

# Asset Allocation

## Income with Growth

(Tax-Exempt)



First Quarter 2025

### Objective

Primarily focused on reliable income exempt from federal taxation with a secondary focus on growth.

### Investment Philosophy

Asset allocation is a time-tested approach that addresses risk through diversification, while positioning portfolios to achieve growth, income, and other client-specific objectives. Confluence employs an *adaptive* approach to asset allocation that evaluates the investing landscape against the backdrop of the pending business cycle, as we recognize that risk levels and return potential rise and fall over market and economic cycles.

Through a disciplined, consensus-driven process, the Confluence team estimates the performance of 12 different asset classes in terms of risk, return, and yield looking forward three years. The intention is to remain within an acceptable risk profile, while changing the asset class mix to optimize return potential. Allocations are adjusted depending upon the investment committee's changing views of the marketplace and economy, utilizing over/underweights to focus on particular industry sectors, maturities, commodities, or countries. Confluence's Asset Allocation portfolios offer a broad spectrum of risk profiles and are implemented using exchange-traded funds (ETFs).

### Overview

- Focus is oriented toward reliable income, moderate volatility, long-term growth, and principal preservation
- Allocation in municipal bond fixed income asset classes, usually with an emphasis on US investment-grade fixed income
- Portfolio may include real estate, equities, commodities, or other asset classes that contribute growth potential and diversification benefits
- Profile similar to that of a diversified municipal bond portfolio alongside an equity allocation
- Appropriate for investors with a conservative risk tolerance
- Strategy assets: \$34.2 million<sup>1</sup>

<sup>1</sup> Strategy assets = \$6.3 million assets under management (AUM) + \$27.9 million assets under advisement (AUA); as of 12/31/24.

Overall Morningstar Rating™



Among 455 separate accounts in the Moderately Conservative Allocation category. This separate account was rated 5 stars/455 separate accounts (3 years), 5 stars/408 separate accounts (5 years) based on risk-adjusted returns. As of 9/30/24. Confluence provides compensation to Morningstar, Inc. for use of their analytics and permission to publish these ratings.<sup>7</sup>

### Current Holdings<sup>2</sup>

(As of 1/28/2025 rebalance)

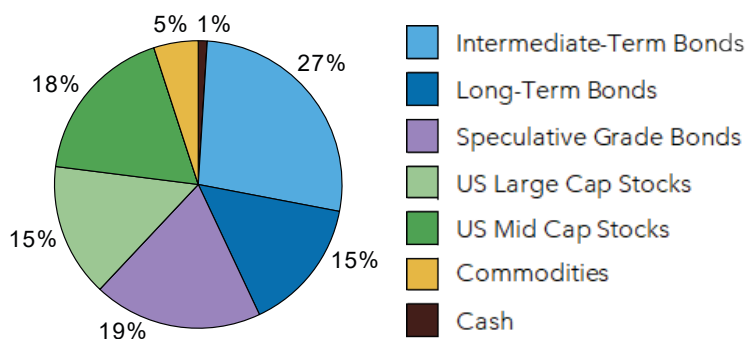
See GIPS Report on pages 2-3

| Characteristics                                  |       |
|--|-------|
| Weighted SEC Yield                               | 2.6%  |
| Volatility Ceiling                               | 10.0% |
| Number of Securities                             | 17    |
| Annual Turnover<br>(3-Yr Rolling as of 12/31/24) | 117%  |

### 5 Largest Holdings

|   |       |
|---|-------|
| iShares National Muni Bond ETF - MUB              | 12.0% |
| iShares iBonds Dec 2027 Term Muni Bond ETF - IBMP | 11.5% |
| VanEck High Yield Muni ETF - HYD                  | 10.0% |
| VanEck Vectors AMT-Free Long Muni ETF - MLN       | 10.0% |
| SPDR® Nuveen S&P High Yield Muni Bond ETF - HYMB  | 9.0%  |

