

## All Cap Value • Value Equity Strategies

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 appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

### Market Commentary

Equity markets struggled to start the new year as investors grappled with the latest Omicron wave, the Russian invasion of Ukraine, and the actions of the Federal Reserve. These concerns weighed not only on domestic equity markets but all asset classes except for commodities. Even Treasuries, often viewed as safe havens, reported losses across maturities, with the 10-year Treasury yield moving up from 1.62% to 2.32% and resulting in a -6.86% loss of principal. The only asset to escape the downdraft was commodities as supply has been slower to ramp back up despite solid demand as economies are reopening (see *Figure 1* with asset class returns, from Confluence's Asset Allocation Committee). Companies are also struggling with labor shortages as well as recent outages caused by Omicron which are putting upward pressure on wages. Inflation has also been pressured by supply chain issues that are testing the limits of the global just-in-time inventory approach – an approach that helped put downward pressure on inflation over the past few decades. The Russian invasion only advanced concerns surrounding the supply of agriculture products and certain commodities, which was further exasperated by the sanctions imposed on Russia. These headwinds offset the positive effects of economies reopening and the ensuing strong demand.

Figure 1

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2022
Emerging Markets 78.5%	REITs 28.0%	Long-Term Bonds 22.0%	Emerging Markets 18.2%	US Small Cap 41.3%	REITs 30.1%	REITs 3.2%	US Small Cap 26.6%	Emerging Markets 37.3%	Cash 1.9%	US Large Cap 31.5%	US Large Cap 18.4%	REITs 43.2%	Commodities 33.1%
Speculative Bonds 57.5%	US Mid-Cap 26.6%	Intermediate-Term Bonds 10.6%	REITs 18.1%	US Mid-Cap 33.5%	Long-Term Bonds 20.1%	US Large Cap 1.4%	US Mid-Cap 20.7%	Int'l Developed 25.0%	Short-Term Bonds 1.6%	US Mid-Cap 26.2%	Emerging Markets 18.3%	Commodities 40.4%	Cash 0.0%
US Mid-Cap 37.4%	US Small Cap 26.3%	REITs 8.3%	US Mid-Cap 17.9%	US Large Cap 32.4%	US Large Cap 13.7%	Intermediate-Term Bonds 1.4%	Speculative Bonds 17.5%	US Large Cap 21.8%	Intermediate-Term Bonds -0.1%	REITs 26.0%	Long-Term Bonds 15.5%	US Large Cap 28.7%	Short-Term Bonds -2.6%
Int'l Developed 31.8%	Emerging Markets 18.9%	Speculative Bonds 4.4%	Int'l Developed 17.3%	Int'l Developed 22.8%	US Mid-Cap 9.8%	Short-Term Bonds 0.7%	US Large Cap 12.0%	US Mid-Cap 16.2%	Speculative Bonds -2.3%	US Small Cap 22.8%	US Mid-Cap 13.7%	US Small Cap 26.8%	REITs -3.9%
REITs 28.0%	Speculative Bonds 15.2%	US Large Cap 2.1%	US Small Cap 16.3%	Speculative Bonds 7.4%	Intermediate-Term Bonds 6.8%	Cash 0.1%	Commodities 11.4%	US Small Cap 13.2%	Long-Term Bonds -4.1%	Int'l Developed 22.0%	US Small Cap 11.3%	US Mid-Cap 24.8%	Speculative Bonds -4.5%
US Large Cap 26.5%	US Large Cap 15.1%	Short-Term Bonds 1.6%	US Large Cap 16.0%	REITs 2.5%	US Small Cap 5.8%	Int'l Developed -0.8%	Emerging Markets 11.2%	Long-Term Bonds 10.4%	US Large Cap -4.4%	Long-Term Bonds 18.8%	Intermediate-Term Bonds 9.5%	Int'l Developed 11.3%	US Large Cap -4.6%
US Small Cap 25.6%	Long-Term Bonds 10.6%	US Small Cap 1.0%	Speculative Bonds 15.6%	Short-Term Bonds 0.7%	Speculative Bonds 2.5%	US Small Cap -2.0%	REITs 8.5%	Speculative Bonds 7.5%	REITs -4.6%	Emerging Markets 18.4%	Int'l Developed 7.8%	Speculative Bonds 5.4%	US Mid-Cap -4.9%
Commodities 13.5%	Intermediate-Term Bonds 9.6%	Cash 0.1%	Long-Term Bonds 8.7%	Cash 0.1%	Short-Term Bonds 0.8%	US Mid-Cap -2.2%	Long-Term Bonds 5.7%	Commodities 5.8%	US Small Cap -8.5%	Commodities 17.6%	Speculative Bonds 6.2%	Cash 0.0%	US Small Cap -5.6%
Intermediate-Term Bonds 7.4%	Commodities 9.0%	Commodities -1.2%	Intermediate-Term Bonds 7.2%	Commodities -1.2%	Cash 0.0%	Long-Term Bonds -2.8%	Intermediate-Term Bonds 3.2%	REITs 5.2%	US Mid-Cap -11.1%	Speculative Bonds 14.4%	Short-Term Bonds 3.3%	Short-Term Bonds -0.4%	Int'l Developed -5.9%
Short-Term Bonds 3.8%	Int'l Developed 7.8%	US Mid-Cap -1.7%	Short-Term Bonds 1.5%	Emerging Markets -2.6%	Emerging Markets -2.2%	Speculative Bonds -4.6%	Short-Term Bonds 1.3%	Intermediate-Term Bonds 3.9%	Int'l Developed -13.8%	Intermediate-Term Bonds 10.6%	Cash 0.7%	Intermediate-Term Bonds -2.2%	Intermediate-Term Bonds -6.5%
Long-Term Bonds 1.8%	Short-Term Bonds 2.8%	Int'l Developed -12.1%	Cash 0.1%	Intermediate-Term Bonds -3.4%	Int'l Developed -4.9%	Emerging Markets -14.9%	Int'l Developed 1.0%	Short-Term Bonds 0.9%	Commodities -13.8%	Short-Term Bonds 4.1%	REITs -8.0%	Emerging Markets -2.5%	Emerging Markets -7.0%
Cash 0.2%	Cash 0.1%	Emerging Markets -18.4%	Commodities 0.1%	Long-Term Bonds -9.4%	Commodities -33.1%	Commodities -32.9%	Cash 0.3%	Cash 0.9%	Emerging Markets -14.6%	Cash 2.3%	Commodities -23.7%	Long-Term Bonds -2.8%	Long-Term Bonds -10.9%

