

Equity Strategies • Equity Income

Equity Income is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that have the ability to either pay a high level of dividend income or grow the dividend stream over time. The portfolio typically is comprised of 30-35 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Commentary

The S&P 500 Index was down 0.8% in Q1 2018, while the Equity Income strategy was down 3.4% (gross of fees) over the same period. The annualized yield at quarter end for Equity Income was 3.0% compared to 1.8% for the S&P 500.

As the chart below shows, the index's quarterly performance was driven by a narrow group of stocks. Technology and Consumer Discretionary were the only sectors with positive returns and the Consumer Discretionary sector was bolstered by the fact that Amazon* and Netflix*, together, represent nearly 25% of that sector.

Sector	Weight	Q1 Return	Yield
Technology	25%	4%	1%
Consumer Discretionary	13%	3%	1%
Financial	15%	-1%	2%
Health Care	14%	-1%	2%
Industrials	10%	-2%	2%
Utilities	3%	-3%	4%
Real Estate	3%	-5%	4%
Materials	3%	-6%	2%
Energy	6%	-6%	3%
Consumer Staples	8%	-7%	3%
Telecom	2%	-7%	6%
Total	100%	-1%	2%

(Sources: FactSet, Ned Davis, J.P. Morgan Asset Management)

Yield-oriented stocks were among the weaker performers, likely due to a combination of rising interest rates and fears that low unemployment, improved economic growth and potential trade conflicts could

*Not owned in the current portfolio. Past performance is no guarantee of future results.

change the inflation outlook and consequently the pace of future rate increases. This backdrop made it difficult for Equity Income to keep pace with the broader index. That said, we used the heightened market volatility to selectively add to several positions, including Digital Realty, Colgate, Fidelity National Financial, Iron Mountain, 3M, Microsoft, Northern Trust and Polaris.

Gilead Sciences, well known for being the first to market with a cure for Hepatitis C, was added to the portfolio. This drug has been extremely profitable for the company, but also possessed uncertainty as to market size, nature of the payer population and pricing given several competing drugs. Hepatitis C now accounts for roughly 30% of Gilead's cash flow vs. 60% in prior years and the market has since developed and become more predictable. We believe upside exists within the company's HIV franchise and development pipeline.

Three positions were liquidated from the portfolio, CH Robinson, General Electric and Colony North Star. CH Robinson was sold for a gain after reaching our price objective, while GE and Colony were both sold at losses. GE and Colony are very different companies, but they both appeared to us as sum-of-the-parts plays when they were purchased. We've done well with such investments over the years, but they do require a high level of managerial execution. In each case, our confidence that management would be able to simplify the business and unlock value proved to be misplaced. Thus, we exited our position.

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Top 10 Portfolio Holdings (as of 3/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
The Progressive Corporation	35.5	4.0%
Polaris Industries Inc.	7.2	3.6%
Northern Trust Corporation	23.3	3.5%
Fastenal Company	15.7	3.5%
Microsoft Corporation	702.8	3.4%
Rayonier Inc.	4.5	3.4%
Broadridge Financial Solutions, Inc.	12.8	3.4%
Diageo plc	83.2	3.3%
Fidelity National Financial, Inc.	11.0	3.1%
DowDuPont Inc.	148.2	3.1%

The listing of "Ten Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, application of the investment strategy as of a later date will likely result in changes to the listing. Sector weightings and holdings of individual client portfolios in the program may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk and may decline in value due to adverse company, industry or general economic conditions.