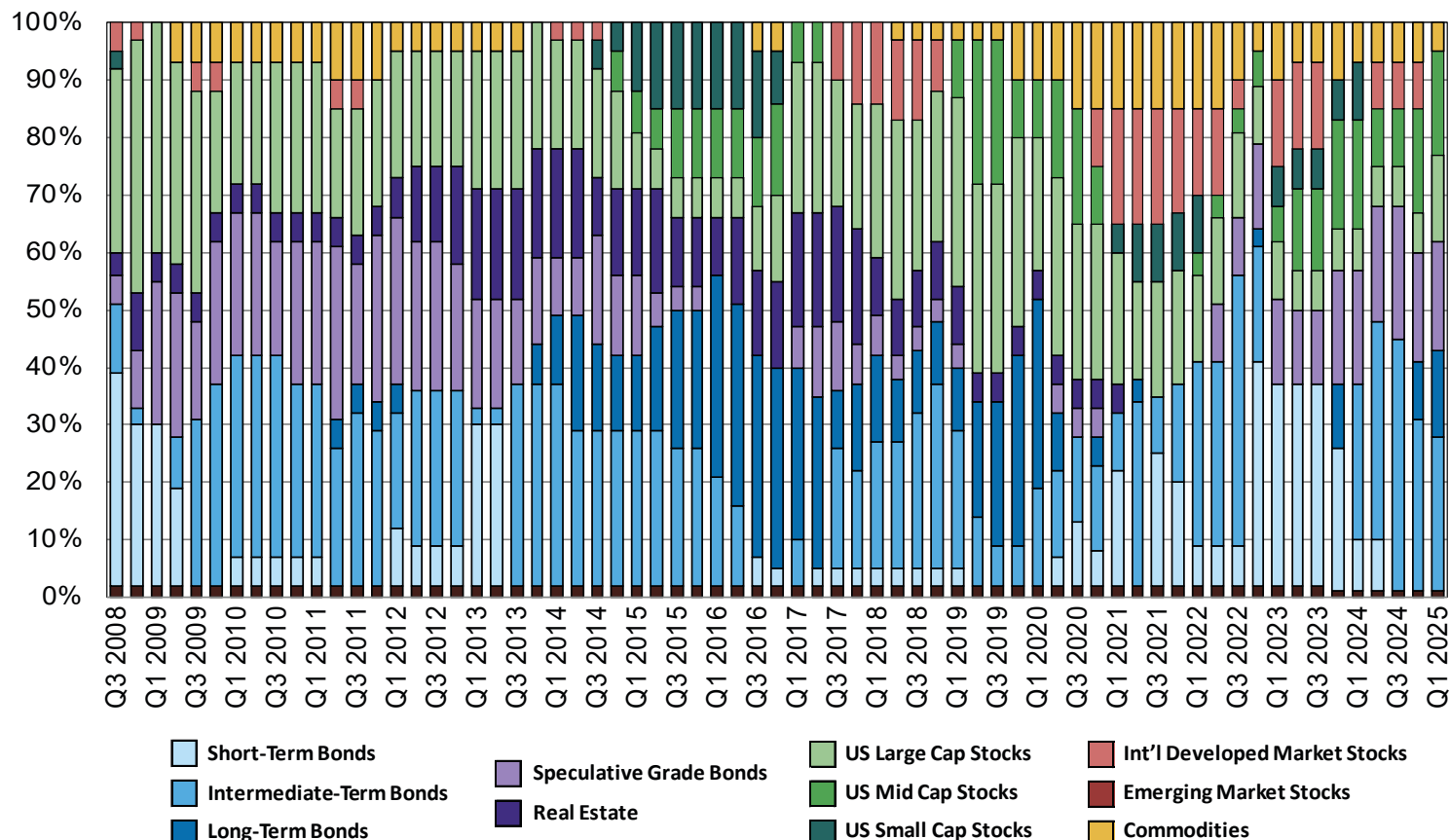
### Asset Allocation



### Recent Portfolio Changes<sup>3</sup>

In the Income Tax-Exempt with Growth strategy, we reduced exposure to intermediate-term municipal bonds in favor of long-term municipal bonds to extend duration and seek higher yields. High-yield municipal bonds remain for income diversification. International stocks were exited due to uncertainties surrounding trade policies, and the proceeds were redeployed into large cap stocks where we introduce thematic tilts to defense and cybersecurity. We continue to hold a quality-screening ETF for the mid-cap stock allocation, while the commodity exposure resides solely in gold for its use as a hedge.

## Historical Model Allocation



### Performance Composite Returns<sup>4</sup> (For periods ending December 31, 2024)

|   | Since Inception** | 5-Year* | 3-Year* | 1-Year | YTD   | QTD    |
|---|-------------------|---------|---------|--------|-------|--------|
| <b>Income with Growth (Tax-Exempt)</b><br><i>Pure Gross-Of-Fees<sup>5</sup></i> | 7.0%              | 7.7%    | 3.1%    | 7.0%   | 7.0%  | (1.4%) |
| <i>Max Net-Of-Fees<sup>6</sup></i>  | 3.8%              | 4.5%    | 0.0%    | 3.8%   | 3.8%  | (2.2%) |
| <b>Benchmark (40stock/60muni)</b>   | 6.8%              | 6.5%    | 3.3%    | 10.2%  | 10.2% | 0.2%   |

