# Market Commentary

## *Value Equity Strategies*

Confluence INVESTMENT MANAGEMENT

### Fourth Quarter 2025

This past year was marked by a very rough start followed by one of the strongest rallies on record, which produced yet another solid year for equity investors with the S&P 500 Index up 17.9%. The year began with a high level of anxiety surrounding the new administration's policies, specifically around tariffs, causing a 15% correction through early April. However, sentiment quickly shifted as concerns abated with indications of a softening tariff policy and, more importantly, the excitement surrounding artificial intelligence (AI) and the significant capital investment being outlaid for data centers and the infrastructure needed to power them. More broadly, international equity markets outperformed domestic markets as the dollar came under pressure due to continued elevated fiscal deficits and the geopolitical restructuring of trade. This backdrop led to an outstanding year for commodities, driven by demand for infrastructure materials such as copper and uranium, as well as investors hedging their fiat currency with gold and silver. All in all, the domestic equity markets, across all market caps, were carried by the continued momentum surrounding AI and its infrastructure.

The impact of AI, and related infrastructure needed to power it, has had a significant impact on the economy and equity markets. More specifically, J.P. Morgan Asset Management looked at the 42 businesses involved with AI or powering the data centers since the release of OpenAI's ChatGPT in November 2022 and measured the impact that those businesses have had on the equity markets, capital expense spending, and earnings growth through December 22, 2025. The accompanying table (Figure 1) shows that 78% of the market price return, 66% of the earnings growth, and 71% of capital expense/ research & development growth were derived from just these 42 names.

*Figure 1 –* **Returns, earnings and capex/R&D growth of AI-related stocks in the S&P 500 since ChatGPT launch in Q4 2022**

| | Direct AI 28 stocks | AI Utilities 8 stocks | AI Cap Equip 6 stocks | Total AI 42 stocks | S&P 500 ex-AI |
|---|---|---|---|---|---|
| *Since November 2022* | | | | | |
| Price return | 195% | 66% | 174% | 190% | 26% |
| Earnings growth | 159% | 64% | 155% | 153% | 19% |
| Capex / R&D growth | 72% | 13% | 20% | 68% | 19% |
| *Share of changes since November 2022* | | | | | |
| Price return | 76% | 0.8% | 1.3% | 78% | 22% |
| Earnings growth | 63% | 1.6% | 1.5% | 66% | 34% |
| Capex / R&D growth | 70% | 1.0% | 0.2% | 71% | 29% |

*(Sources: J.P. Morgan Asset Management, Bloomberg; December 22, 2025)*

This has resulted in extreme market concentration, with the 10 largest S&P 500 companies now accounting for 40% of the overall index weight as these leaders have delivered a disproportionate contribution to returns (see Figures 2 and 3). The table presents the annual contribution of the 10 largest businesses in the index dating back to 1991. Notably, five of the last six years rank among the highest in terms of contribution from the 10 largest names. A closer look reveals that 1996, 1998, and 1999, which took place during the dot-com bubble, also appear in the top 10 years.

