Fixed Income (Taxable)

First Quarter 2025

Objective

Invests in fixed income Exchange Traded Funds (ETFs), diversified across maturities and corporate, Treasury, and MBS sectors. Strives to deliver the income and lower volatility traditionally available from a diversified bond portfolio.

Investment Philosophy

Fixed Income Taxable invests in fixed income ETFs with domestically oriented, investment-grade benchmarks. It is constructed to have characteristics similar to a traditional, laddered bond portfolio. The Confluence Fixed Income Strategy Committee may adjust the portfolio duration and maturity to be longer, shorter, or in line with the benchmark. The investment committee may also adjust the exposure to corporate, Treasury, and MBS sectors according to its viewpoints regarding Fed policy, the shape of the yield curve, relative yields, credit spreads, default rates, and other market factors.

The strategy invests in a range of maturity-date ETFs to construct a portfolio similar to a diversified bond ladder and complements these positions with traditional fixed income ETFs with more “static” maturity profiles, allowing for more precise exposures to maturities and sectors of the bond market. The Fixed Income Strategy Committee continuously monitors the portfolio, rebalancing at least annually, but may elect to rebalance over shorter time frames at its discretion. The committee may direct larger allocations to certain ETFs to alter the amount of credit or interest rate risk in a portfolio.

Fixed Income Taxable is available as a standalone portfolio and may also be available as part of a Balanced account, which allows investors to combine this fixed income strategy with one of the firm’s value equity strategies in one portfolio.

Overview

- Uses high-quality ETFs following investment grade benchmarks with domestic orientation
- Similar characteristics to traditional bond ladder or diversified bond index by combining use of maturity-date ETFs with traditional fixed income ETFs
- Allocations incorporate viewpoints on Fed policy, yield curve shape, relative yields, credit spreads, default rates, etc.
- Diversified across maturities and sectors
- Available as a standalone portfolio or in a Confluence Balanced account combined with value equity strategy
- Strategy assets: $19.0 million[1]

[1] *Total strategy assets include $9.3 million assets under management (AUM) and $9.7 million assets under advisement (AUA); as of 12/31/2024.*

Current Holdings[2]

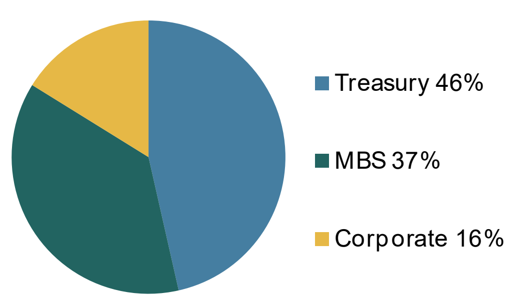
(As of 1/28/2025 rebalance)

Characteristics	Weighted Average
SEC Yield	4.9%
Duration	5.8
Maturity	6.2
ETF Expense Ratio	0.19%

Ratings Categories	Weight
AAA	1.3%
AA	81.4%
A	6.3%
BBB	11.0%
BB or Below	0.0%

5 Largest Holdings	Weight
SPDR® Portfolio Mortgage Backed Bond ETF - SPMB	24.0%
iShares MBS ETF - MBB	13.0%
iShares iBonds Dec 2034 Term Treasury ETF - IBTP	8.0%
iShares iBonds Dec 2033 Term Treasury ETF - IBTO	8.0%
iShares iBonds Dec 2032 Term Treasury ETF - IBTM	5.0%

Sector Allocation



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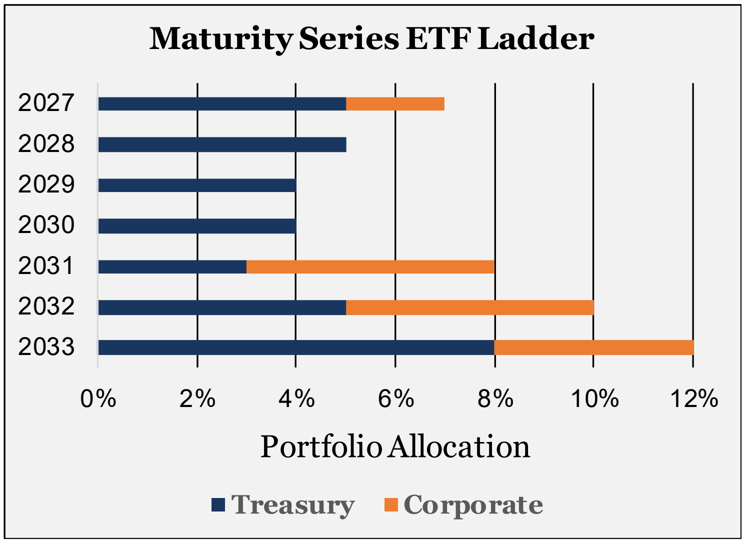
Maturity Series ETF Profile



