

## Equity Strategies • All Cap Value

The All Cap Value portfolio 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 intrinsic value. The portfolio typically is comprised of 25-30 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

### Portfolio Commentary

Domestic equities, as measured by the S&P 500 Index, rose 12.0% in 2016. By comparison, the All Cap Value portfolio was up 14.2% over the same period (gross of fees). *For detailed performance data and disclosures see: <http://www.confluenceinvestment.com/products-performance/equity-strategies>*

The portfolio holdings with the largest positive contributions to performance in 2016 were MSC Industrial Direct, Broadridge Financial and Black Knight Financial. The worst performing holdings were Express Scripts, Allergan and Morningstar. Two portfolio holdings were acquired by other companies during the year, FEI Company and Precision Cast Parts, while a third, NXP Semiconductors, is in the process of being acquired with an expected closing date this year. Bed Bath & Beyond and Landstar were sold from the portfolio in the fourth quarter.

2016 was quite a year as several major events took place that largely confounded consensus expectations. Markets spent the initial part of the year pricing in a recession that never actually materialized. Then came the U.K.'s referendum to leave the European Union, which few had expected. The year ended with the U.S. presidential election going to Donald Trump (the long shot) followed by a strong rally in equities (also unexpected under a Trump-win scenario). All the while, we had global debt markets wading deeper into negative interest rate territory and U.S. monetary policy coming in slightly more

hawkish than expected, neither of which hurt equity markets (also a non-consensus outcome). 2016 was no doubt a year to remind us all that markets are difficult to predict. Importantly, this acknowledgement is fundamental to our investment philosophy. It is why we demand certain characteristics of the companies we invest in, such as financial flexibility, sustainable competitive advantages, excess free cash flow, capable management teams with good capital allocation skills and reasonable valuations. These are all tools to help insulate companies and investors during periods of uncertainty.

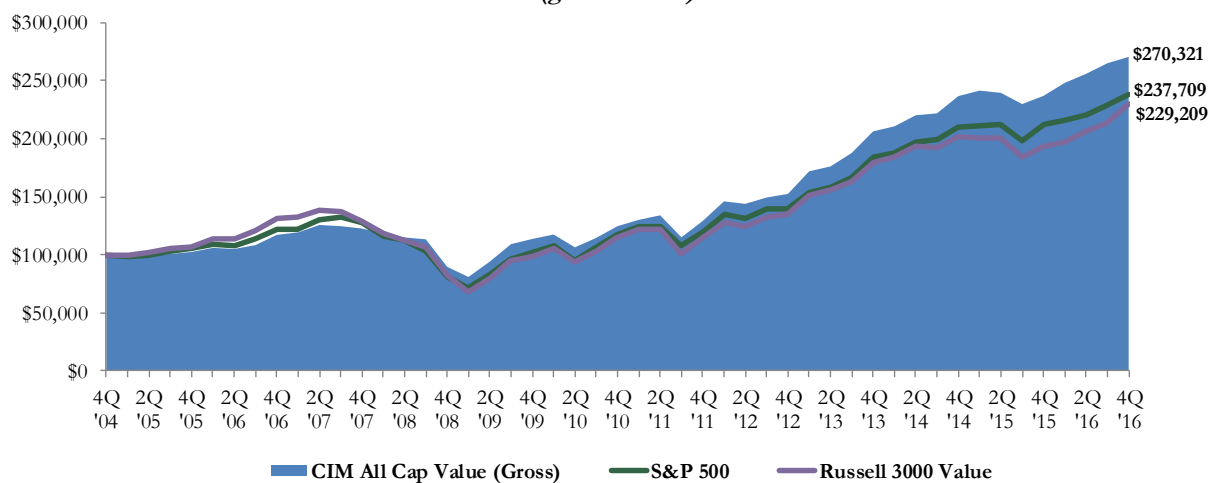
2017 will begin to shed light on what the derivative impacts from some of the 2016 surprises will be and the year will no doubt offer unexpected developments of its own. The strong post-election rally has elevated equity valuations and priced in optimism that more things will go right than wrong in the coming months regarding fiscal, monetary, tax and trade policies. We can envision a multitude of scenarios, both good and bad. As of this writing, it is the good scenarios that appear most reflected in equity valuations, but we suspect there will be periods of doubt and perhaps even pessimism as policy decisions unfold. This is typical in all administration changes and the current one looks to possess more uncertainty and unpredictably than most. Consequently, we are currently more cautious in our buying relative to our pre-election stance. Our focus will remain on individual companies and their unique investment attributes.

CIM • All Cap Value

Top 10 Portfolio Holdings (as of 12/31/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
NXP Semiconductors N.V.	33.9	3.4%
W.R. Berkley Corp.	8.1	3.4%
Black Knight Financial Services Inc.	2.6	3.3%
Stryker Corp.	44.9	3.3%
Mastercard Inc.	112.5	3.3%
American International Group, Inc.	67.1	3.3%
Berkshire Hathaway Inc (Class B)	401.7	3.3%
Allergan Inc.	78.8	3.2%
Patterson Companies Inc.	4.0	3.2%
American Express Company	67.8	3.2%

Investment of \$100,000  
(gross of fees)



Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

This 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. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable.