

## 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 estimates of 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

Equities experienced a broad sell-off during the fourth quarter of 2018 with the S&P 500 Index declining 13.5%. By comparison, the All Cap Value portfolio fell 13.6% (gross of fees) over the same period. For the year, All Cap Value was down 5.2%, while the S&P 500 was down 4.4% and the Russell 3000 Value Index was down 8.6% in 2018. *(The portfolio was down 14.2% and 8.0% (net of fees), respectively, over the same time periods. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

Energy, Technology, Industrials and Consumer Discretionary stocks were among the hardest hit during the quarter as each of these S&P 500 sectors were off a minimum of 16%. That said, the nature of the sell-off was broad-based with few areas of the market spared. The Utilities sector was the only sector within the S&P 500 Index with a positive return for the quarter.

Several issues that had been largely ignored by the market through the third quarter of the year came to the forefront during the fourth quarter. These included 1) the pace and degree of monetary tightening, 2) trade policies, 3) Brexit, and 4) the outlook for global growth. Although we appreciate that heightened volatility, especially after a long absence, can create anxiety for our clients, we believe there is a healthy component to the broad-based sell-off that took place. An environment where investors are worried about the potential risks to investing rather than the prospect for gains is inherently safer as it lowers current valuations and therefore improves longer term returns.

Notably, despite softened activity in some of the more interest rate sensitive areas of the economy, such as automotive and housing, the domestic economy is growing and we remain encouraged that growth will

continue in 2019, even if at a slower pace than 2018. Further, although the unemployment rate remains near record lows and wages are growing at the fastest pace since the recovery began, inflation remains subdued and the excesses typically found in late cycle economies are largely absent, save for certain areas of credit. With the majority of U.S. stocks now in correction territory, we would not rule out the prospect for higher portfolio turnover in the coming months as we look to take advantage of new opportunities.

Two new purchases were made in the All Cap Value portfolio during the quarter, Brookfield Asset Management and FrontDoor, Inc.

Brookfield is a globally diversified asset manager that operates and invests with a value orientation. The company has an extensive network of investment professionals that enables it to take controlling positions in most of its investments, which are focused in real estate, renewable energy, infrastructure and competitively advantaged businesses. Investments tend to be made during periods of stress within a particular asset class or geography as the company prefers to invest in hard-to-replace physical assets trading below replacement costs. Brookfield has a long and admirable track record as both an operator and a capital allocator. As it has matured, the proportion of its earnings power related to fee income from both private funds and listed partnerships has increased. This type of income tends to be more durable, especially given the type of assets the company invests in, and therefore we felt it was undervalued. We believe the company's durable fee income is reaching an inflection point, which resulted in its addition to the portfolio.

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**Portfolio Commentary continued...**

FrontDoor, a company that was recently spun-out from ServiceMaster, provides home warranty plans that cover most home appliances and HVAC systems. The company's product offerings most familiar to the public are typically warranties purchased during the home-buying process to cover the purchased home's appliances and systems during the first year of ownership. However, the use cases for FrontDoor's products actually go beyond the transactional real estate market and we believe the company will improve upon its leadership position in the home warranty industry. The business generates ample cash flow with negative working capital attributes and very low capital requirements to sustain growth. The company's primary competitive advantages are its network of repair specialists and its deep penetration into real estate agent networks. In our view, the company was generally run for cash while it was part of the larger ServiceMaster. As such, we see opportunities for the company to accelerate growth and markedly improve its IT systems, which will allow the company to conduct dynamic pricing, expand its product offering and better target potential customers. Over time, we believe the company can expand its operating margins with these investments, and we took advantage of the recent spin-out to add shares to the portfolio.

The purchases of Brookfield and FrontDoor were financed by selling American Express and redeploying cash that had been raised earlier in the year with the sales of Varian Medical and CH Robinson. The decision to sell American Express was primarily driven by our view that shares of Brookfield possessed better potential.

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Starbucks Corporation	2.75	0.31
Diageo plc	3.08	0.05
PepsiCo, Inc.	2.83	(0.03)
American Express Company	0.25	(0.09)
Berkshire Hathaway Inc. (Class B)	3.71	(0.16)
<b>Bottom 5</b>		
Allergan plc	2.37	(0.78)
FrontDoor Inc.	2.12	(0.30)
Gates Industrial Corporation plc	2.86	(1.08)
Schlumberger Ltd.	1.86	(0.87)
Spectrum Brands Holdings, Inc.	2.08	(1.06)

*(Contribution data shown from a sample account)*

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. 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. 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 and Russell 3000 Value 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.

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### 10 Largest Portfolio Holdings (as of 12/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Mastercard Inc.	194.9	3.6%
Berkshire Hathaway Inc. (Class B)	502.6	3.6%
FrontDoor Inc.	2.2	3.6%
Diageo plc	86.1	3.5%
Thermo Fisher Scientific Inc.	90.1	3.5%
Johnson & Johnson	346.1	3.5%
Morningstar, Inc.	4.7	3.4%
Black Knight, Inc.	6.7	3.4%
W. R. Berkley Corporation	9.0	3.3%
Lowe's Companies, Inc.	74.2	3.3%

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 12/31/18

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value
QTD	(13.6%)	(14.2%)	(13.5%)	(12.2%)
YTD	(5.2%)	(8.0%)	(4.4%)	(8.6%)
1-Year	(5.2%)	(8.0%)	(4.4%)	(8.6%)
3-Year*	7.8%	4.6%	9.2%	7.0%
5-Year*	7.5%	4.4%	8.5%	5.8%
10-Year*	12.7%	9.4%	13.1%	11.1%
Since Inception**	8.1%	4.9%	7.5%	6.4%

#### Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

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. 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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 of all market capitalizations.

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

	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
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%
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%
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%
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%
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%
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%
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%
2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	\$14,294	\$937,487	18.4%	18.7%	21.0%	0.6%
2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	\$13,980	\$751,909	21.0%	21.9%	23.5%	0.5%
2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	\$11,558	\$533,832	18.6%	19.6%	21.3%	2.8%
2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	\$1,778	\$291,644	13.9%	15.1%	15.5%	N/A
2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	\$27,835		6.9%	7.7%	8.3%	0.7%
2006	14.4%	11.3%	15.8%	22.3%	(1.4%)	224	\$26,916		N/A	N/A	N/A	0.6%
2005	2.4%	(0.4%)	4.9%	6.9%	(2.5%)	242	\$27,603		N/A	N/A	N/A	0.5%

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.

#### 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.

#### 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. The Confluence team has more than 500 years of combined financial experience and 300 years of portfolio management experience.