

Equity Strategies • Equity Income

The Equity Income portfolio is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that have the ability to either pay a high level of dividend income or grow the dividend stream over time. The portfolio typically is comprised of 30-35 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Commentary

The S&P 500 Index finished the second quarter of 2016 with a 2.5% gain, bringing its year-to-date return to 3.8%. The Equity Income portfolio gained 4.6% during the quarter, bringing its first half return to 12.7% (both gross of fees).

For detailed performance data and disclosures see:
<http://www.confluenceinvestment.com/products-performance/equity-strategies>

Domestic equities spent most of the second quarter grinding higher from their February lows. All the excitement was concentrated in the final weeks of the quarter as markets reacted to Great Britain's decision to leave the European Union. The initial response by markets was a sharp sell-off in risk assets, but this quickly reversed, likely driven by expectations that the unknowns following this event and its broader ramifications on the European Union would keep the Federal Reserve on hold in its efforts to normalize interest rates.

In our last communication, we noted the strong Q1 performance of several of our industrial and REIT holdings. We used the strength to trim many of these positions during the second quarter, believing that these stocks had gotten a bit ahead of their underlying fundamentals. In the case of the industrial holdings, many have since retreated which allowed us to selectively add to positions during the Brexit sell-off.

Telecom and utility stocks continue to lead the markets in 2016 as both sectors were

among the top-performing sectors during the quarter. Equities within these sectors are often viewed as bond substitutes and with global bond yields exceptionally low and even negative in several countries, investors have flocked to these perceived low risk havens that currently offer yields superior to what can be found in the fixed income markets. We don't tend to own many telecom or utility companies given their limited growth prospects and traditional interest rate sensitivity. Nevertheless, limited exposure to these currently strong sectors of the market has not restrained the Equity Income portfolio's year-to-date performance.

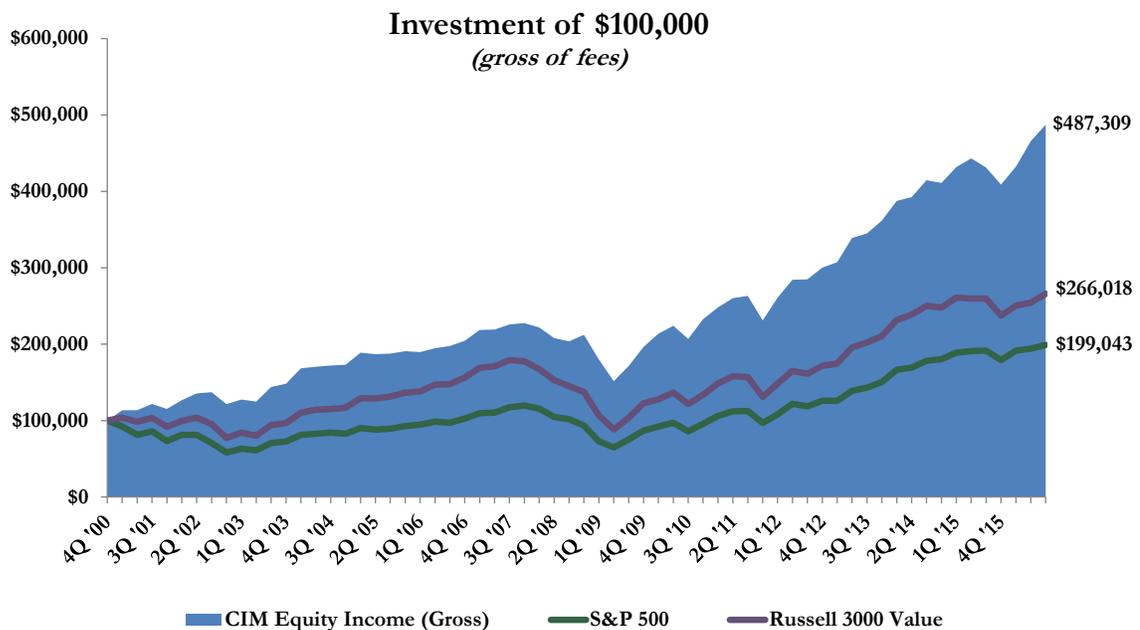
Dividend stocks, in general, are outperforming the overall market this year. We also believe this is partially driven by the low level of global interest rates and investors' pursuit of alternative sources of yield/income.

Finding true bargains in the current environment has become more difficult, especially when one considers the risks: weak global growth, elevated valuations, lofty profit margins, an abnormal business cycle, the fate of the European Union, and technological disruption across several industries and labor pools, to name a few. To be sure, risks are always present. The key is to find investments trading at valuations that fully reflect the risks in the marketplace, thereby providing one with a necessary margin of safety. It is this margin of safety that is becoming harder to find.

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Top 10 Portfolio Holdings (as of 6/30/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
The Kraft Heinz Company	107.6	3.6%
Iron Mountain Inc	10.5	3.5%
Fidelity National Financial, Inc	11.1	3.5%
Martin Marietta Materials, Inc	12.2	3.3%
Johnson & Johnson	333.7	3.2%
3M Company	106.2	3.2%
Paychex, Inc	21.4	3.2%
Broadridge Financial Solutions, Inc	7.7	3.1%
Chubb Limited	60.7	3.1%
Southern Company	50.3	3.1%



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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