Fourth Quarter

2020

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

Equity markets ended the year with strength as the S&P 500 Index and the Russell 3000 Value Index returned 12.1% and 17.2%, respectively, in the fourth quarter. News that multiple vaccines had been approved for use and would be available (in limited supply) prior to year-end drove double-digit returns in the closing weeks of the year. This final push helped broaden stock participation relative to the more narrowly focused market that had held for most of the year as vaccine news supported the notion that a more normalized economic environment could soon unfold. Nevertheless, the dramatic outperformance of the Technology and Consumer Discretionary sectors for most of the year was still evident in full-year returns as the Russell 3000 Value Index was up 2.9% for the year, while the more Technology-weighted S&P 500 Index rose by 18.4%.

This epic comeback in the markets was supported by government stimulus and an effective vaccine emerging in early November, but the real stars were the "Top Five" FAANG+ stocks. In 2020, the Top Five (Apple, Microsoft, Amazon, Google, Facebook) were up on average 53% and represented 21.7% of the S&P 500 Index at year-end. These high-quality businesses thrived during the pandemic and have become must-own stocks for most investors—much like the "Nifty Fifty" stocks in the 1970s. Due to the heavy weighting of the Top Five, the S&P 500 Index returned 18.4% in 2020 versus the 12.8% return for the S&P 500 Equal-Weight Index, which is a better indicator of how stocks performed on average in 2020. This bifurcation between the top growth stocks and everything else is even more evident in the Russell 3000 Growth Index, which returned 38.3% in 2020 and outperformed the Russell 3000 Value by 35.4%!

As the economy improves, investors could shift from their concerns, which seem to be focused on lockdown risk, and diversify, which will broaden the market. For the quarter, the equity market strength can be attributed to growing optimism surrounding the successful development of vaccines which will accelerate herd immunity and allow for a return to normal sooner rather than later. While the path is unlikely to be smooth, the stimulus provides the bridge to economic recovery and ultimately expansion as society gradually normalizes. Equities began to discount these developments in the fourth quarter as evidenced by the strength and, more importantly, the broadening of the market, which helped value outperform growth during the quarter, seen in the Russell 3000 Value return of 17.2% versus 12.4% for the Russell 3000 Growth Index.

Strategy Commentary

The Confluence All Cap Value strategy was up 14.7% in the fourth quarter, bringing its full-year return to 17.2% (both gross of fees). [*Net-of-fees returns for the same periods were +13.9% QTD and +13.8% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

In comparison to the benchmarks, All Cap Value's top contributing sectors during 2020 were also Technology and Consumer Discretionary. These were, however, also the sectors responsible for the biggest underperformance of the portfolio relative to the S&P 500 Index. The sectors that performed best within this portfolio relative to the S&P 500 were Health Care and Financials. It's worth pointing out that our exposure to Financials does not include any banks, but rather our holdings in the sector tend to have above-average returns on capital and defined niches that are less exposed to net interest income and or loan losses. In a rising rate environment, it's possible our current Financials exposure would underperform those institutions, like banks, that benefit from a widening interest rate spread. We have owned banks in this portfolio in the past and will likely own them again as we do believe some differentiation exists within the banks and some can generate attractive returns on equity in a sustained fashion. That being said, our preference will always be to own assets where management has more control over the variables affecting their business. For banks, the interest rate environment will always be a significant yet uncontrollable aspect in determining their earnings power.

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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...

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.

On a security level, the top contributors for the year were Hexagon, Microsoft, Black Knight, Morningstar, and Thermo Fisher Scientific. Hexagon shares responded to improving business conditions in China, the company's largest market, and optimism over broadening demand drivers for the company's products and services. Microsoft performed well during the year given its strong positioning in a remote working environment and continued market share gains within its cloud offerings. Black Knight, the leading provider of software used to originate and service mortgages, is benefiting from a strong backdrop for housing and refinancing activity. We are also optimistic regarding management's ability to allocate capital in a way that broadens the capabilities of the platform in an accretive manner. Morningstar's strength was likely attributable to the consistency and durability of its business model as well as strong growth from newer products and expense leverage. Thermo Fisher Scientific, as the leader in laboratory products and life science solutions, found itself squarely in the middle of the rush to find vaccines and therapies for COVID-19.