*Figure 2*

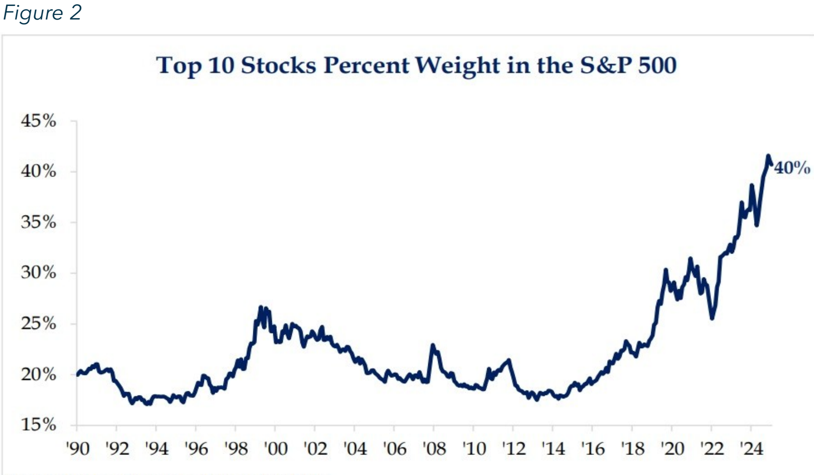



*Figure 3*

**Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years**

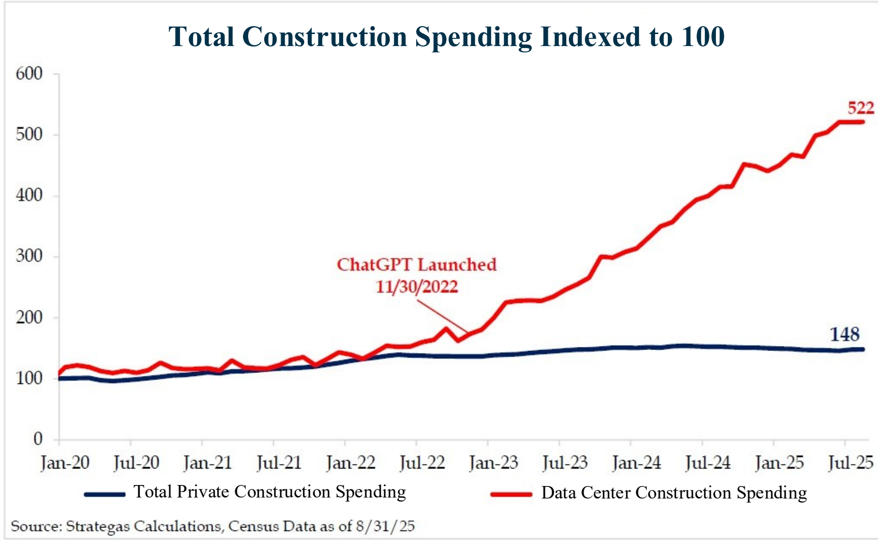
| Year | Top 10 as % of Total | S&P 500 % Perf. |
|---|---|---|
| 2007 | 78.7% | 3.5% |
| 2023 | 68.4% | 24.2% |
| 2024 | 68.1% | 23.3% |
| 2020 | 58.9% | 16.3% |
| **2025** | **57.3%** | **16.4%** |
| 1999 | 54.5% | 19.5% |
| 2021 | 45.0% | 26.9% |
| 1998 | 36.8% | 26.7% |
| 1996 | 33.9% | 20.3% |
| 2017 | 33.3% | 19.4% |
| 2019 | 32.8% | 28.9% |
| 1991 | 28.6% | 26.3% |
| 2006 | 27.6% | 13.6% |
| 2016 | 26.6% | 9.5% |
| 2003 | 23.6% | 26.4% |
| 1995 | 22.3% | 34.1% |
| 2014 | 22.2% | 11.4% |
| 2004 | 21.1% | 9.0% |
| 2005 | 20.5% | 3.0% |
| 2010 | 19.6% | 12.8% |
| 2012 | 19.2% | 13.4% |
| 1997 | 19.1% | 31.0% |
| 2013 | 17.6% | 29.6% |
| 2009 | 15.5% | 23.5% |
| 1992 | 14.9% | 4.5% |
| 1993 | 12.2% | 7.1% |

Source: Strategas, Bloomberg, 12/31/25

*(Figures 2-3, sources: Strategas, Bloomberg; as of 12/31/25)*

The scale of AI investment and the enthusiasm surrounding it have contributed to further bifurcation in the underlying economy and markets as its potential continues to draw funds. This trend is redirecting capital away from other areas of the economy and widening the divergence within the equity markets. This chart (Figure 4) reflects the rapid rise in construction spending on data centers, while construction spending across the rest of the economy has been muted over the past few years.

