Market Commentary

Value Equity Strategies

Second Quarter 2025

Second Quarter Sentiment Shift

The second quarter was quite the contrast to the first as investor sentiment grew wildly optimistic throughout the quarter after a rather dour start to the year. We entered the year with a lot of anxiety surrounding the economic agenda of the new administration, whose focus was primarily on restructuring the global order in an attempt to stem the widening trade imbalances that have benefited capital holders at the expense of labor. The administration's preferred policy approach, which had been widely communicated, was through tariffs; in early April, they released the initial tariff framework. It was more abrupt and disruptive than investors expected, and the markets responded accordingly, pushing the broad equity markets into a sharp correction during the first part of April. It was not until signals (tweets, to be precise) reflected a softer stance in tariff negotiations that the markets turned, and a strong rally ensued through quarter-end.

Market Rotation

In light of these developments, it has truly been a tale of two markets. The broad markets sold off through early April, with the S&P 500 Index down roughly 15% by April 8, before staging a ~25% rally, resulting in a year-to-date return of 6.0%. The underlying drivers of performance were also quite different, leading to a rotation in leadership. During the first part of the year, the market was led by defensive areas such as Consumer Staples, Health Care, and Utilities as well as Energy. These sectors are weighted much heavier in the Value indexes and provide higher dividend yields, which caused value to outperform growth. The rotation that occurred in the second quarter spread across indexes, styles, sectors, factors, and the Magnificent 7 (see Figure 1). The graph illustrates investors' rapid shift to risk, with momentum and higher beta (risk) factors leading the market in the second quarter.

Figure 1

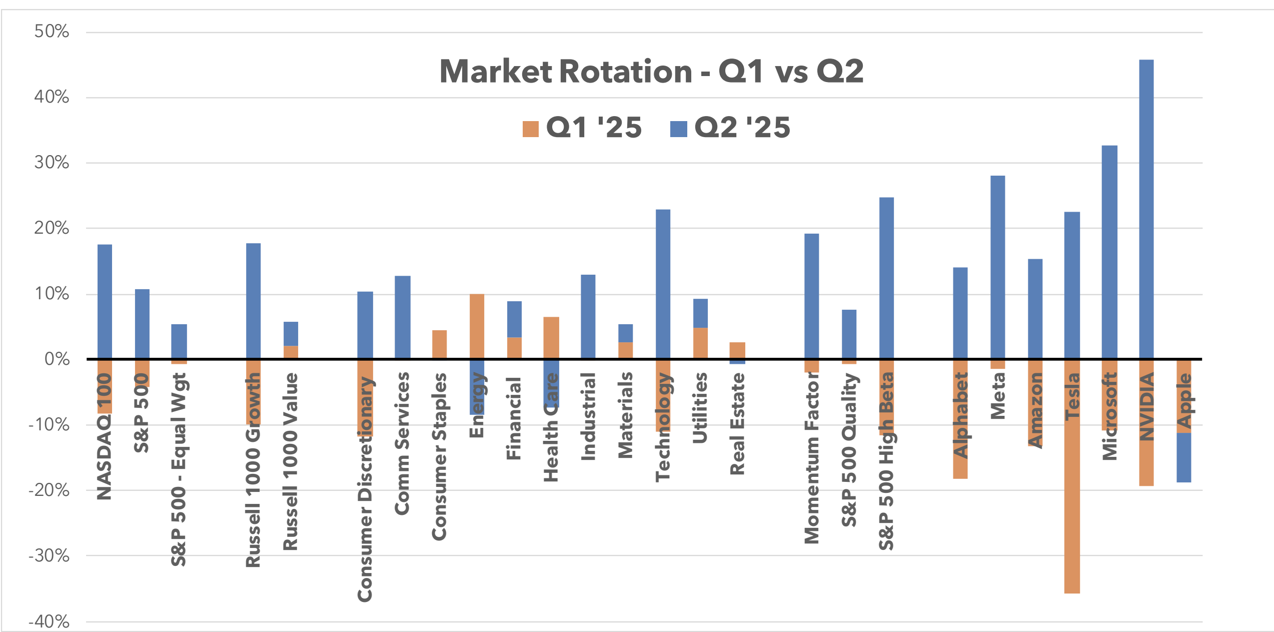
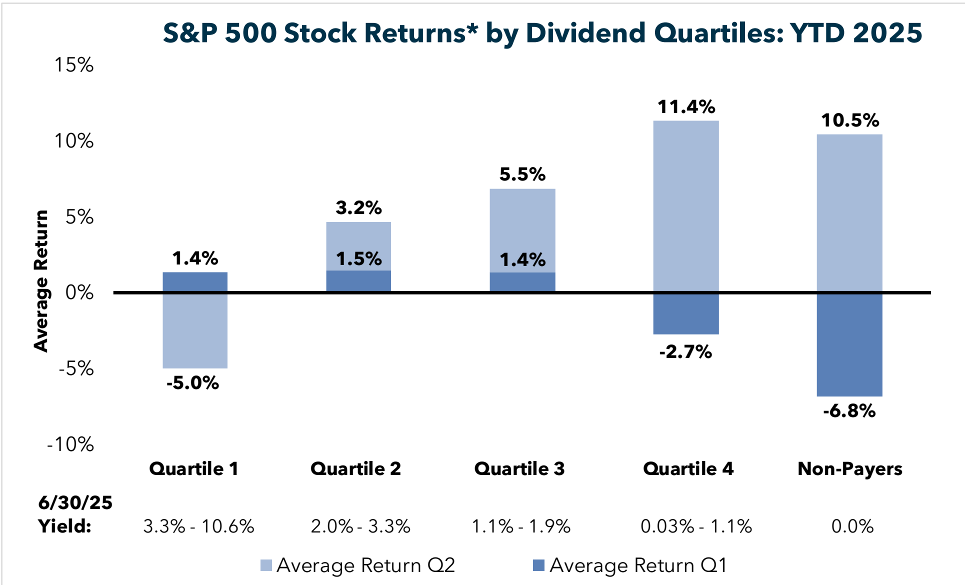