(Source: *Confluence Asset Allocation Committee*. See disclosures on p.5 for asset class composition.)

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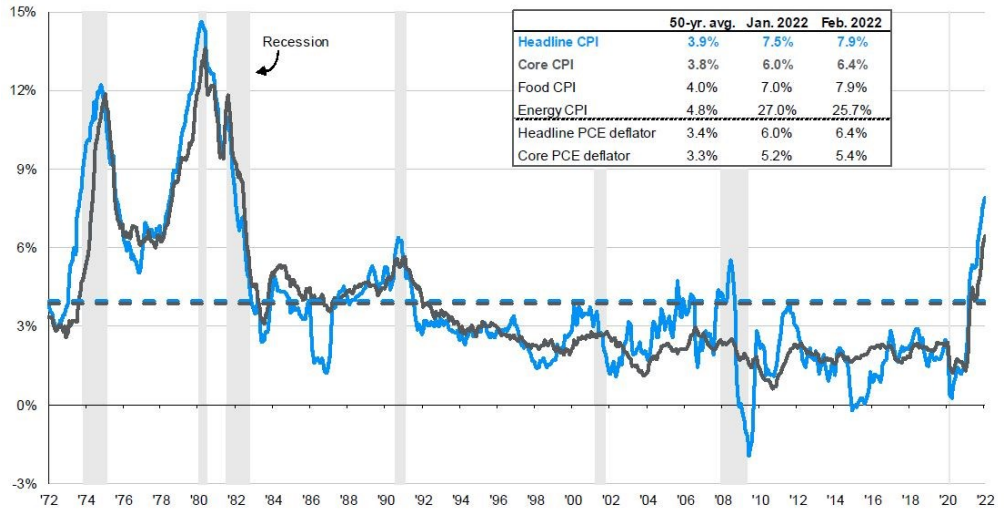
Market Commentary continued...