*Figure 4*

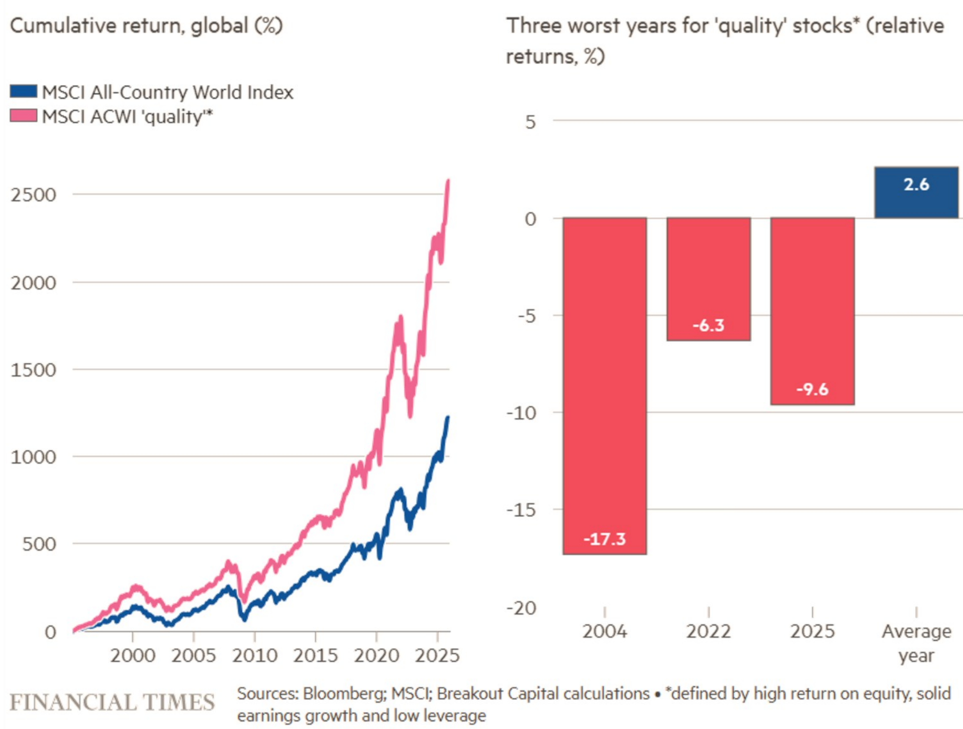



*(Source: Strategas; census data as of 8/31/25)*

The lopsided investment in AI has also produced dispersion in performance when defined by quality and level of dividends. Higher-quality stocks – defined by high ROE, solid earnings growth, and low leverage – dramatically lagged lower-quality stocks by 9.6%, the worst year since 2004 when they underperformed by 17.3%. Historically, quality has outperformed by 2.6%, on average, across world markets (see Figure 5).

Regarding quality, it was a tough year compared to the broad market as the Magnificent 7 (M7) and the AI infrastructure plays absorbed a disproportionate amount of capital at the expense of the high-quality, and often defensive, areas of the market.

*Figure 5 –* **Quality stocks have outperformed historically by a wide margin, but 2025 saw their second-worst decline on record**

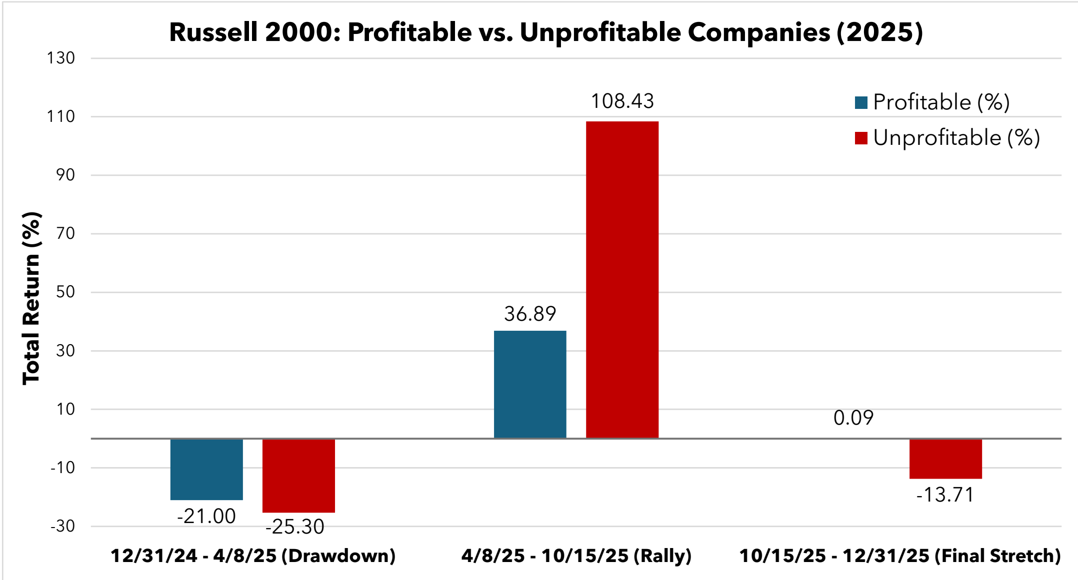



*(Source: Ruchir Sharma, 2026, "Top 10 trends for 2026," FT.com, 05 January. Used under license from the Financial Times. All Rights Reserved.)*

There was an even more pronounced gap in the small cap space between profitable and unprofitable businesses. In the Russell 2000 Index, unprofitable businesses, which compose about 40% of the index, outperformed profitable businesses by 26% (see Figure 6, next page, derived from the Morgan Stanley Russell 2000 Profitable and Unprofitable indexes).

