



CONFLUENCE
Wealth Management LLC

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Form ADV Part 2A Firm Brochure

This brochure provides information about the qualifications and business practices of Confluence Wealth Management, LLC (“Confluence”). If you have any questions about the contents of this brochure, please contact Confluence’s Compliance Department at 503-221-7595 or by email to info@confluencewealth.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Confluence is a registered investment adviser with the United States Securities and Exchange Commission (“SEC”). Registration of an investment adviser does not imply any level of skill or training. The registration is notification to the SEC and to our clients, of our primary services, fee schedule, resumes of the Advisors and material changes since our filing last year.

Additional information about Confluence Wealth Management is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes

This section of the brochure is used to provide the client with a summary of material changes that have been made to the brochure since the last annual update. The following changes have been made since our last annual filing on 3/24/2017.

1. Item 4 has been updated to reflect the status change for two of the firm's day-to-day managers from non-owners to shareholders. Previously named non-owner members of the firm's management team, Jason Lawton, Director of Operations, and Bryan Smith, Director of Client Relations, are now shareholders.
2. Item 15 has been updated to accurately reflect the conditions under which Confluence acts as a custodian for clients' assets. Confluence claims custody due to its authority to directly debit management fees from client accounts as well as the ability to withdraw funds from a client's account based on standing written instructions from the client.

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Item 4. Advisory Business

Confluence Wealth Management, a limited liability company is an independent, fee-only, financial planning and wealth management firm founded in December 2011. The firm has one office located in Portland, Oregon, and primarily serves clients in the Pacific Northwest, but has clients across the country as well as U.S. citizens living abroad.

Confluence is managed by Kathleen Kee, CFP® who serves as CEO and is a controlling partner/owner of the firm. Day-to-day operations are also managed by three other partners, whom together comprise the management team, including Lantz Stringham, CFA who serves as the Chief Investment Officer, Jason Lawton who serves as the Director of Operations, and Bryan Smith who serves as the Director of Client Relations.

The work we perform incorporates principles of law, insurance, and accounting; however, we are not accountants, licensed insurance agents or attorneys. Our scope of business does not include drafting legal documents or preparing income tax returns. While we can recommend certain licensed professionals in these fields, we adhere to the Certified Financial Planning Board standards to not represent ourselves as such. We also do not actively participate in proprietary mutual fund operations, insurance sales, trust services, real estate partnerships, bookkeeping or other financial industry activities.

We require all members of the Investment Committee and all employees providing investment advice to clients to have a relevant college degree or equivalent investment related experience; all required state and federal licenses; and a relevant certification or advanced degree specific to the investment field or more than five years relevant experience.

As of December 31, 2017, we had \$678,872,575 regulatory assets under management. Of that amount, \$674,992,973 was discretionary.

Advisory Services

We provide three distinct services to clients:

1. Consulting Services. These services include a clearly defined scope of analysis. Clients requesting these services typically want specific financial planning questions or issues addressed. For some, they want a short term project with a clear start and end date. For others, they choose to have an ongoing relationship for continued analysis encompassing many issues. Examples of consulting services include advising on retirement planning feasibility and cash-flow analysis, investment / portfolio plan design and allocation, estate planning strategies, philanthropic planning and reviewing qualified plans or analyzing several issues and providing objective, unbiased feedback on the applicability for meeting client objectives. The scope, duration and frequency of consulting services will be defined in a written agreement between the client and Confluence. We provide advice on personal financial planning issues related to estate and retirement planning, charitable and education planning, cash-flow, taxes, and risk management.

Our consulting services are provided on an hourly basis and can be quoted as a project fee. Under these services Confluence does not implement any transactions on the client's behalf, and does not provide active and ongoing monitoring or management of the client's investments or accounts. Clients have the sole responsibility for determining whether to implement our recommendations. To the extent that clients would like to implement any of our investment recommendations through our firm, or retain our firm to actively monitor and manage their investments, they must execute a separate written agreement with Confluence for our Investment Management Services.

