



Market Commentary

Value Equity Strategies



“The world is not driven by greed; it’s driven by envy...avoiding envy is one of the simple secrets to living a long and happy life.”

First Quarter 2026

– Charlie Munger (former Berkshire Hathaway vice chairman), who lived to be 99 years old

It’s been a volatile start to the year as a number of unfolding events have weighed on investor sentiment – from the stunning capture of Venezuelan President Maduro, to the Supreme Court’s invalidation of the administration’s tariffs under the International Emergency Economic Powers Act (IEEPA), to the nomination of perceived hawk Kevin Warsh to succeed Fed Chair Jerome Powell, to the joint US-Israel strikes on Iran causing major disruptions in key channels for oil shipping, to emerging cracks in the private credit market, and, finally, growing anxiety over AI’s impact on certain business segments. Despite the wide-ranging domestic, geopolitical, and economic events, the broad markets were essentially flat through February as economic strength was broadening. Even with a sharp pullback following the Iranian bombing on the weekend of February 28, the S&P 500 ended down only a few percentage points for the quarter. More importantly, underlying all of this turbulence was a continuation of the market rotation that began in the latter part of 2025.

Figure 1

The rotation appears to be widening market leadership toward more “old world” businesses, while mega-cap technology-oriented businesses are experiencing declines. These AI/technology-related businesses have dominated equity markets for the past number of years but have recently shed several trillion dollars of market value. As these names retreat and the market broadens, the first quarter saw continued outperformance from value over growth, small caps over large, international markets over domestic, and asset-intensive industries over asset-light ones (see Figure 1).

	Q1 2026	10/31/25 - 3/31/26
Russell 1000 Value	2.10%	5.52%
Russell 1000 Growth	(9.78%)	(11.96%)
Russell 2000	0.89%	1.27%
Russell 1000	(4.18%)	(3.94%)
MSCI EAFE (Net)	(1.24%)	2.35%
S&P 500	(4.33%)	(4.06%)
S&P 500 Equal Weight	0.67%	3.04%
Magnificent 7 (average)	(12.11%)	(12.93%)

(Sources: Confluence, FactSet, Bloomberg, FTSE Russell, S&P Global)

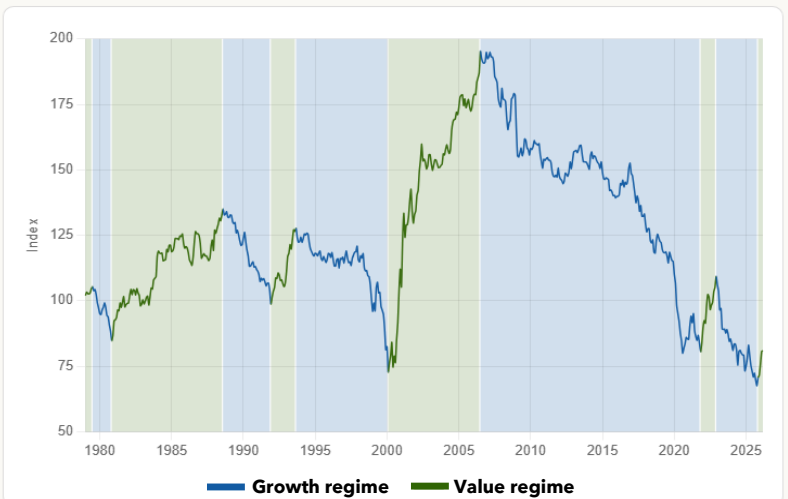
While the rotation is only five months old, and we will not know for certain until after the fact, we would not be surprised if we are in the early stages of a regime change. To assess, we can draw some perspective by looking to history. A three-part study from FTSE Russell, “Trends in Growth and Value” (Feb-Oct 2023), defines the distinct market regimes by time period and provides insights. This chart (Figure 2) reflects the regime rotations since the Russell styles (growth/value) commenced in the late 1970s, updated monthly through quarter end. The data reflects some glaring differences between the growth and value regimes, specifically that the transitions from growth to value are notably sharp compared to the more gradual transitions from value to growth. It underscores that the largest outperformance for growth tends to occur in the late stages of the regime, where the final 20% of the regime accounts for 50% of cumulative style gains. The opposite is true for value as its largest outperformance occurs in the early stages, with the first 20% of the regime capture accounting for 50% of the style gains. It appears that excess optimism occurs during the later stages of the growth regimes, typically marked by the advent of a new innovation when risk is not properly discounted. To simplify, the “new” environment leads investors to dream of possibilities and forgo the probabilities.

