

## 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 trended higher during the third quarter as the S&P 500 and Russell 3000 Value Indexes gained 1.7% and 1.2%, respectively. By comparison, All Cap Value rose 3.0% over the same period, bringing its year-to-date return to 26.7% (both gross of fees). On a year-to-date basis, the S&P 500 and Russell 3000 Value gained 20.6% and 17.5%, respectively. *(The strategy was up 2.3% QTD and 23.9% YTD (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.2 for fee description; actual investment advisory fees may vary.)*

Modestly deteriorating economic conditions, uncertain global trade policy and substantial levels of government-issued global debt trading at negative yields remain top of mind with investors and the Federal Reserve Board. Uncertainty as to how and when these issues will be resolved has depressed investor sentiment and led to higher levels of volatility than we've seen in recent years. They also contributed to the Federal Reserve's decision to lower its interest rate target during the quarter. Importantly, however, consumer confidence remains high, likely due to continued strength in the jobs market. An optimistic consumer and an incrementally more accommodative interest rate policy could help bolster activity in debt-financed areas of the economy that cooled off last year as the Federal Reserve was raising rates. Indeed, we're already seeing signs that this may be happening in housing.

The Federal Reserve appears intent on doing what it can to help extend the current business cycle. At the margin, these actions should help, but getting business spending to reaccelerate will likely require some degree of de-escalation on the trade front or a more stimulative fiscal effort. We're not anticipating near-term clarity on either issue. As such, we expect markets to remain volatile, potentially broadening our available investment options.

One new investment was added to the portfolio during the quarter, RE/MAX Holdings. RE/MAX is a leading franchisor

of real estate brokerage offices which recently added a new mortgage brokerage brand that complements the company's existing business. The company possesses many of the attributes we look for, including: high levels of profitability, low capital requirements, significant levels of excess cash generation, ample financial flexibility, a strong culture of empowerment and a business model that offers above-average durability relative to its peers. RE/MAX agents tend to be among the most tenured and productive agents in their markets. The company was established to service this type of individual with a model that allows agents to retain a larger percentage of the real estate transaction. Consequently, greater than 70% of the company's economics are tied to reoccurring franchise fees and annual dues. Unlike many of its peers, transaction revenue, while important, is not the primary driver of the company's business. Slow housing turnover and concerns related to a class action lawsuit against the National Association of Realtors related to buyer commissions have unduly pressured the shares and provided an attractive investment opportunity, in our view.

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Frontdoor, Inc.	4.84	0.62
RE/MAX Holdings, Inc.	1.69	0.55
Alphabet Inc. (Class C)	3.40	0.40
W.R. Berkley Corporation	3.54	0.36
Brookfield Asset Management Inc.	3.25	0.35
<b>Bottom 5</b>		
Cannae Holdings, Inc.	3.12	(0.17)
Diageo plc	3.25	(0.17)
Graco Inc.	2.72	(0.23)
Gates Industrial Corporation plc	1.62	(0.24)
Patterson Companies, Inc.	0.92	(0.25)

*(Contribution data shown from a sample account)*

### ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm'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, fundamental company-specific approach. Confluence's 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 9/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Frontdoor, Inc.	4.1	4.6%
W.R. Berkley Corporation	13.2	3.7%
Black Knight, Inc.	9.1	3.5%
Morningstar, Inc.	6.2	3.4%
RE/MAX Holdings, Inc.	0.6	3.4%
Thermo Fisher Scientific Inc.	116.6	3.3%
Brookfield Asset Management Inc.	53.6	3.3%
Diageo plc	96.8	3.2%
Lowe's Companies, Inc.	84.9	3.1%
Kinder Morgan, Inc.	46.7	3.1%

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, 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 9/30/19

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value	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**	9.4%	6.2%	8.5%	7.2%	2005	2.4%	(0.4%)	4.9%	6.9%	(2.5%)	242	\$27,603		N/A	N/A	0.5%
					2006	14.4%	11.3%	15.8%	22.3%	(1.4%)	224	\$26,916		N/A	N/A	0.6%
10-Year*	13.2%	9.8%	13.2%	11.4%	2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	\$27,835		6.9%	7.7%	0.7%
					2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	\$1,778	\$291,644	13.9%	15.1%	N/A
5-Year*	11.1%	7.8%	10.8%	7.7%	2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	\$11,558	\$533,832	18.6%	19.6%	2.8%
					2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	\$13,980	\$751,909	21.0%	21.9%	0.5%
3-Year*	12.4%	9.1%	13.4%	9.2%	2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	\$14,294	\$937,487	18.4%	18.7%	0.6%
					2012	18.0%	14.5%	16.0%	17.6%	2.0%	40	\$11,654	\$1,272,265	14.6%	15.1%	0.3%
1-Year	9.5%	6.3%	4.2%	3.1%	2013	35.3%	31.3%	32.4%	32.7%	2.9%	73	\$22,893	\$1,955,915	11.2%	11.9%	0.7%
YTD	26.7%	23.9%	20.6%	17.5%	2014	14.7%	11.3%	13.7%	12.7%	1.0%	119	\$34,036	\$2,589,024	8.8%	9.0%	0.4%
QTD	3.0%	2.3%	1.7%	1.2%	2015	0.1%	(2.9%)	1.4%	(4.1%)	(1.3%)	207	\$50,568	\$3,175,419	10.0%	10.5%	0.6%
					2016	14.2%	10.8%	12.0%	18.4%	2.2%	345	\$91,109	\$4,413,659	9.7%	10.6%	0.6%
					2017	15.7%	12.3%	21.8%	13.2%	(6.1%)	649	\$167,342	\$5,944,479	8.7%	9.9%	1.1%
					2018	(5.2%)	(8.0%)	(4.4%)	(8.6%)	(0.8%)	689	\$168,742	\$5,486,737	10.1%	10.8%	0.6%

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

### 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 12/31/2017. 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 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>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. 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. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable than alternative investments, including the risk that our estimate of intrinsic value may never be realized by the market or that the price goes down. **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.