Composite Returns For Periods Ending 3/31/18

	Pure Gross-of-Fees	Net-of-Fees*	S&P 500	R3000 Value	Difference (Gross-S&P500)	No. of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000 Value 3yr Std Dev	Composite Dispersion
QTD	(3.4%)	(4.1%)	(0.8%)	(2.8%)								
YTD	(3.4%)	(4.1%)	(0.8%)	(2.8%)								
1-Year	8.1%	4.9%	14.0%	6.8%								
3-Year Annualized	9.3%	6.1%	10.8%	7.9%								
5-Year Annualized	11.3%	8.0%	13.3%	10.7%								
10-Year Annualized	10.8%	7.5%	9.5%	7.9%								
15-Year Annualized	10.8%	7.6%	10.1%	9.8%								
Since Inception Annualized	10.6%	7.4%	5.6%	7.0%								
2017	17.5%	14.0%	21.8%	13.2%	(4.4%)	7,423	\$2,177,984	\$5,944,479	8.4%	9.9%	10.3%	1.1%
2016	18.0%	14.5%	12.0%	18.4%	6.0%	5,272	\$1,549,506	\$4,413,659	9.4%	10.6%	11.0%	0.4%
2015	0.1%	(2.9%)	1.4%	(4.1%)	(1.3%)	3,528	\$939,550	\$3,175,419	9.4%	10.5%	10.7%	0.4%
2014	11.4%	8.1%	13.7%	12.7%	(2.2%)	2,834	\$858,027	\$2,589,024	8.4%	9.0%	9.4%	0.4%
2013	26.1%	22.4%	32.4%	32.7%	(6.3%)	1,947	\$606,780	\$1,955,915	10.5%	11.9%	12.9%	1.3%
2012	17.8%	14.3%	16.0%	17.6%	1.8%	1,200	\$337,610	\$1,272,265	13.5%	15.1%	15.8%	0.6%
2011	5.1%	2.0%	2.1%	(0.1%)	3.0%	918	\$225,088	\$937,487	18.6%	18.7%	21.0%	1.0%
2010	16.1%	12.7%	15.1%	16.3%	1.1%	555	\$128,855	\$751,909	20.2%	21.9%	23.5%	0.8%
2009	18.8%	15.3%	26.5%	19.8%	(7.7%)	459	\$85,079	\$533,832	18.1%	19.6%	21.3%	0.8%
2008	(18.9%)	(21.2%)	(37.0%)	(36.2%)	18.1%	346	\$44,339	\$291,644	12.0%	15.1%	15.5%	N/A
2007	1.5%	(1.3%)	5.5%	(1.0%)	(4.0%)	2,490	\$381,383		6.2%	7.7%	8.3%	0.8%
2006	15.3%	12.1%	15.8%	22.3%	(0.5%)	3,122	\$489,578		5.7%	6.8%	7.0%	0.8%
2005	0.4%	(2.3%)	4.9%	6.9%	(4.5%)	3,775	\$536,505		8.4%	9.0%	9.7%	0.6%
2004	12.1%	9.1%	10.9%	16.9%	1.3%	2,811	\$425,234		10.2%	14.9%	14.8%	1.1%
2003	32.1%	28.5%	28.7%	31.1%	3.4%	1,204	\$168,181		11.0%	18.1%	16.0%	0.9%
2002	0.6%	(2.1%)	(22.1%)	(15.2%)	22.7%	342	\$36,726		N/A	N/A	N/A	0.8%
2001	11.6%	8.6%	(11.9%)	(4.3%)	23.5%	32	\$6,341		N/A	N/A	N/A	0.2%
2000*	13.5%	12.8%	(7.8%)	3.9%	21.4%	2	\$125		N/A	N/A	N/A	N/A

Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 6/30/2017. A copy of the verification report is available upon request.

Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Equity Income Strategy was inceptioned on October 1, 2000 and the current Equity Income 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 U.S. dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income. Gross returns are shown as supplemental information.

*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. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion is an equal weighted standard deviation calculated for accounts in the composite for the entire year. The Equity Income Composite contains fully discretionary Equity Income wrap accounts. Equity Income is a value-based, bottom-up portfolio that invests in stocks from all market capitalizations based on their ability to generate an above average stream of dividend income, while also providing capital appreciation potential. The primary benchmark is the S&P 500 Index and the Russell 3000 Value Index is shown as additional information.

**Results shown for the year 2000 represent partial period performance from October 1, 2000 through December 31, 2000.

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.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri founded in 2007. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. Confluence's portfolio management philosophy begins by assessing risk, and follows through by positioning clients to achieve their income and growth objectives. The Confluence team has more than 400 years of combined financial experience and 200 years of portfolio management experience.