Inflation is the primary concern weighing on investors, which has not really been present for a few decades (see CPI and core CPI graph, *Figure 2*). In fact, we have to look back to the 1970s and early 1980s for the last time inflation wreaked havoc on markets. At that time, Paul Volcker was brought in to chair the FOMC to break inflation. He did so by aggressively raising interest rates to a high of 20%, which worked but also resulted in a double-dip recession. During the decades that followed we saw more prudent monetary policy combined with globalization and technological innovation, which kept inflation in check. It was so successful that the past few generations have little to no experience with inflation as the chart below illustrates from Confluence’s macro team (*Figure 3*). Thus, with inflation running much higher than expected, investors are grappling with how much of the rise is transitory and how much is structural as they determine their inflationary expectations, which has induced the recent volatility. What is certain is that the FOMC will be shifting monetary policy away from easing conditions as shown during the quarter with an increase in rates of 25 bps and a reduction in the Fed’s balance sheet. Of course, the key question is, what will be the pace and magnitude of future tightening?

Figure 2

CPI and core CPI

% change vs. prior year, seasonally adjusted



(Chart source: J.P. Morgan Asset Management; Guide to the Markets - U.S., Data as of March 31, 2022)

Figure 3

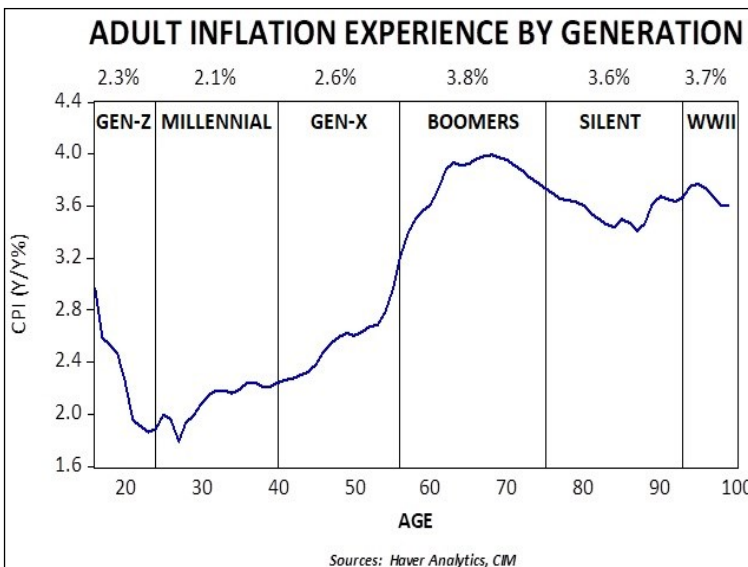
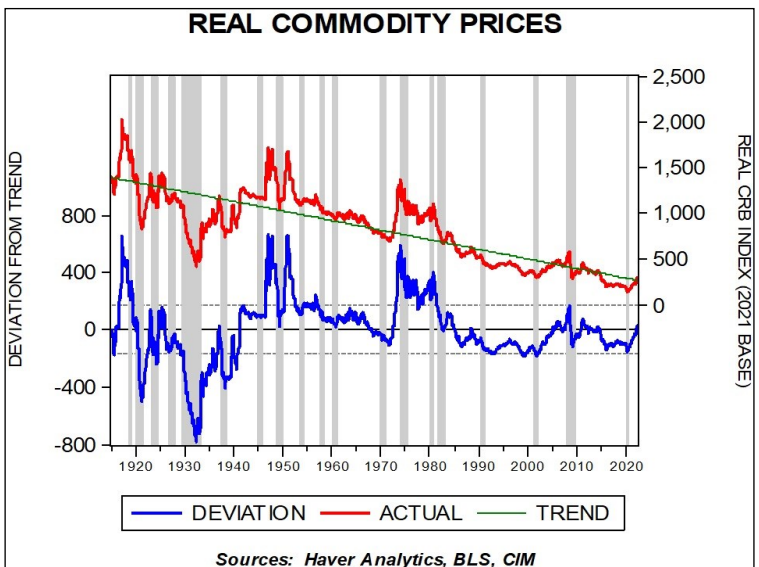


Figure 4



For the equity markets, the quarter reflected the strength of commodities as the Energy sector led the way with gains of 39% and was the only sector other than the Utilities sector, up 5%, to post a gain. The quarter ended with the broad market proxy, the S&P 500 Index, down 4.6% and the small capitalization proxy, the Russell 2000 Index, down 7.5%. Regarding style, the value indexes have larger exposures to commodities and utilities, thus value outperformed growth with the Russell 3000 Value Index down 0.8% and the Russell 3000 Growth Index down 9.3%. While commodities are drawing a lot of attention and have had some good periods from time-to-time, over the long run innovation via means of extraction and users finding more efficient usage have historically put downward pressure on commodity prices (see *Figure 4*).