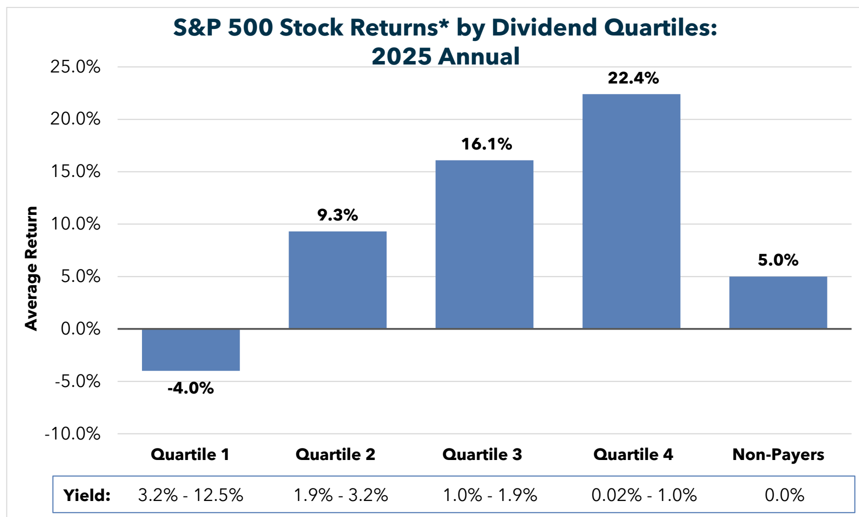
The leading driver behind this performance is the euphoric interest in data centers, small nuclear reactors, rare earths, battery storage, and lithium to support the burgeoning AI development. For example, OKLO reached a market cap exceeding $25 billion despite having no assets or licenses and only a business plan to build small nuclear reactors for data centers. Fermi, also armed with only a business plan to develop infrastructure for data centers, came public in early October with a market cap of over $16 billion. To put it in perspective, Cheerios maker General Mills has a market cap of approximately $24 billion.

*Figure 6*




*(Sources: Confluence, Bloomberg, Morgan Stanley Russell 2000 Profitable and Unprofitable Total Return indexes)*

*Figure 7*




**Actual Historical Constituents. Returns through 12/31/2025 (Sources: Confluence, Ned Davis Research)*

For higher-yielding dividend investors, the bifurcation over the last 12 months was extreme. Mature businesses with solid cash flow streams and above-average dividend yields are being overlooked for the next generation of AI players. Ned Davis Research breaks the S&P 500 into quartiles by dividend yield. Figure 7 reflects that the highest yielding quartile (Quartile 1) was down 4.0% in 2025, while the lowest yielding quartile (Quartile 4) returned 22.4%; Quartile 0 represents non-dividend payers. Quartile 4 consists of many marginal dividend payers (e.g., NVDA, 0.02%; META, 0.3%; GOOG, 0.3%; and AAPL, 0.4%). Of the M7, only Amazon (AMZN) and Tesla (TSLA) do not pay dividends.

The pronounced concentration in the S&P 500 arises from the index construction methodology, which relies on market capitalization to determine inclusion and weighting. The index was designed to serve as a proxy for the US economy and, on average, it has done so over a full market cycle. However, when sentiment or emotions swings to the extremes of optimism or pessimism, the risk profile tends to change as valuations become stretched and top holdings grow larger and more concentrated.

The style indexes created by Russell introduced valuation factors that were intended to reduce sentiment impact and, in the case of the Value indexes, align more closely with fundamental, value-oriented investors. However, their methodologies also alter the indexes' risk profiles over a full market cycle. This shift is primarily caused by "drift," although to a lesser extent than in the broader, capitalization-weighted indexes. The reason is that the style indexes aim to maintain an aggregate market capitalization equally spread between their Growth and Value indexes at rebalance. This mechanism can result in "leakage," where growth flows into value, or vice versa, whenever one side of the seesaw attracts outsized inflows.

This dynamic is particularly evident today as the M7 companies have grown to represent very large weightings in the overall market, thereby forcing the market cap weightings of other businesses to shift toward the value style to rebalance. We present an in-depth examination of this concept in our recent report, "Understanding the Benchmark: The Russell 1000 Value Index," as well as in our earlier analysis on broader index methodology and its applications, "Shining a Light on Indexes." Today, nearly 90% of the largest 1,000 companies now have some representation in the Value index, with Alphabet (GOOG) as the largest holding at 3.8% and Amazon (AMZN) the fourth-largest at 2.1%.

## Outlook

The magnitude of AI-related capital spending has buoyed the economy over the past few years. While GDP has stayed positive, inflation remains elevated (CPI at 2.7%), and unemployment continues to creep higher, ending 2025 at 4.5%, up from 3.5% at the beginning of 2023. These crosscurrents of rising unemployment and sticky inflation complicate the Fed's rate decisions. Meanwhile, the return on investment in AI has yet to be materially realized, even as debt financing for data centers has become more pronounced and creative. How this dynamic will ultimately play out we leave to the prognosticators, which we are not. Our focus remains on managing probabilities, not possibilities.

The AI excitement has led to rare levels of market concentration in the large cap arena, while creating pockets of euphoria in small caps, which has increased the risk profile of many indexes. It is extremely tempting to adapt one's philosophy and risk profile to this rapidly changing environment in an effort to rationalize participation, but such adjustments often result in severe disappointment.

