Fourth Quarter
2016

Equity Strategies • Equity Income

The Equity Income portfolio 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

Domestic equities, as measured by the S&P 500 Index, rose 12.0% in 2016. By comparison, the Equity Income portfolio was up 18.0% over the same period (gross of fees). From a yield perspective, the S&P 500 Index had a 1.9% yield at year-end versus the 3.1% yield of the Equity Income portfolio. *For detailed performance data and disclosures see:* *http://www.confluenceinvestment.com/products-performance/equity-strategies*

The portfolio holdings with the largest positive contributions to performance in 2016 were Martin Marietta, Linear Technologies and Chevron. The worst performing holdings included Diageo, Colgate and GlaxoSmithKline.

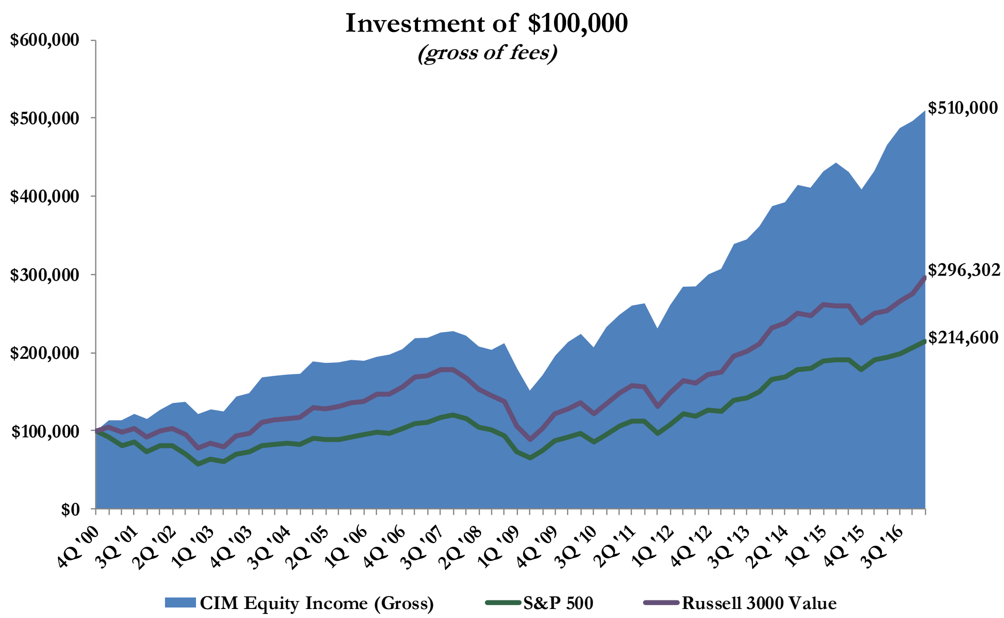
2016 was quite a year as several major events took place that largely confounded consensus expectations. Markets spent the initial part of the year pricing in a recession that never actually materialized. Then came the U.K.'s referendum to leave the European Union, which few had expected. The year ended with the U.S. presidential election going to Donald Trump (the long shot) followed by a strong rally in equities (also unexpected under a Trump-win scenario). All the while, we had global debt markets wading deeper into negative interest rate territory and U.S. monetary policy coming in slightly more hawkish than expected, neither of which hurt equity markets (also a non-consensus outcome). 2016 was no doubt a year to remind us all that markets, and life, in general, are difficult to predict. Importantly, this acknowledgement is fundamental to our investment philosophy. It is why we demand certain characteristics of the company's we invest in, such as financial flexibility, sustainable competitive advantages, excess free cash flow, capable management teams with good capital allocation skills and reasonable valuations. These are all tools that insulate companies and investors during periods of uncertainty.

2017 will begin to shed light on what the derivative impacts from some of the 2016 surprises will be and the year will no doubt offer unexpected developments of its own. The strong post-election rally has elevated equity valuations and priced in optimism that more things will go right than wrong in the coming months regarding fiscal, monetary, tax and trade policies. We can envision a multitude of scenarios, both good and bad. As of this writing, it is the good scenarios that appear most reflected in equity valuations, but we suspect there will be periods of doubt and perhaps even pessimism as policy decisions unfold. This is typical in all administration changes and the current one looks to possess more uncertainty and unpredictably than most. Consequently, we are currently more cautious in our buying relative to our pre-election stance. Our focus will remain on individual companies and their unique investment attributes.

CIM • Equity Income

Top 10 Portfolio Holdings (as of 12/31/16)

Company	Market Capitalization *($ billions)*	Portfolio Weight
Northern Trust Corporation	20.2	3.5%
Linear Technology Corporation	15.0	3.5%
Martin Marietta Materials, Inc.	14.1	3.4%
The Kraft Heinz Company	106.3	3.4%
The Progressive Corporation	20.6	3.3%
Chevron Corporation	222.2	3.3%
Paychex, Inc.	21.8	3.3%
E.I. du Pont de Nemours & Company	63.8	3.2%
3M Company	107.4	3.2%
Microsoft Corporation	483.2	3.2%



Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. 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. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.