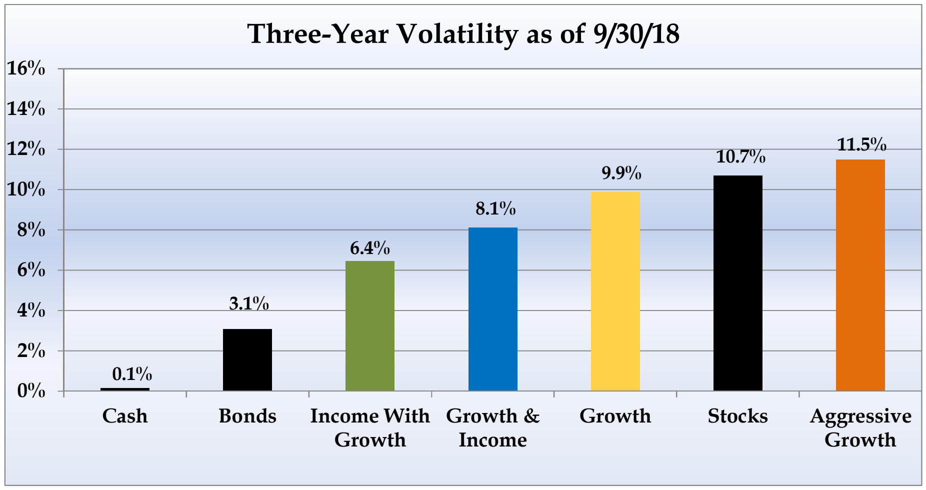
ASSET ALLOCATION QUARTERLY
Fourth Quarter 2018

Asset allocation is a portfolio management process where various asset classes (stocks, bonds, commodities, etc.) are combined in one portfolio. Diversification helps to avoid having 'all eggs in one basket.' Risk and return are considered for the entire portfolio as opposed to evaluating individual securities or investments.

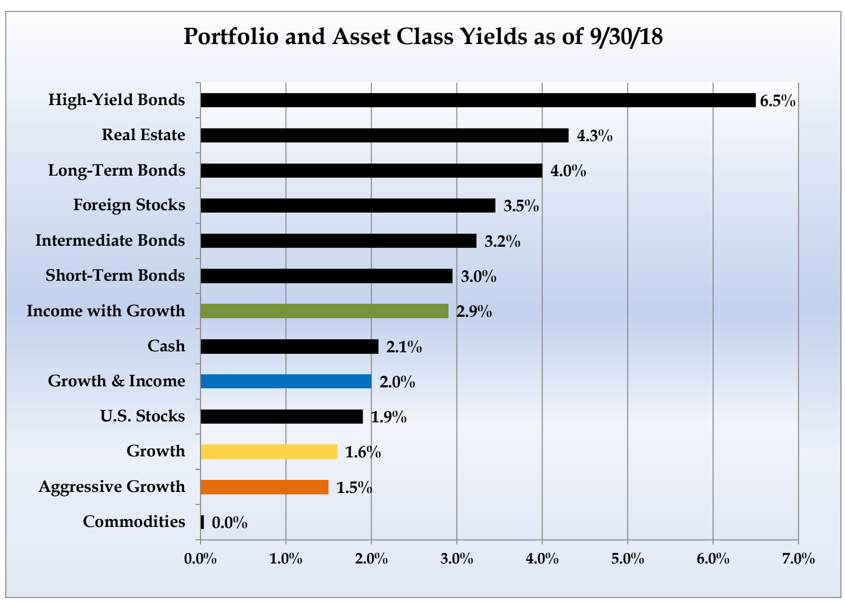


Source: Bloomberg, CIM. Cash is the ML 0-3 Month T-Bill Index; Bonds are the ML Domestic Master Index; Stocks are the S&P 500 Index. *This information is presented as supplemental information to the disclosures required by GIPS® standards. See disclosures on page 6 for important details.

