FOURTH QUARTER

2022

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.

Market & Strategy Commentary

The Confluence Specialty Finance BDC strategy had a total return of 9.1% (gross of fees) in the fourth quarter of 2022, which was below the benchmark total return of 10.9%. For the year, the strategy gross return was -10.2%, also below the benchmark total return of -8.6%. Across multi-year time frames, gross portfolio returns are in line with or higher than the benchmark. [*The strategy's net-of-fees returns for the same periods were 8.3% QTD and -12.9% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

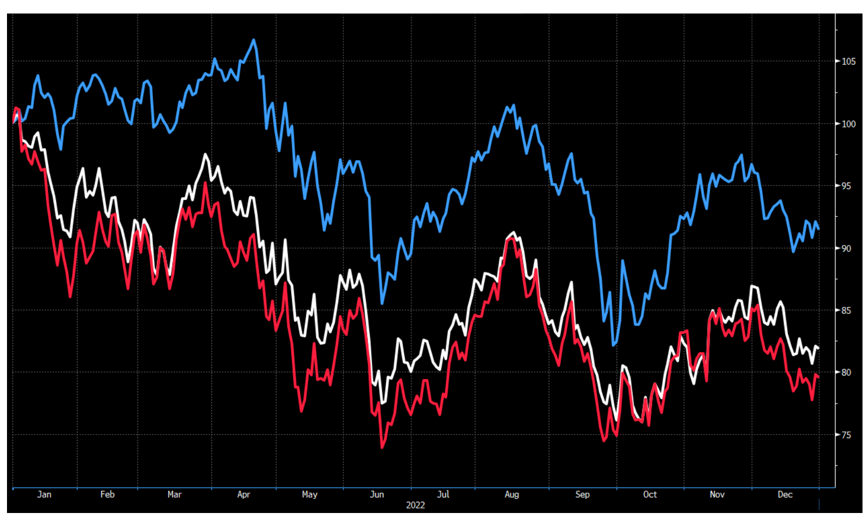
Improving news on the inflation front benefited a wide range of markets in the fourth quarter. Stocks, bonds, and a variety of other asset classes delivered positive returns to conclude what was a generally negative year for many investments. Although the improvement in inflation was only at the margin, it opened the door for the Fed to perhaps end its tightening cycle a bit sooner than anticipated. BDCs and other stocks in the Financials sector participated in the positive sentiment and delivered higher returns in the fourth quarter than many other equity asset classes (see accompanying table).

Total Return	Q4 2022	2022
S&P 500	7.5%	(18.1%)
S&P 500 Financials	13.6%	(10.6%)
Russell 2000	6.2%	(20.5%)
S&P Small Cap Financials	7.1%	(14.1%)
MVIS U.S. BDC Index	10.9%	(8.6%)

(Source: Bloomberg, Confluence)

In this chart, we normalize and compare the total return trends for BDCs (blue), the S&P 500 Index (white), and the Russell 2000 Index (red) for of the full year 2022. It's apparent that all three indexes often followed broad trends together, reflecting a common response among equities to inflation and Fed policy. However, BDCs not only outperformed in returns, but also experienced lower volatility throughout most of the year, often by a significant amount. In fact, on a total return basis, the median 90-day volatility in 2022 for BDCs was 23.3%, whereas it was 28.5% and 24.9% for the Russell 2000 and S&P 500, respectively. So, despite having a small capitalization profile and lacking broad sector diversification, BDCs delivered better returns with less risk in 2022 relative to small and large cap equities.

Q4 2022 Performance of BDCs, S&P 500, and Russell 2000



(Source: Bloomberg)

Market & Strategy Commentary continued...

