

## 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 Value Opportunities portfolio returned 1.2% in the second quarter, resulting in a year-to-date return of 4.7% (gross of fees). The portfolio has performed in line with the S&P 500 Index, which was up 2.5% for the quarter and 3.8% year-to-date.

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

The Value Opportunities portfolio has held up well in 2016 despite no exposure to the dividend rich sectors that have been popular this year (utilities, telecom and consumer staples). The current portfolio happens to be concentrated in four sectors. Year-to-date, our financial, industrial and healthcare holdings have outperformed the market, while consumer discretionary holdings have lagged. In the current environment, consumers are being very selective about discretionary purchases, yet we are still confident about our companies' product offerings, not to mention their attractive stock valuations.

The U.S. stock market gained in the second quarter as energy companies rebounded on higher oil prices, a weaker dollar made exports more competitive and the Federal Reserve further delayed the next interest rate increase. There is currently a high degree of economic and political uncertainty and the Brexit in late June appears to be another step forward for the populist wave being seen around the world. During periods of great uncertainty, it is even more important to have a well-defined investment approach along with the discipline and experience needed to execute it. At

Confluence, we stay focused on buying good companies with competent management teams trading at valuations that provide a margin of safety.

There were a number of changes made to the portfolio during the second quarter. In April, we completed the sale of Express Scripts and the purchases of Advisory Board and Richemont. Advisory Board provides "best practices" research and consulting to the healthcare and education industries through its software and program platforms. This recurring revenue along with the network effect from being the hub for industry data has created a strong competitive advantage for Advisory Board. Its stock has traded off this year from weakness related to a recent acquisition and a diminishing tailwind from the Affordable Care Act implementation, giving us an opportunity to buy a great company at an attractive valuation.

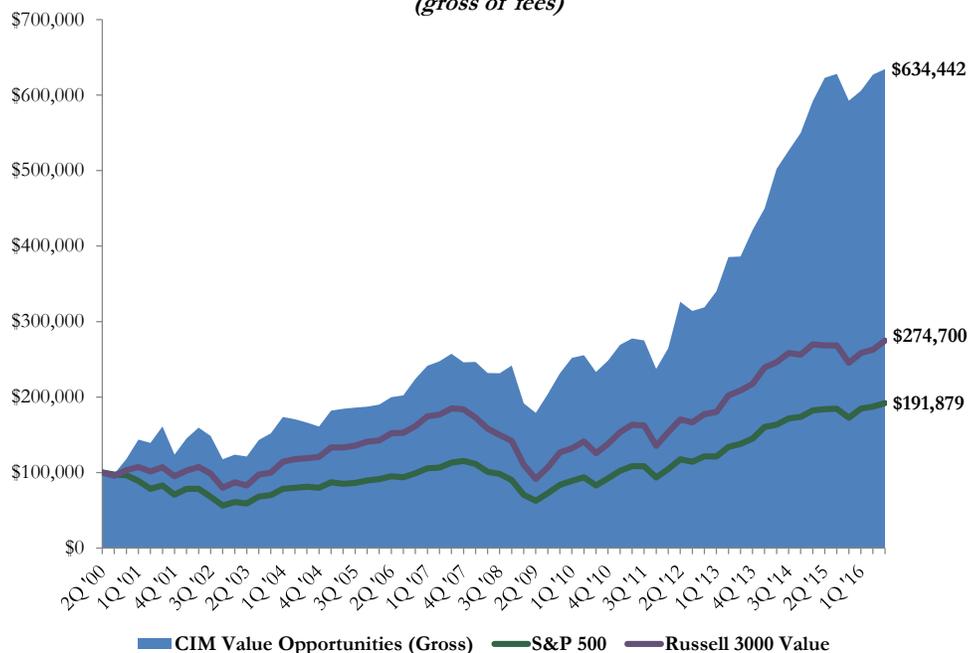
Richemont is a Switzerland-based luxury goods company that is most widely known for premium watches and Cartier jewelry. Over the past few years, the company has experienced weaker demand for luxury goods (China, in particular) along with headwinds from foreign exchange rates. As a result, we were able to add Richemont to the portfolio at a very attractive valuation. With a collection of world class luxury brands, a management team focused on long-term value creation and a fortress balance sheet (\$6B of net cash), Richemont is a scarce asset that should be a solid store of value.

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Top 5 Portfolio Holdings (as of 6/30/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Stryker Corp.	44.8	10.8%
Markel Corp.	13.3	10.3%
The Advisory Board Company	1.5	10.0%
American International Group, Inc.	70.5	8.9%
RE/Max Holdings, Inc.	0.7	8.5%

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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