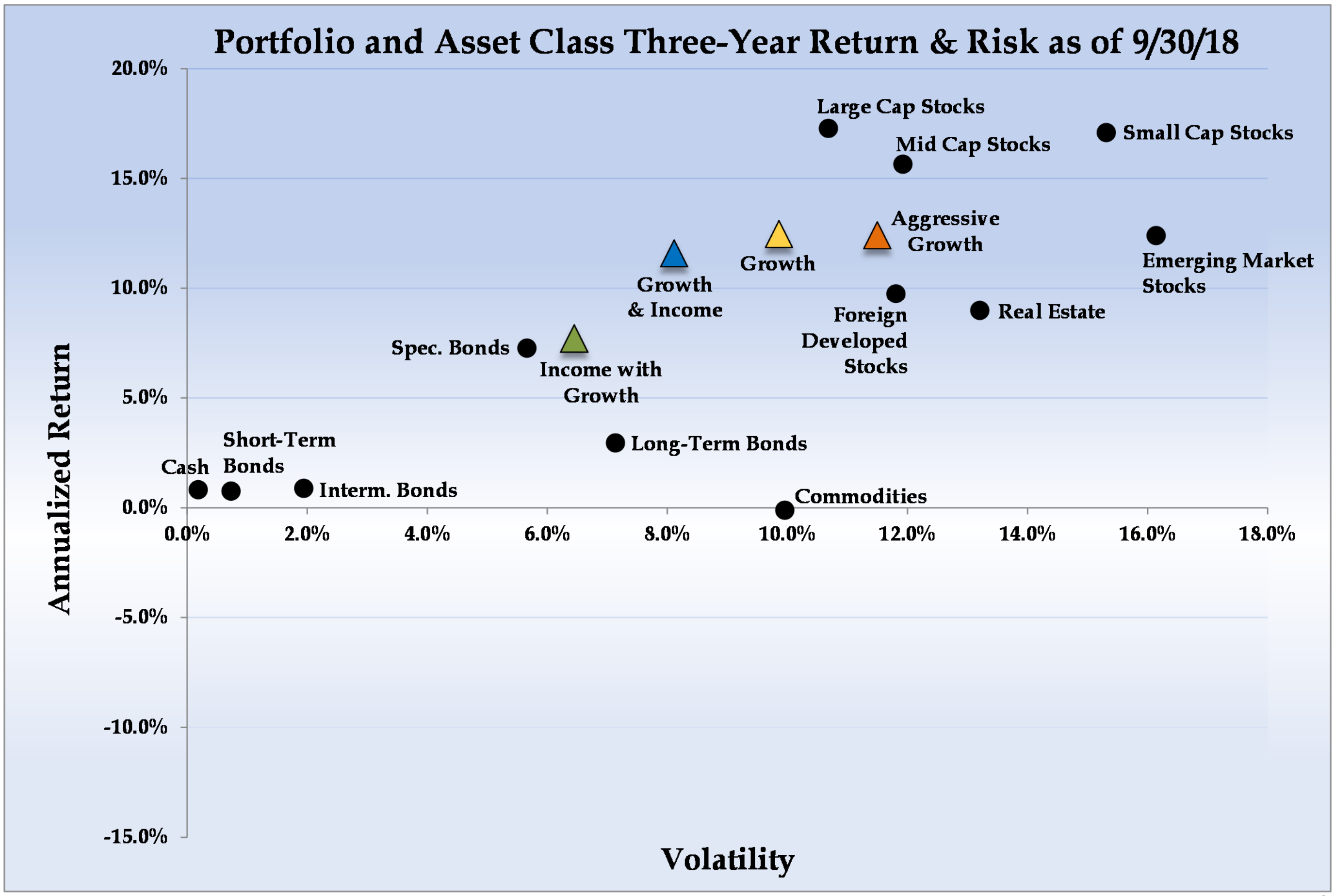
The Confluence asset allocation process is centered upon risk management. Our portfolios offer a broad spectrum of risk profiles, ranging from a fairly conservative posture in Income with Growth (green) to a more risk tolerant profile in Aggressive Growth (orange). The primary asset classes of cash, bonds and stocks are illustrated in the black bars for reference in the above chart.

We recognize that risk levels and return potential rise and fall over market and economic cycles. Therefore, we apply a dynamic process, one that evaluates the economy, interest rates, regulation, valuations and other investment variables in a forward-looking context. Although we seek return opportunities, we do so with a consideration for the amount of risk taken to pursue these returns.

