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

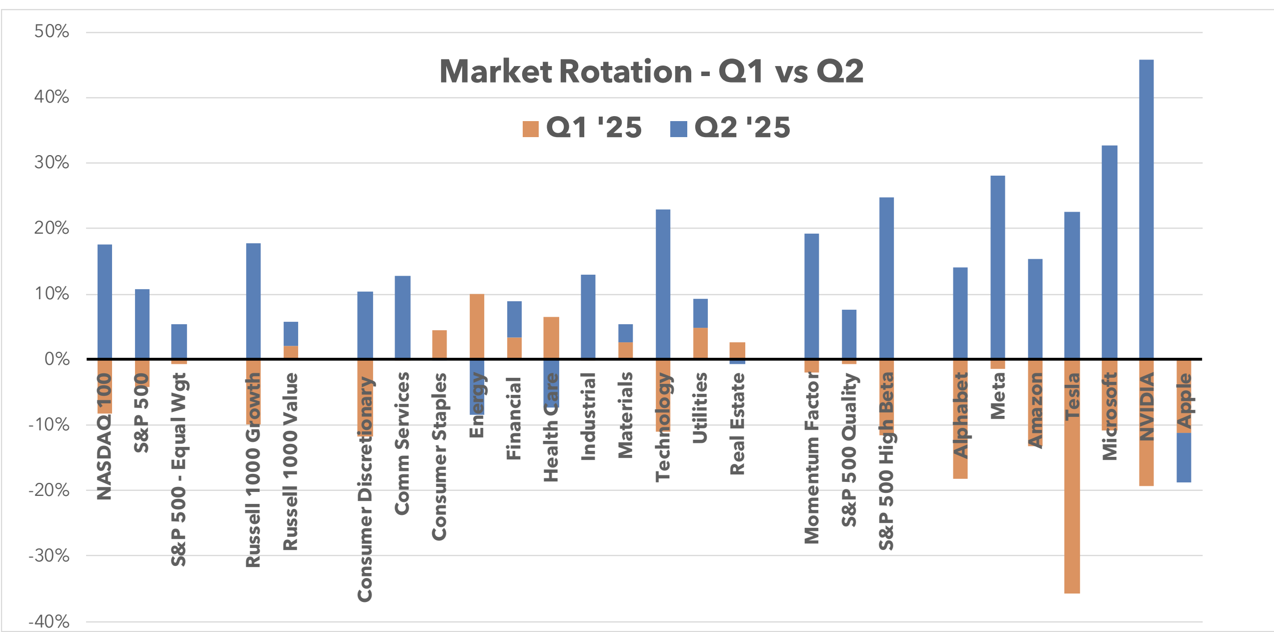
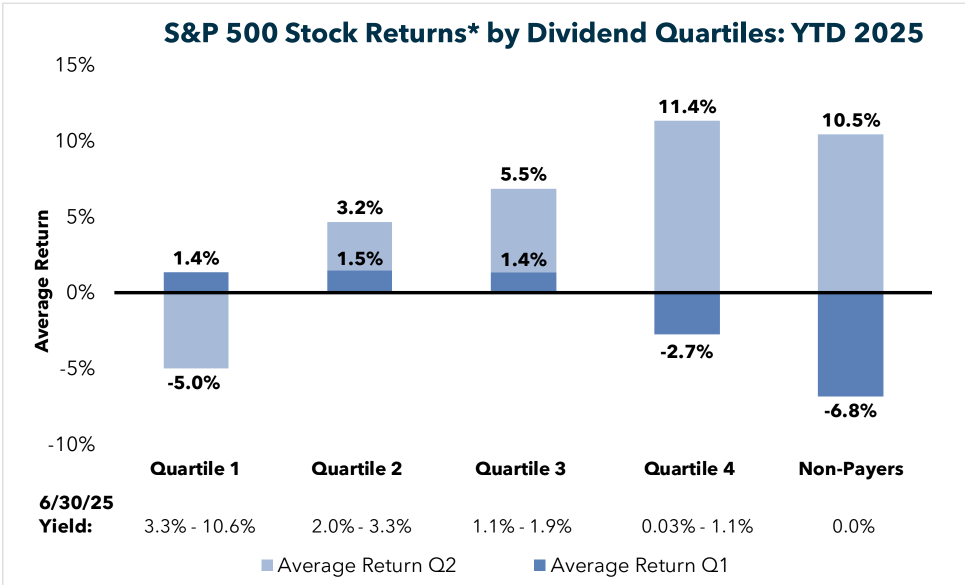


Figure 1: Sources: NASDAQ-100 Index (NDX), SPDR S&P 500 ETF Trust (SPY), Invesco S&P 500 Equal Weight ETF (RSP), iShares Russell 1000 Growth ETF (IWF), iShares Russell 1000 Value ETF (IWD), Consumer Discretionary Select Sector SPDR Fund (XLY), Communication Services Select Sector SPDR Fund (XLC), Consumer 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
Daniel Winter, CFA	John Wobbe	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA	