On a more granular level, larger return contributions in the fourth quarter came from positions in Blackrock TCP, SLR, Sixth Street, Hercules, and Ares. Because these positions were larger, so too were their contributions to the portfolio; however, each of these names experienced a substantial increase in valuation during the quarter. On the other hand, the smallest (or negative) return contributions came from Blackstone, TriplePoint, the Goldman Sachs BDC, Trinity, and Crescent; they represent smaller positions in the portfolio, but these BDCs also experienced declines in valuation. Valuation changes during the quarter were somewhat disconnected from operating fundamentals, which remained strong in the portfolio. Of these 10 portfolio positions, seven increased their quarterly distribution in December, five paid special dividends, and none reduced their dividends. [*See contribution data on the next page.*]

Looking forward, a recession is broadly anticipated in 2023 and we share that expectation. Still, there is a wide range of thoughts regarding the severity and length of the recession, as well as how the credit cycle will unfold. From our perspective, it appears that the recession is unlikely to be severe, given the strength of the labor markets. We also don't expect severe default rates in corporate credit because the pandemic helped keep lending standards from becoming too loose. Against this backdrop, we believe BDC loan portfolios should fare reasonably well, even if a recession does unfold. Still, we remain mindful of credit trends because BDC borrowers tend to be small- to mid-sized companies with higher levels of debt. A recession could adversely affect their revenue and profit margins, which would cause BDC loan problems to rise.

We believe one of the better ways for BDC investors to address recessions, negative credit cycles, and broad equity market volatility is to focus on BDCs led by high-quality managers with track records of delivering good results throughout cycles. We view these managers as "all weather tires," suitable for most conditions. One of the benefits derived from this posture in 2022 was a meaningful growth in income earned and dividends paid by BDCs held in the portfolio. Most of these BDCs increased their quarterly distributions and/or paid special dividends. Given current operating fundamentals, we believe most of these BDCs should be able to maintain their distribution levels in coming quarters.

We remain optimistic for positive results from the Specialty Finance BDC strategy, even as a measure of caution is merited, given the likelihood of a recession. We believe experienced BDC managers can take advantage of dislocations in the credit and financial markets, while also managing credit risk in the private debt markets. It is our view that the income and gains from BDCs should remain differentiated relative to the broader equity and bond markets, providing important diversification to investors where income is an objective.

Contribution[1]

(QTD as of 12/31/2022)

The top contributors and detractors for the portfolio in Q4 2022 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
BlackRock TCP Capital Corp.	6.08	1.21
SLR Investment Corp.	6.19	0.93
Sixth Street Specialty Lending Inc.	7.04	0.82
Hercules Capital Inc.	4.36	0.77
Ares Capital Corp.	5.93	0.74
Bottom 5		
Blackstone Secured Lending Fund	4.41	0.10
TriplePoint Venture Growth BDC Corp.	2.24	0.03
Goldman Sachs BDC Inc.	5.55	(0.16)
Trinity Capital Inc.	2.14	(0.17)
Crescent Capital BDC Inc.	1.53	(0.22)

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

Performance Composite Returns[2] (For Periods Ending December 31, 2022)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Specialty Finance BDC *Pure Gross-of-Fees[3]*	7.9%	6.0%	6.3%	3.4%	(10.2%)	(10.2%)	9.1%
Max Net-of-Fees[4]	4.7%	2.8%	3.1%	0.3%	(12.9%)	(12.9%)	8.3%
MVIS U.S. BDC Index (MVBIZDTG)	7.6%	5.4%	5.7%	3.5%	(8.6%)	(8.6%)	10.9%

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%)	(6.2%)	(4.1%)	0.8%	25	$4,621	$51,912	$3,175,419	12.0%	12.7%	0.3%
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%
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%

**Average annualized returns*

See performance disclosures on last page.

***Inception is 12/1/2011*

Portfolio Benchmark

MVIS U.S. Business Development Companies Index (MVBIZDTG) – A 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)*

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

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Disclosures

Market & Strategy Commentary—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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results.

Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including possible loss of principal, that investors should be prepared to bear. Equity securities are subject to market risk and may decline in value due to adverse company, industry, or general economic conditions. 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 MVIS U.S. Business Development Companies 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, 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. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

[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, 2021. 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 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.

[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: 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. 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. **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.