Fixed Income Taxable utilizes a portfolio structure similar to that of a "bond ladder," a tactic often used when purchasing individual bonds. With our approach, we instead create a ladder of maturity-series ETFs. These ETFs hold large pools of bonds that mature near to, but always before, a specified end date. Accordingly, with the passage of time, the average maturity of this kind of ETF naturally shortens, thereby replicating some characteristics of an individual bond. It's not exactly the same, particularly because it doesn't mature at a par value. However, the maturity-series ETF has more credit risk diversification, while oftentimes also providing liquidity improvement, relative to an individual bond.

The strategy has ladder "rungs" from end dates ranging between 2027 and 2033, with more emphasis in the middle of the range. We believe this laddered approach positions investors to participate in a wider range of yields, while also providing a mechanism to help address the risk of rising interest rates. If rates were to rise, the shortest "rung" could be sold, or allowed to reach its end date. The proceeds could then be redeployed into a longer "rung," one with a higher yield.

January 2025 Market Observations & Recent Portfolio Changes[3]

- As the Fed moved through the early part of its easier monetary policy, the bond market responded by shifting the yield curve from an inverted shape to a more normal one.
- Shorter duration was helpful in addressing the change in the shape of the yield curve.
- With a normal-shaped curve, we extend the portfolio duration to around 5.8 years, which is closer to the benchmark duration of 6.1 years.
- Most of the portfolio is allocated to a laddered posture in intermediate maturities.
- The portfolio is underweight corporates, overweight MBS, and even-weight Treasurys.

The Confluence Fixed Income Taxable strategy's gross return in the fourth quarter was -2.4%, which was above the benchmark return of -3.1%. For the full year of 2024, the strategy's return of 2.0% (gross of fees) was also higher than the benchmark return of 1.3%. [*The strategy's net-of-fees returns for the same periods were -3.1% QTD and -1.0% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Late in the summer of 2024, the Fed finally shifted into easier monetary policy and began lowering short-term rates. Policymakers started with a two-step reduction of 50 bps in September, followed by a single reduction of 25 bps in November, and ended the year with another cut of 25 bps in December. In theory, lower interest rates directed by the Fed should support bond prices. However, intermediate and longer maturity bond prices began to decline right after the Fed's first easing, a trend that continued through most of the fourth quarter.

Bond yields moved higher as the Fed eased, in part, because bond investors had properly anticipated the Fed's move and had already moved rates lower earlier in the summer. So, in some ways, the initial rise in rates reflected a reversal of that anticipation. Still, long-term rates ultimately ended the year much higher than they were prior to the Fed's shift to easier policy. We believe this phenomenon can happen because prior to the first rate cut, investors are principally focused on "if" the Fed will ease. Then, after the first reduction, attention shifts to "how much," "when," and "will the Fed go too far, or not far enough?" The complexity of these cogitations can create bond price volatility and sharp reversals as countervailing forces collide.

By year end, as the dust settled, the yield curve had completed a transformation from an inverted shape to one that was, for the most part, normal shaped. Having a shorter-duration profile during a time of yield curve shape change proved to be one of the biggest contributors to higher relative returns for the quarter and the entire year. The underweight exposure to the corporate sector detracted from relative returns as spreads tightened during the quarter and throughout most of 2024.

In January, with the normalization of the yield curve, we extended the portfolio duration to 5.8 years, which is more in line with the benchmark duration of 6.1 years. With duration modestly shorter, we are now able to focus the portfolio and its laddered maturities primarily on intermediate maturities, which provide protection against high levels of reinvestment risk, while avoiding excessive interest rate risk. Our underweight exposure to corporates remains in place as we believe tight corporate spreads disfavor the return/risk profile. On the other hand, we believe conditions and spreads in MBS are favorable, and we extended the overweight allocation. Our Treasury exposure is roughly in line with the benchmark.