Growth vs. Value Regime Index

Figure 2

January 1979 - March 2026 • 567 months • 10 regime transitions

GROWTH MONTHS 352 62%	VALUE MONTHS 215 38%	PEAK 195.32 Jul 2006	TROUGH 67.57 Oct 2025
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(Sources: Confluence, FTSE Russell)

What is also obvious from the chart is the elongated duration of the growth regime for most of the last 20 years. Since July 2006, growth has led 219 months out of 237 months, whereas the value regime has led in only 13 months: November 2021 to December 2022, and the past five months.

Of course, much of the past 20 years has been marked by easy monetary policy – namely ZIRP (Zero Interest Rate Policy) and Quantitative Easing – alongside fiscal deficits, which were only exacerbated by pandemic policies. These stimulative policies were able to remain for an extended period as globalization allowed us to import deflation, primarily through goods from China, which kept domestic inflation in check. At the same time, negative real rates distorted risk perceptions as cheap capital was in abundance.

Nevertheless, the landscape has changed. Globalization, and financialization, led to income inequality and ultimately the rise of populism. These shifts are causing global trade to fracture into new trading blocs and also putting upward pressure on inflation as cost efficiency is no longer the primary objective. Higher inflation combined with elevated debt levels hampers flexibility for monetary and fiscal policy. Thus, real rates will likely remain positive, which raises the cost of capital and removes the availability of cheap capital.

Against this backdrop, the sector performance of the first quarter reads less like a quarterly anomaly and more like an early confirmation of regime change. The conflict in the Middle East and the ongoing rotation toward value have driven strength in commodity-oriented and capital-intensive sectors; Energy, Materials, and Utilities produced returns of 38.2%, 9.7%, and 8.3%, respectively. Meanwhile, the Technology, Consumer Discretionary, and Communication Services sectors were down 9.1%, 9.2%, and 6.9%, respectively, as the bulk of their market caps are composed of the Magnificent 7: Alphabet and Meta (Communication Services), Amazon and Tesla (Consumer Discretionary), and Microsoft, NVIDIA, and Apple (Technology). The Financials sector was also down 9.3%, reflecting concerns over tighter lending spreads as inflation remains elevated, which has reduced the probability of future rate cuts. There are also fears that private credit risks will seep into the banking system, while the softer market for premiums in the insurance segment is pressuring earnings growth.

