provisions of the Internal Revenue Code of 1986, as amended, which permit a REIT to avoid or limit its exposure to federal corporate income tax. Failure of a REIT to qualify for such provisions could adversely affect its operations and the investment returns to investors in the REITs securities.

### Item 9—Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that have occurred in the last ten years that would be material to your evaluation of Confluence or the integrity of Confluence's management. Confluence has no information applicable to this item to disclose.

### Item 10—Other Financial Industry Activities and Affiliations

Confluence professionals may from time to time assist other financial services organizations through providing advisory services for which they may be remunerated. These outside business activities are vetted by management prior to an employee's involvement and routinely reviewed to ensure Confluence clients are not disadvantaged.

Mark Keller, CEO and Chief Investment Officer of Confluence, is a member of the board of directors of Benjamin Edwards, Inc. ("*BEI*"), the holding company of Benjamin F. Edwards & Company ("*BFEC*"), and has a private investment in the equity securities of BEI. Although he has no day-to-day decision-making responsibilities for BEI, as a member of their board of directors he is involved in the development of strategy, policy and other important matters affecting the firm. Confluence offers its discretionary and non-discretionary investment advisory services to BFEC and its clients, as described above under Item 4 of this Brochure, entitled Advisory Business. As part of Mr. Keller's professional responsibilities with Confluence, he is involved in making investment decisions concerning portfolios of individual clients of BFEC. BFEC and its representatives do not receive any additional or different sales compensation in connection with recommendations to clients concerning Confluence versus any Financial Institution in comparable circumstances. Confluence and Mr. Keller do not receive any additional compensation in connection with client investments placed with Confluence through BFEC due to Mr. Keller's position on the board. Mr. Keller is compensated for his service as a board member of BEI on the same terms as other independent board members.

Brian Hansen, President and Chief Operating Officer of Confluence, is the sole owner of Hansen Investment Partners LLC ("*HIP*"). HIP provides non-investment advisory services to corporate clients for which it receives fixed fees. HIP and Confluence have a mutual client: First Trust Portfolios L.P. ("*First Trust*"), a Financial Institution for which Confluence provides discretionary portfolio management and investment advisory services by acting as a sub-advisor to an open-end mutual fund and a closed-end fund for which an affiliate of First Trust serves as investment adviser.

On November 1, 2012, Brian Hansen joined the board of directors of Franklin Street Properties Corp (NYSE: FSP), a publicly-traded Real Estate Investment Trust. Mr. Hansen has personal, long-term investments in securities issued by FSP and expects to make additional investments in FSP for his own account from time to time. Confluence evaluates each investment idea on its own merits and has established policies and procedures that address conflicts of interest that are or may be raised by Mr. Hansen's relationship with FSP. Mr. Hansen is not a member of Confluence's investment committee and neither participates in the investment committee's decision-making nor provides Confluence or the committee with information relating to FSP. Mr. Hansen's transactions in FSP securities must be effected in accordance with Confluence's

policies and procedures relating to personal securities transactions as well as in accordance with applicable legal requirements.

Prior to several Confluence principals joining the firm, they previously managed investments at Gallatin for its affiliated brokerage firm, Wachovia Securities, LLC (n.k.a. "Wells Fargo Advisors"). On July 1, 2008, Confluence and Evergreen Investment Management Company, LLC ("Evergreen"), Gallatin's parent, entered into an agreement whereby in exchange for allowing Confluence principals to continue managing legacy accounts at Wells Fargo Advisors and gaining access to the books and records solely for validating its performance track record, Confluence shares a portion of these legacy account revenues with Evergreen. Evergreen subsequently assigned its contractual rights to an affiliate, Wells Fargo Bank, N.A.

On March 7, 2018, Confluence announced it entered into a definitive agreement to acquire the assets of Gratry & Company, LLC ("*Gratry*"), an international and global equity adviser in Beachwood, Ohio. Under the terms of the agreement, the Gratry investment professionals will join Confluence and remain in place to continue management of the international and global equity products. The transaction, subject to closing conditions, is expected to close in the second quarter of 2018.

### **Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Pursuant to SEC Rule 204A-1, Confluence has adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct, potential conflicts of interest and fiduciary duties to its clients. This Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading and pay-to-play and restrictions on the acceptance of significant gifts, among other things. All supervised persons at Confluence must acknowledge the terms of the Code of Ethics annually and compliance with the Code is a condition of employment for all personnel. A serious violation of the Code or related policies may result in dismissal. A copy of the Code of Ethics will be provided to any client or prospective client upon request.

