

Specialty Finance BDC • Alternative Investment Strategies

The Specialty Finance BDC strategy is focused on a niche of the financial sector known as business development companies, or BDCs. BDCs lend to and invest in the private debt and equity markets. The majority, if not all, of the portfolio holdings are in BDCs, typically involving 20-30 positions with a moderate level of turnover. This strategy is appropriate for clients seeking alternative investment exposure to the private markets, one that involves high levels of income from an equity portfolio with above-average volatility. Most of the portfolio income will be in the form of non-qualified dividends.

Strategy Commentary

The Specialty Finance BDC strategy had a total return of 5.2% (gross of fees) in the third quarter of 2020 compared to the Wells Fargo BDC Index benchmark total return of 4.7%. Year-to-date through the end of the third quarter, the Confluence BDC strategy total return was -23.3% (gross of fees), which was also higher than the benchmark level of -24.3%. *[Net-of-fees returns for the same periods were +4.4% QTD and -25.0% YTD. See disclosures on p.2 for fee description; actual investment advisory fees may vary.]*

Although BDC investors experienced significant volatility in the first half of 2020, conditions stabilized in the third quarter. Valuations were generally steady, although they remained well below long-term historical trends. We believe low valuations reflect the uncertainty of how the COVID-19 pandemic may affect BDC loans. We're still in the early phase of the pandemic-induced credit cycle, but trends are beginning to emerge that provide a measure of guidance regarding possible outcomes.

BDCs lend to small and mid-sized businesses, which generally have fewer financial resources to handle unexpected challenges. They may also be less diversified in products, services, customers and geography. At the same time, smaller companies also may have more flexibility and adaptability. Thus far, we've witnessed all these factors at play in BDC loan portfolios. Some businesses are struggling and need a measure of help from their lenders, while others are surviving, biding time until conditions improve. And, in certain instances, some businesses are actually thriving.

Altogether, BDC loan metrics are showing an elevation in credit stress, but on the whole are holding up pretty well. There is a broad range of outcomes forming across the industry and we believe our focus on BDCs led by experienced, high-quality managers should provide helpful distinctions in return and risk. These BDCs entered the COVID-19 era with less credit risk and stronger balance sheets relative to the broader industry. We expect these BDCs to experience fewer problems in their loan portfolios, while also being opportunistic in the middle market.

It is unfortunately not possible to know how long the economic consequences of the coronavirus pandemic may last, and BDC valuations may remain lower until we have better clarity. The good news is that the resilience of the BDC structure allows for ongoing dividend distributions that contribute significantly to total return, even if stock prices don't appreciate. Accordingly, investors can collect a high level of income from BDC investments, even as they await the end of the pandemic and all its related uncertainty.

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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5 Largest Holdings (as of 9/30/20)

| Company | Market Capitalization (\$ billions) | Portfolio Weight |
|--------------------------------------|--|------------------|
| Sixth Street Specialty Lending, Inc. | 1.2 | 7.1% |
| Ares Capital Corporation | 5.9 | 7.0% |
| Barings BDC, Inc. | 0.4 | 6.8% |
| Solar Capital Ltd. | 0.7 | 6.8% |
| New Mountain Finance Corporation | 1.7 | 6.6% |

The listing of "5 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. 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 ¹ | Net-of-Fees ² | Benchmark (WFBDC) | Calendar Year | Pure Gross-of-Fees ¹ | Net-of-Fees ² | Benchmark (WFBDC) | Difference (Gross-WFBDC) | # of Portfolios | Composite Assets (000s) | Total Strategy Assets (000s) ^{***} | Total Firm Assets (000s) | Composite 3yr Std Dev | Benchmark 3yr Std Dev | Composite Dispersion |
|-------------------|---------------------------------|--------------------------|-------------------|---------------|---------------------------------|--------------------------|-------------------|--------------------------|-----------------|-------------------------|---|--------------------------|-----------------------|-----------------------|----------------------|
| Since Inception** | 5.5% | 2.4% | 5.0% | 2011** | 1.1% | 0.9% | (0.7%) | 1.8% | 1 | \$104 | \$6,645 | \$937,487 | N/A | N/A | N/A |
| 5-Year* | 4.1% | 1.0% | 3.1% | 2012 | 27.9% | 24.1% | 34.5% | (6.6%) | 1 | \$133 | \$34,748 | \$1,272,265 | N/A | N/A | N/A |
| 3-Year* | (3.5%) | (6.3%) | (4.5%) | 2013 | 15.8% | 12.4% | 16.3% | (0.5%) | 2 | \$1,459 | \$42,929 | \$1,955,915 | N/A | N/A | N/A |
| 1-Year | (20.7%) | (23.0%) | (21.5%) | 2014 | (4.4%) | (7.2%) | (7.8%) | 3.4% | 18 | \$3,644 | \$51,015 | \$2,589,024 | 9.7% | 11.4% | 0.0% |
| YTD | (23.3%) | (25.0%) | (24.3%) | 2015 | (3.3%) | (6.2%) | (4.1%) | 0.8% | 25 | \$4,621 | \$51,912 | \$3,175,419 | 12.0% | 12.7% | 0.3% |
| QTD | 5.2% | 4.4% | 4.7% | 2016 | 22.1% | 18.4% | 24.4% | (2.4%) | 21 | \$3,857 | \$64,970 | \$4,413,659 | 13.1% | 13.7% | 0.8% |
| | | | | 2017 | 0.9% | (2.1%) | 0.1% | 0.8% | 19 | \$2,905 | \$55,878 | \$5,944,479 | 12.4% | 13.6% | 0.3% |
| | | | | 2018 | (1.7%) | (4.6%) | (6.6%) | 4.8% | 24 | \$3,702 | \$54,037 | \$5,486,737 | 11.1% | 12.9% | 0.2% |
| | | | | 2019 | 25.0% | 21.3% | 27.3% | (2.3%) | 35 | \$7,179 | \$57,964 | \$7,044,708 | 10.9% | 13.1% | 0.5% |

*Average annualized returns

**Inception is 12/1/2011

Portfolio Benchmark

Wells Fargo BDC Index – A total return index that measures the performance of all Business Development Companies (BDCs) listed on the NYSE or NASDAQ that satisfy market capitalization and other eligibility requirements. (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 Specialty Finance BDC strategy was inceptioned on December 1, 2011, and the current Specialty Finance BDC Composite was created on February 1, 2013. 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. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 1.00% on the first \$500,000; 0.90% on the next \$500,000; and 0.75% 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. Subsequent to February 1, 2013, bundled fee accounts make up 100% of the composite. 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.

Performance prior to February 1, 2013, is based on the Specialty Finance BDC–Direct Composite which was created on December 1, 2011. The Specialty Finance BDC–Direct composite includes accounts that pursue the Specialty Finance BDC strategy, but do not have bundled fees. Gross returns from the Specialty Finance BDC–Direct composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

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 Specialty Finance BDC Composite contains fully discretionary Specialty Finance BDC wrap accounts. The Specialty Finance BDC portfolio invests primarily in Business Development Companies (BDCs) to earn current income with potential long-term capital appreciation.

Results shown for the year 2011 represent partial period performance from December 1, 2011, through December 31, 2011. *Total Strategy Assets are shown as supplemental information.

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.

A BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or private debt fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. BDCs may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income may fall if the interest rate on any borrowings rises.

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 Wells Fargo BDC Index is shown as additional information. This index is unmanaged. An investor cannot invest directly in an index. It is shown for illustrative purposes only & does not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.