At Confluence, we remain ardent in our disciplined philosophy focused on competitively advantaged businesses that are well capitalized and trading at attractive valuations. This process strives to maintain a consistent risk profile over full market cycles; however, by doing so, it will inevitably result in tracking error relative to the benchmarks. We accept tracking error because we manage risk by focusing on the protection of capital, or more specifically, we define risk as the *probability of a permanent loss of capital*. Our strategies displayed resilience during the year's initial drawdown, similar to their performance in large drawdowns in past cycles, but later fell out of favor as lower-quality and momentum-driven assets dominated the market for most of the year. We continue to maintain our fundamental approach, which has proven fruitful over the full market cycles of the past 30 years.

**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 | |


Sources: Figure 1: J.P. Morgan Asset Management, “2026 Eye on the Market Outlook” (1/1/2026). Figures 2-4: Strategas, “Quarterly Review in Charts” (1/5/2026). Figure 5: *Financial Times*, “Ruchir Sharma: top 10 trends for 2026” (1/5/2026) Used under license from the Financial Times. All Rights Reserved. Figure 6: Confluence Investment Management, Bloomberg, derived from Morgan Stanley Russell 2000 Profitable and Unprofitable indexes. Figure 7: Confluence Investment Management, Ned Davis Research.

# Large Cap Value

## *Value Equity Strategies*

**Fourth 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

Equity markets continued their advance in 2025, extending the rally that began in 2023. The year, however, unfolded in two distinct phases. On April 2 ("Liberation Day"), the Trump administration announced sweeping new tariffs, motivated by the view that longstanding trade relationships had disadvantaged the United States. This marked one of the most consequential shifts in US trade policy in nearly a century and injected a sudden, material dose of uncertainty into the economic outlook. Business leaders were forced to reassess supply chains and cost structures, and markets responded swiftly: equities sold off roughly 20% as risk appetites evaporated.

In the months that followed, uncertainty remained unresolved but market attention shifted elsewhere. Companies adapted by implementing tariff-mitigation strategies, and investor focus shifted back toward growth opportunities, most notably in artificial intelligence (AI). As upward momentum grew, markets moved decisively back into a risk-on posture, producing an even more aggressive rebound. By year end, equities had surged approximately 40% from their April lows, underscoring both the market's resilience and the powerful influence of technological optimism on investor sentiment.

As we discuss in detail in the Market Commentary, the S&P 500 continues to exhibit "top-heavy" characteristics as the 10 largest companies represent roughly 40% of the overall weight of the index (see Figures 2-3, Market Commentary). In each of the last three years, over half of the S&P 500's return has been driven by the largest 10 companies. This period coincides with the launch of ChatGPT and a host of other large language models (LLMs), and most of the largest companies are riding the AI wave. The result is an equity market propelled by the positive momentum of a small group of stocks.

For the year 2025, the S&P 500 Index advanced 17.9%, while the Russell 1000 Value Index grew 15.9% and the Confluence Large Cap Value strategy gained 7.8% (gross of fees). During the fourth quarter, the S&P 500 was up 2.7% and the Russell 1000 Value grew 3.8%, while Confluence Large Cap Value declined 0.6% (gross of fees). [*The strategy's net-of-fees returns for the same periods were 4.6% YTD and -1.4% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Our Large Cap Value strategy underperformed the S&P 500 and Russell 1000 Value for the year. The investment philosophy of our Large Cap Value strategy is to own competitively advantaged businesses that generate substantial excess free cash flow (FCF), deliver superior returns on capital, and trade at a discount to our estimate of intrinsic value. We believe in maintaining a consistent risk profile across the market cycle. With equity markets on a multi-year surge, we observe that investor psychology becomes motivated by the fear of missing out (FOMO). The result is that valuation discipline is set aside in favor of chasing the stocks and sectors that are working, regardless of quality or durability. We recognize investor frustration when the strategy lags during a period of strong equity market performance. However, we are steadfast in our view that maintaining discipline during such periods pays dividends over the long term.

While it is understandable why our strategy would not keep pace with a momentum-driven S&P 500, underperformance relative to the Russell 1000 Value has prompted additional questions. Over longer periods, the strategy has demonstrated an ability to add value relative to the Russell 1000 Value, with the strategy's gross returns outperforming in seven of the past 10 years. When deconstructing the returns of the Value index in 2025, one observation that stands out is the fact that the best-performing stocks are those with the highest sales and EBITDA growth. However, this group is also characterized by lower margins, returns, and FCF generation (see Figure 1, next page).

