Market Commentary

Value Equity Strategies

Third Quarter 2025

To know the road ahead, ask those coming back. — Chinese Proverb

"Risk-On" Remains

The "risk-on" trade continued its momentum that began in early April, lifting the broad markets to new highs during the quarter. The improving investor sentiment was inspired primarily by the pace of artificial intelligence (AI) development, and the associated investment needed, as well as an FOMC rate cut and fiscal budget adoption. This optimism was widespread, spanning market capitalizations as well as asset classes. Bond markets saw spreads on corporate and high-yield bonds relative to Treasurys fall to near 25-year lows. International markets posted another solid quarter, while gold and bitcoin also traded to new highs as the dollar weakened and inflation and geopolitical risks remain elevated. The momentum behind the risk-on trade stood in sharp contrast to the start of the year as sentiment quickly shifted away from assessing the probabilities of potential outcomes to focusing on the possibilities of returns.

AI Impact

For the domestic markets, AI has been the driver as the largest tech players continue to up the ante on current spending and capital commitments based on the pretense that under-investment is riskier than over-investing…and the markets are rewarding larger investments. The impact these AI investments have had since the launch of OpenAI's ChatGPT in late November 2022 is reflected in this table (Figure 1). It shows the contribution of AI-related investments (Direct, Utilities, Capital Equipment) to the S&P 500's returns, earnings, and capex – all heavily skewed toward AI – from November 22, 2022, through September 22, 2025.

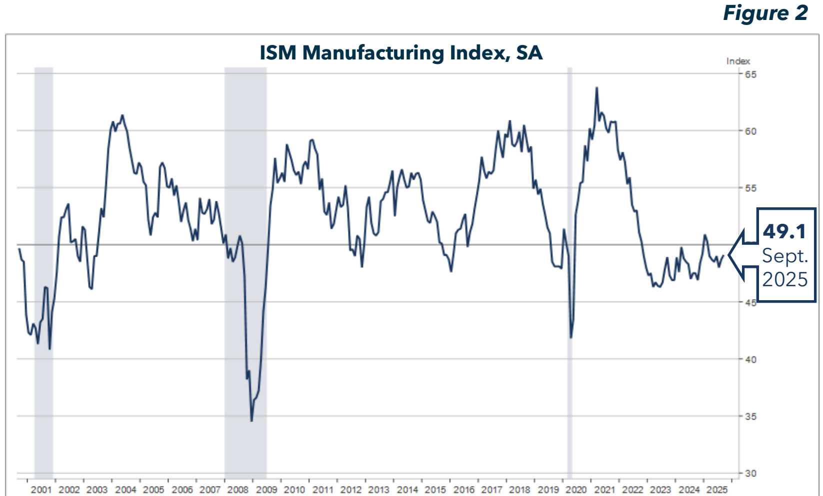
***Figure 1* – Returns, earnings, capex/R&D growth & contributions of AI-related stocks in the S&P 500 since ChatGPT launch**

	AI: Direct	AI: Utilities	AI: CapEquip	S&P 500 ex-AI
Performance since November 2022				
Price return	181%	65%	138%	25%
Earnings growth	124%	15%	58%	9%
EBIT growth	98%	11%	71%	16%
Capex + R&D growth	63%	21%	-14%	4%
Contributions to S&P 500 since November 2022				
Price return	75%	0.9%	0.9%	23%
Earnings growth	79%	0.5%	0.8%	20%
EBIT growth	62%	0.4%	0.9%	36%
Capex + R&D growth	90%	2%	-0.1%	8%

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

To add perspective on the expenditure size, OpenAI has committed to invest over a trillion dollars (yes, trillion) on infrastructure despite currently operating at a $13 billion annual run rate of revenue. The scope and scale of this investment in data centers is already challenging the infrastructure needed to provide the energy along with the associated materials and skills required to build. Thus far, the deals would require access to more than 20 gigawatts of computing capacity, which is roughly equivalent to the power produced by 20 nuclear reactors.

Figure 2



(Sources: Confluence, Macrobond)

The scale of the investment and excitement behind its potential appear to have created a vortex that is absorbing funds and investment from the rest of the economy and market. It has aided infrastructure plays among alternative and independent energy producers, especially in nuclear and natural gas, while also boosting miners as commodities like copper are needed to transmit the electricity required to power these facilities. Many of these utilities and miners are smaller in market capitalization and are benefiting from these potential requirements, which positively impacted small caps this past quarter.

