

Equity Strategies • All Cap Value

The All Cap Value portfolio is focused on companies ranging in capitalization and is primarily a blend of our Large Cap Value and Small Cap Value portfolios. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and are trading at discounts to intrinsic value. The portfolio typically is comprised of 25-30 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Portfolio Commentary

The final quarter of 2012 was eventful with the U.S. Presidential election and subsequent fiscal cliff negotiations garnering most of the attention. The S&P 500 was impacted by these events, but ended the quarter about where it started, down 0.4%. For the full year, the S&P 500 had a total return of 16.0%, its third best return since 2000, beat only by the rebound years of 2003 and 2009. The All Cap Value portfolio generated a total return of 2.1% in 4Q 2012 and 18.0% for 2012 (gross of fees). *(For detailed performance data and disclosures see:*

www.confluenceim.com/equity_strategies#prod_44)

During 2012, the strongest performers in the All Cap Value portfolio were: NXP Semiconductors, Discovery Communications (media and entertainment) and Mohawk Industries (flooring manufacturer). The weakest performers were: Deckers Outdoor (fashion footwear), John Wiley (publishing) and Smith & Nephew (orthopedic devices).

In terms of portfolio changes, we decided to sell White Mountains Insurance and replace it with W.R. Berkley in late October. White Mountains sold its Esurance division to Allstate in 2011. As a result, the company had substantial excess capital, above and beyond what was needed to operate its remaining insurance businesses. Over the last 18 months, the company had been using this excess capital to repurchase shares at prices below book value. By the fourth quarter, this

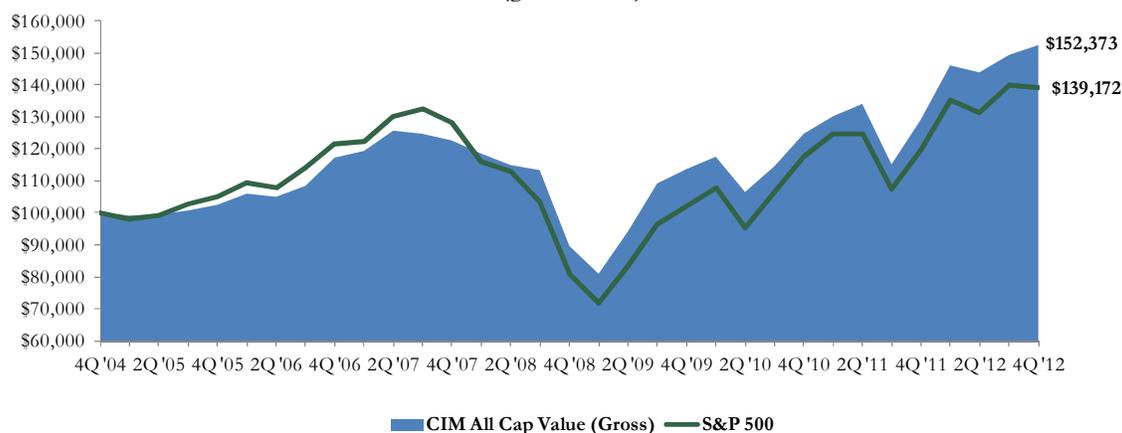
capital reallocation story had largely been played out. As such, we exited our position in White Mountains and purchased shares of W.R. Berkley. W.R. Berkley also operates in the specialty insurance business, but is better positioned for growth in our view. W.R. Berkley's management team and culture has a long history of underwriting discipline, and the company is selling at an attractive valuation given its long term return on equity. Additionally, W.R. Berkley paid out a \$1 special dividend in December 2012, an incremental yield of 2.6%.

Economic growth continues to be weak and the unemployment rate is still high, but the economy is growing and the unemployment rate is declining. With this weak but steady improvement and a lack of new problems from Europe and China, the U.S. markets exceeded expectations. Looking forward to 2013, consensus seems to be more of the same. The housing market and domestic energy production should provide economic tailwinds while fiscal policy and the debt ceiling debate is sure to cause angst. At Confluence we take into account the economic environment our companies are operating in and continue to focus on owning great companies with good management teams that can grow intrinsic value over the next several years.

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Top 10 Portfolio Holdings (as of 12/31/12)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Lowe's Companies Inc	40.5	3.5%
Discovery Communications, Inc	14.9	3.4%
Mohawk Industries Inc	6.2	3.4%
Google Inc	232.7	3.3%
Diageo (Adr 1:4)	72.7	3.2%
Thermo Fisher Scientific, Inc	23.0	3.2%
Sigma-Aldrich Corp.	8.9	3.1%
Varian Medical Systems Inc	7.7	3.1%
McGraw-Hill Companies, Inc	15.2	3.1%
Berkshire Hathaway Inc (Class B)	221.9	3.1%

Investment of \$100,000
(gross of fees)

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

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