Figure 1: Sources: NASDAQ-100 Index (NDX), SPDR S&P 500 ETF Trust (SPY), Invesco S&P 500 Equal Weight ETF (RSP), iShares Russell 1000 Growth ETF (IWF), iShares Russell 1000 Value ETF (IWD), Consumer Discretionary Select Sector SPDR Fund (XLY), Communication Services Select Sector SPDR Fund (XLC), Consumer Staples Select Sector SPDR Fund (XLP), Energy Select Sector SPDR Fund (XLE), Financial Select Sector SPDR Fund (XLF), Health Care Select Sector SPDR Fund (XLV), Industrial Select Sector SPDR Fund (XLI), Materials Select Sector SPDR Fund (XLB), Technology Select Sector SPDR Fund (XLK), Utilities Select Sector SPDR Fund (XLU), Vanguard Real Estate ETF (VNQ), iShares MSCI USA Momentum Factor ETF (MTUM), Invesco S&P 500 Quality ETF (SPHQ), Invesco S&P 500 High Beta ETF (SPHB), Alphabet Inc. Class A (GOOGL), Meta Platforms Inc. Class A (META), Amazon.com, Inc. (AMZN), Tesla, Inc. (TSLA), Microsoft Corporation (MSFT), NVIDIA Corporation (NVDA), and Apple Inc. (AAPL)

Impact on Dividend-Paying Stocks

The rotation toward momentum/risk in the second quarter was also evident for dividend investors. The non-payers and low-dividend payers were down in the first quarter, while businesses with dividend yields higher than 1.1% posted positive returns on average. Conversely, in the second quarter, the non- and low-dividend payers posted low double-digit returns, while the higher yield quartiles lagged, with the highest-paying quartile posting a loss. Figure 2 illustrates the quarter-over-quarter performance differentials by yield quartile.