#### Participation or Interest in Client Transactions

Confluence permits its employees to engage in personal securities transactions. Personal securities transactions by an employee may raise a potential conflict of interest if an employee trades in a security that is considered for purchase or sale for an investment strategy of Confluence. Our Code of Ethics is designed to ensure that those persons at the firm who are responsible for developing or implementing our investment advice or who provide the investment advice to clients are not able to act thereon to the disadvantage of clients. Client trading is required to be completed prior to an employee conducting any personal trading. The Code further prohibits Confluence's personnel from using any material nonpublic information in securities trading.

Confluence employees are permitted to invest in investment companies where we serve as sub-adviser. This may create an incentive for us to put the interests of these funds ahead of other clients. However, our Code requires employees to put clients' interests ahead of their own and to report personal transactions and holdings in funds sub-advised by Confluence.

It is Confluence's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. Cross trades between client accounts are allowed in limited circumstances when in the best interest of the client and properly documented with all parties.

### Public Offering Participation

From time to time, Confluence is presented, in connection with its discretionary portfolio management and investment advisory services, with an opportunity to participate in public offerings of securities. Certain of our clients, including those in certain Wrap Account Programs, may be prohibited from participating in such offerings by their respective Financial Institution. Certain of our other clients may be unable to participate in such offerings if their respective Financial Institution did not participate in the initial distribution of securities in such offering, depending on their particular Financial Institution or Custodian. Accordingly, Confluence's policy is to not purchase shares in such public offerings for its clients. In contrast, the First Trust Specialty Finance and Financial Opportunities Fund and the First Trust Confluence Small Cap Value Fund, the open-end mutual fund and the closed-end fund for which we act as sub-adviser, and our institutional clients are not similarly restricted, and are therefore allowed to participate in public offerings.

## **Item 12—Brokerage Practices**

As described under Item 4 of this Brochure, titled Advisory Business, Confluence offers our portfolio management services on either a "discretionary" or a "non-discretionary" basis.

### Non-Discretionary Accounts

We provide non-discretionary investment advisory services to certain Financial Institutions. In a non-discretionary account, Confluence has the authority to recommend to the client (or a third-party acting on behalf of the client) the securities or other assets to be held in the account, but we do not have the authority to implement such recommendations. Such non-discretionary advice typically takes the form of model portfolios, which represent Confluence's recommendations as to the composition of a portfolio of securities that would be reasonably appropriate to meet a stated investment objective, based on criteria provided by the client. Confluence's role is solely to provide to these Financial Institutions recommendations as to the securities composing the portfolio, and advice on changes to the portfolio. The Financial Institution may utilize our recommendations in managing the accounts of the clients of the Financial Institution. The Financial Institutions retain full discretion to accept, modify or reject our recommendations and retain trading authority—including the discretion to select broker/dealers to execute purchase and sale transactions—over their clients' accounts. The non-discretionary accounts at the Financial Institution for their clients may be Wrap Accounts, UMAs or other types of accounts. These clients are clients of the respective Financial Institution and are not Confluence clients.

### Discretionary Accounts

In a discretionary account, Confluence is granted the authority to determine the securities or other assets to purchase or sell in the account, without the prior consent of the client.

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—Factors Used to Select Broker-Dealers for Discretionary Accounts

For those discretionary client accounts for which Confluence also has discretion to select broker/dealers to execute purchase and sale transactions, Confluence is responsible for the placement of the client's transactions, the negotiation of the commissions to be paid on brokered transactions, the prices for dealer trades in securities, and the allocation of portfolio brokerage and dealer business. It is our policy to seek the best execution at the best security price available with respect to each transaction, and with respect to brokered transactions in light of the overall quality of brokerage and research services provided to Confluence and its clients. The best price to the client means the best net price without regard to the mix between purchase or sale price and commission, if any. Purchases may occasionally be made from underwriters and dealers. The purchase price of portfolio securities purchased from an underwriter or dealer may include underwriting commissions and dealer spreads. The client may pay markups on dealer transactions. In selecting broker/dealers and in negotiating commissions, Confluence considers, among other things, the broker/dealer's reliability, the quality of its execution services on a continuing basis, the research services provided and its financial condition.

Confluence recommends that clients choose their own financial advisor and broker/dealer. In certain circumstances when requested by the client, Confluence may provide a broker/dealer recommendation. For clients that choose not to utilize a traditional financial advisor, Confluence may recommend that clients establish brokerage accounts with a certain Custodians to maintain custody of clients' assets, to effect trades for their accounts and to send statement directly to the clients. Confluence does not take possession of or custody client assets and is not affiliated with any Custodian. The services provided by any Custodian so recommended by Confluence are not contingent upon Confluence committing to such Custodian any specific amount of business (assets in custody or trading). Any such Custodian's services include brokerage, custody, research and access to mutual funds and other investments that are otherwise generally available only to institutional investors or would require a significantly higher minimum initial investment. For those Confluence's client accounts maintained with such Custodians, the Custodian generally does not charge separately for custody but is compensated by the client account holders through commissions or other transaction-related fees for securities trades that are executed through such Custodians or that settle into such Custodian's accounts.

