

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 comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is suitable for clients seeking total return from dividend income and capital appreciation.

Strategy Commentary

The S&P 500 and Russell 3000 Value Indexes gained 1.7% and 1.2%, respectively, during the third quarter of 2019. By comparison, the Equity Income strategy rose 2.5% over the same period, bringing its year-to-date return to 22.9% (both gross of fees). On a year-to-date basis, equity markets are showing gains that are well above average, largely due to starting the year at depressed levels. The S&P 500 and Russell 3000 Value are up 20.6% and 17.5%, respectively, year-to-date. Equity Income's annualized yield at quarter-end was 2.9%. *(The strategy was up 1.7% QTD and 20.1% YTD (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.2 for fee description; actual investment advisory fees may vary.)*

As anticipated, the Federal Reserve lowered its target for short-term interest rates during the quarter due to concerns around moderating economic growth and the unknown impacts from continued trade negotiations. With inflation in check and actions by other central banks to take rates lower, the Federal Reserve has latitude to reduce rates. It appears they are intent on trying to extend the current business cycle and at the margin a more accommodative monetary policy should help. That being said, there remains a great deal of uncertainty so getting business spending to reaccelerate will likely require some degree of de-escalation on the trade front or a more stimulative fiscal effort. We're not anticipating near-term clarity on either issue. As such, we expect markets to remain volatile, potentially broadening our available investment options.

During the quarter we completed the purchase of Tiffany & Co. This is a company we approved for purchase in 2017 but had been waiting for a more favorable entry point. We purchased the first half of our position in the fourth quarter of 2018, and subsequently filled out the remainder this quarter. Tiffany is a globally recognized brand with a long history. The company has been methodical in expanding its business so as

not to dilute its brand equity. With roughly 320 stores around the world generating on average \$2,700/sq. ft. in sales, its store base is manageable and avenues remain for further development. The company underwent a management transition in recent years and in our opinion is now more focused on product innovation as well as designing products that appeal to younger aspirational consumers. Tiffany generates far more cash than what's needed to sustain and grow its business. This, in combination with an under-levered balance sheet with substantial real estate value, allows the company to return much of its cash flow to shareholders, both through dividends and share repurchases. The multi-year strength in the U.S. dollar along with concerns as to how durable foreign spending will hold up given trade and economic uncertainty provided an attractive entry point, in our estimation, in the shares of Tiffany.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
Martin Marietta Materials, Inc.	3.31	0.60
Entergy Corporation	3.24	0.46
The Southern Company	3.15	0.39
Digital Realty Trust, Inc.	3.03	0.34
Fidelity National Financial, Inc.	3.03	0.32
Bottom 5		
The Progressive Corporation	4.15	(0.14)
Rayonier Inc.	2.16	(0.14)
Diageo plc	3.54	(0.18)
Graco Inc.	2.65	(0.22)
Pfizer Inc.	2.52	(0.46)

(Contribution data shown from a sample account)

ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's 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.

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10 Largest Holdings (as of 9/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Microsoft Corporation	1,061.6	3.6%
Nestlé S.A.	323.2	3.5%
Martin Marietta Materials, Inc.	17.1	3.5%
Linde plc	104.7	3.4%
The Progressive Corporation	45.2	3.4%
Paychex, Inc.	29.6	3.4%
Entergy Corporation	23.3	3.4%
The Southern Company	64.6	3.4%
Lockheed Martin Corporation	110.2	3.4%
NXP Semiconductors N.V.	30.4	3.3%

The listing of "10 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.

Performance Composite Returns For Periods Ending 9/30/19

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000V 3yr Std Dev	Composite Dispersion
Since Inception**	10.5%	7.4%	6.0%	7.0%	2000**	13.5%	12.8%	(7.8%)	3.9%	2	\$125		N/A	N/A	N/A	N/A
					2001	11.6%	8.6%	(11.9%)	(4.3%)	32	\$6,341		N/A	N/A	N/A	0.2%
15-Year*	9.5%	6.3%	9.0%	7.8%	2002	0.6%	(2.1%)	(22.1%)	(15.2%)	342	\$36,726		N/A	N/A	N/A	0.8%
10-Year*	13.1%	9.7%	13.2%	11.4%	2003	32.1%	28.5%	28.7%	31.1%	1,204	\$168,181		11.0%	18.1%	16.0%	0.9%
5-Year*	10.3%	7.0%	10.8%	7.7%	2004	12.1%	9.1%	10.9%	16.9%	2,811	\$425,234		10.2%	14.9%	14.8%	1.1%
3-Year*	10.6%	7.3%	13.4%	9.2%	2005	0.4%	(2.3%)	4.9%	6.9%	3,775	\$536,505		8.4%	9.0%	9.7%	0.6%
1-Year	10.1%	6.8%	4.2%	3.1%	2006	15.3%	12.1%	15.8%	22.3%	3,122	\$489,578		5.7%	6.8%	7.0%	0.8%
YTD	22.9%	20.1%	20.6%	17.5%	2007	1.5%	(1.3%)	5.5%	(1.0%)	2,490	\$381,383		6.2%	7.7%	8.3%	0.8%
QTD	2.5%	1.7%	1.7%	1.2%	2008	(18.9%)	(21.2%)	(37.0%)	(36.2%)	346	\$44,339	\$291,644	12.0%	15.1%	15.5%	N/A
					2009	18.8%	15.3%	26.5%	19.8%	459	\$85,079	\$533,832	18.1%	19.6%	21.3%	0.8%
					2010	16.1%	12.7%	15.1%	16.3%	555	\$128,855	\$751,909	20.2%	21.9%	23.5%	0.8%
					2011	5.1%	2.0%	2.1%	(0.1%)	918	\$225,088	\$937,487	18.6%	18.7%	21.0%	1.0%
					2012	17.8%	14.3%	16.0%	17.6%	1,200	\$337,610	\$1,272,265	13.5%	15.1%	15.8%	0.6%
					2013	26.1%	22.4%	32.4%	32.7%	1,947	\$606,780	\$1,955,915	10.5%	11.9%	12.9%	1.3%
					2014	11.4%	8.1%	13.7%	12.7%	2,834	\$858,027	\$2,589,024	8.4%	9.0%	9.4%	0.4%
					2015	0.1%	(2.9%)	1.4%	(4.1%)	3,528	\$939,550	\$3,175,419	9.4%	10.5%	10.7%	0.4%
					2016	18.0%	14.5%	12.0%	18.4%	5,272	\$1,549,506	\$4,413,659	9.4%	10.6%	11.0%	0.4%
					2017	17.5%	14.0%	21.8%	13.2%	7,423	\$2,177,984	\$5,944,479	8.4%	9.9%	10.3%	1.1%
					2018	(8.9%)	(11.6%)	(4.4%)	(8.6%)	7,772	\$1,945,646	\$5,486,737	9.7%	10.8%	11.1%	0.5%

*Average annualized returns

**Inception is 10/1/2000

Portfolio Benchmarks

S&P 500 Index – A capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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. (Source: Bloomberg)

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 12/31/2017. 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.

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. 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.

**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. 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. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable than alternative investments, including the risk that our estimate of intrinsic value may never be realized by the market or that the price goes down. **Indices:** The S&P 500 Index and Russell 3000 Value 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.