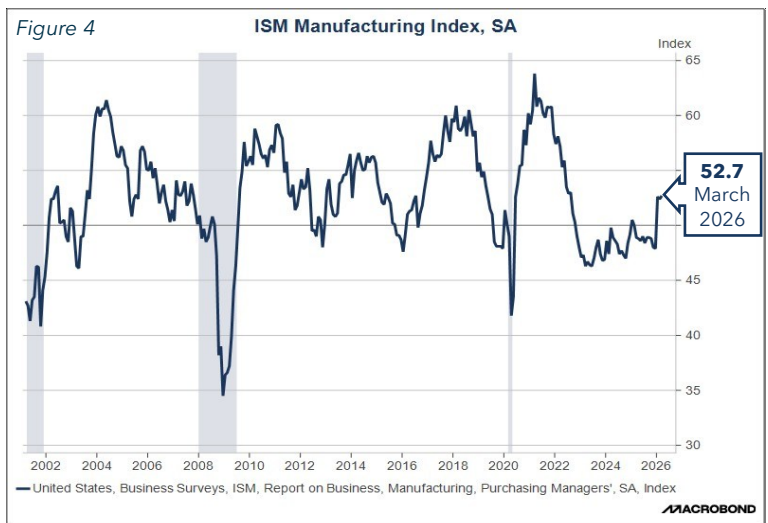
Figure 3 – Returns by Sector

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
S&P weight	4.0%	2.1%	12.6%	9.0%	9.9%	32.9%	10.3%	2.0%	9.5%	5.3%	2.5%	100.0%
Russell Growth weight	0.5%	0.3%	5.9%	6.7%	13.2%	49.6%	12.1%	0.5%	8.1%	2.9%	0.3%	100.0%
Russell Value weight	7.7%	4.4%	20.0%	13.5%	7.0%	11.7%	7.9%	4.0%	11.7%	7.5%	4.7%	100.0%
QTD	38.2	9.7	-9.3	4.6	-9.2	-9.1	-6.9	4.9	-4.9	7.7	8.3	-4.3

(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 2Q 2026, as of March 31, 2026)

Perspectives

Prior to the late February US-Israel incursion into Iran, there were signs that economic growth was broadening outside the frenzied capital spend within the AI ecosystem. One indicator, the Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index (PMI), has now risen above 50 (expansion) for three consecutive months. The PMI fell below 50 (contraction) in November 2022 and remained in contraction territory for roughly 27 of the next 33 months, marking one of the longest manufacturing downturns in postwar history outside of recession; brief returns to expansion in March 2024 (50.3) and January-February 2025 proved short-lived, driven, in part, by businesses front-running tariff-related price increases. However, this March marked the third consecutive expansion month at 52.7, the best on record since July 2022 (see Figure 4).



Survey participants were clearly impacted by the sharp rise in the fed funds rate coming out of the pandemic, when the Fed raised rates from 0% to 5.25% in less than 16 months. Enthusiastic investment in AI has been holding up the economy while the rest of the market stagnated, attracting many envious bystanders to join the AI fray over the past few years, often at the expense of their own risk tolerance. It can be extremely tempting to abandon or temporarily ignore one's philosophy and risk profile in an effort to rationalize participation, but such adjustments often result in disappointment.

Investors and lenders alike are now beginning to question what the returns on investment might be for these nascent AI business models. This shift is helping to broaden the market which leads to a much healthier market overall...although it's important to note that the Iran conflict does have the potential to stall that progress.



All Cap Value

Value Equity Strategies



First Quarter 2026

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 strategy is appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Strategy Commentary

While the broader equity markets find themselves only a few percentage points from where they began the year, this belies the intra-quarter volatility experienced during the first quarter of 2026. Amidst a series of consequential economic and geopolitical events, a number of market rotations have taken hold: mega-cap tech has shed significant market cap, small caps have outperformed large caps, value has outperformed growth, and a host of sector and industry leadership shifts are underway.

From the capture of Venezuelan President Maduro and the Supreme Court's reversal of the Trump tariffs to questions of Federal Reserve independence during a new chair nomination, 2026 was volatile even before the late-February joint US-Israel air campaign against Iran. This military conflict significantly disrupted the world's primary oil artery and numerous refined hydrocarbon products. As concerns grew over the duration and outcome of the conflict and its associated economic fallout, markets rolled over in March. Throughout it all, the rotation away from mega-cap dominance that began in late 2025 continued to broaden equity market participation.