Figure 2



*Actual Historical Constituents. *Returns through 6/30/2025.*
(Sources: Confluence, Ned Davis Research)

This also marks the third rotation since last summer. If you recall, the mega-cap, tech-oriented Magnificent 7 ceded leadership during the summer of 2024, briefly retaking the role later in 2024. This back-and-forth is common after extended periods of relative outperformance as investors are often hesitant to abandon strategies that have been working. It is also a reflection of the underlying economic backdrop that fueled the rise in populism and the current administration's efforts to address these conditions, which will continue to impact the markets.

We examined this influence on the markets in our recent *Value Equity Insights* publication, "Investing Where the Puck is Going: The Renewed Case for Active and Value."

Market Outlook

Looking forward, we anticipate heightened volatility as the administration is attempting to pull levers that have not been used in this manner for many generations and are likely to produce varying responses and secondary effects. Fortunately, the economy remains on decent footing and the recently passed budget reconciliation law provides clarity for businesses and taxpayers. This bodes well for the outlook on the economy and earnings. As always, we believe long-term investors should view volatility as an opportunity – a principle central to our investment philosophy.

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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Increasing Dividend Equity Account (IDEA)

Value Equity Strategies

Second Quarter 2025

Increasing Dividend Equity Account (IDEA) is focused on high-quality companies with long track records of distributing earnings to shareholders through dividends. These companies tend to be established companies that generate free cash flow and have management teams committed to growing the dividend. The portfolio is selected from a universe of stocks meeting initial minimum criteria of paying and increasing dividends over the last 10 years. The strategy is appropriate for clients seeking total return from dividend income and capital appreciation.

Strategy Commentary

With the S&P 500 Index up 6.2% in the first half of 2025, one could conclude that it's been a fairly typical six months. However, for those of us that lived through it, we know differently as we have dealt with issues such as a global trade war, an onslaught of White House policy changes, and the US bombing of Iran's nuclear facilities, to name a few. This brought a lot of unpredictable market volatility and is a good reminder that there is a big difference between reading about history and living through it – especially as a patient, long-term investor.

Although we've seen many unexpected events so far in 2025, the companies held in the IDEA strategy continued to pay and grow their dividends during these six months. As stated in the table below (Figure 1), 24 of the 49 companies in the current portfolio have raised their dividend year-to-date, with an average announced growth rate of 7.1%.

Furthermore, as illustrated in the chart on the following page (Figure 2), the IDEA strategy has delivered consistent dividend growth over the past 16 years, resulting in annual dividend income more than tripling since inception alongside strong capital appreciation.

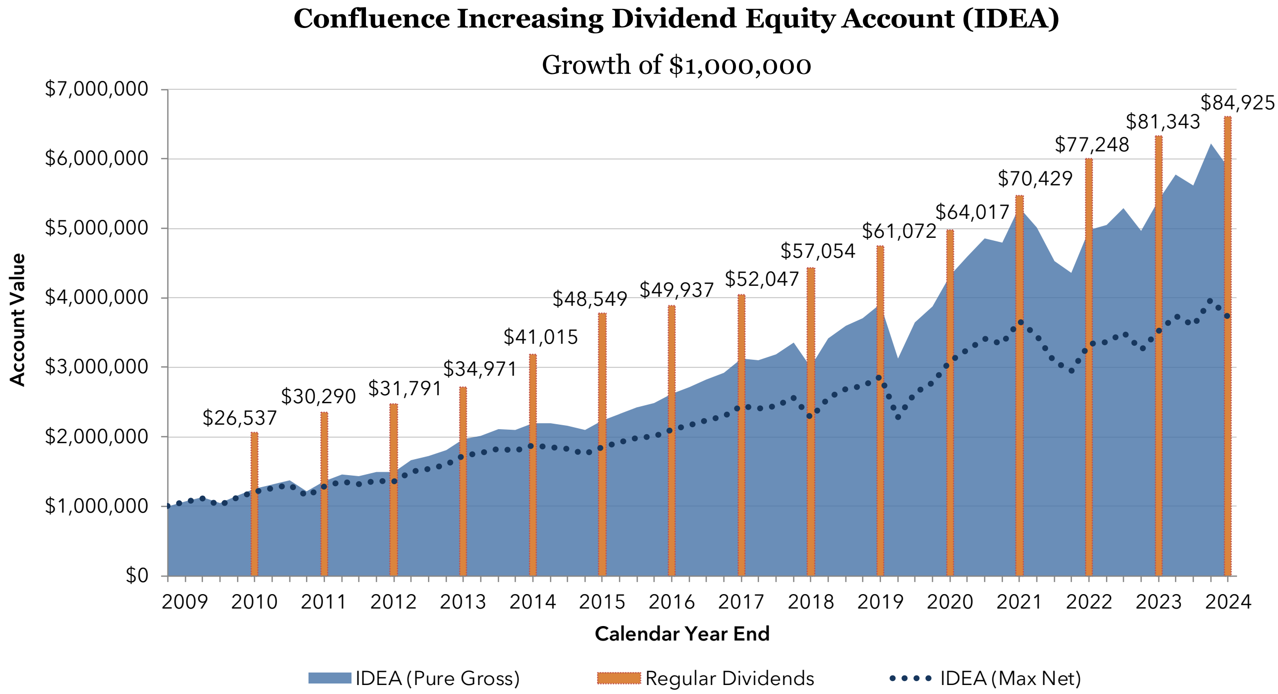
Figure 1* – Annual Dividend Statistics for IDEA Portfolio at 12/31 *(Dividend Growth Using Announcement Date) [1]