2. Investment Management Services. These services include coordination of financial planning and investment management. Under the Investment Management Agreement (IMA), we assist clients to determine their investment objectives and time horizons and then design a customized portfolio plan and written Investment Policy Statement (IPS). The IPS outlines the investment allocation that we will adhere to in managing the assets on a discretionary basis. We then manage the investment portfolio on an ongoing basis, regularly rebalancing and adjusting the investment holdings based upon our Investment Committee's research. Client portfolios are managed on an individual basis by their Advisory Team. So there are instances where specific funds or securities selected by the Investment Committee are appropriate for one client but would not be appropriate for another client, based upon their risk tolerance or investment objectives. We periodically review the suitability and appropriateness of the investment(s) given client objectives and changing circumstances.

To effectively keep apprised and knowledgeable of clients broader financial planning issues we coordinate our planning with our clients' other advisers, (estate attorney and CPA) as needed.

Once our firm is named as investment adviser of record on client accounts we are then granted Limited Power of Attorney, enabling us to execute trades and communicate with the custodian on the client's behalf. Client accounts are held by qualified custodian(s) under the client's name and the custodian(s) maintain physical custody of all funds and securities in their account. Furthermore the client retains all rights of ownership (e.g., right to withdraw securities or cash, exercise or delegate proxy voting and receive transaction confirmations) of the account.)

The client is responsible for notifying us of any updates regarding their financial situation, risk tolerance or investment objective and whether they wish to impose or modify existing investment restrictions. We contact clients at least annually to discuss any changes or updates regarding their financial situation, risk tolerance or investment objectives. We want to be kept apprised by the client in a timely basis, and encourage them to notify us if there are changes relative to the status of their account. Clients retain the ability to impose restrictions on the management of their accounts, including the ability to instruct us not to purchase certain securities.

In managing investments the advice that we offer for one client may differ from advice offered to other clients. We may buy or sell securities for some but not all clients, or we may buy or sell securities for our own personal accounts, which are different than advice we provide for other clients. Our investment decisions are individualized and we are not obligated to buy, sell or recommend the same investments for all clients, or for our own personal accounts.

In addition to account statements provided by the custodian, clients with a portfolio value in excess of \$50,000 receive quarterly reports from Confluence which will include: a list of investment values, asset allocation and quarterly performance measures.

Primary investments used for constructing broadly diversified portfolios include: no-load, institutional share class mutual funds; Exchange-Traded Funds (ETFs); individual equities; and municipal, US Government, and corporate bonds.

3. Employer Retirement Plan Management. This service is for employers who want to initiate, revise or replace an employer-sponsored retirement plan. There are three parties involved in the management and oversight of qualified retirement plans: a Custodian to hold and account for transactions of the investments, a Third Party Administrator responsible for reporting, testing and administration for all participants, and Confluence as the Investment Advisor. Our responsibilities include researching and monitoring the menu of investments, consulting with the trustees of the

plan regarding their fiduciary duties, monitoring costs and expenses, educating participants and trustees on available investments, selecting an appropriate Qualified Default Investment Alternative and consulting to trustees regarding plan design. For larger plans where services are bundled, the Third party Administrator will also serve as the custodian whose duties include providing plan participant statements, accounting and plan testing. As a fiduciary to these plans, we act in accordance with Department of Labor standards and ERISA requirements. Retirement plans have specific reporting requirements to the Dept. of Labor and to the IRS. This reporting is the responsibility of the Third Party Administrator.

Confluence assumes and acknowledges an ERISA fiduciary oversight level as a 3(21) advisor, as "fiduciary" is defined under Section 3(21)(A)(ii) of Employee Retirement Income Security Act of 1974 ("ERISA") for purposes of providing non-discretionary investment advice only. Our firm recommends investment changes to the plan trustees who are then accountable for approving and adopting these recommendations of changing the plans' funds, or modifying the plan design and structure. Confluence will recommend a diversified menu of funds for the plan, will help coordinate between the custodian and Administrator and will advise the trustees.

Confluence does not assume the role of a 3(38) fiduciary given that we do not have full discretionary authority or control over making changes to funds within a plan. Our role is to recommend changes to plan trustees, who then have final discretion to accept or reject the recommendations by our firm. The retirement plan sponsor client or plan participant who elects to implement any recommendations made by us is solely responsible for implementing all transactions. As such, the fiduciary responsibility is shared between plan trustees and Confluence. Confluence may act as a custodian on a limited basis due to authority granted by the client to deduct fees from client accounts as well as the ability to withdraw funds from a client's account based on standing written instructions from the client.