Large Cap Value

Value Equity Strategies

Second Quarter 2025

Large Cap Value is focused on seasoned companies that generally have capitalizations above $10 billion. Companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and that 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

The second quarter of 2025 was a rollercoaster, marked by a sharp market selloff following the announcement of a new tariff regime on "Liberation Day" (April 2). Broad-based tariffs across a multitude of countries triggered a scramble among investors and businesses to distinguish posturing from policy and assess how best to mitigate the impact. The reaction was swift: risk assets sold off, volatility surged, and investor sentiment shifted decisively from complacency to caution. The S&P 500 dropped roughly 10% in the first week of the quarter, leaving many investors feeling they'd been "liberated" of their portfolio value. However, as policymakers extended deadlines, clarified exemptions, and inflation data came in less alarming than feared, markets rebounded sharply.

During the second quarter, the S&P 500 Index rose 10.9%, while the Russell 1000 Value Index was up 3.8%. Confluence's Large Cap Value strategy increased 4.6% (gross of fees) for the quarter. Through the first half of 2025, the S&P 500 increased 6.2%, the Russell 1000 Value advanced 6.0%, and the Large Cap Value strategy gained 3.3% (gross of fees). [*The strategy's net-of-fees returns for the same periods were 3.8% QTD and 1.7% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

The abrupt shift from "risk-off" to "risk-on" primarily benefited the more speculative, growth-oriented segments of the market. This was evident in the stark outperformance of the Russell 1000 Growth Index relative to the Russell 1000 Value Index (17.8% vs. 3.8%) during the quarter. The Magnificent 7 also posted returns exceeding 20% for the quarter. Meanwhile, underlying economic signals were more mixed: jobless claims rose, personal incomes declined, and both retail sales and industrial production remained tepid. Yet, the market largely looked past these indicators, instead rallying on expectations of sustained federal spending and hopes that a future Fed chair might pursue a more accommodative policy path.

Primary contributors to our portfolio's performance in the quarter included Oracle (ORCL), Booking Holdings (BKNG), and Nordson Corporation (NDSN). Just a quarter removed from being discussed as one of the biggest detractors to performance, Oracle was the best performer in the portfolio for both Q2 and YTD. The lesson is that one shouldn't focus too much on quarterly volatility (both up and down). Oracle benefited in Q2 from a strong earnings report in a market environment that was rewarding high-growth companies. Oracle now firmly fits that profile, having accelerated revenue growth from the low single-digits for much of the past decade to the upper teens. A few months from now, Oracle may again underperform. But as long-term investors, our focus remains on the company's ability to widen its competitive moat as opposed to whether it beats or misses consensus in any given quarter.

Booking Holdings was another strong contributor to performance. The company benefits from numerous competitive advantages as the market-leading online travel agency (OTA). Despite geopolitical uncertainty and economic headwinds, the human desire to travel and explore remains resilient. While specific travel corridors may fluctuate – for instance, Canadians or Europeans avoiding US travel during periods of trade tensions – overall travel demand tends to shift rather than disappear for long. Booking's global footprint enables it to capture demand wherever it emerges, providing ballast to the business. Looking ahead, the company faces potential disruption from AI, such as travelers turning to AI agents to plan and book trips. We believe management has been proactive in addressing this trend, which we view to be as much of an opportunity as a potential threat.

Nordson Corporation was a recent addition to the Large Cap Value strategy. Best described as a precision technology company, Nordson manufactures systems and components used to dispense and apply adhesives, coatings, sealants, and polymers, as well as equipment for quality control including sensors, gauges, and analyzers. Its products serve a wide range of industrial and medical end-markets. Customers value Nordson's offerings because they are essential to high-quality manufacturing processes yet represent a small portion of total production costs. As a result, customers are unlikely to risk product quality by substituting lower-cost alternatives. While the company enjoys steady, recurring demand, recent weakness in its agricultural and semiconductor end-markets pressured the stock. We used this temporary dislocation as an opportunity to add a high-quality industrial business with durable competitive advantages to the portfolio.

Strategy Commentary continued…

Primary detractors to quarterly performance included Thermo Fisher Scientific (TMO), Berkshire Hathaway (BRK.B), and Masco Corporation (MAS).

Thermo Fisher Scientific provides a broad array of products and services to the life sciences industry, including reagents, instruments, test kits, and consumables used in biological and medical research. If it's used in a laboratory, there's a good chance Thermo supplies it. The stock has come under pressure this year amid uncertainty surrounding biotech and research funding, particularly in light of efforts by DOGE to rein in government spending, including a proposed reduction to the National Institutes of Health (NIH) budget. However, recent court rulings have put many of these cuts on hold, and overall biotech funding has remained relatively stable. While the near-term demand environment remains somewhat unclear, what is clear is Thermo Fisher's central role in supporting medical research — a need that we believe will persist over time.