This environment is also affecting the broader manufacturing base, which has been struggling outside the AI realm. The ISM Manufacturing Index, which surveys purchasing managers in the manufacturing sector to gauge their overall health by measuring five key areas (new orders, production, employment, supplier deliveries, and inventories), has remained below 50 for most of the past three years (see Figure 2). Because the index is an average of the participants, the substantial investment surrounding AI has likely been too concentrated to lift the measure above 50.

Mega-Cap Momentum Drives Uneven Markets

More specifically, the mega-cap, technology-oriented businesses continue to skew the broad markets, as the table below demonstrates the strength of the Technology (MSFT, NVDA, AAPL, ORCL) and Communication Services (GOOG, META) sectors. The Industrials and Utilities sectors also benefited from the AI tailwinds. The momentum toward these sectors has had a negative impact on the more defensive sectors, Consumer Staples and Health Care, which are lagging.

***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	2.9%	1.8%	13.5%	8.3%	10.5%	34.8%	10.1%	1.9%	8.9%	4.9%	2.3%	100.0%
Russell Growth weight	0.3%	0.3%	6.2%	5.9%	13.2%	52.6%	11.5%	0.4%	6.8%	2.4%	0.3%	100.0%
Russell Value weight	5.9%	4.1%	22.6%	13.1%	7.7%	10.5%	8.1%	4.2%	11.7%	7.6%	4.5%	100.0%
QTD return	6.2	3.1	3.2	5.0	9.5	13.2	12.0	2.1	3.8	-2.4	7.6	8.1
YTD return	7.0	9.3	12.8	18.4	5.3	22.3	24.5	5.3	2.6	3.9	17.7	14.8

(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 4Q 2025, as of September 30, 2025)

Beyond the AI investment boom, the US consumer is feeling the pinch from inflationary pressures on non-discretionary items such as insurance, housing/utilities, and healthcare. This is evident as spending is strong at the largest retailers (Walmart, Amazon) and grocers (Kroger) on essential offerings like food and drugs, yet discretionary items remain weak. As a result, the retailers that cater to the cost-conscience buyer are benefiting, while traditional consumer staples providers are being pressured.

Bringing it all together and dissecting the year-to-date returns of the market, the S&P 500 Index is up 14.8% with growth leading value, large leading small, low-yield leading high-yield, and international leading domestic. The Russell 1000 Growth Index is now up 17.2% for the year compared to the Russell 1000 Value Index, which is up 11.7%. Delving into it a little more, the Momentum factor is up 24.8% compared to Quality, up 10.0% (iShares MSCI USA Momentum Factor versus Quality Factor ETFs). In September, the Russell 1000 Index reported a 3.5% return, with 99.1% of the businesses contributing just 0.1% of the return and 0.9% of the businesses, or nine companies, contributing the remaining 97%. Among dividend-paying stocks, the lower-yielding quartile of the S&P 500 is outperforming the highest dividend-yielding quartile by a wide margin, 17.0% versus -1.4%, respectively, according to data from Ned Davis Research. These divergences show just how heavily the mega-cap tech/momentum trade has been influencing the markets.

Current Perspectives

The current environment is brimming with excitement surrounding the prospect that AI will transform society. While we do not doubt the potential, the timing and magnitude remain uncertain. History shows that human nature often leads us to let our guard down at the onset of new innovations, allowing exuberance to overwhelm pragmatism, which then often results in unrealistic expectations and overinvestment. From the railroads of the mid-to-late 1800s, to the Roaring 1920s and the growth of radio, to the Nifty Fifty of the 1970s, to the dot-com craze at the turn of the century, and the housing bubble of the 2000s, these events all showed that the allure of "new" possibilities may not always produce the optimal investment outcome. At Confluence, we have been down this path and witnessed firsthand the disruption that can come from altering investment objectives or approaches to suit the moment. We remain steadfast in maintaining our philosophy and process to provide the consistent risk profile offered by each of our Value Equity strategies. This is an approach we have deployed since 1994, guided by the same leadership which has served our clients well through previous uncertain periods.