Clients and plan participants must realize that obtaining higher rates of return on investments entails accepting higher levels of risk. Based upon discussions with the client, we will attempt to identify the balance of risks and rewards that is appropriate and acceptable for the client and other employees. It is still the clients' responsibility to ask questions if they do not fully understand the risks associated with any investment. All plan participants are strongly encouraged to read prospectuses, when applicable, and ask questions prior to investing.

We strive to render our best judgment for clients. Still, Confluence cannot assure that investments will be profitable or assure that no losses will occur in their portfolios. Past performance is an important consideration with respect to any investment or investment advisor, but it is not a predictor of future performance.

In accordance with ERISA Regulation Section 2550.408b-2(c)(vi)(A), we will disclose within thirty (30) days following receipt of a written request from the responsible plan fiduciary or Plan Administrator all information related to the Qualified Retirement Plan Agreement and any compensation or fees received in connection with the Agreement that is required for the Plan to comply with the reporting and disclosure requirements of Title 1 of ERISA and the regulations, forms and schedules issued thereunder.

Item 5. Fees and Compensation

We do not receive compensation in the form of commissions, rebates, revenue sharing, or participation-based arrangements and do not receive payments from any company for any endorsements or purchase of any particular products or services. In addition to the management fees we charge, clients will incur mutual fund internal expenses, brokerage and/or custodial fees in the form of transaction fees, asset-based pricing fees, and regulatory fees in connection with services provided by the account custodian. Our fee structure is inclusive of both financial planning and portfolio management. It should be recognized that similar services are available at other firms at what may be a lower fee structure. Clients can select a firm that provides the compliment of services and fee structure that is suitable to them.

Investment Management Fees and Compensation

We will calculate management fees based on several methods including: a percentage of assets under management, a negotiated fixed amount, or combination thereof written in the Investment Management Agreement (IMA). Our standard fee schedule for new clients contracting with the firm after March 31, 2016 is as follows:

<u>Assets Under Agreement</u>		<u>Annual Fee</u>
First \$1 million	\$0 to \$1 million	1.00%
Next \$2 million	\$1 to \$3 million	0.80%
Next \$2 million	\$3 to \$5 million	0.60%
Above \$5 million		Negotiable

Investment Management fees are calculated based on the fair market value of the assets on the last trading day of the previous quarter. Due to differing securities' pricing sources, portfolio statements will not exactly match statements issued by custodians.

Fees for partial quarters at the start or termination of the Agreement will be adjusted based on the number of days the account was open or that services were being provided, during the quarter. Quarterly fee adjustments will be made for additions or withdrawals based on the number of days the assets were held in the portfolio.

We may modify these terms with at least 30 days prior written notice.

In some cases, depending upon the complexity and time demands of client issues, consulting services may be needed in addition to Investment Management services. Some examples of complex issues that could require an additional hourly fee include: settlement of decedent estates, divorce cases requiring extensive work with attorneys and/or court appearances, business transitions or other extraordinary life events. Prior to engaging in a complex project, we will provide the client with a cost estimate for the additional services based on our Consulting services rate and a separate Consulting Agreement will be executed.

Consulting Service Fees

Our fees range from \$175.00 to \$325.00 per hour depending upon staff expertise, for planning and consulting services which are reflected in the Consulting Services Agreement. An estimate of fees for the project will be presented to the client before any work is commenced. The estimate is based on the projected number of hours to: review documents, complete the analysis, create a customized findings' report and present the findings and recommendations to the client. A deposit of 35% of the estimated fee is required when the client signs a Consulting Services Agreement, with the balance due on completion. There is no minimum net worth or portfolio size for consulting services.

Employer Retirement Plan Setup & Management Fees.

<u>Assets Under Agreement</u>	<u>Annual Fee</u>
\$0 - \$5,000,000	0.75%
\$5,000,000 and up	0.50%

The minimum fee for a new Retirement plan setup, fiduciary education and investment recommendations is \$1,500. Fee arrangements will be negotiated at the discretion of the firm.