—Designated Brokerage for Discretionary Accounts

Clients in a Wrap Account program or with discretionary accounts in certain UMA programs are charged a bundled fee or fees by the Financial Institution sponsoring the program ("*Sponsor*"), typically based on a percentage market value of the assets in the Wrap Account or UMA. The bundled fee or fees generally covers charges for custody services, brokerage commissions, investment management and other services as negotiated between the client and the Sponsor. Confluence will generally place trades for clients in Wrap Account and UMA programs with the Sponsor of the program. In general, we have determined that it is in our client's best interest to trade with the Sponsor, in consideration of the cost to trade through a different broker/dealer. Most Sponsors assess clients a "trade away" fee for trades not executed through the Sponsor. However, we may choose to trade away if we are able and believe we can achieve best execution for a particular trade at another broker-dealer.

Discretionary account clients also may instruct us to use a designated broker-dealer ("*Designated Broker*") for all or a portion of the transactions in their accounts. Designated Brokers may provide

certain consulting, performance evaluation, monitoring and oversight, commission recapture, and other services to the client for which the broker is compensated through commissions or other transaction fees generated by trades. In such cases, we generally make no attempt to negotiate commissions on our client's behalf. Clients using Designated Brokers may sacrifice execution quality or pay higher commissions and fees than other clients for whom we have discretion to select executing broker/dealers. We cannot assure "best execution" on trades for client accounts when we are instructed to use a Designated Broker.

Clients using Designated Brokers are not generally able to participate in "block trades" in which we enter trade orders for multiple accounts in a single block. Confluence may be able to include the order of a client using Designated Brokers with orders of other accounts with the objective of obtaining a better execution for the client using Designated Brokers if the executing broker-dealer will transfer the billing and settlement of the order to the Designated Broker (generally known as a "step-out"). Reconciliation of the portion of the trade given to a Designated Broker is done through the clearing process between the two broker-dealers. In such circumstances the client may incur both a transaction cost for the execution of the trade and a transaction cost for the billing and settlement of the trade. Confluence so aggregates the trades of Designated Broker client accounts only in circumstances in which executing the order in this manner is deemed to be in the best interest of the client using Designated Brokers.

#### Research and Other Soft Dollar Benefits

Section 28(e) of the Securities Exchange Act of 1934 permits an investment adviser, in certain circumstances, to cause an account to pay a broker or dealer who supplies brokerage and research services a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction. Brokerage and research services include (a) furnishing advice as to the value of securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody). Such brokerage and research services are often referred to as "soft dollars" or "commission sharing agreements."

Confluence seeks best execution of trades in a manner intended, considering the circumstances, to secure that combination of net price and execution that will maximize the value of our investment decisions for the benefit of its clients. Subject to our duty to seek best execution, our selection of brokers may be affected by our receipt of research services.

For client accounts for which Confluence has discretion to select broker/dealers to execute purchase and sale transactions, and in recommending broker-dealers to clients, we need not solicit competitive bids and do not have an obligation to seek the lowest available transaction cost (e.g., commission cost). It is generally not our practice to negotiate "execution only" transaction costs (e.g., commission rates); thus, our clients may be deemed to be paying for products and services provided by the broker-dealer which are included in the transaction charges. When we determine that more than one broker-dealer can offer the brokerage and execution services needed to obtain the best available price and most favorable execution, consideration may be given to using or recommending those broker-dealers which also supply products and services that assist us in fulfilling our investment advisory responsibilities. Products



and services may be used by us in servicing some or all of our clients. These services include company and industry research as well as attendance at sponsored industry conferences.

In some instances, we may receive products and services that may be used for both research/brokerage and non-research/brokerage purposes. In such instances, we will make a good faith effort to determine the relative proportion of the products and services used for research/brokerage purposes and the relative proportion used for non-research/brokerage purposes. The proportion of the products and services attributable to research/brokerage purposes will be paid through brokerage commissions generated by client transactions; the proportion attributable to non-research/brokerage purposes will be paid for or reimbursed by us from our own resources. The receipt of “mixed-use” products and services and the determination of an appropriate allocation between research/brokerage and non-research/brokerage purposes create a potential conflict of interest between Confluence and its clients. These arrangements are periodically reviewed in relation to Section 28(e) of the Securities Exchange Act of 1934. The firm utilizes soft dollar credits to pay for financial data services and trading platforms. In no event are soft dollar credits used to offset losses from trading errors. Confluence may receive unsolicited research from firms used for execution. We do not consider such unsolicited materials as soft dollar research.