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

20 Allen Ave., Ste. 300, St. Louis, MO 63119 www.confluenceinvestment.com

Small Cap Value

Value Equity Strategies

Third Quarter 2025

Small Cap Value is focused on companies that have small market capitalizations consistent with the Russell 2000 Index or the S&P SmallCap 600 Index at the time of purchase. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess competitive advantages and that are trading at substantial discounts to our estimates of intrinsic value. The strategy is appropriate for clients whose primary objective is capital appreciation.

Strategy Commentary

The third quarter of 2025 extended the small cap rally that began after markets bottomed in early April, following "Liberation Day." The Russell 2000 and Russell 2000 Value indexes advanced 12.4% and 12.6%, respectively, outpacing the large cap benchmarks for the first time in several quarters. Small caps still trail on a year-to-date basis, with respective gains of 10.4% and 9.0%, but the strong rebound this quarter suggests they may have a shot at closing the gap if the economy continues to hold steady and the Federal Reserve remains on a friendly, or at least neutral, path. The Russell 2000 has not outperformed the Russell 1000 Index on a full-year basis since 2016, so it would be a welcome change to see small caps take the lead.

All 11 major economic sectors in both the Russell 2000 and Russell 2000 Value indexes finished the quarter in positive territory. Lower policy rates and expectations for further easing supported a clear "risk-on" environment. Non-profitable, high-beta companies were among the top gainers as investors chased growth over profits. As we've noted before, more than 40% of Russell 2000 constituents are unprofitable, with many concentrated in the Health Care and Technology sectors. Cyclical, rate-sensitive areas such as regional banks, select Industrials, and Materials also outperformed. The easier policy backdrop was particularly meaningful for more highly levered companies, many of which carry floating-rate debt.

Meanwhile, the ongoing AI infrastructure buildout, discussed in the Market Commentary section, continued to ripple downstream into small cap companies exposed to the power grid, construction, and commodity supply chains. Gold miner and junior-miner ETFs surged substantially over the quarter. Utilities — which are traditionally defensive — also performed well, supported by strength in unregulated and nuclear (SMR) operations as investors positioned for rising electricity demand driven by AI-related growth. These dynamics helped extend the rebound in small caps being led by more commodity-like, rate-sensitive, higher-beta, and AI-adjacent pockets of the market.

Unfortunately, this market backdrop challenges our investment style as the areas leading performance are outside our investment discipline. Our approach is fundamentally driven and bottom-up, focused on competitively advantaged businesses — those with strong brands, differentiated product and services, and pricing power that enables them to earn attractive returns on capital while trading below our estimate of intrinsic value. These businesses are profitable and typically exhibit lower beta and volatility. As a result, we generally avoid commodity-oriented businesses (e.g., banks, materials, and utilities) and speculative segments such as biotechnology, which are precisely the areas that have recently been in favor.

Given these dynamics, Confluence Small Cap Value lagged during the quarter, advancing 1.1% for a year-to-date decline of 4.1% (both gross of fees). [*The strategy's net-of-fees returns for the same periods were 0.4% QTD and -6.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

From a sector standpoint, our holdings in Consumer Staples and Health Care detracted the most from relative performance. Our overweight in Consumer Staples was the worst-performing sector this quarter, while several Consumer Staples holdings faced top-line pressure as consumers pulled back on discretionary spending, a reflection of broader consumer restraint. In Health Care, weighing on performance was our zero exposure to biotechnology, one of the strongest sub-sectors, combined with weakness in a couple of holdings as Haemonetics (HAE) and UFP Technologies (UFPT) were notable laggards.

Haemonetics is a global healthcare company that provides equipment, disposables, and software used to collect and manage plasma, as well as medical devices that help close blood vessels after surgical procedures. While HAE's plasma business remains strong, sales slowed sharply in its VASCADE surgical device line. Management attributed this to sales execution, disruption from a recent reorganization, and competitive pressures. This stumble validated a key bear concern that VASCADE growth would slow, overshadowing otherwise solid performance across the rest of the portfolio and prompting a reset in expectations. Management has since taken actions to stabilize the business, including a new segment leader to improve execution. Meanwhile, the stock now trades for 10x earnings, a historically low level, despite continued earnings growth and intact long-term fundamentals.