			Dividend Change from Prior Year** # of companies with			
Year	**Holdings**	**Avg. Yield+**	Increase	Flat	Decrease	Avg. Growth***
2009	49	2.9%	39	10	0	5.6%
2010	49	2.9%	45	4	0	9.3%
2011	49	2.9%	46	3	0	9.6%
2012	48	3.3%	46	2	0	9.3%
2013	49	2.4%	47	2	0	10.6%
2014	49	2.5%	47	2	0	9.3%
2015	49	2.8%	46	3	0	8.9%
2016	50	2.4%	46	4	0	6.9%
2017	48	2.1%	44	4	0	7.4%
2018	49	2.5%	47	2	0	11.2%
2019	49	2.1%	48	1	0	9.4%
2020*	49	2.1%	42	7	0	6.4%
2021	49	1.9%	46	3	0	8.3%
2022	49	2.1%	47	2	0	9.5%
2023	48	2.2%	47	1	0	7.4%
2024	49	2.2%	47	2	0	8.2%
Average-16 yrs (2009-2024)		2.5%	46	3	0	8.6%
YTD (6/30/25)	49	2.1%	24	-	0	7.1%

** 2020 excludes impact of temporary dividend suspensions during the pandemic of 2020. ** Dividend Change from Prior Year excludes impact of special dividends and spin-offs.*
***** For YTD statistics, the average growth rate is calculated using only those holdings for which an increase or decrease in the indicated annual dividend amount has been announced.*
Full-year statistics are calculated as the average of all holdings, including those which did not announce a change to their indicated annual dividend during the year.
+ Avg. Yield column is the equal-weighted average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividends plus any special dividends paid during the year.
Avg. Yield as of 6/30/2025 calculated using Indicated Annual Dividend (IAD) from FactSet.

Strategy Commentary continued...