For many investors, income is an important objective and we make it a priority in our income-oriented portfolios. However, we balance the income objective relative to our outlook for various asset classes. Often times, higher yields may not translate into attractive return/risk tradeoffs. This chart shows the recent gross yields of our portfolios, relative to several asset classes.



Source: Bloomberg, CIM. Portfolio yields are before fees. *This information is presented as supplemental information to the disclosures required by GIPS® standards. See disclosures on page 6 for asset class composition and other important details.



Source: Bloomberg, CIM, using monthly data and gross returns. *This information is presented as supplemental information to the disclosures required by GIPS® standards. See disclosures on page 6 for asset class benchmark details.

PORTFOLIO AND ASSET CLASS COMMENTARY

The chart above depicts returns and risk, as measured by the volatility of returns, for 12 asset classes and the composite performance for our asset allocation portfolios over the three-year period ending September 30, 2018. This interval has been characterized by positive returns among all 12 primary asset classes, the most pronounced of which was U.S. equities. Volatility, as measured by standard deviation, was correspondingly much higher for equities than bonds.

As represented by the colored triangles, portfolio performance was predominantly influenced by their respective exposures to the major asset classes of bonds and stocks. Given the market returns of the past three years, the Income with Growth portfolio, which had the largest exposure to bonds, exhibited the lowest level of return, yet with a lesser degree of volatility. Similarly, Growth and Aggressive Growth portfolios were allocated almost exclusively to stocks, and their returns were roughly equivalent.

A secondary, yet significant, influence was the allocation of each portfolio to sub-asset classes within equities and bonds. As the chart illustrates, exposures to the more risky asset classes, such as small cap stocks and emerging market stocks, had wide differentials of returns, yet with roughly equivalent volatility. The aggregation of the stock/bond mix and the shifting exposures to sub-asset classes within the respective mix led to where each portfolio falls along the return/risk continuum. While the four Confluence portfolios all conformed to the expectation of higher volatility with the greater assumption of risk, the return for the Aggressive Growth portfolio represents an aberration in this continuum. As mentioned earlier, it had similar exposure to the Growth portfolio at the major asset class level; however, Aggressive Growth's void in large cap stocks since early 2016 and overweight to emerging market stocks were the principal influences. While this posture did not produce the desired results in this 36-month time frame, the allocations are risk appropriate and are expected to produce returns commensurate with the higher level of risk in our forecast of continued economic growth, both in the U.S. and abroad.

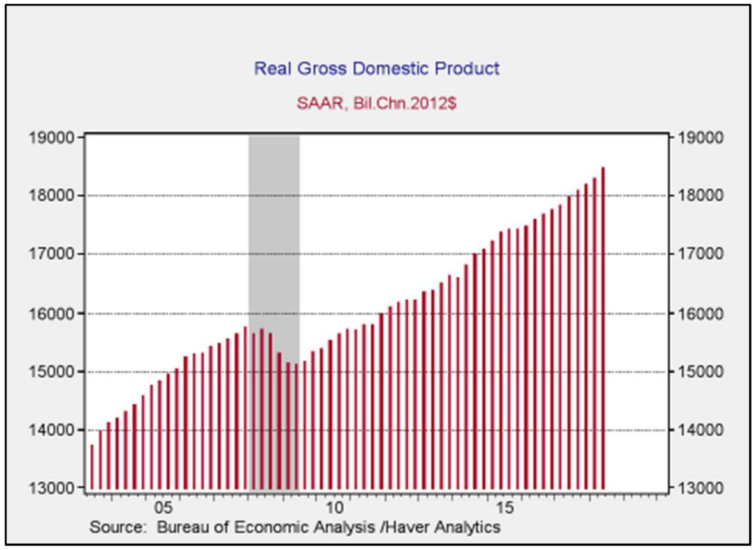
Although our cyclical forecast is for a continuation of a positive economic environment that should reward risk assets, we regularly reassess and review data that can affect our macroeconomic outlook. Accordingly, if we find a shift in market sentiment, an increase in the potential for a policy mistake by the Fed, a higher probability for a recessionary environment, a pronounced disruption to global trade and/or magnified geopolitical risk, we will naturally adopt a more risk-averse posture for all of the portfolios.

