FIRST QUARTER

2021

Equity Income • Value Equity Strategies

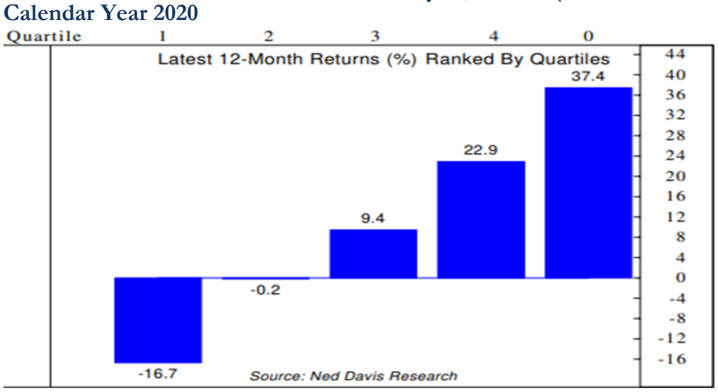
Equity Income is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks 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 comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is appropriate for clients seeking total return from dividend income and capital appreciation.

Market Commentary

Equity markets posted another strong quarter to start the year as optimism on the economy continues to rise with the development of herd immunity from the accelerated rollout of the vaccines and natural infections. It also marks the fourth consecutive quarter of positive equity returns following the sharp selloff in the first quarter of 2020, which was induced by the pandemic and the ensuing lockdowns. This shift in sentiment began toward the end of the first quarter of 2020 following the actions of the Federal Reserve to inject liquidity into the system. Subsequently, there have been several fiscal and monetary stimulus programs enacted to ensure the availability of liquidity to coax the economic malaise into recovery and ultimately expansion.

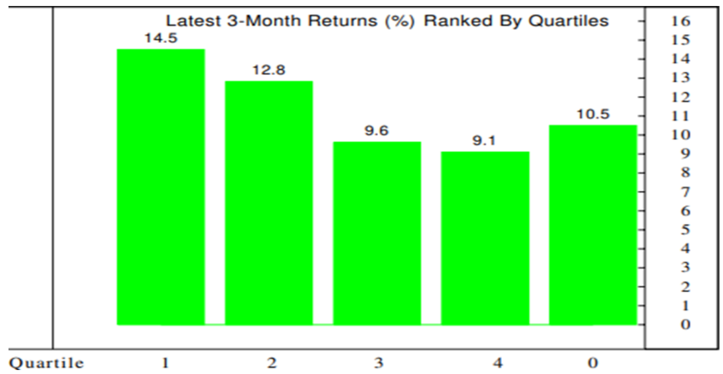
The equity markets have responded accordingly, marked by the sharp returns over the past one year. Underlying the sentiment was also a shift from the high-flying, pandemic-proof businesses, which are heavily skewed by the newer "gig" economy businesses that populate the "growth" style, toward businesses that are driven more by economic activity, constituting much of the economy and are more heavily weighted in the "value" style. These old-school businesses also tend to be the dividend payers, which faced stiff headwinds during the lockdowns of 2020 as investors grew cautious of the prospects on dividends in such an environment.

S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield) Calendar Year 2020



(Source: Ned Davis Research) *Actual Historical Constituents. Quartile 1 (Highest Dividend Yield): Quartile 4 (Lowest Dividend Yield). 5th Bar (0) = 0 Dividend Yield (as S&P 500 Stocks with Zero Dividends). Returns through 12/31/2020.

S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield) Q1 2021



(Source: Ned Davis Research) *Actual Historical Constituents. Quartile 1 (Highest Dividend Yield): Quartile 4 (Lowest Dividend Yield). 5th Bar (0) = 0 Dividend Yield (as S&P 500 Stocks with Zero Dividends). Returns through 3/31/2021.

These charts from Ned Davis Research reflect the performance bias for non-dividend payers relative to high-dividend payers. It is evident that dividend-oriented investors faced a tough environment in 2020. The second chart reflects the shift in sentiment on dividend payers to start 2021 as concerns about dividends subsided with the economic recovery.

The favorable shift toward dividend payers is also reflected in the relative performance of value relative to growth, with the Russell 3000 Value Index up 11.9% versus the Russell 3000 Growth Index up 1.19% in Q1 2021. The rotation is typical coming out of recessions as the economically sensitive and commodity-oriented businesses tend to struggle during a recession but rebound well during the recovery phase. Since the value indexes are more heavily weighted in sectors that have businesses with these characteristics, i.e., Financials, Energy, and Materials, they tend to lead the advance. Although the current cycle is typical, the excess liquidity appears to be inducing pockets of excess exuberance. In fact, dissecting the market a little further, there is a clear bias for lower-quality/ high-beta businesses versus higher-quality businesses as evidenced by the Invesco S&P Quality ETF (SPHQ) lagging the Invesco S&P High Beta ETF (SPHB), 15.5% versus 68.5%, respectively, over the past two quarters (September 30, 2020, through March 31, 2021).