Strategy Commentary continued…

UFP Technologies is a designer and manufacturer of single-use, custom-engineered medical components and sterile-barrier solutions (drapes) used across the robotic-assisted surgery market. The stock came under some pressure during the quarter despite continued strength in its core drapes business. It was weighed down by a combination of factors, including labor inefficiencies and turnover which disrupted operations in an acquired company, as well as increased tariff-related cost pressures. In addition, a short report surfaced raising concerns about increasing competition in UFPT's core market. After meeting with management at a recent investor conference, we walked away confident that the company-specific challenges are temporary and that management is taking appropriate action. Regarding the short report, management believes the claims are unfounded as UFPT's competitive positioning and relationship with its key customer remain solid and its long-term growth drivers are intact.

Baldwin Insurance Group (BWIN), an insurance broker with a differentiated business model focused on the high-growth segments of the insurance market, also underperformed during the quarter. There are some headwinds that are expected to weigh on near-term performance, including declining property rates, elevated churn in Medicare, and a procedural change in the timing of IAS revenue recognition. As a result, management cut its H2 organic growth expectations in half. While these near-term headwinds are limiting growth, we continue to view BWIN favorably as it now trades at a reasonable valuation given its strong market position and the potential to compound earnings at an above-average rate over the long term.

On the positive side, Cavco Industries (CVCO), a leader in the niche market of manufactured homes, benefited from lower interest rates and improving fundamentals, including higher home sales volumes and improved pricing as earnings continue to recover from prior troughs. We believe CVCO's niche industry has high barriers to entry and less cyclicality than traditional homebuilders, effectively operating as an oligopoly. These dynamics should position the company well to capitalize on the need for affordable housing in the current environment.

Another strong performer this quarter was Knowles Corp. (KN), a recent addition to the portfolio and a leading designer of advanced electronic components for the MedTech, defense, and industrial end markets. We initiated the position following the company's transformation into a focused industrial technology business after divesting its lower-margin consumer microphone business in 2024. Management has redeployed capital toward higher growth and higher margin segments, and the most recent quarter showed good progress toward these objectives, which demonstrated confidence in management's strategy and helped drive the stock higher. With a strong balance sheet, strong cash flow, and a clear and focused strategy, Knowles remains well positioned to grow value over time.

Lastly, Tripadvisor (TRIP), best known for its global travel platform Tripadvisor.com and its fast-growing online experience marketplace Viator, delivered acceptable second quarter earnings results. Core metasearch operations remain in turnaround mode, while Viator continues to post strong revenue growth and move more quickly toward profitability. However, what truly drove the stock this quarter was the entry of activist investor Starboard Value, which disclosed a 9% stake in TRIP. Early this year, TRIP eliminated its complex ownership structure by buying out Liberty TripAdvisor Holdings, ending its dual-class share setup and clearing the path for an activist to push for strategic changes or potential asset monetization to unlock value. Based on our sum of the parts, we believe such action could highlight the significant underlying value of TRIP's assets and justify a higher valuation over time.

While our focus on high-quality businesses trading at a discount is out of favor in the current investing environment, we believe this discipline will ultimately be rewarded when the market normalizes and fundamentals and valuations matter once again. In the meantime, we continue to find compelling value outside of today's market spotlight. One example is Vail Resorts (MTN), a recent addition to our portfolio.

Vail Resorts (MTN) is the leading owner and operator of destination mountain resorts in North America, with a portfolio of irreplaceable assets in an attractive, supply-constrained industry. Ski resorts effectively operate as local monopolies with limited new development and resilient long-term visitation trends. With demand consistently outpacing supply, Vail has pricing power. The company's portfolio includes some of the most iconic mountains in North America — Beaver Creek, Whistler Blackcomb, Breckenridge, and Park City — franchise assets that anchor its competitive advantage.

The opportunity arose after operational and capital allocation missteps under the prior CEO. The return of CEO Robert Katz, who built Vail's industry-leading model and invented the Epic Pass, marks an important turning point. Katz is a highly respected leader and his decision to return signals strong conviction that he can drive renewed growth and operational improvement. His leadership is a material upgrade and potential catalyst. Despite some near-term headwinds from weather variability and consumer spending, Vail continues to generate strong free cash flow and trades below our estimate of intrinsic value. We believe MTN exemplifies the type of high-quality, cash-generative business that we seek to invest in.