FOURTH QUARTER 2018 ASSET ALLOCATION OUTLOOK

- **The U.S. economy is stable and growing, with sentiment indicators remaining high. A recession is not included in our cyclical forecast.**
- **The Fed's tightening policy has thus far had modest effects. We expect a continuation of increases in the fed funds rate in tandem with a reduction of the Fed's balance sheet.**
- **Though unemployment is low, we find that the employment/population ratio indicates a continuance of slack in the labor force, thereby blunting the potential impact of wage growth on inflation.**
- **Midterm elections in the U.S. hold the potential for a divided government, which dims the prospect for new legislation to be enacted.**
- **The asset allocation portfolios retain their high relative weighting to equities given economic health and expectations for continued GDP growth. At this point in the economic cycle, our style bias remains in favor of growth at 60%/40%.**

ECONOMIC VIEWPOINTS

The U.S. economy continues to be on sound footing. Real GDP, as exhibited in the accompanying chart, has been growing for over nine years, representing the second longest U.S. economic expansion on record. Sentiment, as measured by the NFIB Small Business Optimism Index and the University of Michigan Consumer Sentiment Index, remains high. Inflation is contained, with readings of CPI regularly registering below the 20-year average. Corporate earnings are strong, with the vast majority of firms reporting results in the second quarter in excess of expectations.



Although economic conditions are positive and appetites among U.S. businesses and consumers are healthy, we are cognizant that events can transpire to upset a field of roses and buttercups. Trade frictions have commanded the headlines since February. Though we readily admit that tariffs and other barriers to trade have the potential to increase costs, thus leading to lesser profits for businesses and/or the kindling of nascent inflationary pressures, we believe that new supply chains can be woven to circumvent the barriers, thereby mitigating the full economic consequences of tariffs and trade obstacles. Of greater consequence, we believe, are lagging effects of last year's tax reform. One area we have identified as being potentially poignant is the oversight among many rank-and-file workers to adjust their withholding in light of the modified tax tables. Though they have enjoyed higher take-home pay each month, those who have previously basked in a fat refund check during past tax seasons may well find themselves with lesser refunds come next spring. Should this affect a substantial proportion of middle income taxpayers, the derivative effects may be a climb in aggregate credit card debt outstanding, reduced consumer expenditures on travel and dining and, more explicitly damaging to the broader economy and thereby GDP, lower demand for consumer durables. In and of itself, diminished tax refunds will not in all likelihood cripple the economy. Yet in concert with the impact of trade policies, albeit diminished, an overall decline in sentiment, wage pressures and perhaps an overzealous Fed, economic conditions may be less appealing by this time next year.

An antithetical example is probably more plausible. In the event of a divided government wrought by the Democrats wrenching the U.S. House and even the Senate from the Republicans during the midterm elections, the Trump administration and Congress may find common ground on infrastructure spending. Should this transpire, it may push what some consider to be an already giddy economy into pure economic ecstasy, thereby propelling the U.S. equity markets to even higher valuations in what we have described as a "melt-up" in prior publications. The other side of the coin in this scenario is a bond market sell-off stemming from either higher issuance of Treasuries and municipals or elevated inflation expectations, or both.

Note that the foregoing paragraphs are certainly not our base case, which is for steady normalization of rates by the Fed, continued economic growth, solid corporate profitability and healthy confidence. Rather, the preceding illustrations are intended to underscore the importance of continually monitoring data to ascertain whether our asset allocation facings are appropriate or are in need of adjustment. Although diversification among asset classes is a hallmark of modern portfolio theory, allocations based on stagnant assumptions can produce spurious results. Accordingly, expected returns, risk and yields require regular updates to provide proper diversification among asset classes. This is the crux of our cyclical asset allocation process, assessing the expected returns, risk and yields over the ensuing economic cycle utilizing relevant data to ensure risk-appropriate positioning.

STOCK MARKET OUTLOOK

Our views on the U.S. equity markets remain favorable. Although the probability of increased volatility is resident, we view the economic landscape as constructive for equities. While tariffs and trade barriers are affecting certain companies unfavorably, we expect corporate profitability in the aggregate to continue its ascent, though at a lower rate than experienced thus far this year, which was aided by changes to the tax code. The repatriation of assets held abroad has already had positive influences on dividends, share repurchases and increased M&A activity, despite the levels of repatriation being lower than the markets originally forecasted. However, as the IRS finalizes its rules on repatriation, the level is likely to grow. Our analysis suggests that this should prove beneficial for prices of companies classified as mid-cap and small cap, as well as in the lower strata of large cap, by virtue of increased M&A activity. Accordingly, all of our asset allocation portfolios have historically high levels of equity exposure and there is a leaning toward mid-cap and small cap equities for the portfolios where it is risk appropriate.