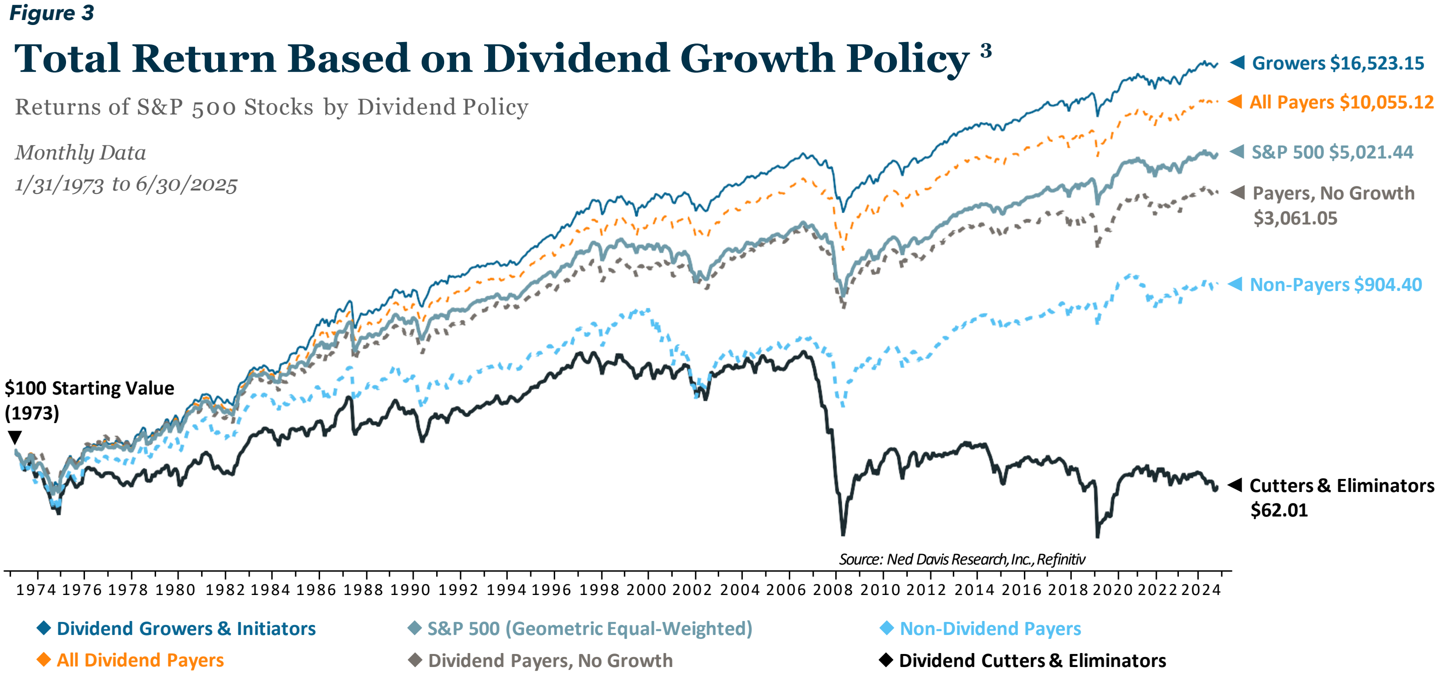
***Figure 2* – Growth of Investment & Dividends [2]**



(Annual dividend data as of 12/31/2024)

Historically, dividend growers (like the companies owned in the IDEA portfolio) have substantially outperformed companies whose dividends remained flat, companies that have cut their dividends, and companies that do not pay dividends. As shown in the following chart from Ned Davis Research (Figure 3), $100 invested in dividend growers in 1973 has grown to $16,523, while $100 invested in non-dividend payers is now worth $904, and $100 invested in dividend cutters is only worth $62 today.

