Fixed Income (Taxable)

Fourth Quarter 2024

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: $19.1 million[1]

[1] *Total strategy assets include $9.2 million assets under management (AUM) and $9.9 million assets under advisement (AUA); as of 6/30/2024.*

Current Holdings[2]

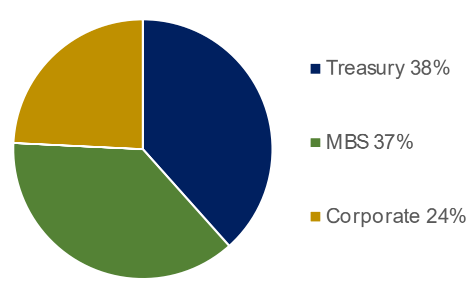
(As of 10/22/2024 rebalance)

Characteristics	Weighted Average
SEC Yield	4.5%
Duration	4.9
Maturity	6.1
ETF Expense Ratio	0.20%

Ratings Categories	Weight
AAA	1.2%
AA	80.4%
A	7.5%
BBB	10.9%
BB or Below	0.0%

5 Largest Holdings	Weight
SPDR® Portfolio Mortgage Backed Bond ETF - SPMB	24.0%
iShares iBonds Dec 2027 Term Treasury ETF - IBTH	16.0%
iShares MBS ETF - MBB	13.0%
iShares iBonds Dec 2026 Term Corporate ETF - IBDR	8.0%
iShares iBonds Dec 2032 Term Treasury ETF - IBTM	5.0%

Sector Allocation



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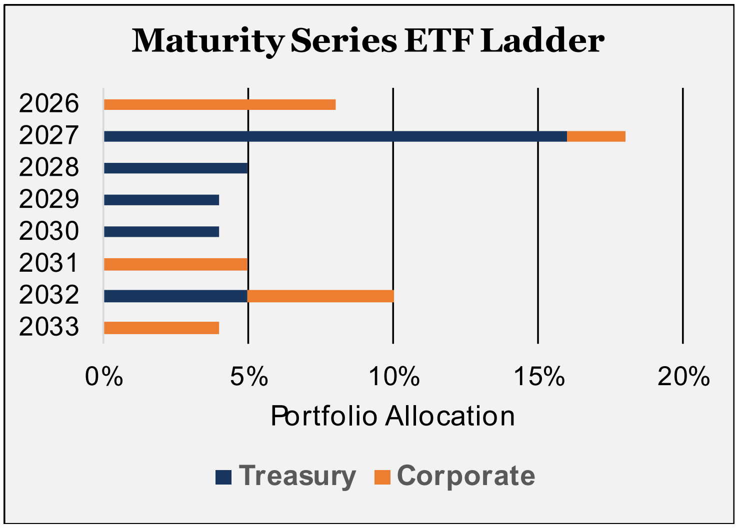
Maturity Series ETF Profile



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 2026 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.

October 2024 Market Observations & Recent Portfolio Changes[3]

- After two years of tight policy, the Fed began easing rates in the third quarter.
- We do not anticipate a recession, even as the yield curve is poised to remain inverted.
- We expect incremental rate cuts in the coming quarters. The Fed is likely to move gradually, particularly if inflationary pressure builds, and we anticipate a rate target in the range of 3.5%-4.0%.
- The MBS sector has attractive fundamentals and pricing, but we maintain a cautious posture toward corporates as spreads remain relatively tight.
- We prefer intermediate maturities with an overall portfolio duration of 4.9 years, which is shorter than the benchmark duration of 6.1 years.

The Confluence Fixed Income Taxable strategy's gross return in the third quarter was 4.8%, which was below the benchmark return of 5.2%. Year-to-date, the strategy's return of 4.5% (gross of fees) was higher than the benchmark return of 4.4%. [*The strategy's net-of-fees returns for the same periods were 4.0% QTD and 2.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Prior to the third quarter, the portfolio's shorter-duration posture contributed to the relative return, helping to protect the portfolio from rising interest rates. However, as interest rates declined in the most recent quarter, the shorter duration held back some of the return.

At the sector level, corporates and MBS outperformed Treasurys as spreads were generally steady during the third quarter. The underweight in corporates and the overweight in Treasurys both detracted from relative returns; however, the overweight posture in MBS was additive.

After embarking on an aggressive tightening policy, culminating in a peak rate of 5.5% in the summer of 2023, the Fed began a long-anticipated shift toward easier policy this quarter. The Fed lowered short-term rates by 0.5% in September and, with inflation on the decline, we anticipate incremental reductions to this rate in the coming quarters. Broadly speaking, our expectation is for the Fed to take its time with measured reductions, particularly if upward inflation pressure forms. However, if economic growth surprises to the downside, or if a crisis were to emerge, we would expect the Fed to respond by accelerating its path to lower rates. On the whole, our expectation is for the Fed to lower short-term rates into the neighborhood of 3.5%-4.0%.

The yield curve continues forward in an unusual and inverted form. Usually, an inverted curve indicates a high likelihood of a recession. However, we are not expecting a recession and believe the current condition is a reflection that the Fed has its target too high relative to broad expectations of inflation. In time, we believe the curve will normalize, driven mostly by how and when the Fed takes short-term rates lower.

On a sector basis, we continue to favor MBS, where a combination of discounted prices, attractive spreads, and manageable prepayment risk make the sector more attractive. Corporates are likely to perform reasonably well, though tight spreads make this sector less attractive to us. We are underweight Treasurys to better accommodate the MBS overweight and we find an overall posture focused on intermediate maturities is appropriate. With the yield curve slope easing in longer maturities, we believe investors can capture attractive yields while avoiding high levels of interest rate risk. For these reasons, the portfolio duration is around 4.9 years, which is slightly shorter than the benchmark duration of 6.1 years.

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 September 30, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Fixed Income Taxable *Pure Gross-Of-Fees*[5]	2.4%	1.5%	(0.0%)	(1.7%)	9.8%	4.5%	4.8%
Max Net-Of Fees[6]	(0.7%)	(1.5%)	(3.0%)	(4.6%)	6.5%	2.2%	4.0%
Benchmark (BB-Agg)	2.3%	1.8%	0.3%	(1.4%)	11.6%	4.4%	5.2%

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%

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 10/22/24 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 10/22/24. 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.