First Quarter

2020

Equity Strategies • All Cap Value

All Cap Value 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 our estimate of intrinsic value. The portfolio typically comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Strategy Commentary

Equity markets experienced extreme selling pressure in the first quarter of the year with the S&P 500 and Russell 3000 Value Indexes falling 19.6% and 27.3%, respectively. By comparison, All Cap Value fell 21.8% (gross of fees) over the same period. (*The strategy was down 22.4% (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*)

The decline in asset prices was steep, rapid, and largely indiscriminate as investors reacted to the COVID-19 global pandemic, an ill-timed pricing war in the energy markets, and the return of zero-bound interest rates, which elevated stress within credit markets. It's a common axiom that investors hate uncertainty. With global economies at various stages of self-imposed lockdown of indeterminate length, uncertainty is palpable. Within a surprisingly short period of time, the U.S. (and global) economy moved from a period of steady growth and low unemployment to a position of great vulnerability.

Importantly, steps are being taken to help address this period of vulnerability. The Federal Reserve Bank has taken swift and broad actions to provide liquidity and support to stressed areas of the financial and credit markets. This was a necessary step to help insure the proper functioning of our financial markets. Congress was also relatively quick to act in providing relief to displaced workers and businesses. These and similar actions will help preserve the foundations of economic growth during this period of government-directed stasis, foundations that were relatively solid only a few weeks ago.

When the economy resumes, we would not expect the same environment that preceded it. Supply chains will be revisited. Businesses will carry more debt initially but are likely to prioritize reducing it and may even look to build reserves. Consumers, too, are likely to remain reticent for a period, both in their spending and social behaviors. This would be typical behavior following an economic downturn. That being said, this hasn't been a typical contraction or a typical response. We've never seen such quick and decisive actions by the Federal Reserve and Congress to an economic contraction. The effectiveness of these actions to keep productive capacity (households and businesses) intact could meaningfully influence the pace of recovery. Although there are many unknowns, the current period of heightened uncertainty is finite. Additional data, testing, experience, and therapies related to COVID-19 will continue to amass and bring with them better visibility as to when and how the public will be able to return to more normalized patterns of work and social activity.

A look at a few indexes provides additional insight into the market's undercurrents in the first quarter. The Russell 3000 Growth (down 14.9%) and Russell 3000 Value (down 27.3%) show that value stocks, which have underperformed growth stocks for the past several years, have been punished even more in this selloff (energy and banks, in particular). While growth stocks outperformed in the first quarter, they have primarily been supported by the FAANG+ stocks which include the five largest market caps in the S&P 500 (Microsoft, Apple, Amazon, Google, Facebook). These "top five" account for 19.5% of the index and had a Q1 weighted average return of around -6%. This overweight appears to be the primary reason the headline S&P 500 Index has held up better than the general experience of individual stocks, which is more accurately represented by the S&P 500 equal-weighted index return of -26.7% (the combined weight of these five names is roughly 1% of this index). While those top five stocks are uniquely positioned (both in their business models and balance sheets) for the unforeseen impact of social distancing, we believe a diversified portfolio should not have such high concentration in a narrow subgroup.

We made a few changes to the All Cap Value portfolio during the quarter with the additions of Dollar Tree, Nordson, and Alaska Air, while MSC Industrial Direct, Patterson Companies, and U.S. Concrete were sold.

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About Confluence Investment Management LLC

Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's value-driven, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

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Strategy Commentary continued...

Dollar Tree, Inc. operates under two retail banners: Dollar Tree and Family Dollar. The Dollar Tree segment, the last true dollar store with a national footprint, has been well run for many years with positive same-store sales every quarter since 2007. The concept has wide demographic appeal and a treasure hunt element around seasonal merchandise allows the company to operate with industry-leading margins. We've admired Dollar Tree for several years but were skeptical of the company's 2015 acquisition of Family Dollar, a fundamentally different concept with lower margins and a relatively narrow core demographic. Management has worked to improve the operations of Family Dollar over the last several years including remodeling stores, closing or re-bannering hundreds of underperforming stores, improving sourcing capabilities, and revamping its private label offering. It's been a slow and daunting task given the large store base, but after years of heavy investment enough of the Family Dollar footprint has been repositioned or closed that a more stable business should emerge over the next 18 months.