Berkshire Hathaway, the holding company long stewarded by Warren Buffett, likely needs no introduction. Berkshire is essentially an insurance company combined with a portfolio of high-quality businesses acquired over decades by Buffett and Charlie Munger. With a sizable cash war chest, Berkshire often serves as a "port in the storm." This positioning benefited the stock in Q1 during a risk-off environment but weighed on performance in Q2 as markets rotated toward risk-on sentiment. Over such a short period, the intrinsic value of Berkshire's holdings is unlikely to have meaningfully changed. At the May shareholder meeting, Buffett announced he would be stepping down as CEO due to his advanced age. While his presence and influence will remain for now, investors must begin to grapple with a future beyond Buffett and Munger. Still, we remain confident in Berkshire's long-term prospects, grounded in the enduring quality of its underlying businesses and the strength of its balance sheet.

Masco, a building products company with a focus on bath hardware and a range of paints, stains, and coatings, was a detractor to performance due to its exposure to tariffs. The uncertainty surrounding trade policy led management to withdraw their 2025 outlook. As we've noted before, management teams have various levers to adjust and reorient their businesses, but they need clarity on the rules. While the broader narrative of rising tariffs is well understood, the real challenge lies in the details…and we don't envy those managing global supply chains through such complexity. Ultimately, we expect more clarity on the specifics around tariff rates and exemptions, allowing Masco to better mitigate the impact. One of the key advantages of owning well-run, competitively positioned businesses is the confidence that their experienced leadership can effectively navigate uncertain environments.

Portfolio changes in the second quarter included the sale of Dun & Bradstreet Holdings (DNB) and PepsiCo (PEP), and the addition of Nordson and Mondelez International (MDLZ). We exited our position in DNB following its sale to private equity. While the company had some appealing attributes, it ultimately proved to be a value trap. For a more detailed discussion, please refer to our first quarter commentary.

PepsiCo, one of the largest global beverage producers and the leading packaged snack company in North America, remains a dominant force in the snack aisle. We continue to own the stock in our yield-oriented strategies. However, in the Large Cap Value strategy, which prioritizes capital appreciation, we chose to replace PepsiCo with Mondelez. As one of the world's largest players in the sweet snacks and confectionery market, Mondelez owns a portfolio of iconic brands, such as Oreo, Ritz, and Cadbury. The stock came under pressure due to recent volatility in cocoa prices, and we used the pullback as an opportunity to add a high-quality consumer staples business with broader international exposure and a strong, proven management team.

Outlook

As we look ahead, the market's all-time highs stand in contrast to a growing list of underlying challenges that continue to weigh on the minds of long-term investors. Decades of capital gaining share over labor have helped fuel a rise in populist sentiment across developed economies. Global trade is undergoing a structural reorganization, shifting from efficiency-optimized supply chains to more resilient but costlier ones. At the same time, the US national debt is expanding at an unsustainable pace, with little political resolve to address it. And all of this unfolds against the backdrop of multiple unresolved geopolitical crises. While markets have shown remarkable resilience, reconciling these deeper shifts with current valuations remains one of the central tensions in today's investing landscape. While the world is complex and the future inherently uncertain, our investment philosophy remains steadfast. We believe the best way to navigate an unpredictable environment is to own competitively advantaged businesses, led by capable managers, generating strong cash flow, and backed by sound balance sheets.

Large Cap Value • *Value Equity Strategies*

Contribution[1]

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.	5.61	2.76
Booking Holdings Inc.	3.71	0.89
Nordson Corp.	3.83	0.86
NXP Semiconductors N.V.	3.25	0.50
Martin Marietta Materials Inc.	3.46	0.49
Bottom 5		
Constellation Brands	2.62	(0.28)
PepsiCo Inc.	*Sold*	(0.38)
Masco Corp.	4.63	(0.39)
Berkshire Hathaway Inc. (Class B)	4.83	(0.44)
Thermo Fisher Scientific Inc.	2.74	(0.63)

(YTD as of 6/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	5.61	1.82
W. R. Berkley Corp.	4.80	1.16
Nordson Corp.	1.92	0.86
Starbucks Corp.	*Sold*	0.75
Paycom Software Inc.	5.17	0.67
Bottom 5		
Masco Corp.	5.01	(0.59)
Diageo plc	3.21	(0.71)
Thermo Fisher Scientific Inc.	3.11	(0.77)
Constellation Brands	2.62	(0.82)
Dun & Bradstreet Holdings Inc.	*Sold*	(0.90)