During the first quarter, the S&P 500 Index declined 4.4%, while the Russell 3000 Value Index rose 2.2%. Confluence's All Cap Value strategy declined 4.3% (gross of fees) to start the year. [*The strategy's net-of-fees return for the same period was -5.0% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

The majority of the strategy's underperformance relative to the Russell 3000 Value was driven by its lack of exposure to Energy, easily the highest-performing sector in the quarter. Conflict in the Middle East pushed energy prices higher, propelling the sector to gains exceeding 30% in Q1. However, there is a crucial distinction between rising prices caused by commodity supply and demand dynamics and pricing power derived from durable competitive advantages. As we have discussed in prior commentaries, we tend to avoid Energy exposure in this strategy as the sector is primarily populated by price-taking, commodity-driven businesses.

It certainly feels as though we are in a period of "rapid history," a condensed stretch in which consequential events that would normally dominate the news cycle for weeks are displaced within a matter of days as attention turns to the next development. And that is before accounting for the weekly advances in artificial intelligence (AI), which have resulted in dramatic repricing of entire classes of companies.

How should investors navigate such uncertainty? We believe an investment process that requires correctly predicting what lies around every corner is a very difficult game to win. Instead, we seek to own high-quality businesses led by experienced, long-term-oriented management teams. Companies with competitive advantages, strong cash flow, and solid balance sheets are not immune to uncertainty, but they can endure it. Their financial strength allows management to focus on the strategic investments most important for long-term value creation, rather than being forced to react to short-term pressures. The more unpredictable the environment, the more critical these attributes become.

Looking at individual holdings, the best-performing holdings during the first quarter were Keysight Technologies (KEYS), Lockheed Martin (LMT), and The Hershey Company (HSY).

Keysight remains a critical partner for industrial design, testing, and manufacturing, with a strong presence in software and hardware for 5G/6G networks and aerospace defense. Before any new chip, antenna, sensor, or circuit board goes into a phone, car, fighter jet, or cell tower, engineers use Keysight's tools to measure whether it works as intended. Virtually every major technology trend (5G networks, autonomous vehicles, AI data centers, defense modernization) requires faster,

smaller, more complex components. Keysight's equipment and software are embedded in the development workflows across these areas. The company has enjoyed several quarters of healthy demand, and the ongoing AI buildout and heightened geopolitical tensions continue to drive demand for its specialized products.

Regarding Lockheed, even before the Iranian conflict, global governments were increasing their defense spending to bolster security due to fracturing globalization. As the leader in missile defense, it specifically benefited from the recent combat; its Precision Strike Missile production quadrupled, and it also achieved a record backlog. The escalating conflict in the Middle East should only accelerate this tailwind.

Hershey has benefited recently from dramatic decreases in the price of cocoa, providing strong guidance for 2026 and anticipated strong growth in 2027 as the company returns to normalized earnings levels. Continued momentum in salty snacks and a solid capital allocation playbook from recently appointed CEO Kirk Tanner have helped bolster the stock.

Most of the strategy headwinds centered on two segments perceived to be threats by potential AI tools: data analytic/software providers and commercial insurance brokers. The anxiety is based on the perception that new AI models will offer easy access to unlimited data, while vibe-coding will lower the barriers to entry for new players. Our holdings maintain defensible moats rooted in proprietary data, regulatory compliance, and critical workflows. For example, of the laggards, Broadridge Financial Solutions (BR) maintains a near-monopoly on proxy processing, and S&P Global (SPGI) operates within a regulated credit-rating oligopoly. These structural advantages are not easily disrupted by generative AI.

Another detractor this quarter was Paycom Software (PAYC), a provider of payroll and human capital management that we believe is ahead of the curve when it comes to leveraging AI in its industry as it is integrating automation directly into its processes. While the market fears "internal cannibalization" – delivering more value at lower costs – we view this as the hallmark of a long-term owner-operator prioritizing client retention over short-term revenue growth. Despite its technological lead, Paycom declined along with the broader payroll space as anxieties grew over whether AI will allow companies to handle payroll and HCM internally without relying on third-party providers. We are more sanguine about this risk: payroll processing requires compliance with ever-evolving, state-by-state regulatory regimes, doesn't cost much per employee, and carries a high-cost of failure (i.e., employees not getting paid). That said, there are more legitimate concerns around the general economy and employment, where headwinds to employee headcount would naturally pressure Paycom's business.