With regard to style and sectors, we find that our existing 60% tilt toward growth remains appropriate at this juncture in the economic cycle. Equities traditionally characterized as growth are generally rewarded in the latter stages of expansions. An area of the growth style that encourages near-term caution include those securities that have been reclassified as part of last quarter’s configuration of the communication services sector. Even though the repositioning has already occurred, we expect some choppiness as an echo from the reclassification. Beyond the tilt to growth, we remain overweight to the energy, financials and materials sectors. Since these contain stocks that are classified mostly as value, the collective overweight to these sectors has the effect of reducing the growth tilt to roughly 55% in the large cap sleeve of the portfolios.

Beyond the U.S., we retain much of last quarter’s non-U.S. equity positioning. Valuations for non-U.S. companies relative to their U.S. counterparts remain compelling, yet returns for U.S.-based investors are obviously influenced by the value of the U.S. dollar. We also have exposures to emerging market equities in the portfolios where risk appropriate.

BOND MARKET OUTLOOK

Hand-wringing over the flattening of the yield curve that was so prominent during the summer months has been supplanted in just a few weeks by concerns of curve steepening caused by increases in inflation expectations. Comments about the bond market are typically filled with hyperbole, but the histrionics this year have seemed to become shrill. Despite the angst expressed by many, we hold the opinion that in its current trajectory the Fed is moving toward a more sound and normalized footing. We recognize that there exists the potential for a misstep by the Fed, either through being overzealous in efforts to raise fed funds and reduce the size of the balance sheet or by becoming too docile in response to a Tweet storm. However, we believe the laddered positioning that we enacted at the beginning of the year is the appropriate positioning for this phase of the economic cycle. The duration posture of the portfolios tend to be shorter than the broader indices, mostly due to the quarterly erosion effected by the use of the ladders. The portfolios remain heavily exposed to investment-grade credit through the laddered ETFs and the exposure to longer dated Treasuries has been reduced. We continue to harbor some trepidation regarding speculative-grade bonds given their tight spreads to maturity-equivalent Treasuries and the necessity of refinancing nearly $1 trillion of high-yield bonds set to mature between 2019 and 2022. As a result, the exposure to speculative grade bonds is at historically low levels in our portfolios.

OTHER MARKETS

We retain an allocation to REITs in the more income-oriented portfolios due to attractive and improving dividend yields and the diversified income stream they afford. Relative to speculative-grade bonds, we find the potential risk/reward to be superior in REITs.

The modest allocation to gold is maintained owing to the combination of its ability to offer a hedge against geopolitical risk and the safe haven it can offer during an uncertain climate for the U.S. dollar.

FOURTH QUARTER 2018	Income With Growth		Growth & Income		Growth		Aggressive Growth	
	Current	Change	Current	Change	Current	Change	Current	Change
Cash	2%	-	2%	-	2%	-	2%	-
Short Term Bonds	3%	-	5%	-	-	-	-	-
Intermediate Term Bonds	32%	5%	10%	-	-	-	-	-
Long Term Bonds	11%	-	5%	-	-	-	-	-
Speculative Grade Bonds	4%	-	-	-	-	-	-	-
Real Estate	10%	-	-	-	-	-	-	-
U.S. Large Cap Stocks	26%	-	30%	-	40%	-	-	-
U.S. Mid Cap Stocks	-	-	15%	5%	10%	5%	23%	-
U.S. Small Cap Stocks	-	-	20%	5%	23%	-	35%	-
Foreign Developed Country Stocks	9%	(5%)	10%	-	10%	-	10%	-
Emerging Market Stocks	-	-	-	(10%)	10%	(5%)	25%	-
Commodities	3%	-	3%	-	5%	-	5%	-
Total	*100%*		*100%*		*100%*		*100%*	