Dollar Tree shares were trading at roughly the same level they did when the company acquired Family Dollar, despite having grown the Dollar Tree portion's operating income by 40% and reducing the debt burden associated with the Family Dollar acquisition by half. The debt reduction efforts were key to our investment decision as we believe the company now has more financial flexibility and is likely to start returning cash flow to shareholders in the coming quarters. Lastly, the company was faced with several transitory headwinds last year including tariffs, high freight costs, the consolidation of its buying teams, and a helium shortage affecting its party supply business. Although we anticipate some residual impact from tariffs, these headwinds are expected to dissipate. Dollar Tree will face many new challenges during the pandemic and its aftermath, but it is likely to be relatively well positioned given that many stores remain open and due to its inherently countercyclical attributes.

Nordson Corporation was also added during the quarter. Nordson is a well-run industrial company with leading positions in its niches of operation, which pertain to fluid handling and precision dispensing. The company's operating margins are among the best in the industrial complex as are its returns on assets and equity. One reason the company has been so successful is that its products and services allow customers to be more efficient and productive. Customers can easily ascertain and calculate their returns on investment for Nordson products (reduced downtime, materials savings, faster line speeds, reduced labor, etc.). In a world of better, faster, cheaper, and smaller, Nordson is a key facilitator. The company also has a large installed base across a diverse group of end markets and customers, with well-entrenched exposure to several durable segments of the economy like canned goods, packaging, diapers, and feminine hygiene. These less cyclical businesses are balanced with exposure to higher growth areas of the economy like technology. For example, it should be a key facilitator as production lines reposition for 5G technology and new form factors emerge. The company has been deleveraging from recent acquisitions and is once again positioned to conduct accretive M&A, which has been a successful element of the company's growth strategy in recent years. We expect this to continue under new leadership from Illinois Tool Works.

We also took a partial position in Alaska Air due to its strong franchise value in the airline industry. Alaska is the fifth largest domestic airline and has a reputation for great client service, particularly on the West Coast where it has a near-fanatical following. The company has one of the strongest balance sheets in the industry with only $550 million of net debt versus $4.3 billion of book equity. The COVID-19 outbreak has upended the airline industry and we've refrained from taking a full position in Alaska Air. As always, we will continue to monitor the investment and make changes as we deem prudent.

The investment team at Confluence has always taken a pragmatic approach toward investing which strives to temper emotions by focusing on the underlying businesses and what they're worth. The objective is to own competitively advantaged businesses that are responsibly financed and guided by good stewards. While the shares of these types of businesses are not immune to near-term sentiment, as we are currently witnessing, their underlying attributes should provide the ballast to not just survive but also take advantage of any dislocations. Our task is to construct a portfolio of businesses that have the wherewithal to survive the downside, while providing ample opportunity to participate when the recovery occurs. This too shall pass, and rest assured we have a seasoned team of analysts working diligently to ensure the portfolios are aligned accordingly.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
Patterson Companies, Inc.	0.32	0.12
Nordson Corporation	0.47	0.12
The Progressive Corporation	3.04	0.06
Microsoft Corporation	4.63	0.05
Allergan plc	0.36	(0.01)
Bottom 5		
Gates Industrial Corporation plc	1.79	(0.92)
Kinder Morgan, Inc.	2.68	(0.94)
Brookfield Asset Management Inc.	3.62	(0.95)
Frontdoor, Inc.	3.90	(1.11)
RE/MAX Holdings, Inc.	3.33	(1.53)

(Contribution data shown from a sample account)

10 Largest Holdings (as of 3/31/20)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Cannae Holdings, Inc.	2.7	4.2%
The Progressive Corporation	43.2	3.8%
Black Knight, Inc.	8.7	3.8%
Frontdoor, Inc.	3.0	3.7%
Microsoft Corporation	1,199.5	3.7%
Alphabet Inc. (Class C)	798.9	3.5%
Thermo Fisher Scientific Inc.	113.1	3.4%
Dollar Tree, Inc.	17.4	3.3%
Brookfield Asset Management Inc.	44.2	3.3%
Morningstar, Inc.	5.0	3.2%

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Application of the investment strategy as of a later date will likely result in changes to the listing. Sector weightings and holdings of individual client portfolios in the program may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk and may decline in value due to adverse company, industry or general economic conditions.