Performance Composite Returns[2] (For Periods Ending June 30, 2025)

	Since Inception**	30-Year*	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Large Cap Value *Pure Gross-of-Fees[3]*	11.2%	10.7%	9.7%	10.3%	13.0%	10.4%	12.9%	12.9%	13.1%	3.3%	4.6%
Max Net-of-Fees[4]	8.0%	7.6%	6.5%	7.0%	9.7%	7.2%	9.6%	9.6%	9.7%	1.7%	3.8%
S&P 500	10.9%	10.5%	8.0%	10.7%	14.9%	13.6%	16.6%	19.7%	15.1%	6.2%	10.9%
Russell 1000 Value	9.7%	9.4%	7.8%	8.1%	11.6%	9.2%	13.9%	12.7%	13.7%	6.0%	3.8%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	S&P 500	R1000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R1000V 3yr Std Dev	Composite Dispersion
2005**	(1.6%)	(4.3%)	4.9%	7.1%	(6.5%)	1,064	$188,332		8.7%	9.0%	9.5%	0.6%
2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	$198,952		5.8%	6.8%	6.7%	0.6%
2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	$174,711		6.7%	7.7%	8.1%	0.6%
2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	$25,562	$291,644	13.2%	15.1%	15.4%	N/A
2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	$53,387	$533,832	17.7%	19.6%	21.1%	1.4%
2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	$76,040	$751,909	19.7%	21.9%	23.2%	0.4%
2011	6.4%	3.2%	2.1%	0.4%	4.3%	228	$89,145	$937,487	17.1%	18.7%	20.7%	0.3%
2012	19.0%	15.4%	16.0%	17.5%	3.0%	249	$143,568	$1,272,265	13.5%	15.1%	15.5%	0.4%
2013	37.6%	33.6%	32.4%	32.6%	5.2%	373	$208,844	$1,955,915	10.6%	11.9%	12.7%	0.9%
2014	10.7%	7.5%	13.7%	13.4%	(2.9%)	618	$278,339	$2,589,024	8.6%	9.0%	9.2%	0.5%
2015	1.6%	(1.4%)	1.4%	(3.8%)	0.2%	858	$352,556	$3,175,419	10.1%	10.5%	10.7%	0.5%
2016	8.6%	5.4%	12.0%	17.3%	(3.4%)	1,003	$396,038	$4,413,659	10.0%	10.6%	10.8%	0.4%
2017	16.1%	12.6%	21.8%	13.6%	(5.7%)	1,049	$380,737	$5,944,479	9.0%	9.9%	10.2%	0.6%
2018	(4.6%)	(7.4%)	(4.4%)	(8.3%)	(0.2%)	1,029	$364,805	$5,486,737	10.4%	10.8%	10.8%	0.6%
2019	34.5%	30.5%	31.5%	26.5%	3.0%	1,118	$525,944	$7,044,708	11.8%	11.9%	11.8%	0.6%
2020	13.0%	9.7%	18.4%	2.8%	(5.4%)	1,229	$647,076	$6,889,798	18.8%	18.5%	19.6%	0.9%
2021	26.8%	23.0%	28.7%	25.1%	(1.9%)	1,251	$738,402	$7,761,687	18.2%	17.2%	19.1%	0.6%
2022	(15.5%)	(18.0%)	(18.1%)	(7.6%)	2.7%	1,274	$609,865	$6,931,635	21.0%	20.9%	21.3%	0.6%
2023	16.9%	13.4%	26.3%	11.4%	(9.4%)	1,281	$611,018	$7,200,019	17.8%	17.3%	16.5%	0.7%
2024	14.5%	11.1%	25.0%	14.3%	(10.5%)	1,192	$609,515	$7,280,773	17.3%	17.2%	16.7%	0.7%

**Average annualized returns* ***Inception is 10/1/1994. Additional years of performance available on our website.* *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 1000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values. *(Source: Bloomberg)*

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See Territory Map on the Confluence website for sales coverage.

Disclosures

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All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance & liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk & 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.

Indexes: The S&P 500 and Russell 1000 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] **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.

[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, 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 Large Cap Value Strategy was incepted on October 1, 1994, and the current Large Cap Value Composite was created on August 1, 2008. Performance presented prior to August 1, 2008, occurred while the Portfolio Management Team was affiliated with a prior firm and the Portfolio Management Team members were the primary individuals responsible for selecting the securities to buy and sell. 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 (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 Large Cap Value Composite contains fully discretionary Large Cap Value wrap accounts. Large Cap Value is a value-based, bottom-up portfolio that utilizes stocks with market capitalizations typically exceeding $10 billion.

**Results shown for the year 1994 represent partial period performance from October 1, 1994, through December 31, 1994. 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 and/or performance was calculated quarterly prior to January 2001.

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