Agreement Termination

Agreements will be terminated at any time by 30 days written notice from either the client or Confluence. Clients are responsible for any prorated, unpaid management fee or unbilled financial planning fees incurred for a period ending 30 days after the date of notification.

Frequency and Method of Payment

We bill management and service fees in arrears at the end of the most recent quarter. Investment Management and on-going Consulting clients generally authorize the firm to debit fees directly from their investment accounts. However, these clients may elect to be invoiced for these fees as well. Consulting Services clients will be billed monthly or upon project completion and pay by personal or company check. With the exception of Consulting Services' projects, we do not accept advance payment for services. In no circumstance will fees be charged or kept for more than 6 months in advance of the services being performed.

Fee Deduction: We submit fee requests to the custodian for debiting from client accounts. Payment of fees can result in a partial liquidation of securities if there is insufficient cash in the account. The custodian is not responsible for verifying the accuracy of the fee calculation so it is recommended that clients independently verify the fee calculation.

Payment by check: We provide a fee invoice to all clients that pay by check. Payment is due within 15 days from the date of the fee statement.

Other Types of Costs

Clients will incur other charges, assessed by custodians, brokers, third party investment management and separate account managers (SMA). These other costs will include some of the following, but are not limited to, custodian transaction or asset-based fees, brokerage commissions, deferred sales charges, odd-lot differentials, transfer or termination fees, taxes, mortality or expense charges (charged by insurance carriers), wire transfer fees, electronic fund fees, postage and delivery fees. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in each fund's prospectus. We do not receive any portion of these fees, charges or commissions. See Item 12 for additional information about brokerage services and costs.

Item 6. Performance Fees and Side-By-Side Management

We do not charge any performance-based, side-by-side management fees or any wrap fees.

Item 7. Types of Clients

We provide services to high net worth individuals and families, private trusts, estates, endowments, foundations, charitable organizations and corporate employer-retirement plans. For new Investment Management clients, our minimum account size is \$1,000,000, though clients with a smaller portfolio may be accepted.

Item 8. Methods of Analysis, Investment strategies and Risk of Loss

Method of Analysis

Investment analysis is performed by the Investment Committee, chaired by the Chief Investment Officer. The Committee meets regularly to review the investments recommended for client portfolios. The Committee conducts ongoing economic assessments/research as well as individual company and mutual fund analysis by examining factors such as past performance, management tenure, peer comparisons, volatility and expenses. The Committee also examines historic asset category risk and return data from which a particular client's investment allocation is determined.

Investment strategies

We construct portfolios based upon client risk tolerance, tax sensitivity, growth, income or capital preservation objectives, and socially responsible preferences. Our portfolios vary based upon client investment experience, cash flow needs and time horizons, among other factors. We believe in global diversification, broad asset allocation, and a long-term approach to investing. Our investment strategy can include both passive (Index) and active management styles. Portfolios are broadly diversified across sub-asset categories which can include large, mid and small capitalization equities, short and intermediate term U.S. bonds; international and emerging market bonds and equities; and less correlated asset classes, such as commodities, high yield bonds, real estate and currencies. Some portfolios are primarily invested in institutional share class, no-load mutual funds and Exchange Traded Funds (ETFs) which are either actively or passively managed. Other portfolios will include individual equities, individual bonds or a combination of equities, bonds, ETFs and no-load mutual funds.

For some high net worth individuals, we use a Separate Account Manager (SMA) or sub-advisors to offer more portfolio customization. Separate Account Managers (SMA) offer specialized investment research, selection and monitoring. SMAs recommended by our firm will be registered or properly exempt from registration in the client's home state. We conduct due diligence on any recommended SMA and monitor their performance relative to appropriate peers and/or benchmarks. We are available to answer questions regarding a SMA and will serve as the communication conduit with the SMA. The recommendation of SMAs, or other products and funds, are typically done on a discretionary basis with the specific terms outlined in the Confluence agreement. When a client authorizes Confluence to have the ability to select SMAs or other products and funds on a discretionary basis, Confluence will have the authority to select and terminate SMAs, products or funds without the client's specific approval. A complete description of the SMA's services, practices and fees will be disclosed in the SMA's Form ADV Part 2A that is available for clients.