Performance Composite Returns For Periods Ending 3/31/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R3000 Value
Since Inception**	7.8%	4.7%	7.3%	5.2%
15-Year*	8.0%	4.9%	7.6%	5.3%
10-Year*	10.4%	7.1%	10.5%	7.5%
5-Year*	5.4%	2.3%	6.7%	1.6%
3-Year*	3.2%	0.2%	5.1%	(2.7%)
1-Year	(7.7%)	(10.4%)	(7.0%)	(18.0%)
YTD	(21.8%)	(22.4%)	(19.6%)	(27.3%)
QTD	(21.8%)	(22.4%)	(19.6%)	(27.3%)

*Average annualized returns
**Inception is 1/1/2005

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R3000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000V 3yr Std Dev	Composite Dispersion
2005	2.4%	(0.4%)	4.9%	6.9%	(2.5%)	242	$27,603		N/A	N/A	N/A	0.5%
2006	14.4%	11.3%	15.8%	22.3%	(1.4%)	224	$26,916		N/A	N/A	N/A	0.6%
2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	$27,835		6.9%	7.7%	8.3%	0.7%
2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	$1,778	$291,644	13.9%	15.1%	15.5%	N/A
2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	$11,558	$533,832	18.6%	19.6%	21.3%	2.8%
2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	$13,980	$751,909	21.0%	21.9%	23.5%	0.5%
2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	$14,294	$937,487	18.4%	18.7%	21.0%	0.6%
2012	18.0%	14.5%	16.0%	17.6%	2.0%	40	$11,654	$1,272,265	14.6%	15.1%	15.8%	0.3%
2013	35.3%	31.3%	32.4%	32.7%	2.9%	73	$22,893	$1,955,915	11.2%	11.9%	12.9%	0.7%
2014	14.7%	11.3%	13.7%	12.7%	1.0%	119	$34,036	$2,589,024	8.8%	9.0%	9.4%	0.4%
2015	0.1%	(2.9%)	1.4%	(4.1%)	(1.3%)	207	$50,568	$3,175,419	10.0%	10.5%	10.7%	0.6%
2016	14.2%	10.8%	12.0%	18.4%	2.2%	345	$91,109	$4,413,659	9.7%	10.6%	11.0%	0.6%
2017	15.7%	12.3%	21.8%	13.2%	(6.1%)	649	$167,342	$5,944,479	8.7%	9.9%	10.3%	1.1%
2018	(5.2%)	(8.0%)	(4.4%)	(8.6%)	(0.8%)	689	$168,742	$5,486,737	10.1%	10.8%	11.1%	0.6%
2019	35.6%	31.6%	31.5%	26.2%	4.2%	818	$262,167	$7,044,708	11.7%	11.9%	12.0%	1.1%

Portfolio Benchmarks

S&P 500 Index – A capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 3000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values. *(Source: Bloomberg)*

Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 12/31/2018. A copy of the verification report is available upon request. Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The All Cap Strategy was incepted on January 1, 2005, and the current All Cap Value Composite was created on August 1, 2008. Performance presented prior to August 1, 2008, occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the primary individuals responsible for selecting the securities to buy and sell. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS ® standards.

[2] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly (2.75% prior to 7/1/08). This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.60% on the first $500,000; 0.55% on the next $500,000; and 0.50% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

A complete list of composite descriptions is available upon request. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion is an equal-weighted standard deviation calculated for accounts in the composite for the entire year. The All Cap Value Composite contains fully discretionary All Cap Value wrap accounts. All Cap Value is a value-based, bottom-up portfolio that utilizes stocks from all market capitalizations.

N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history. Prior to August 1, 2008, the composite was named the All Cap Global Composite. Effective August 1, 2008, the composite definition was changed to no longer emphasize global ADRs but the underlying portfolio and strategy did not change.

Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy can be obtained by contacting Confluence. *Material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Holdings identified do not represent all of the securities purchased, sold or recommended. Information is presented as supplemental information to the disclosures required by GIPS ® standards. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. Past performance is no guarantee of future results. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses.* ***Indices:*** *The S&P 500 Index and Russell 3000 Value Index are shown as additional information. These indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only & do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.*