Specialty Finance BDC

Alternate Investment Strategies

Confluence INVESTMENT MANAGEMENT

Third Quarter 2026

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, and most of the portfolio income will be in the form of non-qualified dividends. 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.

Market & Strategy Commentary

The Confluence Specialty Finance BDC strategy was up 1.7% (gross of fees) in the third quarter of 2026 compared to the benchmark's return of 2.4%. Year-to-date, the strategy is down 5.2% (gross of fees) and the benchmark also declined 3.1%. Over multiyear periods, the strategy's gross returns have been roughly in line with the benchmark, yet with lower volatility. [*The strategy's net-of-fees returns for the same periods were +0.9% QTD and -7.4% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

In the third quarter, BDC valuations remained steady, continuing a trend from the second quarter. The 2025 narrative that a private credit bubble would burst carried into the early part of 2026, but that theme has largely dissipated as the private credit market has remained stable. The transition away from this fear set the stage for BDC valuations to stabilize, even as they remain well below long-term averages.

Generally speaking, investors expect stocks with higher dividend yields to experience downward pressure on valuations when interest rates rise, and vice versa. However, because BDC investments are predominantly in floating rate loans, BDC income can actually increase during periods of rising interest rates, creating a characteristic that can turn that relationship around. This distinction is notable given that the Fed began raising interest rates in September.

With relatively stable valuations, most of the total return in the third quarter was derived from BDC dividend distributions, which remained substantial. Some BDCs have lowered their dividends in recent quarters, reflecting their declining income as the Fed cut rates over the past year. However, others have successfully navigated the lower-rate environment and maintained their dividends. These include four of the portfolio's five highest contributors to return for the third quarter: Hercules, Main Street, Ares, and Barings. The fifth, Sixth Street, lowered its dividend but has a long history of delivering some of the industry's highest returns. These BDCs continue to underwrite loans and manage their businesses in ways that benefit shareholders.

BDCs detracting from return in the third quarter included Crescent, MidCap, Morgan Stanley Direct Lending, Kayne Anderson, and Bain Capital. Operating fundamentals at these companies were generally stable, although Crescent and MidCap are still working through strategic initiative transitions whose benefits have not yet been fully realized. We expect fundamentals for these companies to improve, although their depressed valuations are likely to persist until they show substantive progress. On the upside, their elevated dividend yields present an opportunity to capture returns while the progress unfolds.

We continue to believe BDCs offer a unique and attractive opportunity for investors. With the Fed shifting to tighter policy, BDCs should experience less downward pressure on earnings. Furthermore, middle market lending volume is poised to rise, particularly if inflation and interest rate volatility subside. Higher middle market activity would support BDC earnings and pave the way for potentially higher income and dividends.

Contribution[1]

(QTD as of 9/30/2026)

The portfolio's top contributors and detractors for third quarter 2026 are shown in this table:

Ticker	Security	Avg Weight (%)	Contribution (%)
Top 5			
HTGC	Hercules Capital Inc.	6.55	0.59
TSLX	Sixth Street Specialty Lending Inc.	8.01	0.58
MAIN	Main Street Capital Corp.	7.19	0.56
ARCC	Ares Capital Corp.	5.21	0.30
BBDC	Barings BDC Inc.	7.13	0.29
Bottom 5			
BCSF	Bain Capital Specialty Finance Inc.	1.47	(0.12)
KBDC	Kayne Anderson BDC	2.77	(0.13)
MSDL	Morgan Stanley Direct Lending Fund	2.26	(0.15)
MFIC	MidCap Financial Investment Corp.	1.44	(0.16)
CCAP	Crescent Capital BDC Inc.	3.23	(0.42)

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

Performance Composite Returns[2] (For Periods Ending September 30, 2026)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Specialty Finance BDC *Pure Gross-of-Fees*[3]	7.9%	6.8%	4.7%	3.7%	(3.9%)	(5.2%)	1.7%
Max Net-of-Fees[4]	4.7%	3.7%	1.6%	0.6%	(6.7%)	(7.4%)	0.9%
MVIS US BDC Index (MVBIZDTG)	7.8%	6.5%	5.4%	4.0%	(2.1%)	(3.1%)	2.4%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	Benchmark (MVBIZDTG)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Strategy Assets (000s)***	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2011**	1.1%	0.9%	(0.7%)	1.8%	1	$104	$6,645	$937,487	N/A	N/A	N/A
2012	27.9%	24.1%	34.5%	(6.6%)	1	$133	$34,748	$1,272,265	N/A	N/A	N/A
2013	15.8%	12.4%	16.3%	(0.5%)	2	$1,459	$42,929	$1,955,915	N/A	N/A	N/A
2014	(4.4%)	(7.2%)	(7.8%)	3.4%	18	$3,644	$51,015	$2,589,024	9.7%	11.4%	0.0%
2015	(3.3%)	(6.1%)	(4.1%)	0.8%	25	$4,621	$51,912	$3,175,419	12.0%	12.7%	0.3%
2016	22.1%	18.5%	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%
2020	(6.8%)	(9.6%)	(11.2%)	4.4%	33	$6,782	$27,280	$6,889,798	31.6%	30.8%	1.0%
2021	32.0%	28.1%	36.4%	(4.5%)	38	$9,856	$20,805	$7,761,687	31.4%	30.5%	0.7%
2022	(10.2%)	(12.9%)	(8.6%)	(1.7%)	42	$9,231	$18,086	$6,931,635	33.2%	32.7%	0.3%
2023	25.8%	22.1%	27.3%	(1.5%)	42	$10,797	$13,104	$7,200,019	16.1%	17.6%	0.5%
2024	13.2%	9.8%	13.7%	(0.6%)	45	$11,907	$16,214	$7,280,773	14.9%	16.5%	0.3%
2025	(0.7%)	(3.7%)	(3.5%)	2.8%	55	$12,623	$17,185	$6,769,052	11.6%	11.7%	0.2%

**Average annualized returns* ***Inception is 12/1/2011* ****Total Strategy Assets are shown as supplemental information.*

See performance disclosures on last page.

Portfolio Benchmark

MVIS US Business Development Companies Index (MVBIZDTG) – AA total return index that measures the performance of the largest and most liquid companies which are classified as BDCs in the U.S. The index is reviewed on a quarterly basis, is modified float market cap-weighted, and the maximum component weight is 20%. (*Source: Bloomberg*)

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Disclosures

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Index: The MVIS US 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.

[1] **Contribution—**Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated. Individual holding performance and contribution methodology can be obtained by contacting Confluence.

[2] **Performance Composite Returns—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, 2025. 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 Specialty Finance BDC strategy was incepted 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 US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

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

[4] 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: 0.80% on the first $500,000; 0.70% on the next $500,000; and 0.60% 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. 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 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.

The benchmark was changed prospectively starting 7/1/2021 as the prior benchmark, the Wells Fargo BDC Index (WFBDC), was discontinued in July 2021.

**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.