

## Equity Strategies • All Cap Value

The All Cap Value portfolio is focused on companies that range in market capitalization to create a diversified portfolio of businesses with capital appreciation potential. 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 first quarter was a volatile environment for equities and among the worst starts to a year on record. The S&P 500 index spent most of the quarter in decline and officially reached “correction territory,” defined as a 10% decline, before rallying to finish the quarter with a slight gain, up 1.3%. The All Cap Value portfolio was up 4.7% over the same period (gross of fees).

*For detailed performance data and disclosures see:*

[http://www.confluenceinvestment.com/equity\\_strategies#prod\\_44](http://www.confluenceinvestment.com/equity_strategies#prod_44)

There were several issues investors were grappling with during the quarter, but the overarching concern was that the U.S. was on the verge of recession given the Federal Reserve’s stated intention to continue raising rates even while global growth was weakening and the strong dollar was acting as a dampener to domestic growth. The mid-quarter recovery in equities was largely predicated on more “dovish” commentary out of the Federal Reserve indicating that it would remain “data dependent.”

The All Cap Value portfolio did not fall as far as the broader index and was quicker to turn positive for the year. Nevertheless, the inter-quarter volatility allowed us to selectively add to portfolio positions.

There were two portfolio holdings with notable underperformance during the quarter, American Express and Express Scripts. Both are dealing with transient, but company-

specific, issues that pressured their stock prices during the quarter. We understand why both stocks are down and although we don’t necessarily expect a quick recovery in either holding, we believe franchise values are intact in both companies and current valuations are attractive and appropriately discount the issues at hand. Stated differently, although neither holding is likely to be a performance leader this year, their negative impact on the portfolio’s full-year performance is probably behind us.

Despite weakness in these two holdings, the rest of the portfolio performed well during the quarter. The most dramatic driver of positive portfolio performance was our exposure to the industrial sector. Specifically, shares of Landstar, Graco, CH Robinson and MSC Industrial posted strong gains that were well in excess of the average industrial stock within the S&P 500 Index.

Portfolio positions within the energy, health care and financial sectors also performed materially better than the averages of their S&P 500 cohorts. Portfolio positions that had notable gains within these sectors include: Brown and Brown, Kinder Morgan, Stryker, Berkshire Hathaway and Morningstar.

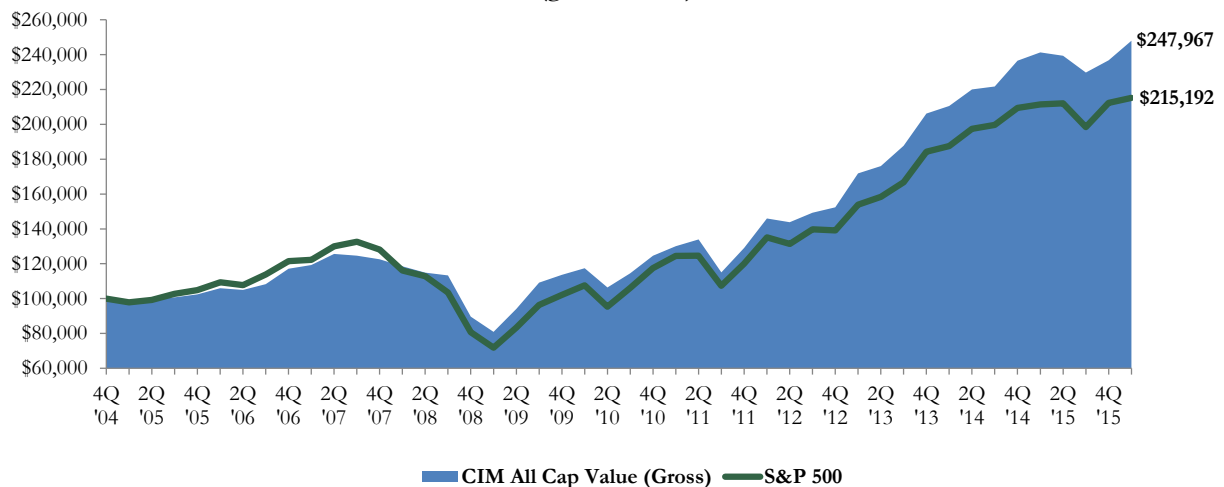
As always, we remain focused on company-specific fundamentals and growth prospects, and believe the current market will continue to provide us with opportunities to buy quality companies at reasonable prices.

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Top 10 Portfolio Holdings (as of 3/31/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Morningstar Inc.	3.8	3.5%
Markel Corp.	12.5	3.4%
The TJX Companies, Inc.	51.9	3.4%
Stryker Corp.	40.0	3.3%
Graco Inc.	4.6	3.3%
Microsoft Corp.	436.8	3.3%
Alphabet Inc. (Class C)	519.0	3.2%
FEI Company	3.6	3.1%
MasterCard Inc.	104.9	3.1%
W.R. Berkley Corp.	6.9	3.1%

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



Confluence Investment Management LLC

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