The Firm currently uses two SMAs; one for equities and one for fixed income. Both SMAs charge a separate management fee, similar to the internal expenses that all mutual funds charge. This SMA fee is in addition to the management fee that is paid to Confluence for its services. Risks associated with investing in a SMA can include, but are not limited to, market risk, interest rate risk, default risk, inflation risk and others depending upon the particular investments that the SMA buys and manages.

We develop portfolio asset allocations based upon an appropriate balance of equities, fixed income and cash. Each client's investment preferences are documented in their Investment Policy Statement, which encompasses the allocation of their entire portfolio at the "household" level.

Risk of Loss

Clients should understand that investing in securities involves risk of loss and that ***past performance is no guarantee of future performance***. We will act in good faith, with the care, skill and diligence that a prudent person acting in a fiduciary capacity would use, in rendering services to the client, but do not guarantee any particular level of account performance or that the account will be profitable over time.

Except as provided by law, we are not liable for any loss the client will suffer due to investment decisions, action taken, or actions omitted. Losses and risks may occur from our adherence to client instructions or from acts or failure to act by the custodian. Nothing in this disclosure or our service agreements shall relieve us from any responsibility or liability we have under state or federal statutes.

Our clients understand that investment decisions are subject to multiple risk factors. The following is a representative sample of some of the risks that should be considered. This supplements a mutual fund or ETF prospectus, which clients should read before investing:

- **Market Risk:** The day-to-day potential for an investor to experience losses from fluctuations in securities prices.
- Common stock investments are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.
- **Sector Risk:** Investments in one or more market sectors will have economic factors affecting those sectors that could affect performance.
- **Volatility Risk:** Equity securities tend to be more volatile than other investment choices. The value of an individual company can be more volatile than the market as a whole.
- **Inflation Risk:** The risk that asset appreciation does not keep pace with the rising cost of everyday living expenses.
- **Default risk:** The risk that the underlying corporate or government lenders will default on their obligation to repay principal.
- **Interest Rate Risk:** The risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, or in the shape of the yield curve.
- **Currency Risk:** A form of risk that arises from the change in price of one currency against another. This is an issue when investing in international investments.

Item 9. Disciplinary Information

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of our firm or our employees. We have no legal or disciplinary items to report.

Item 10. Other Financial Industry Activities and Affiliation

See Item 8, Investment Portfolios for information about our use of sub-advisors and separate account managers.

In addition to the partners named in item 4, Perkins & Company, an Oregon-based Certified Public Accountant (CPA) firm, and one of its shareholders as an individual, are Confluence shareholders. Neither Perkins & Company nor the individual Perkins shareholder participate in the day-to-day management of Confluence, though Perkins & Company is represented on the Confluence Board of Directors. While Confluence and Perkins provide investment advising and accounting services, respectively, to some of the same clients, there is no fee-sharing or payment from either firm to the other for referrals of clients. Clients are not obligated in any manner to use Perkins & Company and may use any CPA firm they choose.

Our advisors have served as committee members for industry-related organizations and been active in volunteer leadership positions in local, regional and national financial services associations. These

organizations include: the Financial Planning Association (FPA); the Portland Estate Planning Council; the CFA Institute, the CFA Society of Portland and the Greater Portland Compliance Association (GPCA).

Item 11. Code of Ethics

As a fiduciary, an Adviser has an affirmative duty of utmost good faith to act solely in the best interests of the client and to make full and fair disclosure of all material facts, particularly where the Adviser's interests may conflict with the client's. An Adviser must at all times act in its clients' best interests, and its conduct will be measured against a higher standard of conduct than that used for mere commercial transactions.

We have adopted a Code of Ethics for all supervised persons of the firm describing its high standards of business conduct and fiduciary duty to our clients. The Code of Ethics addresses issues such as our fiduciary standards, confidentiality of client information, a prohibition on insider trading, restrictions on acceptance of significant gifts, personal securities trading, a prohibition against rumor mongering about publicly traded companies, conflicts of interest and disciplinary action for fraudulent activity. All employees must acknowledge the terms of the Code of Ethics at the time of hire, annually, and as the Code is amended. A copy of the current Code of Ethics is available upon a written or verbal request directed to Scott Hultsman at 503-221-7595, by email to shultsman@confluencewealth.com or by mail at 1211 SW Fifth Avenue, Suite 1200, Portland, OR 97204.

