

Equity Strategies • Value Opportunities

The Value Opportunities portfolio is a concentrated portfolio of businesses that range in market capitalization. The companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that are trading at substantial discounts to intrinsic value and that have a near-term catalyst in which to unlock the value. The portfolio may have concentrations in both individual holdings and/or industries. The portfolio typically is comprised of 10-12 holdings and is expected to result in annual turnover of 75-100%. The portfolio is suitable for clients seeking an aggressive approach to generating capital appreciation.

Portfolio Commentary

The stock market continued to move sideways in the second quarter, with the S&P 500 index up 0.3%, bringing its year-to-date return to 1.2%. The Value Opportunities portfolio added 0.8% in the second quarter, resulting in a year-to-date return of 6.1% (gross of fees).

For detailed performance information and disclosures see:
http://www.confluenceinvestment.com/equity_strategies#pmd_43

The market's obsession with "when and how" the Federal Reserve will raise the Fed Funds rate continued in the second quarter, with the consensus now looking for the first increase in September. Since early May, longer term interest rates in the U.S. and Europe have increased dramatically and pressured prices for bonds and high dividend, low growth stocks. This process will bring increased volatility, but move the market toward a more normalized interest rate environment given low unemployment, rising wages, and a growing economy. As always, there is uncertainty in the markets, but we continue to stay focused on buying and holding great companies with good management teams at valuations that provide a margin of safety.

Outperformance year-to-date in the portfolio was primarily the result of strong returns from NXP Semiconductors in the first quarter (we sold the position in early March) and solid returns from our Financial sector holdings: Markel, RE/MAX, and AIG, in particular.

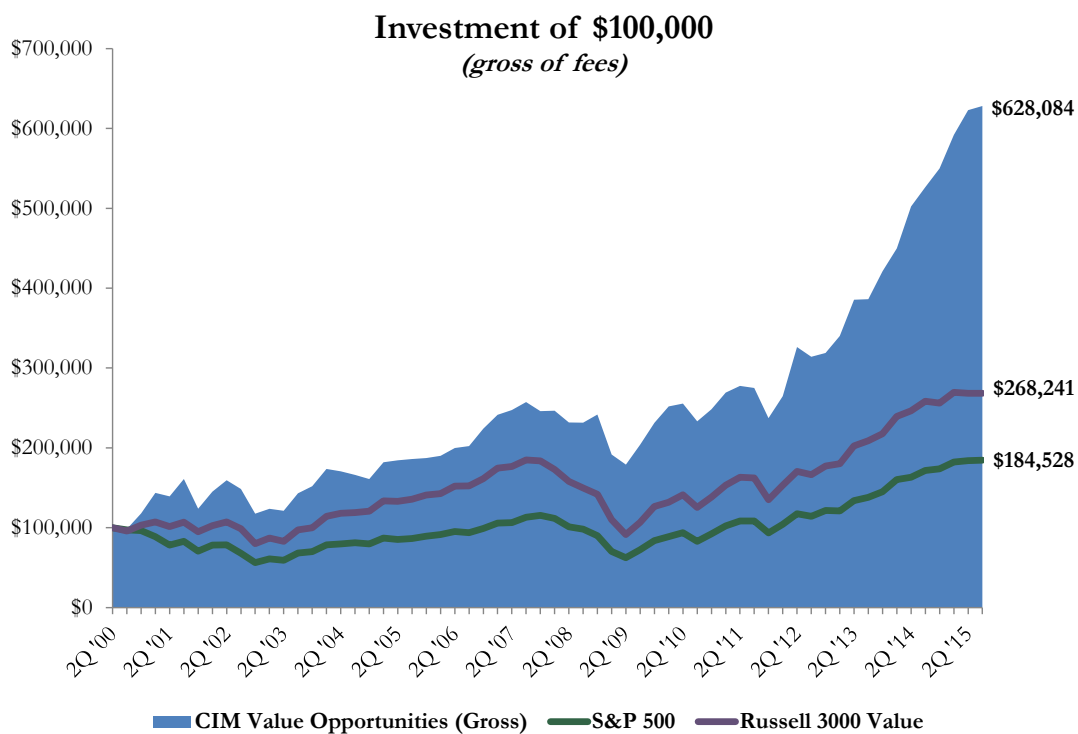
In April, OneBeacon (insurance) was added to the portfolio. Over the past 10 years, OneBeacon has divested several segments in order to become a pure play specialty commercial insurer. OneBeacon is trading at an attractive valuation, and should produce excess capital and a solid return on equity over the next few years. Additionally, OneBeacon is majority owned by White Mountains, and in early April there were reports of White Mountains taking bids for OneBeacon at the right price, a potential catalyst for the shares.

In June, American Capital (business development company) was sold and AIG (insurance) was added to the portfolio. AIG has two industry-leading businesses that have been the core of its success over the past 25 years: Property and Casualty Insurance and Life Insurance/Retirement Products. The "other" segment, Financial Services, is currently in runoff as it was a complicated, highly levered business that ultimately required a government bailout during the financial crisis of 2008. It will likely take many years for AIG to move beyond the investment stigma left by the 2008 financial crisis and bailout, but in the long term we think the intrinsic value of the core businesses will win out. In the meantime, the strong free cash flow from the core businesses is being returned to shareholders through substantial share repurchases and a growing dividend.

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Top 5 Portfolio Holdings (as of 6/30/15)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Morningstar Inc	3.5	10.1%
Markel Corp.	11.2	10.0%
Express Scripts Inc	64.9	9.5%
Stryker Corp.	36.2	9.1%
Brown & Brown Inc	4.6	8.9%



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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