

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 finished the year strong with the S&P 500 and Russell 3000 Value Indexes gaining 9.1% and 7.5%, respectively, in the fourth quarter, while the All Cap Value strategy rose 7.0% (gross of fees). Fourth quarter gains added to already robust year-to-date returns and drove indexes to their second-best year since the great recession. For the year, the S&P 500, Russell 3000 Value and Confluence All Cap Value gained 31.5%, 26.2% and 35.6% (gross of fees), respectively. *(The strategy was up 6.2% QTD and 31.6% 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.)*

When 2019 began, few could have expected the year that unfolded. Stocks had ended 2018 under notable pressure, the economy showed early signs of stalling and the Federal Reserve was tightening monetary conditions. However, in the first quarter the Fed opted to remove its tightening bias and halt further rate hikes, which helped drive strong equity returns and erase much of the December 2018 rout. Stocks continued to move higher largely fueled by accommodative monetary policies globally but tempered by concerns over trade negotiations and the potential impact on future economic growth. By the fourth quarter, evidence that earlier stimulus by foreign players was helping to stabilize their economies raised optimism that the global economy may not be solely dependent on the U.S. consumer, as had been the case for the better part of a year. This optimism was further supported by news that the Trump administration was making progress in trade discussions with China and tensions were unlikely to escalate further in the near term.

Looking forward, the Fed appears intent on extending the current business cycle. Recent comments suggest it is willing to let business conditions run hot and even if inflation were to pick up it would initially be viewed as transitory. While that stance may be challenged in the quarters ahead, inflation and inflation expectations are currently muted and provide the Fed with latitude to keep rates low.

Soft landings are rare; whether the Fed engineered one in 2019 is yet to be seen. As such, we enter 2020 much as we have every year since the recovery began roughly 10 years ago—conflicted by a bevy of concerns along with reasons for optimism. Over many years, including those predating the inception of Confluence, our investment team has learned the futility in trying to divine the course of stock prices in any given year. Rather, we focus on individual companies, their unique growth prospects, competitive positioning, financial characteristics and valuations. We continue to find opportunities to deploy capital and look forward to the next decade.

During the quarter we added Progressive Corp., a leading auto insurance provider, funded by the sales of American International Group and Schlumberger. Progressive has shown strong growth and market share gains over the past few years as rising insurance rates caused more rate-shopping among consumers. Rates leveled off in 2019 and its valuation pulled back as a result, but the company continues to see growth. Over the long term we believe Progressive will further build on its competitive advantages to gain market share and expand into additional commercial insurance markets.

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

Security	Avg Weight	Contribution
Top 5		
Cannae Holdings, Inc.	3.46	1.07
RE/MAX Holdings, Inc.	3.64	0.69
Gates Industrial Corporation plc	1.81	0.60
Microsoft Corporation	4.08	0.55
Thermo Fisher Scientific Inc.	4.43	0.51
Bottom 5		
Stryker Corporation	3.75	(0.11)
Markel Corporation	3.17	(0.12)
American International Group, Inc.	1.76	(0.15)
DuPont de Nemours, Inc.	1.61	(0.18)
U.S. Concrete, Inc.	0.92	(0.29)

(Contribution data shown from a sample account)

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 12/31/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Frontdoor, Inc.	4.0	4.1%
RE/MAX Holdings, Inc.	0.7	3.7%
Cannae Holdings, Inc.	2.9	3.7%
Black Knight, Inc.	9.6	3.5%
Thermo Fisher Scientific Inc.	130.3	3.4%
Brookfield Asset Management Inc.	58.3	3.4%
W.R. Berkley Corporation	12.7	3.3%
NXP Semiconductors N.V.	35.6	3.3%
Lowe's Companies, Inc.	91.8	3.2%
Morningstar, Inc.	6.5	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 12/31/19

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees ¹	Net-of-Fees ²	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**	9.7%	6.5%	9.0%	7.6%	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*	9.7%	6.5%	9.0%	7.6%	2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	\$27,835		6.9%	7.7%	8.3%	0.7%
					2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	\$1,778	\$291,644	13.9%	15.1%	15.5%	N/A
10-Year*	13.5%	10.1%	13.6%	11.7%	2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	\$11,558	\$533,832	18.6%	19.6%	21.3%	2.8%
					2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	\$13,980	\$751,909	21.0%	21.9%	23.5%	0.5%
5-Year*	11.2%	7.9%	11.7%	8.2%	2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	\$14,294	\$937,487	18.4%	18.7%	21.0%	0.6%
					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%
3-Year*	14.2%	10.8%	15.3%	9.3%	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%
1-Year	35.6%	31.6%	31.5%	26.2%	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%
YTD	35.6%	31.6%	31.5%	26.2%	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%
QTD	7.0%	6.2%	9.1%	7.5%	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 12/31/2018. 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 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.

¹Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

²Net 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.