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Market Commentary continued…

In this type of environment, it can be difficult to distinguish between good stock picking and the bounce of low-quality/ leveraged businesses (smart alpha versus leveraged beta), but as Warren Buffett stated, "Only when the tide goes out do you discover who's been swimming naked."

Despite the strong economic growth, this optimistic market still carries much risk and uncertainty, so it is important to have a solid investment philosophy that resists the temptations of speculation. More specifically, our investment philosophy is focused on understanding and valuing individual businesses with the emphasis of owning great businesses at bargain prices. This is a fundamental approach that views risk as the probability of a permanent loss of capital as opposed to tracking error of a benchmark. The attributes of great businesses that we look for (substantial competitive advantages, pricing power, free cash flow generation, and high returns on invested capital) are often difficult to find in commodity-oriented or highly regulated businesses in which pricing is contingent on factors outside management's control. This will often result in over/under-weighting certain areas of the market that either offer more attractive valuations or have superior underlying attributes. Subsequently, performance in any given time frame will be impacted by the market's perception of the value of these individual businesses compared to the broad market. Equity Income is focused on higher-quality businesses that also pay above-average dividends which is reflected at these inflection points.

Strategy Commentary

Equity Income also had a good start to 2021, up 8.5% (gross of fees). At quarter-end, the yield on Equity Income was 2.9% versus 2.1% for the Russell 3000 Value and the broad market S&P 500 yield of 1.5%. All the portfolio companies are paying a dividend as Weyerhaeuser (WY) resumed its dividend in the fourth quarter of 2020 and was the only portfolio company to temporarily suspend its dividend in the second and third quarters of 2020. [*Net-of-fees return was +7.6% QTD. See disclosures on p.4 for fee description; actual investment advisory fees may vary.*]

For the quarter, the portfolio leaders were businesses that serve the economically sensitive/cyclical end-markets (Snap-on, Polaris, and Dow), while the laggards serve the more consistent and steady end-markets (Colgate-Palmolive, Nestlé, and PepsiCo). This was consistent with the overall broad markets, which were led by the highly cyclical and commodity-oriented sectors of Energy, Financials, and Consumer Discretionary.

There was one change to the portfolio during the quarter as we used the proceeds from the closing of the long drawn-out deal of Tiffany's (TIF) to LVMH Group (LVMUY) to purchase a new position in Home Depot (HD). Home Depot is the nation's largest home improvement retailer, and its unmatched scale and technical prowess also make it the most efficiently run with exceptional profit margins. We've long had a favorable opinion of the home improvement industry, which has operated as a responsible oligopoly for several decades. The concentrated market structure has served both Home Depot and its closest competitor, Lowe's (LOW), well, even after their respective market positions were established. This has allowed both companies to greatly curtail the amount of capital being deployed for unit expansion and redirect cash flow toward technology, product innovation, and shareholder returns. The biggest issue the company faces now is to what degree were sales pulled forward in 2020, and to what degree might that detract from future sales growth? This is a very valid question and one we have been considering for the better part of the last year as we've owned shares of both Home Depot and Lowe's in other strategies. In our opinion, underlying conditions in the housing market, along with strong demographic tailwinds, are supportive of a strong macro backdrop for home improvement retailers over the next several years. Additionally, the prospect for above-average earnings growth exists as the company integrates the recent acquisition of Home Depot Supply.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Snap-on Incorporated	3.66	1.19
Polaris Inc.	3.26	1.10
Dow Inc.	3.08	0.53
U.S. Bancorp	2.73	0.52
Kinder Morgan, Inc.	2.20	0.49
Bottom 5		
Pfizer Inc.	2.04	(0.02)
Graco Inc.	3.14	(0.08)
PepsiCo, Inc.	2.55	(0.10)
Nestlé S.A.	3.32	(0.20)
Colgate-Palmolive Company	2.56	(0.22)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

Going forward, the Federal Reserve's stated desire to let the economy accelerate and allow inflation to run a little higher while maintaining a low interest rate environment via yield curve control should bode well for businesses that pay dividends and have the ability to grow them. We also expect the economy to continue its recovery and equity markets to maintain a positive bias; however, the abrupt stop and subsequent start of the economy will present challenges from the supply chain to finding employees, which we believe will likely produce volatile economic data and equity markets. Of course, we remain focused on our core strength which is analyzing and valuing businesses. We continue to strive for finding good investment ideas and generating solid long-term results for our clients regardless of the environment as we have done over the past 20 years since the strategy's inception.

10 Largest Holdings (as of 3/31/21)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Snap-on Incorporated	12.6	4.0%
Linde plc	146.5	3.9%
Polaris Inc.	8.2	3.5%
The Progressive Corporation	55.9	3.4%
Paychex, Inc.	35.3	3.4%
Broadridge Financial Solutions, Inc.	17.7	3.3%
Dow Inc.	47.6	3.2%
Fastenal Company	28.9	3.1%
The Home Depot, Inc.	328.8	3.1%
U.S. Bancorp	83.1	3.0%

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. 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.