INCOME WITH GROWTH

A 5% decrease of the exposure to non-U.S. developed market equities in favor of a corresponding increase to intermediate-term bonds resulted in a modest reduction in projected volatility for the Income with Growth portfolio. The normal quarterly duration decay associated with the operation of the bond ladder encouraged the introduction of a new rung with a 2028 maturity, sourced not only from the decrease in non-U.S. equities but also from the position in the intermediate mortgage-backed security ETF. In addition, we eliminated the position at the 20+ year segment of the Treasury curve, redeploying to Treasuries with a 10-year duration. U.S. equity exposure remains all large cap, with a tilt of 60% toward growth, and sector overweights to energy, financials and materials. The remaining 9% non-U.S. equity exposure is entirely developed countries, with an emphasis on Europe. This portfolio maintains a modest 3% weighting to gold for its potential to reduce overall portfolio risk accruing from currency and geopolitical risks.

GROWTH & INCOME

The Growth & Income portfolio's former 10% weighting to emerging market equities was removed and added to U.S. mid-cap and U.S. small cap equities in an equivalent amount. Exposure to equities is near historically high levels and underscores our positive view on valuations and economic conditions. Within the U.S., we retain a 60% skew toward growth equities and now have sizable allocations to mid-cap and small cap equities. Among large caps, the overweight to growth is partially offset by sector positioning in energy, financials and materials, which are traditionally more value-oriented. We maintain an exposure to non-U.S. developed market equities with an overweight to Europe. Though there are no allocation changes to the broad bond categories, the normal quarterly duration decay associated with the operation of the bond ladder encouraged our introduction of a new rung with a 2028 maturity. This portfolio retains its prior 3% allocation to gold, given gold's ability to hedge against geopolitical and currency risks.

GROWTH

The single change to the Growth portfolio this quarter is a reduction in emerging market equities by 5% and a corresponding increase to U.S. mid-cap equities. This increase reflects not only our positive expectations for the U.S. economy but also the prospect for a continuation of elevated M&A activity. Across the capitalization spectrum for the U.S. is a 60% tilt toward growth in recognition of where we stand in the economic cycle, though in large caps the tilt is moderated by incremental exposure to the traditional value sectors of energy, financials and materials.

Equity exposure, inclusive of non-U.S., remains at a historically high level for this portfolio. With the shift of a portion of the emerging market exposure to U.S. mid-cap equities, the emerging market allocation equals that of developed markets. The emerging market exposure includes a portion dedicated to small cap emerging market equities and the developed market exposure has a concentration in Europe. We retain the 5% allocation to gold, which we believe holds the potential to reduce overall portfolio risk accruing from currency and geopolitical risks.

AGGRESSIVE GROWTH

As with the prior quarter, there are no changes to the allocations or sub-asset class exposures in the Aggressive Growth portfolio. The U.S. equity exposure is still composed exclusively of mid-caps and small caps, both of which have a 60% tilt toward growth. This reflects our positive economic outlook and our expectations for the continuation of earnings growth as well as the prospect for high levels of M&A activity to remain elevated.

This portfolio's allocation to non-U.S. equities has a majority of its exposure in emerging markets, where there is a sizable exposure to small caps due to their differentiated returns. The developed non-U.S. exposure retains a concentration in Europe, where relative valuations are attractive. We retain the 5% allocation to gold due to the hedge it can provide against geopolitical and currency risks.

Performance & Disclosures

As of 9/30/18

Strategy	Quarter	YTD	1 - Year	3 - Year	5- Year	ITD
Income Taxable with Growth - Gross of Fees	2.1%	0.9%	3.1%	7.7%	7.2%	9.6%
Income Taxable with Growth - Net of Fees	1.4%	-1.4%	0.1%	4.5%	4.0%	6.4%
Benchmark - 40% S&P 500 and 60% ML Bond Index	3.0%	3.2%	6.2%	7.6%	6.9%	8.4%
Growth and Income Taxable - Gross of Fees	3.1%	4.0%	8.5%	11.6%	9.8%	7.5%
Growth and Income Taxable - Net of Fees	2.3%	1.7%	5.2%	8.3%	6.5%	4.3%
Benchmark - 70% S&P 500 and 30% ML Bond Index	5.4%	6.9%	11.9%	12.4%	10.4%	8.9%
Growth - Gross of Fees	3.5%	3.6%	8.9%	12.5%	10.6%	7.5%
Growth - Net of Fees	2.7%	1.3%	5.7%	9.1%	7.3%	4.3%
Benchmark - S&P 500	7.7%	10.6%	17.9%	17.3%	13.9%	10.8%
Aggressive Growth - Gross of Fees	1.7%	2.9%	7.8%	12.4%	9.6%	7.4%
Aggressive Growth - Net of Fees	1.0%	0.6%	4.6%	9.1%	6.4%	4.2%
Benchmark - S&P 500	7.7%	10.6%	17.9%	17.3%	13.9%	10.9%