For commercial insurance brokers, including Brown & Brown (BRO), the fear is that AI agents will displace the value of the human intermediary. This sentiment echoes the 1990s-era anxiety that the internet would eliminate retail brokers, a fear that never materialized. In a relationship-driven business where compliance and nuanced risk management are paramount, the broker remains central. As market focus shifts back to fundamentals, we expect these moats to re-establish the differentiation and value of these firms.

During the quarter, we initiated a position in Trex Company (TREX), a composite decking leader currently trading at historically low multiples. We believe Trex is a superior operator with attractive ROICs as a dominant player in the space, capturing 40-50% of the market with a cost advantage that utilizes recycled feedstock. Composite decking typically has a higher upfront cost relative to wood, but it eliminates annual staining, sealing, and product rot, resulting in a lower total cost of ownership over time. TREX benefits from the underlying tailwinds driven by converting existing wood decks that need to be replaced due to age and rot, making its business less susceptible to the currently challenged housing market, which could become an additional tailwind as conditions recover.

Outlook

Amidst the ongoing geopolitical dynamics, we continue to monitor the market's rotation away from mega-cap technology. The Magnificent 7 have shed approximately \$3 trillion of market cap this year. Around November 2025, the S&P 500 Equal Weight Index began outperforming its market cap-weighted counterpart and the Russell 1000 Value Index began outpacing the Russell 1000 Growth Index. Rising energy prices, driven by infrastructure damage and the Strait of Hormuz closure, are likely to have significant effects on the global economy, increasing the probability of recession. Much like the fog of war itself, this environment forces market participants to constantly reprice amid deep uncertainty. The businesses best suited to navigate such periods have strong pricing power, solid financial footing, the ability to defend against competition, and are guided by responsible stewardship. An investment philosophy and process centered on these attributes is what gives us confidence that our All Cap Value strategy can compound value across market cycles.

All Cap Value • Value Equity Strategies

Contribution¹

The top contributors and detractors for the portfolio thus far in 2026 are shown in the following table:

(YTD as of 3/31/2026)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Keysight Technologies Inc.	3.58	1.60
Lockheed Martin Corp.	3.40	0.64
Hershey Co.	2.91	0.35
Valvoline Inc.	2.76	0.35
Nordson Corp.	3.54	0.32
Bottom 5		
Brown & Brown Inc.	2.70	(0.52)
S&P Global Inc.	2.67	(0.53)
Morningstar Inc.	2.48	(0.63)
Paycom Software Inc.	2.84	(0.71)
Broadridge Financial Solutions Inc.	2.97	(0.91)

Performance Composite Returns² (For Periods Ending March 31, 2026)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
All Cap Value									
<i>Pure Gross-of-Fees³</i>	9.4%	9.7%	11.6%	10.5%	6.3%	9.4%	2.0%	(4.3%)	(4.3%)
<i>Max Net-of-Fees⁴</i>	6.2%	6.4%	8.2%	7.2%	3.1%	6.2%	(1.0%)	(5.0%)	(5.0%)
Russell 3000 Value	8.2%	8.0%	10.3%	10.5%	9.2%	14.2%	16.3%	2.2%	2.2%
S&P 500	10.3%	10.5%	13.3%	14.1%	12.0%	18.3%	17.8%	(4.4%)	(4.4%)