We will recommend to our clients the purchase or sale of securities in which our employees also invest. In order to mitigate this conflict of interest, our related persons will place client interests ahead of their own interests and adhere to our firm's Code of Ethics. All employees are required to submit disclosures regarding personal securities holdings and transactions for review on a quarterly basis to identify and address any potential conflicts of interest.

Under the Code, certain securities have been designated as Restricted. The Code requires pre-clearance of some transactions and requires quarterly monitoring of employee personal trading. Employees can trade in the same securities for their own accounts which they also trade in client accounts. When this is done, the employee and client accounts will pay transaction costs on a pro-rated basis and each account will pay its own share of the costs.

We do not maintain any principal investment accounts and we are not a broker-dealer, nor does Confluence have any affiliations with broker-dealers. So there is no risk of principal or agency cross securities transactions for client accounts or cross trades between client accounts.

Item 12. Brokerage Practices

Our Investment Committee determines the guidelines for brokerage practices. In general, trades will be executed through the custodial firm holding the client assets.

Brokerage Committee

The Brokerage Committee (comprised of the traders, the Chief Investment Officer and Chief Compliance Officer) monitors and evaluates execution quality, proxy voting matters, and the selection of executing custodians.

Best Execution

We maintain a list of approved broker-dealers/custodians to provide services to our clients.

We do not participate in 1) client-directed brokerage for commission recapture; 2) soft dollar arrangements (see soft dollar information below); 3) underwriting syndicates; 3) initial public offerings,

or 4) managing or researching limited partnerships or other illiquid private offerings. Given that we do not participate in these investment activities, they do not factor into our assessment and selection of broker-dealers/custodians.

Custodial Relationships

Client assets must be maintained in an account at a "qualified custodian," which generally is an institutional brokerage firm, a trust company or a bank. We have established working relationships with Charles Schwab and TD Ameritrade, and recommend these qualified custodians to our clients and prospective clients. We are not owned by or affiliated with any qualified custodian. We research and recommend a qualified custodian who will hold client assets and execute transactions on terms that are more advantageous when compared to other available providers. Factors that we consider, include, but are not limited to:

- Combination of transaction execution services and asset custody services
- Capability to execute, clear and settle trades
- Capability to facilitate transfers and payments to and from accounts
- Breadth of available investment products
- Quality control of services
- Price competitiveness
- Reputation, financial strength, and stability
- Professional training and supervision of custodial staff
- Technology-website interface, functionality, ease of access and navigation

Custodians make products and services available to assist in managing and administering client accounts, including: software and other technology that provide access to client account data; facilitate trade execution; cash management, research, pricing and other market data; facilitate payment of our fees from clients' accounts; and assist with back-office functions such as recordkeeping and client reporting. Schwab has provided benefits to our firm by discounting the price of software that our firm uses, or has used, which benefits all firm clients. It is not uncommon for custodians to discount or waive fees it would otherwise charge for services, or pay the fees of a third party providing services. Although we endeavor to act in our clients' best interests, our recommendation that clients maintain their assets at a particular custodian is based in part on the provided resources and not solely on the nature, cost or quality of custody and brokerage services provided by the custodian, which can create a potential conflict of interest, with either Charles Schwab or TD Ameritrade, as a custodian.

Although we recommend the use of Charles Schwab or TD Ameritrade, clients are allowed to select the broker-dealer that will custody their accounts, and in some cases they have no choice but to use a specific broker (ex. for their employer's retirement plan). Clients directing the use of a particular broker/dealer or other custodian must understand that we may not be able to obtain the best prices and execution for the transaction. Under a client-directed brokerage arrangement, clients may receive less favorable prices than would otherwise be the case if the client had not designated a particular broker/dealer or custodian. Under these circumstances a disparity in commission charges would exist between the commissions charged to clients who direct Confluence to use a particular broker, versus clients who use the broker of our choice, where more beneficial pricing could be available.