Regarding the year's weakest contributors, three of these positions, Spectrum Brand Holdings, MSC Industrial Direct, and Alaska Air, were sold early in the pandemic to make room for what we perceived to be better buying opportunities and/or businesses better suited to cope with the unknowns we faced at the time. Examples of replacement names include Charles River Laboratories, Nordson, and IHS Markit.

As for Kinder Morgan, although it performed slightly better than the Energy sector overall in 2020, that was of little consequence as the Energy sector (as measured by the S&P 500) fell nearly 37% for the year. Lastly, Markel's business fundamentals were relatively strong this year. We believe the underperformance in its share price is largely related to frustration over a prior acquisition that has not been successful and has diluted the otherwise strong performance elsewhere at the company. In our opinion, the financial impact from this deal is largely behind the company and sentiment toward the stock should improve as management continues to do well blocking and tackling within its core business.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Morningstar, Inc.	3.50	1.37
Frontdoor, Inc.	3.62	0.98
Hexagon AB	3.65	0.75
Starbucks Corporation	3.08	0.74
Brookfield Asset Management Inc.	3.03	0.72
Bottom 5		
Brown & Brown, Inc.	2.62	0.13
Nordson Corporation	2.33	0.12
Black Knight, Inc.	5.33	0.10
Dow Inc.	0.50	0.10
Lowe's Companies, Inc.	3.98	(0.13)

The top contributors and detractors for the full year:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Hexagon AB	2.79	2.09
Microsoft Corporation	4.15	1.89
Black Knight, Inc.	4.98	1.71
Morningstar, Inc.	3.15	1.65
Thermo Fisher Scientific Inc.	3.91	1.62
Bottom 5		
Markel Corporation	2.77	(0.51)
Alaska Air Group, Inc.	Sold	(0.55)
MSC Industrial Direct Co., Inc.	Sold	(0.68)
Spectrum Brands Holdings, Inc.	Sold	(1.01)
Kinder Morgan, Inc.	2.12	(1.03)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

We have always taken a pragmatic approach which strives to temper emotions by focusing on the underlying businesses and what they are worth. The objective is to own competitively advantaged businesses that are conservatively financed, cash generative, and guided by good stewards. Such underlying attributes tend to fortify a company, enabling it to withstand difficult economic environments. The reason we confine our investable universe to this type of company is precisely because we live in an uncertain world that is difficult to predict with precision, let alone consistency. The events of 2020 are the most recent reminders of that.

Our task is to construct a portfolio of businesses that we believe have the wherewithal to survive the inevitable downturns, while providing ample opportunities to grow and expand over time. By most accounts it looks like a recovery is underway and poised to gain steam as vaccine distribution accelerates and disrupted supply chains regain efficiency. Continued loose monetary policy and elevated household savings rates further support an economic recovery in 2021. As always, we're grateful for the trust and confidence you've placed in our team.

10 Largest Holdings (as of 12/31/20)

Company	Market Capitalization ($ billions)	Portfolio Weight
Hexagon AB	32.1	4.2%
Morningstar, Inc.	9.9	4.2%
Cannae Holdings, Inc.	4.1	3.6%
Frontdoor, Inc.	4.3	3.6%
Black Knight, Inc.	13.9	3.5%
Lowe's Companies, Inc.	117.6	3.5%
NXP Semiconductors N.V.	44.5	3.5%
Graco Inc.	12.1	3.4%
The Progressive Corporation	57.9	3.4%
Starbucks Corporation	125.6	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. 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 12/31/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R3000 Value
Since Inception**	10.2%	7.0%	9.6%	7.3%
15-Year*	10.7%	7.5%	9.9%	7.3%
10-Year*	14.2%	10.9%	13.9%	10.4%
5-Year*	14.8%	11.4%	15.2%	9.7%
3-Year*	14.7%	11.3%	14.2%	5.9%
1-Year	17.3%	13.8%	18.4%	2.9%
YTD	17.3%	13.8%	18.4%	2.9%
QTD	14.7%	13.9%	12.1%	17.2%

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

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
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%
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
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%
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%
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%
2020	17.3%	13.8%	18.4%	2.9%	(1.1%)	953	$333,804	$6,889,798	18.5%	18.5%	20.0%	0.9%

Portfolio Benchmarks

S&P 500® Index – A capitalization-weighted index of 500 stocks 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 Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2019. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.
Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
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The All Cap Strategy was incepted 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.
[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.
[2] 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. 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. Top 5 contributors/detractors reflects the strategy's best and worst performers, based on each holding's contribution to the sample account for the period stated. 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.*