Performance Composite Returns (For Periods Ending March 31, 2021)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	R3000 Value	S&P 500
Since Inception**	10.8%	7.6%	7.6%	7.2%
20-Year*	10.3%	7.2%	7.8%	8.5%
15-Year*	10.0%	6.8%	7.7%	10.0%
10-Year*	12.0%	8.7%	10.9%	13.9%
5-Year*	11.7%	8.4%	11.8%	16.3%
3-Year*	11.9%	8.6%	11.0%	16.8%
1-Year	45.7%	41.4%	58.3%	56.3%
YTD	8.5%	7.6%	11.9%	6.2%
QTD	8.5%	7.6%	11.9%	6.2%

**Average annualized returns*
***Inception is 10/1/2000*

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	R3000 Value	S&P 500	Difference (Gross-R3000V)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R3000V 3yr Std Dev	S&P 500 3yr Std Dev	Composite Dispersion
2000**	13.5%	12.8%	3.9%	(7.8%)	9.7%	2	$125		N/A	N/A	N/A	N/A
2001	11.6%	8.6%	(4.3%)	(11.9%)	16.0%	32	$6,341		N/A	N/A	N/A	0.2%
2002	0.6%	(2.1%)	(15.2%)	(22.1%)	15.8%	342	$36,726		N/A	N/A	N/A	0.8%
2003	32.1%	28.5%	31.1%	28.7%	0.9%	1,204	$168,181		11.0%	16.0%	18.1%	0.9%
2004	12.1%	9.1%	16.9%	10.9%	(4.8%)	2,811	$425,234		10.2%	14.8%	14.9%	1.1%
2005	0.4%	(2.3%)	6.9%	4.9%	(6.4%)	3,775	$536,505		8.4%	9.7%	9.0%	0.6%
2006	15.3%	12.1%	22.3%	15.8%	(7.1%)	3,122	$489,578		5.7%	7.0%	6.8%	0.8%
2007	1.5%	(1.3%)	(1.0%)	5.5%	2.5%	2,490	$381,383		6.2%	8.3%	7.7%	0.8%
2008	(18.9%)	(21.2%)	(36.2%)	(37.0%)	17.4%	346	$44,339	$291,644	12.0%	15.5%	15.1%	N/A
2009	18.8%	15.3%	19.8%	26.5%	(1.0%)	459	$85,079	$533,832	18.1%	21.3%	19.6%	0.8%
2010	16.1%	12.7%	16.3%	15.1%	(0.1%)	555	$128,855	$751,909	20.2%	23.5%	21.9%	0.8%
2011	5.1%	2.0%	(0.1%)	2.1%	5.2%	918	$225,088	$937,487	18.6%	21.0%	18.7%	1.0%
2012	17.8%	14.3%	17.6%	16.0%	0.2%	1,200	$337,610	$1,272,265	13.5%	15.8%	15.1%	0.6%
2013	26.1%	22.4%	32.7%	32.4%	(6.6%)	1,947	$606,780	$1,955,915	10.5%	12.9%	11.9%	1.3%
2014	11.4%	8.1%	12.7%	13.7%	(1.3%)	2,834	$858,027	$2,589,024	8.4%	9.4%	9.0%	0.4%
2015	0.1%	(2.9%)	(4.1%)	1.4%	4.3%	3,528	$939,550	$3,175,419	9.4%	10.7%	10.5%	0.4%
2016	18.0%	14.5%	18.4%	12.0%	(0.4%)	5,272	$1,549,506	$4,413,659	9.4%	11.0%	10.6%	0.4%
2017	17.5%	14.0%	13.2%	21.8%	4.3%	7,423	$2,177,984	$5,944,479	8.4%	10.3%	9.9%	1.1%
2018	(8.9%)	(11.6%)	(8.6%)	(4.4%)	(0.3%)	7,772	$1,945,646	$5,486,737	9.7%	11.1%	10.8%	0.5%
2019	31.0%	27.1%	26.2%	31.5%	4.7%	8,249	$2,725,466	$7,044,708	10.8%	12.0%	11.9%	0.8%
2020	4.6%	1.5%	2.9%	18.4%	1.8%	7,557	$2,440,128	$6,889,798	17.1%	20.0%	18.5%	0.8%

Portfolio Benchmarks

Russell 3000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values.
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 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, 2019. 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 Equity Income strategy was incepted 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.
[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.
[2] 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 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.
**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.

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. Top 5 contributors/detractors reflects the strategy's best and worst performers, 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. Information is presented as supplemental information to the disclosures required by GIPS® standards. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. Past performance is no guarantee of future results. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses.* ***Indices:*** *The Russell 3000 Value Index and S&P 500 Index are shown as additional information. These indices 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.*