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## Strategy Commentary

Confluence All Cap Value returned -7.2% (gross of fees) in the first quarter, trailing the S&P 500 Index at -4.6% and the Russell 3000 Value Index at -0.8%. [Net-of-fees return for the same period was -7.9% QTD. See disclosures on p.5 for fee description; actual investment advisory fees may vary.]

The first quarter of 2022 began with record COVID contagion, witnessed the start of the largest European war since World War II, saw inflation reach a 40-year high, and ended with a two-week market rally of 8.5% in the S&P 500 that coincided with a dramatic increase in the 10-year Treasury yield. This quarter-end rally also saw a return to areas that displayed excess exuberance over the past few years, such as GameStop (GME) and Tesla (TSLA), which were up +113% and +40%, respectively, over the last two weeks of March.

During the quarter, All Cap Value underperformed the S&P 500 as high valuations contracted in some sectors, partially offset by solid returns in value sectors such as Financials and Energy. In particular, the portfolio trailed due to the Industrials, Consumer Discretionary, and Information Technology sectors, with the weakest contributors being Black Knight (BKI), Lowe's (LOW), Cannae (CNNE), Morningstar (MORN), and Starbucks (SBUX). With rising interest rates, the portfolio had relative outperformance from the Financials sector, with strong contribution from insurers Berkshire Hathaway (BRK.B), W. R. Berkely (WRB), and Markel (MKL).

There were a couple of changes to the portfolio during the quarter. First, the acquisition of IHS Markit (INFO) by S&P Global (SPGI) was completed. This leaves the portfolio with a position in S&P Global, which has a dominant market position in the ratings and data analytics for financial markets. We have long admired the business and remain holders of the shares of SPGI.

In early February, Dun & Bradstreet Holdings (DNB) was added to the portfolio. DNB provides commercial data, analytics, and insights for businesses with an extensive history and dataset used to aid businesses with risk management and operations. The core franchise is strong, but growth stagnated after the financial crisis, prompting an investor group led by Bill Foley to take the company private in 2019. Over the next several months, Foley replaced 17 of the 18 senior managers in an effort to jumpstart cross-selling and organic growth.

Following this overhaul, margins and organic growth have improved and the company was taken public again in 2020. DNB is still a work in progress, but the business has high-quality attributes, a new management team, and we were able to add it to the portfolio at a valuation that should, in our estimation, provide a good investment return over the long term.

## Outlook

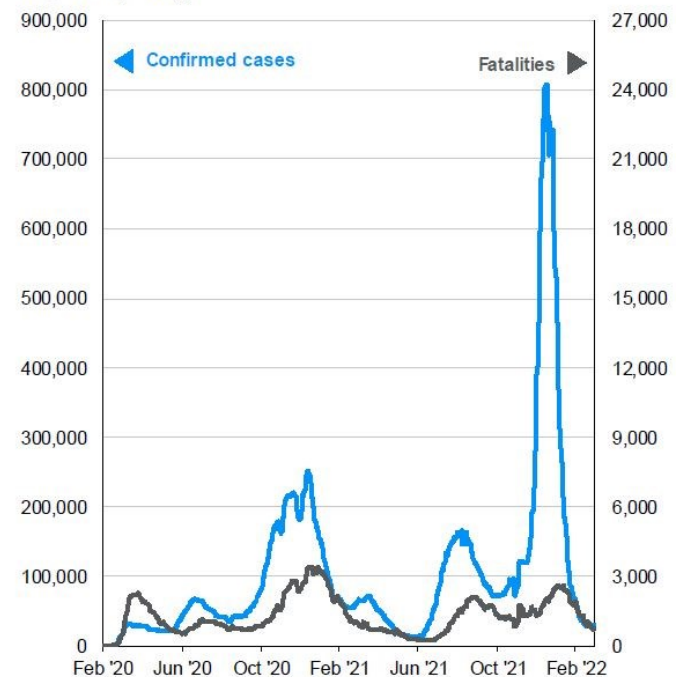
It will take time for all these macro events from the first quarter to settle out, but initially it looks like ongoing trade disputes with China, a disjointed global supply chain, and global trade disruptions from the Russian invasion of Ukraine have ended the 25-year trend of increased globalization. As a result, inflation pressures could persist and force the Fed to aggressively raise rates, something the stock market has not experienced in over 20 years. If the Fed does follow through with aggressive tightening, then a complacent stock market could see some volatility over the next 12 months.