Trade Aggregation

We are authorized to aggregate purchases, sales and other transactions of the same securities for all clients. When transactions are aggregated, the custodian will enact the transaction (buy and/or sell) and give all accounts the same pricing. The proceeds from a sale or cost of purchasing are then debited or credited to each client account separately, by the custodian. By so doing, all clients receive the same

sale or purchase pricing. When this is done each account is charged its own transaction costs based upon the number of shares that were bought or sold; there is no discount pricing that applies to this aggregate trade and all accounts are treated the same both for executing the trades and also for the costs to do so. To date, there has been no limitation or partially filled orders. All clients in block trades have had their full trade orders completed.

Soft Dollars

We do not have a formal Soft Dollar agreement with any broker-dealer. The term “Soft Dollars” refers to credits that can be used to purchase research services created or developed by third party firms that qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934.

Item 13. Review of Accounts

Our Investment Committee is responsible for overseeing all investments that the firm recommends. The Committee reviews market and economic factors that impact the investments that are recommended for client accounts.

The frequency of account-level reviews is based on the client's investment objectives. Client investment management portfolio reviews are normally conducted by each Advisor and the partners who supervise them, on a quarterly basis at a minimum. Reviews will also be prompted by a change in the client's investment objectives, tax considerations, deposits or withdrawals, large sales or purchases, or significant changes in the macro-economic climate. Account reviews include performance comparisons to indices, review of client cash needs and analysis of allocation targets.

Annual or more frequent meetings are scheduled with Investment Management clients. At these meetings, we review account objectives and performance of investment holdings. Additional discussion will include the economic and financial market outlook, cash needs, financial planning questions, as well as any changes in the client's circumstances that materially affect their investment objectives.

Investment Management clients with portfolios valued above \$50,000 receive detailed quarterly reports which will include portfolio holdings, asset allocation, portfolio performance, and performance of specific securities. All clients work with an assigned Advisor who will oversee communications with the client, including financial plans and other reports.

Item 14. Client Referrals and Other Compensation

Confluence has a paid solicitor agreement with Donald Bielen to refer clients to Confluence.

If a referred client enters into an investment advisory agreement with Confluence, a referral fee is paid to the referring party, and is based upon a percentage of the client advisory fees that are generated. The referral agreements between any referring party and Confluence will not result in any charges to clients above, or in addition to, the normal level of advisory fees charged to all other clients.

When a client is referred to Confluence by a referring party, the referring party provides the client with a copy of the Confluence Disclosure Brochure (this document), as required by the *Investment Advisers Act of 1940*. The client will also sign a Solicitor's Disclosure Statement document. If the referring party is an unaffiliated registered investment adviser firm, then the client will also receive a copy of the referring party's Form ADV Part 2 Disclosure Brochure. The referral agreements between Confluence and referring parties are in compliance with state and federal securities rules regarding paid solicitor arrangements.

In the past, Confluence received client referrals from Charles Schwab and TD Ameritrade. We withdrew from and no longer receive referrals from either of these custodians since 2011. However, we continue to pay a fee on the accounts previously referred to the firm from those programs. The referral fee is paid by us and not by the client. The investment management fees that these referred clients pay, are the same as other clients with similar portfolios who were not referred through the custodians.

If a referred client's account is transferred away from Charles Schwab or TD Ameritrade on our recommendation, we will be obligated to pay either of those referring custodians a one-time, non-custody fee calculated as a percentage of the transferred assets. The non-custody fee would generally be more than the annual referral fee for those assets. The non-custody fee does not apply if the client is solely responsible for the decision to transfer the assets away from Charles Schwab or TD Ameritrade.

The referral and non-custody fees are based on assets in accounts referred by Charles Schwab or TD Ameritrade and on the assets of the referred clients' family members living in the same household. This means we have an incentive to recommend that accounts of referred clients' and their household members remain under the custody of Charles Schwab or TD Ameritrade.

Charles Schwab or TD Ameritrade will not charge our clients separately for custody but will receive compensation from our clients in the form of commissions or other transaction-related compensation on securities trades executed at either of those custodians, respectively.