## Strategy Commentary continued…

*Figure 1*

| Quintile | Companies | Median YTD Return | 4-Year Median Sales Growth | 4-Year Median EBITDA Growth | 4-Year Median NI Growth | 4-Year Median EPS Growth | 4-Year Median EBITDA Margin | 4-Year Median NI Margin | 4-Year Median FCF Margin | Current ROIC | Current Net Debt/ EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1st | 174 | 43% | 6.4% | 7.4% | 4.2% | 6.1% | 20.1% | 10.7% | 8.3% | 6.8% | 1.2x |
| 2nd | 174 | 16% | 5.4% | 6.4% | 3.3% | 5.9% | 23.0% | 14.3% | 12.5% | 7.3% | 2.1x |
| 3rd | 174 | 3% | 4.8% | 6.1% | 4.6% | 5.5% | 25.0% | 14.2% | 13.3% | 8.2% | 1.7x |
| 4th | 173 | -9% | 4.7% | 4.8% | 3.0% | 4.9% | 27.6% | 15.1% | 14.2% | 7.3% | 2.0x |
| 5th | 173 | -29% | 3.5% | 3.3% | -0.7% | 2.0% | 21.0% | 10.0% | 9.1% | 6.7% | 1.9x |
| R1000V | 868 | 4% | 5.0% | 5.3% | 2.9% | 5.1% | 22.8% | 12.4% | 11.3% | 7.3% | 1.8x |
| LCV | 24 | | 6.8% | 7.3% | 8.7% | 8.8% | 28.3% | 19.9% | 16.9% | 15.2% | 1.5x |

*(Confluence Investment Management estimates through 12/31/25; data source: FactSet)*

Although we remain mindful of the benchmark index, our investment process is designed to establish a concentrated portfolio of superior-quality businesses. We believe the underlying attributes of the holdings in the strategy are healthy and reflect this process. In the face of underperformance, one avenue would be to abandon the investment process in favor of chasing the pockets of the market that are working. We reject this approach and instead trust that a portfolio of high-quality, competitively insulated businesses will outperform the market when allowed to compound over long holding periods. In the current short-term environment, the market "voting machine" is favoring high-growth companies and looking past profitability and cash flow. Our view is that over the long run, the "weighing machine" will eventually recognize the businesses that achieve profitable growth, cash flow, and high returns.

During the year, we made several changes to the portfolio. We exited positions in Starbucks (SBUX), Markel Group (MKL), Dun & Bradstreet Holdings (DNB), PepsiCo (PEP), and Oracle Corporation (ORCL). New positions included Air Products and Chemicals (APD), Arch Capital Group (ACGL), Nordson Corporation (NDSN), Mondelez International (MDLZ), and Progressive Corporation (PGR).

With the position now fully established, we can discuss the addition of Progressive to the strategy. Progressive is arguably the best underwriter in auto insurance, in our estimation, benefiting from cumulative knowledge of 30 years of incremental fine tuning on algorithms, new business acquisition, and efficient marketing spend. The company possesses a strong culture of profitable underwriting and growth built on superior data analysis, which has propelled the business to the #1 market share position (tied with State Farm).

The top-performing investments for the year included Oracle, Alphabet (GOOG), and Nordson. Oracle shares rapidly appreciated following the announcement of exceptionally large and concentrated contract wins tied to AI infrastructure. With the market embedding a great deal of optimism in Oracle's future prospects, we chose to exit the position. The market appears to have reached the same conclusion, with the shares having since sold off nearly 40%.

Early in 2025, Alphabet was viewed as an "AI loser," with fears mounting that its cash flow search engine business would be disintermediated by chat bots. However, resilient search volumes and the success of its Gemini LLM resulted in a sharp reversal to this narrative.

With the shares offering a compelling opportunity during the spring selloff, we added Nordson, a high-quality industrial business, to the portfolio. Nordson enjoys strong pricing power by virtue of providing critical but low-cost, precision technology components. The stock has recovered nicely during the market's upturn.

Detractors from performance in 2025 included Dun & Bradstreet, Constellation Brands (STZ), and Diageo (DEO). Despite what we believed to be valuable financial characteristics, Dun & Bradstreet was sold to private equity this year for a substantial discount to what we thought it was worth and represented an unsuccessful investment. Constellation and Diageo are both Consumer Staples businesses in the alcoholic beverage space. Both companies have suffered from weak demand, with Constellation further negatively impacted by restrictive immigration policy that has impacted its core Latin American customer.

## Strategy Commentary continued...

Given that the Consumer Staples sector has been an acute source of underperformance this year, additional commentary is warranted. When a stock underperforms, an intellectually honest appraisal is required. There are many potential drivers, including weaker current results, concerns about future performance, or changes in market expectations, that manifest through multiple compression. These pressures can be transitory, externally driven, or self-inflicted. However, the most critical factor to monitor is whether a company's competitive advantages are eroding as these advantages are the engine of long-term value creation.