Despite a weak start to the year, the All Cap Value strategy is well positioned in great businesses at reasonable valuations, which we believe should help it outperform if the market continues to unwind the speculative valuations that have built up over the past five years. In the meantime, we continue to focus on owning high-quality businesses with capable management teams at valuations that will support long-term compounding.

Figure 5

## Change in confirmed cases and fatalities in the U.S.

7-day moving average



(Chart source: J.P. Morgan Asset Management; Guide to the Markets - U.S., Data as of March 31, 2022)

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### Contribution<sup>1</sup>

(YTD as of 3/31/2022)

The top contributors and detractors for the portfolio thus far in 2022 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Berkshire Hathaway Inc. (Class B)	4.18	0.67
W. R. Berkley Corporation	3.27	0.61
Dollar Tree, Inc.	3.80	0.54
Markel Corporation	2.67	0.49
Kinder Morgan, Inc.	1.83	0.32
<b>Bottom 5</b>		
Starbucks Corporation	2.61	(0.66)
Morningstar, Inc.	3.09	(0.69)
Cannae Holdings, Inc.	2.23	(0.85)
Lowe's Companies, Inc.	4.78	(1.07)
Black Knight, Inc.	3.30	(1.17)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

### Performance Composite Returns<sup>2</sup> (For Periods Ending March 31, 2022)

	Since Inception**	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
<b>Pure Gross-of-Fees<sup>3</sup></b>	10.3%	10.6%	14.0%	13.6%	16.6%	9.1%	(7.2%)	(7.2%)
<b>Net-of-Fees<sup>4</sup></b>	7.1%	7.3%	10.6%	10.2%	13.1%	5.8%	(7.9%)	(7.9%)
<b>S&amp;P 500</b>	10.1%	10.3%	14.6%	16.0%	18.9%	15.6%	(4.6%)	(4.6%)
<b>Russell 3000 Value</b>	8.1%	7.3%	11.6%	10.1%	13.0%	11.1%	(0.8%)	(0.8%)

Calendar Year	Pure Gross-of-Fees <sup>3</sup>	Net-of-Fees <sup>4</sup>	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%
2020	17.3%	13.8%	18.4%	2.9%	(1.1%)	953	\$333,804	\$6,889,798	18.5%	18.5%	20.0%	0.9%
2021	23.4%	19.7%	28.7%	25.3%	(5.3%)	1,084	\$422,786	\$7,761,687	17.5%	17.2%	19.3%	0.6%

\*Average annualized returns

See performance disclosures on next page.

\*\*Inception is 1/1/2005

### Portfolio Benchmarks

**S&P 500<sup>®</sup> Index** – A capitalization-weighted index of 500 stocks 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<sup>®</sup> Value Index** – A capitalization-weighted index designed to measure performance of those Russell 3000<sup>®</sup> Index companies with lower price-to-book ratios and lower forecasted growth values. (Source: Bloomberg)



## Disclosures

**Market & Strategy Commentary**—Figure 1: Asset class representation: Cash (ICE BofA 3M T-Bill); Short-Term Bonds (ICE BofA 1-3 Year US Corp&Govt); Intermediate-Term Bonds (ICE BofA 5-10 Year US Corp&Govt); Long-Term Bonds (ICE BofA 10+Yr US Corp&Govt); Speculative Grade/High-Yield Bonds (ICE BofA US High Yield Master); REITs (FTSE NAREIT Equity); Large Cap (S&P 500); Mid-Cap (S&P MidCap 400); Small Cap (S&P Small Cap 600); Foreign Developed Country (MSCI EAFE); Emerging Markets (MSCI Emerging Markets); Commodities (S&P GSCI). Data source: Morningstar Direct.

Information is presented as supplemental information to the disclosures required by GIPS® standards. 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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results.

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**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.

**1Contribution**—Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers, based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

**2Performance Composite Returns**—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2020. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The All Cap Strategy was inceptioned 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.

<sup>3</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>4</sup> 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. 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.*

### 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.

### Confluence Value Equities Investment Committee

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