Second Quarter 2021

Equity Income • Value Equity Strategies

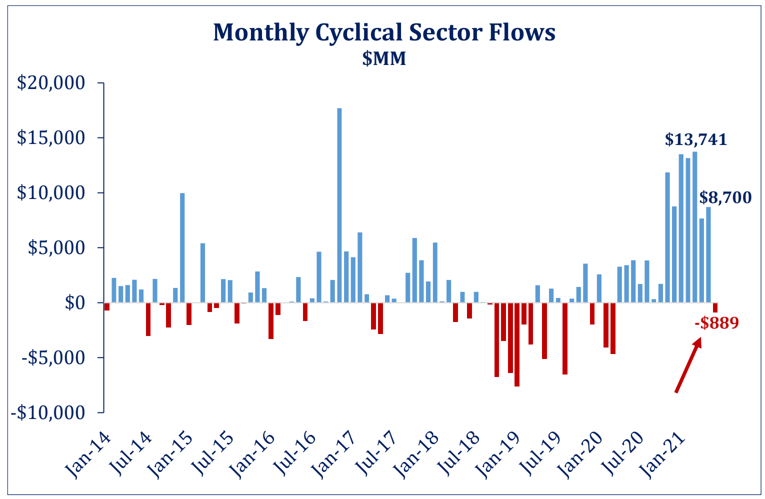
Equity Income is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks 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 continued their winning ways, posting the fifth consecutive positive quarterly return with the S&P 500 Index up 8.5% and the Russell 3000 Value Index up 5.2%. The favorable trends reflect the gradual reopening of the economy and the ensuing progress toward herd immunity with the ramp up in vaccinations and natural immunity. This backdrop is providing a nice tailwind for businesses as revenue growth combined with tightened cost containment following the recession are producing solid margin expansion and earnings growth. The outlook is for a continuation of the recovery as consensus earnings estimates based on forecasts from FactSet Market Aggregates call for earnings per share growth of 56% in 2021, driven by margin expansion augmenting revenue growth which is off a very low base of 2020. The strength in earnings bodes well for broad dividend support following the lockdowns in 2020, and brings the year-to-date returns to 15.2% for the S&P 500 and 17.7% for the Russell 3000 Value.

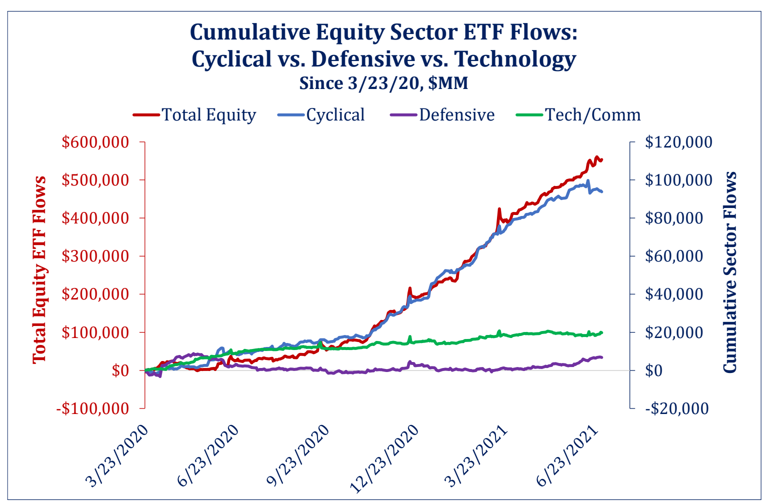
While we expect the economic recovery to ultimately transition into an expansionary stage, we would anticipate a few bumps along the way as reopening a $20+ trillion economy is not a simple task. Thus far, there have been some supply chain disruptions and tightness in freight/transportation as well as difficulty finding employees, which are causing shortages and price spikes in certain segments of the economy. These issues have led to headline price inflation levels above the Federal Reserve's target and introduced concerns of whether the issues are transitory or structural. It has also sparked some dissention at the Fed as a couple Fed governors have spoken off script, mentioning the possibility of tightening monetary policy sooner than the Fed chair has espoused. These events have led to added volatility over the past few months as witnessed by the sharp rotations in and out of the cyclical/lower-quality areas of the market and into higher-quality segments.

Dissecting the equity markets a little deeper reflects a shift in sentiment as cyclical sector ETF outflows shifted to inflows in the summer of 2020. This is an indication that investors were anticipating an economic recovery which benefited the deep cyclical and commodity-oriented areas of the market. The June reversal, or rotation out of the cyclical sector ETFs, was driven by comments from Fed governors concerning the timing of monetary policy as well as the response to the new delta variant, which increase the probabilities of tightening too early and could negatively impact the economy.