Consumer Staples have been broadly out of favor, leaving few places to hide outside a small handful of stocks. We believe the Staples holdings in the strategy, including Constellation, Diageo, and Mondelez, remain high-quality businesses. Each company owns leading brands in structurally attractive duopoly or oligopoly markets, with a history of strong cash flow generation and disciplined capital allocation. While all sources of underperformance are real and must be evaluated, our primary focus remains the durability of business quality, and we would act decisively if that assessment changes; at present, we do not believe it has.

## Outlook

Business leaders and market participants are entering 2026 seeking clarity on a number of unresolved uncertainties. How will tariff policies evolve in response to legal judgments and market reactions? To what extent will elevated tax refunds bolster consumer confidence, particularly among lower-income households that have absorbed several years of rising prices? How might monetary policy shift with the expected appointment of a new Federal Reserve chair? Can artificial intelligence continue to attract massive capital investment and will it further propel mega-cap technology companies to new heights? Finally, will policy efforts to reshore American manufacturing serve as a catalyst for an industrial renaissance?

We expect these questions to remain active areas of debate, with thoughtful arguments on all sides. Importantly, at Confluence, we don't stake our clients' investments on the basis of accurately predicting each of these matters. Our philosophy, informed by 30 years of successful application, is that long-term outperformance is rooted in owning businesses with durable competitive advantages. These advantages enable companies to earn and defend high returns on capital, generating cash flow that can be reinvested and compounded by capable, disciplined management teams. Accordingly, the majority of our effort is devoted to identifying businesses that exhibit these characteristics. We view the strategy not as a portfolio of stocks, but as a collection of high-quality businesses designed to compound value through long-term ownership.

## Contribution[1]

The top contributors and detractors for the portfolio in Q4 2025 and the full year are shown in the following tables:

***(QTD as of 12/31/2025)***

| Security | Avg Weight (%) | Contribution (%) |
|---|---|---|
| **Top 5** | | |
| Alphabet Inc. | 4.84 | 1.24 |
| Keysight Technologies Inc. | 4.37 | 0.69 |
| Thermo Fisher Scientific Inc. | 3.74 | 0.63 |
| TJX Co. Inc. | 4.61 | 0.30 |
| S&P Global Inc. | 3.69 | 0.27 |
| **Bottom 5** | | |
| Air Products and Chemicals Inc. | 3.78 | (0.36) |
| Masco Corp. | 3.68 | (0.38) |
| Mondelez International Inc. | 3.25 | (0.46) |
| Fastenal Co. | 3.73 | (0.77) |
| Paycom Software Inc. | 4.16 | (1.15) |

***(YTD as of 12/31/2025)***

| Security | Avg Weight (%) | Contribution (%) |
|---|---|---|
| **Top 5** | | |
| Oracle Corp. | *Sold* | 3.06 |
| Alphabet Inc. | 4.13 | 2.41 |
| Nordson Corp. | 3.22 | 1.43 |
| TJX Co. Inc. | 4.21 | 1.13 |
| Keysight Technologies Inc. | 3.49 | 1.02 |
| **Bottom 5** | | |
| Air Products and Chemicals Inc. | 2.98 | (0.85) |
| Paycom Software Inc. | 5.12 | (1.03) |
| Diageo plc | 2.96 | (1.06) |
| Constellation Brands | 2.31 | (1.14) |
| Dun & Bradstreet Holdings Inc. | *Sold* | (1.23) |

## Performance Composite Returns[2] (For Periods Ending December 31, 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% | 10.5% | 9.3% | 10.4% | 12.1% | 11.0% | 9.1% | 13.0% | 7.8% | 7.8% | (0.6%) |
| *Max Net-of-Fees[4]* | 8.0% | 7.3% | 6.2% | 7.2% | 8.8% | 7.7% | 5.9% | 9.7% | 4.6% | 4.6% | (1.4%) |
| **Russell 1000 Value** | 9.9% | 9.2% | 7.7% | 8.3% | 10.8% | 10.5% | 11.3% | 13.9% | 15.9% | 15.9% | 3.8% |
| **S&P 500** | 11.0% | 10.3% | 8.8% | 11.0% | 14.1% | 14.8% | 14.4% | 23.0% | 17.9% | 17.9% | 2.7% |

