Second Quarter

2020

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 spent the better part of the second quarter clawing back from the pandemic induced sell-off in March as the Russell 3000 Value and S&P 500 indexes gained 14.6% and 20.5%, respectively, which helped offset the weak first quarter. On a year-to-date basis, the Russell 3000 Value and S&P 500 are down 16.8% and 3.1%, respectively.

A great deal of uncertainty remains as to how the world economies will cope with COVID-19 and ultimately recover. Nevertheless, actions taken by Congress and the Federal Reserve have thus far been quite effective in preserving confidence and engendering a sense that a "bridge" is in place to get us to the other side of this pandemic. Rising corporate bankruptcies and falling household incomes are pillars of a typical recession, but both are currently being managed through strong and direct policy responses so that in both cases outcomes are better than what should be expected given the level of economic disruption brought on by COVID-19. The reality of these programs being instituted in a timely fashion and enthusiasm around reopening the economy fueled equity returns in the second quarter, despite double-digit unemployment and segments of the economy still functionally incapacitated.

The lockdowns caused capital and liquidity concerns for many entities that took advantage of lower interest rates to optimize their capital structures, so it comes as no surprise that a bifurcation resulted in the market as evidenced by the year-to-date returns of the Russell 3000 Growth, +9.0%, versus the Russell 3000 Value, -16.7%. Despite the broad-based snapback in the second quarter, the underlying valuation disparities continued. In fact, this bifurcation has been in place over the past few years as the Russell 3000 Growth has outperformed the Russell 3000 Value by a cumulative 79% from the end of 2016 through the second quarter of 2020. This outperformance has been driven by the mega-cap tech names, which now claim the top five spots by market capitalization in the S&P 500 with a cumulative weighting of approximately 22% of the index, compared to 17% at year-end 2019, and posted a weighted average return of 25.4% year-to-date. In this environment, investors appear more focused on lockdown risks than valuation risks.

The degree to which investors choose to look at the safety nets currently in the market versus underlying economic conditions is likely to be dynamic. While sentiment is currently optimistic as demand recovers from extraordinarily low levels, we suspect this could wane once a baseline of demand comes into focus. Our expectation is that the economy will continue to ameliorate, but a return to prior levels of output will be difficult to achieve in the intermediate term.

Strategy Commentary

All Cap Value gained 20.8% during the second quarter of 2020 and is down 5.6% through the first six months of the year (both gross of fees). (*Net-of-fees returns for the same periods were +19.8% and -7.0%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*)

Our investment philosophy has always been centered around managing risk. We don't have clear insight into how this pandemic and its economic impact will unfold. As such, the changes that took place in All Cap Value since March increase the durability of earnings and reduce exposure to financial leverage. During the second quarter, we added positions in IHS Markit and Hexagon, funded by the sales of Spectrum Brand Holdings and Alaska Air.

IHS Markit is a leading player in the information services industry with globally recognized brands serving a variety of industries and workflows, including Carfax, Ceraweek, OPIS, the Purchasing Manager's Index series, and the iBoxx, iTraxx, and CDX indices. Several attributes of its business model are very appealing and make for an attractive cash generative business. Historically, the company has used its cash flow to buy similar operations and, to a lesser extent, repurchase stock. We expect M&A to be a core part of its growth strategy going forward, supplemented with a modest recurring dividend and opportunistic share repurchases.

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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...

IHS Markit is still in the early days of initiating a strategy whereby its information assets can be more easily drawn upon and combined with disparate product offerings to provide more robust products and new revenue-generating opportunities. In addition to creating new revenue opportunities, this effort should also improve efficiency within the organization and enhance profit margins. Our investment team vetted and approved this company for purchase roughly a year ago, but we required a lower valuation for our entry point. As such, the recent market turmoil gave us an opportunity to add the company to the All Cap Value portfolio. IHS Markit is a great example of what we mean when we say we look at market dislocations as opportunities to upgrade our portfolios.

Another recently purchased company that has been in our approved bullpen is Hexagon. Hexagon is a provider of design, measurement and visualization technologies used in a wide range of industries including aerospace, automotive, construction, energy, public safety and defense. The company's industry-specific solutions leverage domain expertise in sensor technologies, software and data orchestration to create smart digital realities that improve productivity and quality across manufacturing, infrastructure, safety and mobility applications. Major fields of concentration include mechanical computer aided design, computer aided engineering and collaborative product definition management.

Hexagon has been transitioning over the last 10 years toward a business model more focused on software and services, which is a more durable and recurring revenue model. Today, over half of the company's revenue have recurring attributes. Although Hexagon will experience economic sensitivity due to its end market exposures, we think it is well positioned from a technology standpoint and should benefit from secular growth dynamics around digitization, automation and connectivity over the coming years. Further, it has the balance sheet strength and cash flow characteristics to survive an extended period of economic disruption.

As mentioned, these recent purchases were financed by the sales of Spectrum Brand Holdings and Alaska Air. In both instances, the decision to sell was based on the uncertainties surrounding the pandemic.

In the case of Alaska Air, despite having the strongest balance sheet in the industry, good management and profitable route dynamics under normal conditions, we opted to liquidate the position. Soon after buying our initial position it became clear to us that we had underestimated the degree to which the economy would close and the likely duration of unprofitability.

Shares of Spectrum Brands were sold mainly due to the company's elevated leverage position. Prior to the pandemic, we viewed the company's debt as manageable with the potential for the company to quickly reduce leverage through a combination of asset sales, debt repayments and cash flow growth. Although we believe Spectrum is likely to survive the downturn without a credit event, the pandemic combined with the seasonality of the company's businesses has the potential to significantly delay the company's ability to reduce leverage.

We have always taken a pragmatic approach 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 conservatively financed and guided by good stewards. Such 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 which have the wherewithal to survive the downside, while providing ample opportunity to participate when the recovery occurs. 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		
Lowe's Companies, Inc.	3.41	1.69
Microsoft Corporation	5.45	1.54
Black Knight, Inc.	5.11	1.26
Thermo Fisher Scientific Inc.	4.29	1.17
RE/MAX Holdings, Inc.	2.88	1.13
Top 5		
Alaska Air Group, Inc.	0.08	0.07
Spectrum Brands Holdings, Inc.	0.35	(0.00)
Markel Corporation	2.75	(0.02)
Graco Inc.	2.85	(0.07)
Berkshire Hathaway Inc. (Class B)	3.46	(0.08)

(Contribution data shown from a sample account)

10 Largest Holdings (as of 6/30/20)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Cannae Holdings, Inc.	3.7	4.3%
Frontdoor, Inc.	3.8	4.0%
Black Knight, Inc.	11.4	3.9%
Microsoft Corporation	1,543.3	3.9%
Lowe's Companies, Inc.	102.0	3.8%
Hexagon AB	20.5	3.5%
Alphabet Inc. (Class C)	966.5	3.4%
Thermo Fisher Scientific Inc.	143.1	3.4%
The Progressive Corporation	46.9	3.4%
Dollar Tree, Inc.	22.0	3.4%

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 6/30/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R3000 Value
Since Inception**	9.0%	5.8%	8.5%	6.1%
15-Year*	9.3%	6.2%	8.8%	6.2%
10-Year*	13.6%	10.2%	14.0%	10.2%
5-Year*	9.7%	6.4%	10.7%	4.4%
3-Year*	9.4%	6.1%	10.7%	1.4%
1-Year	4.1%	1.0%	7.5%	(9.4%)
YTD	(5.6%)	(7.0%)	(3.1%)	(16.8%)
QTD	20.8%	19.8%	20.5%	14.6%

**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.*