Figure 3

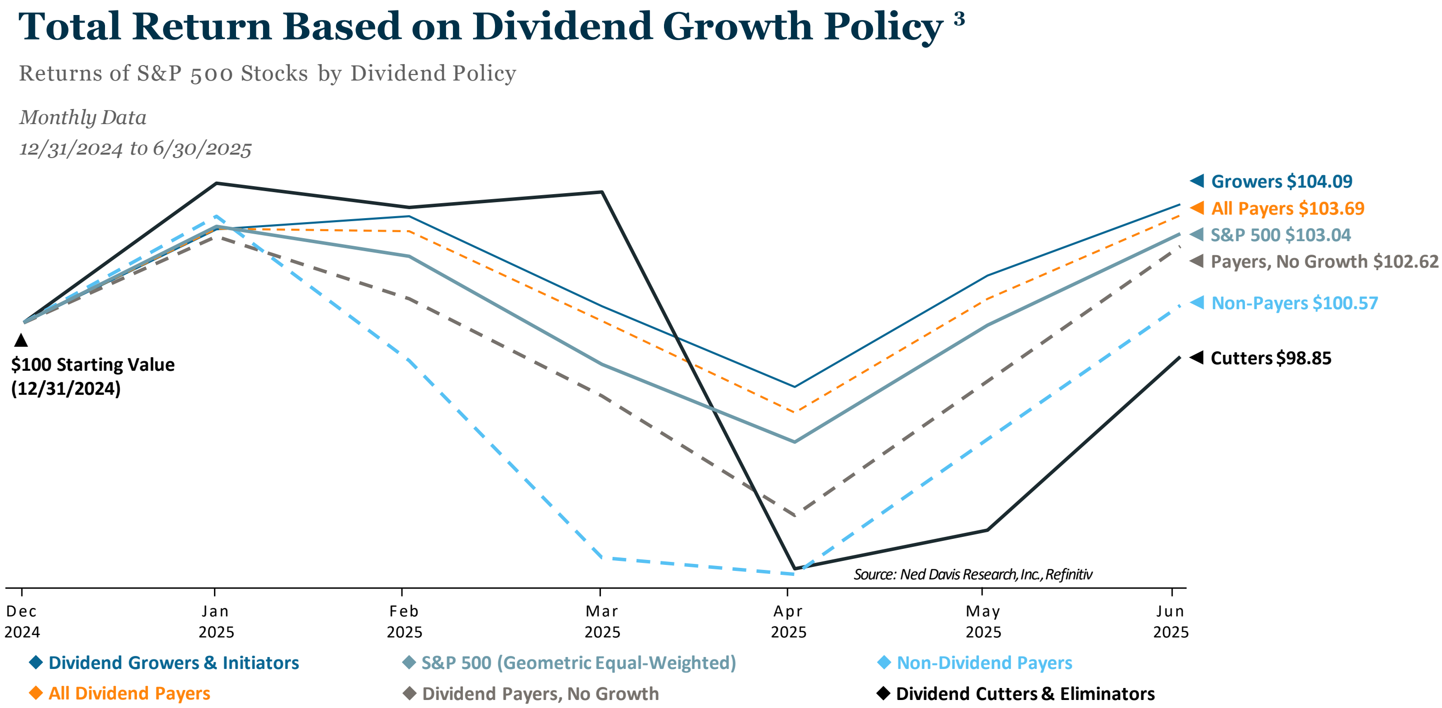


(Source: Ned Davis Research, Inc.; © Copyright 2025)

Strategy Commentary continued…

In 2025, the IDEA strategy has performed right in line with the NDR Dividend Growers Index Constituents (as depicted in Figure 4 below, "Dividend Growers & Initiators"), which were up 4.1% year-to-date.

Figure 4



(Source: Ned Davis Research, Inc.; © Copyright 2025)

When compared to the broad market indexes, the relative year-to-date performance reported through June looks very different than it did during the April tariff selloff or even just a month prior. Year-to-date, the S&P 500, Russell 3000 Value, and the Confluence IDEA strategy have returned 6.2%, 5.5%, and 4.0% (gross of fees), respectively, but just a month ago, those figures through the end of May were 1.1%, 2.0%, and 2.5%, respectively. For the second quarter overall, the S&P 500 was up 10.9%, outperforming the Russell 3000 Value, up 3.8%, and IDEA, up 1.7% (gross of fees). [*The strategy's net-of-fees returns for the same periods were 2.5% YTD and 0.9% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

So, what changed in June? The market moved decisively back toward what has led for the past five years – favoring cyclical, mega-cap, growth stocks – and away from defensive, dividend-paying, value stocks. But the reasons for the rotation are not entirely clear, given the high level of economic uncertainty from tariffs and interest rates along with weak consumer and business confidence. With the move toward cyclical, mega-cap, growth stocks, the more defensive dividend-focused companies in the IDEA portfolio lagged behind. As a result, nearly all of the year-to-date relative underperformance versus the S&P 500 and the Russell 3000 Value can be attributed to the Industrials and Consumer Staples sectors.

Almost all of the index returns in the Consumer Staples sector came from the top five largest companies, specifically Phillip Morris (up 54% YTD) and Walmart (up 9% YTD). In fact, Consumer Staples in the Russell 1000 Value ETF were down around 1% on average year-to-date, while the top five largest Consumer Staples were up 12.5%, again showing that market cap-weighted indexing flows are driving up the top mega-caps across sectors, with the equal-weighted averages lagging. The Industrials sector is in a similar situation, with the 10 largest companies in the sector outperforming. As mentioned earlier, those top outperformers are mostly cyclical stocks (commercial aerospace and John Deere/Caterpillar), plus electrical equipment companies that are benefiting from electrification and the AI data center build out.