| Calendar Year | Pure Gross-of-Fees[3] | Max Net-of-Fees[4] | R1000 Value | S&P 500 | Difference (Gross-R1000V) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | R1000V 3yr Std Dev | S&P 500 3yr Std Dev | Composite Dispersion |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2006** | 17.8% | 14.5% | 22.2% | 15.8% | (4.5%) | 957 | $198,952 | | 5.8% | 6.7% | 6.8% | 0.6% |
| 2007 | 5.9% | 3.0% | (0.2%) | 5.5% | 6.1% | 834 | $174,711 | | 6.7% | 8.1% | 7.7% | 0.6% |
| 2008 | (27.0%) | (29.1%) | (36.8%) | (37.0%) | 9.8% | 119 | $25,562 | $291,644 | 13.2% | 15.4% | 15.1% | N/A |
| 2009 | 28.6% | 24.8% | 19.7% | 26.5% | 9.0% | 149 | $53,387 | $533,832 | 17.7% | 21.1% | 19.6% | 1.4% |
| 2010 | 12.1% | 8.8% | 15.5% | 15.1% | (3.4%) | 192 | $76,040 | $751,909 | 19.7% | 23.2% | 21.9% | 0.4% |
| 2011 | 6.4% | 3.2% | 0.4% | 2.1% | 6.0% | 228 | $89,145 | $937,487 | 17.1% | 20.7% | 18.7% | 0.3% |
| 2012 | 19.0% | 15.4% | 17.5% | 16.0% | 1.5% | 249 | $143,568 | $1,272,265 | 13.5% | 15.5% | 15.1% | 0.4% |
| 2013 | 37.6% | 33.6% | 32.6% | 32.4% | 5.1% | 373 | $208,844 | $1,955,915 | 10.6% | 12.7% | 11.9% | 0.9% |
| 2014 | 10.7% | 7.5% | 13.4% | 13.7% | (2.7%) | 618 | $278,339 | $2,589,024 | 8.6% | 9.2% | 9.0% | 0.5% |
| 2015 | 1.6% | (1.4%) | (3.8%) | 1.4% | 5.5% | 858 | $352,556 | $3,175,419 | 10.1% | 10.7% | 10.5% | 0.5% |
| 2016 | 8.6% | 5.4% | 17.3% | 12.0% | (8.7%) | 1,003 | $396,038 | $4,413,659 | 10.0% | 10.8% | 10.6% | 0.4% |
| 2017 | 16.1% | 12.6% | 13.6% | 21.8% | 2.4% | 1,049 | $380,737 | $5,944,479 | 9.0% | 10.2% | 9.9% | 0.6% |
| 2018 | (4.6%) | (7.4%) | (8.3%) | (4.4%) | 3.7% | 1,029 | $364,805 | $5,486,737 | 10.4% | 10.8% | 10.8% | 0.6% |
| 2019 | 34.5% | 30.5% | 26.5% | 31.5% | 7.9% | 1,118 | $525,944 | $7,044,708 | 11.8% | 11.8% | 11.9% | 0.6% |
| 2020 | 13.0% | 9.7% | 2.8% | 18.4% | 10.2% | 1,229 | $647,076 | $6,889,798 | 18.8% | 19.6% | 18.5% | 0.9% |
| 2021 | 26.8% | 23.0% | 25.1% | 28.7% | 1.6% | 1,251 | $738,402 | $7,761,687 | 18.2% | 19.1% | 17.2% | 0.6% |
| 2022 | (15.5%) | (18.0%) | (7.6%) | (18.1%) | (7.9%) | 1,274 | $609,865 | $6,931,635 | 21.0% | 21.3% | 20.9% | 0.6% |
| 2023 | 16.9% | 13.4% | 11.4% | 26.3% | 5.5% | 1,281 | $611,018 | $7,200,019 | 17.8% | 16.5% | 17.3% | 0.7% |
| 2024 | 14.5% | 11.1% | 14.3% | 25.0% | 0.2% | 1,192 | $609,515 | $7,280,773 | 17.3% | 16.7% | 17.2% | 0.7% |
| 2025 | 7.8% | 4.6% | 15.9% | 17.9% | (8.0%) | 990 | $527,647 | $6,769,052 | 13.0% | 12.4% | 11.8% | 0.5% |

**Average annualized returns   **Inception is 10/1/1994. Additional years of performance available on our website.   See performance disclosures on last page.*

### Portfolio Benchmarks

***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.

***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

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|---|---|---|---|---|---|
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**For more information contact a member of our sales team:** (314) 530-6729 or sales@confluenceim.com

*See Territory Map on the Confluence website for sales coverage.*

# Disclosures

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.

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 Russell 1000 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 indices for this composite were retroactively reassigned: the primary index was changed from the S&P 500 to the Russell 1000 Value Index, and the secondary index was changed from the Russell 1000 Value Index to the S&P 500.

[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.

*The investment strategies described herein are those of Confluence Investment Management. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Confluence materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.*