ITD: Inception-to-Date. Inception: Income with Growth (12/1/08), Growth & Income (9/1/08), Growth (9/1/08), Aggressive Growth (8/1/08).

Confluence claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of composite descriptions and/or a GIPS compliant presentation is available by contacting Marketing@confluenceim.com or calling (314) 743-5090. Confluence Investment Management LLC is an independent registered investment adviser. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[1]Net of fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.40% on the first $500,000; 0.35% on the next $500,000; and 0.30% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

Each strategy is implemented using Exchange Traded Funds (ETFs) and the investment objective is the pursuit of nominal returns (yield and growth) in excess of inflation, subject to the limitations of the risk constraint for each strategy. The targeted risk constraint and appropriate investor risk tolerance for each strategy is as follows; Aggressive Growth (High), Growth (Average), Growth and Income Taxable (Moderate), and Income with Growth (Conservative). ML Bond Index consist of Merrill Lynch US Corporate, Government, and Mortgage Bond Index.

The asset allocations shown represent the individual ETFs used for the asset allocations in the model portfolios as of 10/16/2018 and do not represent the precise allocation of assets in an actual client account. Asset allocation in client accounts may vary based on individual client considerations and market fluctuations. The allocation of assets in the model portfolio may be changed from time to time due to market conditions and economic factors. The investments held by the portfolio are ETFs and are not guaranteed and do carry a risk of loss of principal. There are investment risks in investing in these strategies. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. In a rising interest rate environment, the value of fixed income securities generally declines. Speculative grade bonds are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities. Investments in international and emerging market securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. The real estate asset class is a portfolio containing Real Estate Investment Trust (REIT) securities.

Confluence utilizes fixed income ETFs for the bond asset classes to deliver the income and lower volatility traditionally available from a diversified bond portfolio. Fixed income ETFs are not bonds, but are pro-rata interests in publicly traded bond funds. Investors should be aware there are limitations in utilizing fixed income ETFs, which are subject to market risk, including the possible loss of principal. There may be times when an ETF's performance may vary relative to its targeted benchmark. And while ETFs generally trade very close to their net asset values, during times of market disruption they can trade at discounts or premiums, directly affecting performance. Liquidity can vary depending upon market conditions. ETFs trade like a stock but charge internal management fees; there will be brokerage commissions associated with buying and selling exchange traded funds unless trading occurs in a fee-based account. Investors should consider an ETF's investment objective, risks, charges, and expenses carefully before investing.

Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice or a recommendation. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Opinions expressed are current as of the date shown and are subject to change.

*Benchmark return and volatility calculations utilize monthly data thru 9/30/18. Investors cannot invest directly in an index. Past performance does not guarantee future performance. Asset class and benchmark index representation: cash (ML T-Bill); short-term bonds (ML 0-3 Year C/G); intermediate bonds (ML 3-5 Year C/G); long-term bonds (ML 10+ C/G); speculative grade or high-yield bonds (ML High Yield Master); real estate (FTSE NAREIT Equity); large cap (S&P 500); mid-cap (S&P MidCap 400); small cap (Russell 2000); foreign developed country (MSCI EAFE); emerging markets (MSCI Emerging Market); commodities (S&P GSCI Total Return). Yield chart data as of September 2018. Representations: U.S. stocks are the S&P 500; foreign stocks are the average of developed country & emerging markets.

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Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. We provide professional portfolio management and advisory services to institutional and individual clients. Our investment philosophy is based upon independent, fundamental research that evaluates global markets and economies, and continues all the way down to specific companies. Our portfolio management philosophy begins by addressing risk, and follows through by positioning clients to achieve income and growth objectives.