Calendar Year	Pure Gross-of-Fees ³	Max Net-of-Fees ⁴	R3000 Value	S&P 500	Difference (Gross-R3000V)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R3000V 3yr Std Dev	S&P 500 3yr Std Dev	Composite Dispersion
2006	14.4%	11.3%	22.3%	15.8%	(8.0%)	224	\$26,916		N/A	N/A	N/A	0.6%
2007	4.6%	1.8%	(1.0%)	5.5%	5.6%	220	\$27,835		6.9%	8.3%	7.7%	0.7%
2008	(26.9%)	(28.9%)	(36.2%)	(37.0%)	9.4%	19	\$1,778	\$291,644	13.9%	15.5%	15.1%	N/A
2009	26.8%	23.0%	19.8%	26.5%	7.0%	33	\$11,558	\$533,832	18.6%	21.3%	19.6%	2.8%
2010	9.7%	6.4%	16.3%	15.1%	(6.6%)	41	\$13,980	\$751,909	21.0%	23.5%	21.9%	0.5%
2011	3.6%	0.5%	(0.1%)	2.1%	3.7%	40	\$14,294	\$937,487	18.4%	21.0%	18.7%	0.6%
2012	18.0%	14.5%	17.6%	16.0%	0.4%	40	\$11,654	\$1,272,265	14.6%	15.8%	15.1%	0.3%
2013	35.3%	31.3%	32.7%	32.4%	2.6%	73	\$22,893	\$1,955,915	11.2%	12.9%	11.9%	0.7%
2014	14.7%	11.3%	12.7%	13.7%	2.0%	119	\$34,036	\$2,589,024	8.8%	9.4%	9.0%	0.4%
2015	0.1%	(2.9%)	(4.1%)	1.4%	4.2%	207	\$50,568	\$3,175,419	10.0%	10.7%	10.5%	0.6%
2016	14.2%	10.8%	18.4%	12.0%	(4.2%)	345	\$91,109	\$4,413,659	9.7%	11.0%	10.6%	0.6%
2017	15.7%	12.3%	13.2%	21.8%	2.6%	649	\$167,342	\$5,944,479	8.7%	10.3%	9.9%	1.1%
2018	(5.2%)	(8.0%)	(8.6%)	(4.4%)	3.4%	689	\$168,742	\$5,486,737	10.1%	11.1%	10.8%	0.6%
2019	35.6%	31.6%	26.2%	31.5%	9.4%	818	\$262,167	\$7,044,708	11.7%	12.0%	11.9%	1.1%
2020	17.3%	13.8%	2.9%	18.4%	14.4%	953	\$333,804	\$6,889,798	18.5%	20.0%	18.5%	0.9%
2021	23.4%	19.7%	25.3%	28.7%	(2.0%)	1,084	\$422,786	\$7,761,687	17.5%	19.3%	17.2%	0.6%
2022	(16.2%)	(18.7%)	(8.0%)	(18.1%)	(8.2%)	1,065	\$342,473	\$6,931,635	20.5%	21.5%	20.9%	0.7%
2023	18.8%	15.3%	11.6%	26.3%	7.2%	1,046	\$385,449	\$7,200,019	16.9%	16.7%	17.3%	0.7%
2024	14.3%	10.9%	14.0%	25.0%	0.4%	1,047	\$412,337	\$7,280,773	17.0%	16.9%	17.2%	0.5%
2025	5.8%	2.7%	15.7%	17.9%	(9.9%)	908	\$363,561	\$6,769,052	12.6%	12.7%	11.8%	0.5%

*Average annualized returns **Inception is 1/1/2005. Additional years of performance available on our website See performance disclosures on last page.

Portfolio Benchmarks

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.

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. (Source: Bloomberg)

Confluence Value Equities Investment Committee

Mark Keller, CFA Tore Stole Tom Dugan, CFA Dustin Hausladen Brett Mawhiney, CFA John Koenig, CFA
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Indexes: The Russell 3000 Value and S&P 500 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. Effective September 1, 2025, the benchmark indexes for this composite were retroactively reassigned: the primary index was changed from the S&P 500 Index to the Russell 3000 Value Index, and the secondary index was changed from the Russell 3000 Value Index to the S&P 500 Index.

¹Contribution—Contribution data shown from a sample account, based on individual stock performance and portfolio weighting. 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. 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.

²Performance 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, 2024. 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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³Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

⁴Net-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.