

## 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

During the second quarter of 2021, the stock market continued to calibrate between a rebounding economy, elevated inflation, and potential interest rate actions from the Federal Reserve. As a result, the strong run by economically sensitive value stocks year-to-date reversed some in June as long-term interest rates trended down from the highs in March. Currently, the market consensus is that the post-pandemic inflation surge is transitory, and the Fed will still take the punch bowl away before inflation gets out of hand. With expectations for continued low interest rates, the Russell 3000 Growth Index surged 6.2% in June, while the Russell 3000 Value Index declined 1.1%, but year-to-date the growth index is still trailing at 12.7% versus 17.7% for the value index.

This back and forth will likely continue for a while as the economic consensus fluctuates between two outlooks. One outlook forecasts a post-pandemic economic boom fueled by unlimited monetary and fiscal stimulus that brings higher inflation and interest rates that favor economically sensitive value stocks (Financials, Industrials, Energy, Materials, etc.). Meanwhile, the other outlook anticipates the pre-pandemic world of low inflation, low interest rates, and slow economic growth, which favors growth stocks (FAANG+, etc.) that can grow in most environments.

Despite much economic and market uncertainty, our investment philosophy continues to be durable as the process results in owning competitively advantaged businesses that tend to be economically sensitive but also have pricing power, and these businesses are purchased at valuations not dependent upon low interest rates in perpetuity. As such, we continue to stay focused on owning quality companies with good management teams and trading at attractive valuations.

### Strategy Commentary

Confluence All Cap Value returned 5.7% in the second quarter for a year-to-date return of 10.9% (both gross of fees). By comparison, the S&P 500 was up 8.5% in the quarter and 15.2% year-to-date. *[Net-of-fees returns for the same periods were +4.9% QTD and +9.2% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.]*

All Cap Value trailed the S&P 500 in the second quarter primarily due to the strong performance of growth stocks during June (as discussed above). While our investments in certain names have performed very well year-to-date (e.g., Google), it was not enough to offset the rotation to growth in June that drove investors back to Amazon and the other FAANG+ stocks.

Year-to-date, the strategy was also negatively impacted by no exposure to bank stocks which are up 29% as a sub-sector in the first half of the year given rising interest rates earlier in the year. Our exposure to the Financials sector is more focused on companies with competitive advantages that are less dependent on rising interest rates, primarily insurance and niche financials. In particular, our commercial insurance-related companies are benefiting from rising insurance rates, while the only detractor in the Financials sector has been Cannae (CNNE). Cannae is down double-digits so far this year as the market is valuing the company at a significant discount to the publicly traded value of its portfolio holdings. The chairman of Cannae, Bill Foley, has a long track record of successfully acquiring, growing, and then monetizing good businesses. As Cannae's portfolio of companies continues to grow in intrinsic value, we feel confident that Foley and the team will find a way to eventually monetize these holdings at full value, which should provide material upside to Cannae's stock price from current levels.

There were no changes to the portfolio in the second quarter, but two holdings are each in the process of closing on material acquisitions. Brookfield Asset Management (BAM) is up strongly year-to-date as the value of the real estate assets the company owns and manages continue to rise and attract more asset management clients. Brookfield has a long track record of creating value in real estate assets that are out of favor, and in this instance the company is buying out one of its own listed partnerships (Brookfield Property Partners) at a significant discount to its estimate of liquidation value. Brookfield management is "putting its money where its mouth is" and this should increase the intrinsic value of BAM over the long term.

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**Strategy Commentary continued...**

The other material acquisition is also real estate-related and was announced late in the quarter by RE/MAX Holdings (RMAX), which has been one of the weaker performers this year. RE/MAX has a very attractive business model as the franchisor of the RE/MAX network of high-producing real estate agents. In mid-June, the company announced it is acquiring one of its last and largest independent broker regions at an attractive valuation that should make it even more valuable. While the performance of BAM and RMAX have diverged year-to-date, both companies have made material acquisitions that have increased intrinsic value and we are confident the stock prices will reflect this over the long term.

All of these undercurrents in the portfolio are highlighted by the top contributors and detractors for the quarter and year. Still, despite the churning and uncertainty in the market, All Cap Value has posted a strong six-month absolute return and is well-positioned with high-quality companies that continue to compound in intrinsic value.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Alphabet Inc. (Class C)	3.80	0.73
IHS Markit Ltd.	3.45	0.54
Morningstar, Inc.	3.75	0.52
Hexagon AB	3.92	0.50
Brookfield Asset Management Inc.	3.39	0.50
<b>Bottom 5</b>		
W. R. Berkley Corporation	2.91	(0.03)
Frontdoor, Inc.	3.67	(0.28)
Dollar Tree, Inc.	3.02	(0.42)
RE/MAX Holdings, Inc.	2.81	(0.46)
Cannae Holdings, Inc.	3.04	(0.47)

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

**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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### 10 Largest Holdings (as of 6/30/21)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Hexagon AB	38.1	4.2%
Morningstar, Inc.	11.0	4.0%
Alphabet Inc. (Class C)	1,657.3	4.0%
NXP Semiconductors N.V.	56.7	3.9%
Lowe's Companies, Inc.	137.1	3.7%
IHS Markit Ltd.	44.9	3.5%
Brookfield Asset Management Inc.	80.6	3.4%
Frontdoor, Inc.	4.3	3.2%
Graco Inc.	12.8	3.2%
Oracle Corporation	217.3	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 June 30, 2021)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</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
Since Inception**	10.5%	7.3%	10.2%	8.1%	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%
15-Year*	11.3%	8.0%	10.7%	8.0%	2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	\$27,835		6.9%	7.7%	8.3%	0.7%
10-Year*	14.6%	11.2%	14.8%	11.5%	2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	\$1,778	\$291,644	13.9%	15.1%	15.5%	N/A
5-Year*	15.4%	12.0%	17.6%	12.0%	2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	\$11,558	\$533,832	18.6%	19.6%	21.3%	2.8%
3-Year*	17.5%	14.0%	18.7%	12.2%	2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	\$13,980	\$751,909	21.0%	21.9%	23.5%	0.5%
1-Year	37.8%	33.7%	40.8%	45.4%	2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	\$14,294	\$937,487	18.4%	18.7%	21.0%	0.6%
YTD	10.9%	9.2%	15.2%	17.7%	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%
QTD	5.7%	4.9%	8.5%	5.2%	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%

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

#### Portfolio Benchmarks

**S&P 500® 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® 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 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, 2019. 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 inception 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>1</sup>Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>2</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.

**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. 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. 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.**