In the IDEA portfolio, the top contributors to performance year-to-date were Amphenol Corp. (APH), manufacturer of electrical connectors and sensors, and Oracle Corp. (ORCL), ERP software and cloud services – both of which helped the portfolio actually outperform in the technology sector. The weakest performers this year were Clorox (CLX), diversified consumer and cleaning products, and Brown-Forman Corp. (BF-B), leading spirits producer and whiskey distiller, including Jack Daniels. These are two great Consumer Staples companies that are facing short-term headwinds.

Strategy Commentary continued...

We did not make any changes to the IDEA portfolio during the second quarter, but we are closely watching several stocks for an opportunity to buy if their valuations become more attractive.

Outlook

It took the S&P 500 only 55 days to rebound from the selloff in April, beating the previous record for the fastest recovery (following a drawdown of at least 15%) set in 1998 during the dot-com speculative mania (*source: Strategas*). The swift turnaround indicates that the market is becoming increasingly confident that a recession can be avoided.

Since the 2008 financial crisis, US monetary and fiscal policy has doused any potential recession fires, but government debt and interest rates are piling up. It is especially difficult to know where the fed funds rate is headed from here, but globalization, record debt issuance, and persistent inflation will likely push long-term interest rates higher, not lower.

In such an environment, defensive stocks with growing dividends are well positioned to outperform, aligning with our investment philosophy and approach. As always, we are long-term investors, so we will continue to focus on buying great companies with growing dividends at a discount to our estimate of intrinsic value.

Contribution[4]

The top contributors and detractors for the portfolio in Q2 2025 and the full year are shown in the following tables:

(QTD as of 6/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	2.40	1.17
Amphenol Corp.	2.48	1.04
Northern Trust Corp.	1.52	0.43
Analog Devices Inc.	2.04	0.38
ResMed Inc.	2.31	0.35
Bottom 5		
PepsiCo Inc.	1.55	(0.20)
Brown & Brown Inc.	1.87	(0.23)
Brown-Forman Corp. (Class B)	1.67	(0.34)
Clorox Co.	1.74	(0.34)
Becton Dickinson & Co.	1.49	(0.47)

(YTD as of 6/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Amphenol Corp.	2.27	0.94
Oracle Corp.	2.40	0.80
W. R. Berkley Corp.	2.83	0.68
Northern Trust Corp.	1.54	0.40
Ecolab Inc.	2.51	0.36
Bottom 5		
Polaris Inc.	*Sold*	(0.24)
Masco Corp.	2.33	(0.26)
Becton Dickinson & Co.	1.67	(0.44)
Brown-Forman Corp. (Class B)	1.60	(0.52)
Clorox Co.	1.85	(0.53)

Performance Composite Returns[5] (For Periods Ending June 30, 2025)

	Since Inception**	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
IDEA *Pure Gross-of-Fees[6]*	12.2%	12.5%	11.0%	10.9%	10.6%	9.1%	4.0%	1.7%
Max Net-of-Fees[7]	8.9%	9.2%	7.7%	7.6%	7.3%	5.8%	2.5%	0.9%
S&P 500	14.0%	14.9%	13.6%	16.6%	19.7%	15.1%	6.2%	10.9%
Russell 3000 Value	10.8%	11.4%	9.0%	13.8%	12.4%	13.3%	5.5%	3.8%