(Source: Strategas)

The following chart is a shorter-term look at the March 2020 lows to June 2021, reflecting the sharp rotation of ETF flows into the cyclical segments relative to Defensives and Tech & Communications, which started in late summer 2020 and lasted through May 2021.



(Source: Strategas)

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Market Commentary continued…

Of course, economic cycles have always impacted businesses and resulted in investor rotation based on their near-term prospects. As the chart below illustrates, investors tend to rotate into the higher-quality segments leading into recessions as their stable cash flows and growth prospects offer some ballast relative to the more cyclical/lower-quality segments which have more volatile cash flow streams and often more leverage. However, once an end to the recession is anticipated, the cyclical and leveraged businesses provide better prospects for cash flow growth, hence a rotation back to the cyclical/lower-quality segments often occurs. The trends are also reflected in the "Value" versus "Growth" styles as Value has a much heavier weighting in the cyclical sectors compared to Growth's weighting in Information Technology and Health Care. The chart below depicts the past two cycles' rotations between high and low quality.

(Source: Bloomberg, Morgan Stanley Research)

Businesses in the early stages of their growth tend to use their cash flow to reinvest in the business as opposed to paying dividends, or at least paying a substantial dividend. As the U.S. economy has evolved over time from agrarian to manufacturing to service/intellectual property, the non-dividend or low dividend payers tend to be much heavier in the Growth style than the Value style, which is reflected in the strength of the Value style coming out of the recession.

Strategy Commentary

Confluence Equity Income also reported a solid second quarter of 2021, up 5.7% (gross of fees), which was also the fifth consecutive positive quarterly return for the strategy. It brings the year-to-date return for Equity Income to 14.7% (gross of fees) compared to the benchmark returns reported above of 15.2% for the S&P 500 and 17.7% for the Russell 3000 Value over the same period. [*Net-of-fees returns for the same periods were +4.9% QTD and +12.9% YTD. See disclosures on p.4 for fee description; actual investment advisory fees may vary.*]

The relative returns are reflective of our investment philosophy, which is focused on competitively advantaged, quality businesses that are less exposed to the deep cyclical, commodity-sensitive segments. 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. Our focus on higher-quality names is reflected at these inflection points.

There were no portfolio changes during the quarter. The portfolio leaders were businesses that are more defensive in nature (Diageo, Nestle, Microsoft), while the laggards were spread across industries, such as Snap-on (industrial), Weyerhaeuser (timber REIT), and Southern Company (utility). The sharp rotation out of cyclicals toward the end of the quarter produced varied results across sectors.

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Strategy Commentary continued...

Going forward, the economy continues to recover from the lockdowns and this is being reflected in earnings growth. We would continue to expect strong earnings growth over the next few quarters, which should bode well for businesses that pay dividends and can grow them. 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 volatility in the 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.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Diageo plc	3.09	0.50
Nestlé S.A.	3.25	0.45
Microsoft Corporation	2.98	0.44
Paychex, Inc.	3.40	0.34
SL Green Realty Corp.	2.25	0.33
Bottom 5		
Dow Inc.	3.25	0.00
Brookfield Infrastructure Corporation	2.18	(0.03)
The Southern Company	2.74	(0.04)
Weyerhaeuser Company	2.36	(0.06)
Snap-on Incorporated	4.07	(0.10)

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

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10 Largest Holdings (as of 6/30/21)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Linde plc	150.4	3.7%
Snap-on Incorporated	12.1	3.6%
Paychex, Inc.	38.6	3.5%
Polaris Inc.	8.4	3.4%
The Progressive Corporation	57.5	3.3%
Broadridge Financial Solutions, Inc.	18.8	3.3%
Diageo plc	111.7	3.1%
Nestlé S.A.	350.9	3.1%
Microsoft Corporation	2,040.3	3.1%
The Home Depot, Inc.	339.1	3.1%

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 June 30, 2021)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	R3000 Value	S&P 500
Since Inception**	10.9%	7.7%	7.7%	7.5%
20-Year*	10.3%	7.1%	7.8%	8.6%
15-Year*	10.3%	7.0%	8.0%	10.7%
10-Year*	12.5%	9.2%	11.5%	14.8%
5-Year*	12.0%	8.7%	12.0%	17.6%
3-Year*	13.0%	9.6%	12.2%	18.7%
1-Year	33.6%	29.6%	45.4%	40.8%
YTD	14.7%	12.9%	17.7%	15.2%
QTD	5.7%	4.9%	5.2%	8.5%

**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.*