Outlook

The US economy has proven remarkably resilient despite headwinds from tariffs, trade tensions, and geopolitical uncertainty. Growth has moderated but remains positive, and both fiscal and monetary policies appear supportive as we head into 2026. The Fed's recent rate cut reflects its intent to stay ahead of any labor market weakness, while fiscal proposals, such as President's Trump's One Big Beautiful Bill Act, signal a renewed push for pro-growth measures.

If this backdrop holds, small cap equities present an interesting opportunity relative to their large cap brethren. Valuations for small caps remain at historical lows, and we may be nearing an inflection point where small cap earnings growth begins to outpace that of large caps. Following several years of sluggish performance, small caps are projected to deliver significantly higher earnings growth next year compared to the forecast for large caps as earnings momentum among the Magnificent 7 begins to slow. This combination of higher growth at lower valuations may help close the gap.

The challenge for investors today is determining whether this optimism is already priced into the markets. Equity indexes are trading well above historical valuation averages, market leadership remains narrow, and "animal spirits" seem alive and well (where emotions play an outsized role in market behavior), with momentum and story stocks driving performance while valuations take a back seat.

For patient investors like us, who remain grounded in fundamentals, watching risk-on trades soar while our quality holdings tread water or lag can be emotionally challenging, yet intellectually rational. It's precisely during such times that discipline matters most. Our investment approach may appear out of step with the market's current enthusiasm; however, we don't view this as a bug, but rather a feature.

Our quality-focused approach is designed to prevent a substantial and permanent loss of capital and compound value over time. Our goal remains clear: protect capital, stay patient, and use market volatility to our advantage. While we cannot predict how long this speculative environment will persist, history reminds us that when animal spirits run high, reversals can be swift once sentiment shifts. We remain steadfast in our objective to grow and safeguard our investors' capital. We appreciate your continued trust and confidence in our team.

Contribution[1]

The top contributors and detractors for the portfolio in Q3 2025 and year-to-date are shown in the following tables:

(QTD as of 9/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Cavco Industries Inc.	5.02	1.52
Knowles Corp.	3.58	1.00
TripAdvisor Inc.	4.27	0.78
Movado Group Inc.	3.09	0.72
i3 Verticals Inc.	3.79	0.65
Bottom 5		
American Outdoor Brands Inc.	2.19	(0.40)
UFP Technologies Inc.	2.38	(0.48)
Morningstar Inc.	3.24	(1.00)
Haemonetics Corp.	2.82	(1.21)
Baldwin Insurance Group Inc.	3.12	(1.32)

(YTD as of 9/30/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
RBC Bearings Inc.	4.36	1.42
Cavco Industries Inc.	5.04	1.30
i3 Verticals Inc.	3.39	1.18
Gates Industrial Corp. plc	4.37	0.86
Knowles Corp.	2.76	0.79
Bottom 5		
Enovis Corp.	2.81	(1.04)
Morningstar Inc.	3.56	(1.21)
J & J Snack Foods Corp.	2.76	(1.24)
American Outdoor Brands Inc.	2.78	(1.48)
Spectrum Brands Holdings Inc.	3.60	(1.67)