Calendar Year	Pure Gross-of-Fees[6]	Max Net-of-Fees[7]	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
2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	$7,190	$533,832	N/A	N/A	N/A	N/A
2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	$33,407	$751,909	N/A	N/A	N/A	0.4%
2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	$68,562	$937,487	N/A	N/A	N/A	0.5%
2012	9.2%	6.0%	16.0%	17.6%	(6.8%)	414	$91,822	$1,272,265	12.7%	15.1%	15.8%	0.2%
2013	31.4%	27.5%	32.4%	32.7%	(1.0%)	536	$153,123	$1,955,915	10.3%	11.9%	12.9%	0.4%
2014	12.0%	8.7%	13.7%	12.7%	(1.7%)	942	$257,782	$2,589,024	8.1%	9.0%	9.4%	0.2%
2015	1.6%	(1.4%)	1.4%	(4.1%)	0.3%	1,265	$311,651	$3,175,419	9.5%	10.5%	10.7%	0.3%
2016	17.0%	13.5%	12.0%	18.4%	5.1%	1,714	$470,340	$4,413,659	9.2%	10.6%	11.0%	0.3%
2017	19.8%	16.2%	21.8%	13.2%	(2.0%)	2,254	$698,440	$5,944,479	8.5%	9.9%	10.3%	0.4%
2018	(3.8%)	(6.6%)	(4.4%)	(8.6%)	0.6%	2,539	$699,689	$5,486,737	9.8%	10.8%	11.1%	0.3%
2019	29.9%	26.0%	31.5%	26.2%	(1.6%)	3,193	$1,079,861	$7,044,708	10.9%	11.9%	12.0%	0.4%
2020	10.7%	7.4%	18.4%	2.9%	(7.7%)	3,269	$1,159,219	$6,889,798	16.5%	18.5%	20.0%	0.8%
2021	22.6%	19.0%	28.7%	25.3%	(6.1%)	2,083	$891,288	$7,761,687	16.0%	17.2%	19.3%	0.5%
2022	(6.2%)	(9.0%)	(18.1%)	(8.0%)	11.9%	2,105	$810,480	$6,931,635	18.7%	20.9%	21.5%	0.8%
2023	8.7%	5.5%	26.3%	11.6%	(17.5%)	2,158	$855,063	$7,200,019	16.0%	17.3%	16.7%	0.5%
2024	8.8%	5.6%	25.0%	14.0%	(16.2%)	2,134	$912,848	$7,280,773	15.9%	17.2%	16.9%	0.3%

**Average annualized returns* ***Inception is 10/1/2009* *See performance disclosures on last page.*

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)*

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Indexes: The S&P 500 and Russell 3000 Value 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.

[1] **Annual Dividend Statistics—Figure 1:** Annual dividend income history is available upon request. Current portfolio statistics exclude companies that have been sold and include companies that have been purchased year-to-date.

[2] **Growth of Investment/Dividends—Figure 2:** Account value based on $1,000,000 invested in IDEA strategy on 10/1/2009 with dividends reinvested. Annual dividend income is annualized estimate based on representative, fee-paying accounts & includes regular dividends. In Dec. 2012, 10 portfolio holdings pulled forward their 2013 regular dividend payments into 2012 for tax purposes; those Dec. 2012 dividends are allocated to 2013 in this illustration to reflect the companies' regular dividend payment schedules. Additional information is available upon request.

[3] **Total Return Based on Dividend Growth Policy—Figures 3 and 4:** Charts from Ned Davis Research show the S&P 500 Index split by each constituents' dividend policy. Returns are based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly. Dividends are assumed to be reinvested. Dividend rates are not guaranteed payments, nor can they guarantee a rate of return. *Dividend Paying* and *Non-Paying* stocks are defined by each stock's dividend policy determined on a rolling 12-month basis. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid. *Dividend Growers/Initiators* is a subset of dividend-paying stocks and include stocks that increased their dividend any time in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. For illustrative purposes only & not representative of any specific investment.

[4] **Contribution**—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.

[5] **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, 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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The Increasing Dividend Equity Account (IDEA) strategy was incepted on October 1, 2009, and the current Increasing Dividend Equity Account (IDEA) Composite was created on October 1, 2009. 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.

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

[7] 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: 0.60% 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 IDEA Composite contains fully discretionary IDEA wrap accounts. The IDEA portfolio is selected from a universe of stocks, from all market capitalizations, meeting minimum criteria of paying & increasing dividends over the last 10 years.

**Results shown for the year 2009 represent partial period performance from October 1, 2009, through December 31, 2009. 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.