| Calendar Year | Pure Gross-Of-Fees <sup>5</sup> | Max Net-Of-Fees <sup>6</sup> | Benchmark (40stock/60muni) | Difference (Gross-Benchmark) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | Benchmark 3yr Std Dev | Composite Dispersion |
|---------------|---------------------------------|------------------------------|----------------------------|------------------------------|-----------------|-------------------------|--------------------------|-----------------------|-----------------------|----------------------|
| 2015**        | (0.7%)                          | (2.9%)                       | 1.7%                       | (2.4%)                       | 1               | \$111                   | \$3,175,419              | N/A                   | N/A                   | N/A                  |
| 2016          | 7.1%                            | 3.9%                         | 5.0%                       | 2.1%                         | 6               | \$771                   | \$4,413,659              | N/A                   | N/A                   | N/A                  |
| 2017          | 10.0%                           | 6.8%                         | 11.8%                      | (1.7%)                       | 21              | \$3,894                 | \$5,944,479              | N/A                   | N/A                   | 0.1%                 |
| 2018          | (3.0%)                          | (5.9%)                       | (0.7%)                     | (2.3%)                       | 22              | \$3,400                 | \$5,486,737              | 5.3%                  | 4.5%                  | 0.1%                 |
| 2019          | 17.3%                           | 13.9%                        | 16.8%                      | 0.5%                         | 22              | \$3,804                 | \$7,044,708              | 5.9%                  | 4.8%                  | 0.1%                 |
| 2020          | 18.8%                           | 15.2%                        | 11.0%                      | 7.7%                         | 23              | \$4,516                 | \$6,889,798              | 10.3%                 | 8.2%                  | 0.2%                 |
| 2021          | 11.4%                           | 8.1%                         | 11.8%                      | (0.5%)                       | 31              | \$6,421                 | \$7,761,687              | 10.0%                 | 7.7%                  | 0.1%                 |
| 2022          | (7.0%)                          | (9.8%)                       | (12.1%)                    | 5.1%                         | 21              | \$3,529                 | \$6,931,635              | 10.9%                 | 10.7%                 | 0.1%                 |
| 2023          | 10.2%                           | 6.9%                         | 14.0%                      | (3.8%)                       | 21              | \$3,772                 | \$7,200,019              | 8.6%                  | 10.4%                 | 0.1%                 |
| 2024          | 7.0%                            | 3.8%                         | 10.2%                      | (3.2%)                       | 21              | \$4,403                 | \$7,280,773              | 8.6%                  | 10.6%                 | 0.1%                 |

\*Average annualized returns

\*\*Inception is 4/1/2015

See performance disclosures on last page.

## Confluence Asset Allocation Committee

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See [Territory Map](#) on the Confluence website for sales coverage

## Disclosures

<sup>2</sup> **Current Portfolio**—Information presented reflects wrap account composites with taxable income (if applicable). Asset allocations shown represent the individual ETFs used in the model portfolios as of 1/28/25 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 investments held by the portfolio are not guaranteed and do carry a risk of loss of principal. Each asset class has specific risks associated with it and no specific asset class can prevent a loss of capital in market downturns. 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. Annual turnover 3-year rolling calculated from sample accounts for periods ending 12/31/2024.

<sup>3</sup> **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.

**Benchmark:** 40% stock / 60% muni - custom benchmark is calculated monthly and consists of a blend of 40% S&P 500 and 60% Bloomberg Municipal Bond Index. (Source: Bloomberg)

<sup>4</sup> **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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Income Tax-Exempt with Growth strategy was inceptioned on December 1, 2008, and the current Income Tax-Exempt with Growth-Plus Composite was created on April 1, 2015. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The 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.

<sup>5</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>6</sup> Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.40% on the first \$500,000; 0.35% on the next \$500,000; and 0.30% over \$1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Subsequent to July 1, 2019, bundled fee accounts make up 100% of the composite. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Income Tax-Exempt with Growth-Plus Composite contains fully discretionary Income Tax-Exempt with Growth-Plus wrap accounts. The Income Tax-Exempt with Growth strategy is implemented using ETFs and the investment objective is the pursuit of nominal returns (yield and growth) in excess of inflation, subject to the limitations of the risk constraint for the Income Tax-Exempt with Growth strategy. Although the portfolio typically favors an allocation to tax-exempt fixed income asset classes, a smaller portion of the portfolio may include real estate, equities, commodities, or other asset classes. These allocations provide an aspect of growth potential and diversification benefits. This portfolio may be appropriate for investors with a conservative risk tolerance.

The benchmark was changed retroactively on 1/1/24 due to wider market adoption and transparency of the underlying constituents. The custom benchmark prior to 1/1/24 was calculated monthly and consisted of: S&P 500 40% and 60% ML Municipal Bond Index. Inflation was removed prior to 1/1/24 and had been provided as additional information and was represented by the US 5-year TIP breakeven spread.

\*\*Results shown for the year 2015 represent partial period performance from April 1, 2015, through December 31, 2015. N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.

<sup>7</sup> **Overall Morningstar Rating™**—Information provided is for educational/illustrative purposes only and should not be construed as individualized advice, recommendation, or endorsement of any investment strategy. Information is not intended to forecast or predict future performance. Past performance is no guarantee of future results. Ratings are objective, based entirely on a mathematical evaluation of past performance, and based on gross-of-fees performance (before deduction of advisory fees). Net performance information is available on the Confluence website. Ratings should not be considered a buy or sell recommendation. Confluence provides compensation to Morningstar, Inc. for use of their analytics systems/database as well as for permission to publish these ratings.

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The Morningstar Rating™, or "star rating," is calculated for separate accounts with at least a three-year history. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. As of 9/30/2024.