Confluence sub-advises a closed-end fund (NYSE: FGB), manages institutional accounts and sub-advises an open-end mutual fund with a small cap value strategy in which it can direct trades through various broker-dealers based on execution, costs and other services provided. In accordance with Section 28(e) of the Securities Exchange Act of 1934, broker-dealers are selected on the basis of their ability to execute transactions at the most favorable prices and lowest overall execution costs, taking into consideration other relevant factors, such as the reliability, integrity and financial condition of the broker-dealer, the size of and difficulty in executing the order, the quality of execution and custodial services and the provision of valuable research services that can be reasonably expected to enhance the investment return of the clients' portfolios. These services may be useful for all client accounts, and not all research may be useful for the account for which the particular transaction was effected. When broker-dealers are selected on the basis of their research services, Confluence may negotiate commissions that may be higher than for “execution only” transactions, but are nevertheless deemed reasonable in light of the value of such services provided, viewed in terms of either a particular transaction or the overall responsibilities of Confluence as to the accounts over which it exercises investment discretion.

Confluence generally uses between five and twenty brokers. Products and services may either be provided by a broker-dealer, or paid for by a broker-dealer (either by direct or reimbursement payments – in whatever form – or by commissions, mark-ups, mark-downs or credits or by any other means) to be provided by others. The availability of such products and services may create a conflict between the interests of the client in obtaining the lowest cost of execution and our interest in obtaining such services. In addition, several brokers through whom we execute orders provide proprietary research on general economic trends or particular companies. Confluence benefits by obtaining research or other products and services without having to produce or pay for research, products or services.

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### Trade Order Aggregation and Allocation

As described above, portfolio transactions in client accounts may be executed through broker/dealers selected by Confluence (in the case of discretionary accounts for which Confluence has discretion to select broker/dealers), through Sponsors of Wrap Accounts and UMA discretionary accounts, through Designated Brokers selected by the client in a discretionary account, or by the Financial Institution with which Confluence has a non-discretionary or model portfolio account (collectively, “*Eligible Broker/Dealers*”). Confluence has developed policies and procedures with respect to the aggregation of trade orders and the allocations of trade execution among Eligible Broker/Dealers, which we believe to be fair and equitable to our clients. In some cases, however, these policies and procedures could have an adverse effect on the price or the amount of securities available to a client.

*Aggregation and Allocation of Trades.* For those discretionary accounts for which Confluence has discretion to select broker/dealers, Confluence seeks to aggregate trades for client accounts within a strategy or across multiple strategies (if multiple strategies are transacting in the same security) and enter trades in a single block order when we believe it is in our clients’ best interest. Trades for discretionary Wrap Accounts and UMA programs are generally aggregated by the Sponsor. It is Confluence’s policy to allocate trades in a fair and equitable manner and we generally will allocate pro-rata. However, in the event of a partial fill of an aggregated order, we may choose a random allocation process. Confluence typically does not have trading discretion over non-discretionary accounts, such as model portfolio accounts, and such accounts are not eligible under our trade aggregation policies. Certain Financial Institutions that are model account clients may request that we assist in the implementation and execution of trades in such model accounts through such Financial Institution.

#### —Asset Allocation Strategies; Balanced Strategies (Fixed Income Portion); Alternative Strategies

As described above under Item 8 titled Methods of Analysis, Investment Strategies and Risk of Loss, our Asset Allocation Strategies, the fixed income portion of our Balanced Strategies and all or a portion of certain of our Alternative Strategies (such as the Global Hard Assets and Global Macro strategies) are implemented, for both discretionary SMAs and non-discretionary model accounts, using exchange-traded funds (“*ETFs*”). All client accounts within a particular investment strategy are generally treated alike with regard to the investment decisions made for that strategy. Confluence uses a rotational process to alternate the trading order between discretionary and non-discretionary accounts, and utilizes a random generator to determine the rotation among Eligible Broker/Dealers within each group.

#### —Equity Securities Strategies; Balanced Strategies (Equities Portion); Alternative Strategies

As described above under Item 8 titled Methods of Analysis, Investment Strategies and Risk of Loss, our Equity Strategies, the equities portion of our Balanced Strategies, our Sector-Specific Strategies and a portion of our Global Hard Assets strategy are implemented, for both discretionary SMAs and non-discretionary model accounts, using equity securities of U.S. issuers and U.S. listed securities of foreign issuers. All client accounts within one of these strategies are generally treated alike with regard to the investment decisions made for that strategy.