Confluence Fixed Income Strategy Committee

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See Territory Map on the Confluence website for sales coverage

Performance Composite Returns[4] (For periods ending December 31, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Fixed Income Taxable *Pure Gross-Of-Fees*[5]	2.2%	1.1%	(0.5%)	(2.4%)	2.0%	2.0%	(2.4%)
Max Net-Of Fees[6]	(0.9%)	(1.9%)	(3.5%)	(5.3%)	(1.0%)	(1.0%)	(3.1%)
Benchmark (BB-Agg)	2.1%	1.3%	(0.3%)	(2.4%)	1.3%	1.3%	(3.1%)

Calendar Year	Pure Gross-Of-Fees[5]	Max Net-Of-Fees[6]	Benchmark (BB-Agg)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2010**	1.8%	0.3%	1.1%	0.7%	1	$1,334	$751,909	N/A	N/A	N/A
2011	6.3%	3.2%	7.8%	(1.5%)	2	$1,376	$937,487	N/A	N/A	0.1%
2012	7.7%	4.5%	4.2%	3.5%	3	$1,459	$1,272,265	N/A	N/A	0.1%
2013	(1.0%)	(3.9%)	(2.0%)	1.0%	2	$3,668	$1,955,915	3.5%	2.7%	N/A
2014	5.5%	2.4%	6.0%	(0.5%)	3	$7,995	$2,589,024	3.1%	2.6%	0.0%
2015	0.3%	(2.7%)	0.5%	(0.2%)	5	$8,990	$3,175,419	3.2%	2.9%	0.1%
2016	1.4%	(1.6%)	2.6%	(1.2%)	7	$9,259	$4,413,659	3.4%	3.0%	0.0%
2017	3.2%	0.1%	3.5%	(0.4%)	8	$9,676	$5,944,479	3.2%	2.8%	0.0%
2018	(0.3%)	(3.2%)	0.0%	(0.3%)	9	$9,684	$5,486,737	3.1%	2.8%	0.0%
2019	9.7%	6.4%	8.7%	0.9%	13	$13,158	$7,044,708	3.1%	2.9%	0.1%
2020	7.1%	3.9%	7.5%	(0.4%)	13	$17,013	$6,889,798	3.7%	3.4%	0.1%
2021	(2.3%)	(5.2%)	(1.5%)	(0.8%)	7	$9,945	$7,761,687	3.8%	3.4%	0.2%
2022	(13.3%)	(15.9%)	(13.0%)	(0.3%)	3	$8,273	$6,931,635	5.7%	5.8%	0.0%
2023	5.2%	2.1%	5.5%	(0.3%)	4	$6,866	$7,200,019	6.3%	7.1%	0.1%
2024	2.0%	(1.0%)	1.3%	0.8%	6	$7,434	$7,280,773	6.7%	7.7%	0.0%

Average annualized returns* ***Inception is 7/1/2010* **Portfolio Benchmark: BB-Agg - Bloomberg US Aggregate Bond Index *(Source: Bloomberg)*

Disclosures

[2] **Current Portfolio**—Sector allocations shown represent the model portfolio as of 1/28/25 and do not represent the precise allocation in an actual client account. Allocations in client accounts may vary based on individual client considerations and market fluctuations. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. Individual client portfolios may differ, sometimes significantly, from these listings. Yield data source: Morningstar; 30-day SEC yield of the model portfolio as of 1/28/25. Duration and maturity figures shown are based on all holdings in the model portfolio as of the rebalance date. ETF expense ratio is the weighted average expense based upon the holdings as of the date shown. ETF expense ratio is in addition to Confluence management fees. Rating categories reflect S&P ratings; source: Morningstar.

[3] **Market Observations & Recent Portfolio Changes**—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.

[4] **Performance Composite Returns—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The Fixed Income Taxable strategy was incepted on July 1, 2010, and the current Fixed Income Taxable Composite was created on July 1, 2013. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[5] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[6] 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. Subsequent to July 1, 2013, 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.

Performance prior to July 1, 2013, is based on the Fixed Income Taxable–Direct Composite which was created on July 1, 2010. The Fixed Income Taxable–Direct Composite includes accounts that pursue the Fixed Income Taxable strategy, but do not have bundled fees. Gross returns from the Fixed Income Taxable–Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Fixed Income Taxable Composite contains fully discretionary Fixed Income Taxable wrap accounts. The Fixed Income Taxable portfolio utilizes bond ETFs to earn taxable income.

The benchmark was changed retroactively on 1/1/24 due to wider market adoption and transparency of the underlying constituents. The benchmark prior to 1/1/24 was the ICE BofA US Corporate, Government, and Mortgage Index (Domestic Master).

**Results shown for the year 2010 represent partial period performance from July 1, 2010, through December 31, 2010. N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.