

## 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

Although equity markets ended the period down from recent highs, the third quarter of 2020 was largely one of continued recovery from the pandemic-induced sell-off. The S&P 500 and Russell 3000 Value Indexes gained 8.9% and 5.4%, respectively. On a year-to-date basis, the S&P 500 is now showing a positive return, 5.6%, while the Russell 3000 Value remains down 12.2%.

Technology and Consumer Discretionary sectors continue to be the biggest drivers of equity returns this year as their primary constituents are viewed as being more defensible in the current environment. Within the S&P 500, these two sectors are up more than 23% year-to-date. Communication Services was the third best-performing sector, up 8.6% year-to-date, while five of 11 S&P 500 sectors remain in negative territory for the year. Notably, the Consumer Discretionary sector of the S&P 500 has a heavy concentration in Amazon, greater than 40% of the sector at quarter-end, and the Communication Services sector has high exposure to digital-led businesses, with Facebook, Alphabet, and Netflix accounting for over half that sector. [*Alphabet and Facebook moved from the Technology sector to Communication Services in Q4 2018.*] Investors have been attracted to these technology and digital-led businesses this year as they are among the few investments benefiting from the current dislocations in the economy. More specifically, the top five companies (Microsoft, Apple, Amazon, Facebook, Alphabet) now represent over 22% of the S&P 500 and are up on average 40% year-to-date, accounting for 130% of the index's return. Said differently, the S&P 500 would be in negative territory for the year if not for the big five businesses, whereas an equally weighted S&P 500 would be down approximately -5% year-to-date.

On the other end of the spectrum are Energy and Financials (mainly banks), down roughly 48% and 20%, respectively.

Energy markets are suffering from sharp demand curtailments, poorly capitalized balance sheets, and changing investor attitudes toward longer-term growth prospects. As for the banks, underperformance is likely due to the very low interest rate environment as well as concerns over loan quality given the significant business disruptions that have occurred this year.

That being said, we also saw strength in the Materials and Industrials sectors in the third quarter as investors started looking for pro-cyclical exposure as the economy looks to recover.

### Strategy Commentary

All Cap Value gained 8.3% during the third quarter and is up 2.2% year-to-date (both gross of fees). [*Net-of-fees returns for the same periods were +7.5% QTD and 0.0% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

Within the All Cap Value portfolio, the top-contributing sectors during the quarter were Technology and Financials, while Energy and Materials offered the least support. It's worth pointing out that our exposure to Financials does not include any banks. The Financials in this portfolio tend to have above-average returns on capital and defined niches that are less exposed to net interest income and/or loan losses.

As most of our clients understand, we are very much bottom-up analysts and investors. We look to build a diversified portfolio but focus on the individual companies and their specific business models, durability, and growth prospects more so than trying to target certain sectors thematically or attempting to replicate broad index exposures.

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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...

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Black Knight, Inc.	5.02	0.95
Hexagon AB	3.37	0.88
Lowe's Companies, Inc.	4.08	0.88
Thermo Fisher Scientific Inc.	3.73	0.85
Graco Inc.	2.96	0.76
<b>Top 5</b>		
Axalta Coating Systems Ltd.	1.62	(0.03)
Dollar Tree, Inc.	3.26	(0.03)
Kinder Morgan, Inc.	1.88	(0.36)
Cannae Holdings, Inc.	3.85	(0.41)
Frontdoor, Inc.	3.71	(0.49)

*(Contribution data shown from a sample account)*

Black Knight, the leading provider of software used to originate and service mortgages, and Lowe's, the second-largest home improvement retailer, are both benefiting from strong housing and home improvement markets. Hexagon shares have responded to improving business conditions in China, while Thermo Fisher Scientific finds itself squarely in the middle of the rush to find vaccines and therapies for COVID-19 as the leader in laboratory products and life science solutions.

Regarding the portfolio's weakest contributors, in the case of Frontdoor and Cannae Holdings, we see nothing in the current environment that deters our confidence in these two holdings. It's possible that Frontdoor experiences higher claims as more people are staying home and therefore using their appliances

and systems more heavily; however, this isn't something we would look to trade around as we view the longer-term outlook for this company very favorably. Shares of Kinder Morgan have held up better than the broader Energy complex, but Energy has been a tough place to have capital this year given depressed demand, weak balance sheets, and changing attitudes toward investing in the sector. Kinder Morgan continues to bring down its financial leverage while paying an outsized dividend. We like the company's distribution assets and believe the market is currently underestimating its longevity. Dollar Tree is a turnaround story that has had several false starts over the last five years, which may have led investors to trim positions even as the company's prospects are improving and evidence of a sustained turnaround accumulates. As a sign of management's confidence, Dollar Tree recently reinstated its share repurchase plan.

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 in the market.

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 portfolios are aligned accordingly.

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### 10 Largest Holdings (as of 9/30/20)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Black Knight, Inc.	13.7	4.3%
Lowe's Companies, Inc.	125.3	4.3%
Hexagon AB	26.6	4.1%
The Progressive Corporation	55.4	3.7%
Cannae Holdings, Inc.	3.4	3.5%
Morningstar, Inc.	6.9	3.4%
Graco Inc.	10.2	3.3%
Thermo Fisher Scientific Inc.	174.7	3.2%
Frontdoor, Inc.	3.3	3.2%
NXP Semiconductors N.V.	34.8	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. 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 9/30/20

	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**	9.4%	6.2%	8.9%	6.3%	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*	9.8%	6.6%	9.2%	6.3%	2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	\$27,835		6.9%	7.7%	8.3%	0.7%
10-Year*	13.6%	10.3%	13.7%	9.8%	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*	12.4%	9.0%	14.1%	7.4%	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*	11.7%	8.4%	12.3%	2.1%	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	9.4%	6.2%	15.1%	(5.7%)	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	2.2%	(0.0%)	5.6%	(12.2%)	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	8.3%	7.5%	8.9%	5.4%	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%

\*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 12/31/2019. 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. 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.**