When Confluence purchases or sells an equity security within such a strategy for discretionary accounts, we use a random generator to alternate the trading order among Eligible Broker/Dealers with respect to such discretionary accounts. Certain Financial Institutions that are model account clients may request that we assist in the implementation and execution of trades in through such Financial Institution and, in such circumstances, trades are executed for such accounts after the execution of transactions for discretionary accounts as described in the preceding sentence. Financial Institutions with which we have non-discretionary accounts are notified of purchase and sale recommendations after the execution of trades as described above.

#### —Sector-Specific Strategies

We may modify our policies for allocation of equity securities transactions in our Sector-Specific Strategies. In our BDC Strategy, we utilize a rotational process to alternate the trading order between discretionary accounts for which Confluence has discretion to select broker/dealers, on the one hand, and Wrap Accounts and other Designated Broker account on the other hand. Within the latter group, a random generator protocol is used to alternate the trading order among Eligible Broker/Dealers.

### **Item 13—Review of Accounts**

Investment personnel review each discretionary account portfolio on a regular basis to ensure that investments are made in conformity with clients' stated objectives. Reviews are made in light of the client's stated investment objective, applicable economic or monetary developments, overall conditions in various markets and specific market and related developments affecting individual securities.

On a monthly or quarterly basis (as directed by each client), the client's Custodian sends reports to clients showing transactions for the period, portfolio holdings, performance reporting and appropriate commentary. For dual contract clients, Confluence sends quarterly portfolio appraisals that can be compared to the client statements provided by the Custodian. Investment commentary letters and additional information are periodically provided to clients as agreed to by Confluence and the client.

### **Item 14—Client Referrals and Other Compensation**

From time to time, Confluence utilizes solicitors, who are persons who receive compensation for directly or indirectly soliciting clients for, or referring clients to, an investment adviser. Confluence may engage independent contractors for client referrals. For such referrals, Confluence would compensate the independent contractor with a percentage of fees relating to such referrals based on the level of services performed. Any such compensation would be paid pursuant to a written agreement that is in compliance with the applicable federal regulations and state law. Each prospective client so solicited is given a copy of Confluence's written disclosure statement and a separate written disclosure statement of the solicitor as required by applicable federal regulations prior to or at the time of entering into any advisory contract. There is no increase in the advisory fees payable to Confluence by the solicited persons as a result of the compensation paid to the solicitor, under any such solicitation agreement.

Confluence previously had a solicitation agreement with First Trust Advisors L.P., a solicitor that is not affiliated with Confluence. This agreement has been terminated and First Trust no longer solicits new clients on Confluence's behalf.

### **Item 15—Custody**

Other than obtaining authorization for deducting investment management fees, Confluence does not take possession of client assets, and all discretionary and non-discretionary assets are held with the Custodian selected by the client. Clients should receive statements at least quarterly from the Custodian that holds and maintains the client's investment assets. Confluence reconciles accounts with custodial records and urges clients to carefully review such statements and compare such official custodial records to the account statements that Confluence may provide to the client. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **Item 16—Investment Discretion**

For discretionary accounts, Confluence usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Confluence observes the investment policies, limitations and restrictions of the clients for which it advises. Clients are able to restrict certain types of securities for social responsibility investing purposes or specific securities for other reasons. For registered investment companies, Confluence's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments.

Investment guidelines and restrictions must be provided to Confluence in writing.

Confluence does not have trading discretion over non-discretionary accounts, including certain UMA and model accounts.

### **Item 17—Voting Client Securities**

Confluence is generally responsible for voting all proxies with respect to securities held in discretionary account portfolios we manage, and keeps such records as may be required in connection with such activity. Confluence utilizes Broadridge Financial Solutions, Inc., an outsourcing provider to the global financial industry, to coordinate, process, manage and maintain electronic records of Confluence's proxy votes. Upon a client's request, Confluence will provide to the client a copy of its Proxy Voting Policy as well as information concerning the voting of securities in such discretionary account portfolios.

**Item 18—Financial Information**

Confluence fees are generally payable quarterly in advance. Confluence does not require such advance payment six months or more in advance of more than \$1,200 in fees per client. Under applicable regulations, a balance sheet for Confluence is not required to be included in this Brochure. Confluence does not currently believe nor foresee any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients. Confluence has not been the subject of a bankruptcy petition.