Item 15. Custody of Assets

Custody, as it applies to investment advisors, has been defined under the Investment Advisers Act of 1940 as "holding, directly or indirectly, client funds or securities, or having any authority to obtain possession of them."¹ In other words, the term "custody" is not limited to physically holding client funds and securities. Confluence does not maintain physical custody of client assets but may be deemed to have custody of your account if we have the authority to directly debit management fees or the ability to transfer funds from your account based on your standing written instructions to do so. Confluence has implemented a set of policies, procedures and other controls to safeguard client assets, including but not limited to the following:

1. All client assets are maintained in an account under the client's name with a qualified custodian. The term "qualified custodian" refers to banks, registered broker-dealers, and trust companies. In addition to maintaining custody of client assets and other services, the custodian provides account statements on a quarterly or more frequent basis directly to the client.
2. As noted above all client accounts are maintained at established and reputable brokerage firms (see Section 12 – Custody relationships for further information.) Clients will direct in writing, the establishment of all accounts and therefore are aware of the qualified custodian's name, address and the manner in which the funds or securities are maintained.
3. Account statements are delivered directly from the qualified custodian to each client, or the client's independent representative, at least quarterly. Clients should carefully review those statements and are urged to compare the statements against reports received from Confluence. When clients have questions about their account statements, they should contact Confluence or the qualified custodian preparing the statement.
4. Prohibited activities to prevent any fraudulent behavior, misappropriation, or misuse of client funds.

¹ Securities Exchange and Commission Rule 206(4)-2 under the Investment Advisers Act of 1940

Item 16. Investment Discretion

Unless another mutually agreeable arrangement is reached, clients grant us discretionary trading authority by signing an Investment Management Agreement. This authority allows us to execute the investment recommendations in accordance with the client's written Investment Policy Statement or a similar document setting forth the client's objectives.

Under discretionary authority, we will determine which securities, the amount of securities, and when to purchase and sell securities within the client's account at a qualified custodian. Further, we have authority to act on behalf of the client in all matters necessary to complete purchase and sell instructions with the client's qualified custodian. The qualified custodian of the client's account will require the client to execute additional documents to authorize us to provide these services.

All transactions outside the authority described above shall be made in accordance with the directions provided by the client. We are able to assist clients in transmitting their instructions to the qualified custodian for transactions outside our discretionary authority, including: non-discretionary trades, deposits, withdrawals, transfer of assets, and changes of address.

Item 17. Voting Client Securities

When directed in writing by the client, we will vote proxies. We have engaged the firm Broadridge, Inc. ("Broadridge") to provide independent, expert opinions on corporate governance and other proxy issues and to vote proxies according to guidelines developed by Broadridge and adopted by Confluence, potentially with modifications. Broadridge has engaged Glass Lewis to provide the guidelines, research and voting recommendation portion of the service. The guidelines are designed to represent shareholder interests and to resolve potential conflicts of interest. Broadridge and Glass Lewis are not affiliated with Confluence. Clients can direct our vote in a particular solicitation by sending written instructions to Lantz Stringham by email at lstringham@confluencewealth.com or by U.S. mail at 1211 SW Fifth Avenue, Suite 1200, Portland, OR 97204 at least 15 business days prior to the voting cut-off date.

We have taken steps to ensure that Broadridge and Glass Lewis have the capacity and competency to adequately analyze proxy issues and vote proxies in an impartial manner that is in the best interest of the client. We review the conflict of interest policies and voting guidelines provided by Glass Lewis via Broadridge annually to ensure that its proxy voting advice remains independent from products and services it offers to issuers. We conduct an annual review of proxy voting records to ensure proxies have been voted in line with proxy voting policies and guidelines.

Clients who retain the authority to vote proxies for their accounts will receive agenda information and ballots from each security's transfer agent or from their custodian. They can forward questions regarding specific ballot items to the transfer agent. Copies of our Proxy Voting Policy and information about votes placed through our services are available upon a written or verbal request directed to Lantz Stringham at 503-221-7595, by email at lstringham@confluencewealth.com or by mail at 1211 SW Fifth Avenue, Suite 1200, Portland, OR 97204.

Item 18. Financial Information

Registered investment advisors are required to provide certain financial information or disclosures about their firm's financial condition. Confluence has no financial commitment that impairs its ability to

meet contractual and fiduciary commitment to clients, and has not been the subject of a bankruptcy proceeding.