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

	Since Inception**	30-Year*	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Small Cap Value *Pure Gross-of-Fees[3]*	10.2%	9.9%	9.3%	7.8%	8.4%	6.8%	5.4%	5.7%	(7.5%)	(4.1%)	1.1%
Max Net-of-Fees[4]	7.0%	6.8%	6.1%	4.6%	5.2%	3.7%	2.3%	2.6%	(10.3%)	(6.2%)	0.4%
Russell 2000 Value	9.5%	9.2%	8.8%	7.3%	9.5%	9.2%	14.6%	13.5%	7.9%	9.0%	12.6%
Russell 2000	9.0%	8.5%	7.8%	8.1%	10.4%	9.7%	11.5%	15.2%	10.7%	10.4%	12.4%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	R2000 Value	R2000	Difference (Gross-R2000V)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R2000V 3yr Std Dev	R2000 3yr Std Dev	Composite Dispersion
2005**	8.2%	5.3%	4.7%	4.6%	3.5%	722	$111,469		9.0%	14.1%	15.1%	1.6%
2006	19.1%	15.9%	23.5%	18.4%	(4.3%)	694	$117,282		7.1%	12.3%	13.8%	1.1%
2007	(1.7%)	(4.4%)	(9.8%)	(1.6%)	8.1%	543	$84,018		7.5%	12.6%	13.2%	1.1%
2008	(21.8%)	(24.0%)	(28.9%)	(33.8%)	7.1%	61	$8,568	$291,644	14.0%	19.1%	19.8%	N/A
2009	29.6%	25.8%	20.6%	27.2%	9.0%	54	$9,823	$533,832	20.9%	25.6%	24.8%	2.3%
2010	24.6%	20.9%	24.5%	26.9%	0.0%	83	$19,208	$751,909	23.3%	28.4%	27.7%	1.5%
2011	(0.9%)	(3.8%)	(5.5%)	(4.2%)	4.6%	85	$18,032	$937,487	21.8%	26.0%	25.0%	1.2%
2012	16.0%	12.6%	18.1%	16.3%	(2.1%)	105	$26,346	$1,272,265	15.6%	19.9%	20.2%	0.3%
2013	27.4%	23.6%	34.5%	38.8%	(7.2%)	113	$31,217	$1,955,915	12.2%	15.8%	16.4%	0.5%
2014	9.3%	6.1%	4.2%	4.9%	5.1%	140	$34,077	$2,589,024	8.6%	12.8%	13.1%	0.6%
2015	(1.7%)	(4.7%)	(7.5%)	(4.4%)	5.7%	158	$34,928	$3,175,419	10.3%	13.5%	14.0%	0.4%
2016	23.7%	20.0%	31.7%	21.3%	(8.0%)	198	$56,608	$4,413,659	11.6%	15.5%	15.8%	1.2%
2017	19.5%	16.0%	7.8%	14.6%	11.7%	354	$103,862	$5,944,479	10.8%	14.0%	13.9%	0.9%
2018	(8.6%)	(11.3%)	(12.9%)	(11.0%)	4.3%	400	$88,885	$5,486,737	13.1%	15.8%	15.8%	0.8%
2019	27.0%	23.2%	22.4%	25.5%	4.6%	449	$124,071	$7,044,708	14.5%	15.7%	15.7%	0.8%
2020	4.5%	1.4%	4.6%	19.9%	(0.1%)	400	$122,151	$6,889,798	21.6%	26.1%	25.3%	1.5%
2021	16.9%	13.4%	28.2%	14.8%	(11.3%)	378	$124,263	$7,761,687	20.2%	25.0%	23.3%	1.3%
2022	(16.3%)	(18.8%)	(14.5%)	(20.5%)	(1.8%)	361	$98,842	$6,931,635	21.6%	27.3%	26.0%	0.5%
2023	5.7%	2.6%	14.6%	16.9%	(8.8%)	277	$75,681	$7,200,019	18.2%	21.8%	21.1%	0.9%
2024	5.9%	2.8%	8.0%	11.5%	(2.1%)	195	$56,489	$7,280,773	20.5%	23.4%	23.3%	0.6%

**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 2000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000® Index – A capitalization-weighted index measuring performance of approximately 2,000 companies in the Russell 3000® Index.

(Source: Bloomberg)

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	

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

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Disclosures

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Indexes: The Russell 2000 Value and Russell 2000 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 Russell 2000 Index to the Russell 2000 Value Index, and the secondary index was changed from the Russell 2000 Value Index to the Russell 2000 Index.

[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.**

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The Small Cap Value Strategy was incepted on October 1, 1994, and the current Small 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: 1.00% on the first $500,000; 0.90% on the next $500,000; and 0.75% over $1,000,000. There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. 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 Small Cap Value Composite contains fully discretionary Small Cap Value wrap accounts. Small Cap Value is a value-based, bottom-up portfolio that utilizes stocks with market capitalizations typically less than $7 billion. *Smaller capitalization companies, due to their size, are generally more vulnerable to adverse general market or economic developments than larger, more established companies.*

**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.