

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 portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Commentary

Equity markets suffered a broad correction during the fourth quarter of 2018. The S&P 500 and Russell 3000 Value indexes fell 13.5% and 12.2%, respectively in the quarter, while Equity Income was down 10.4% (gross of fees) over the same period. The annualized yield at year end for Equity Income was 3.4% compared to 2.2% for the S&P 500. *(The portfolio was down 11.1% (net of fees) over the same time period. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

Our objective is to maintain a consistent risk profile throughout the business cycle, which at times will mean deviation from benchmarks. Up until the fourth quarter of 2018, our relative performance suffered as we did not hold what was then the best performing segments of the market, namely very large growth-oriented equities. Through the third quarter of this year, Equity Income was up 1.7% (gross of fees; -0.6% net of fees) versus 10.6% for the S&P 500 Index. The Equity Income portfolio held up better than the broader averages during the fourth quarter sell-off, but it wasn't enough to close the performance gap for the full year. For the year 2018, Equity Income was down 8.9% (gross of fees), roughly in-line with the 8.6% decline of the Russell 3000 Value, but worse than the 4.4% decline of the S&P 500. *(The portfolio was down 11.6% (net of fees) over the same time period.)*

The predominantly one-way action in the stock market over the last 24 months came to an abrupt halt in the fourth quarter as many of the things that have occupied our thinking in recent quarters came to the forefront. Fears over 1) the pace and degree of monetary tightening, 2) trade policies, 3) Brexit, and 4) the outlook for global growth caused most asset classes to decline in the final months of the year. Although we appreciate that heightened volatility, especially after a long absence, can

create anxiety for our clients, we believe there is a healthy component to the broad-based sell-off that took place.

The correction in stocks combined with what was a year of above-average earnings growth (bolstered by recent tax law changes) resulted in a P/E multiple that is in line with to slightly below historical averages. We much prefer today's environment of average valuations and heightened skepticism as to how current issues get resolved than the one we faced a year ago where optimism was palpable and valuations elevated. We are not market timers, but do require a margin of safety in the investments we make. Stated differently, buying quality assets at a discount to their intrinsic value, or below what a rational informed buyer would pay, is the best way we've found to protect capital against the many unknowns investors inherently face.

Notably, despite softened activity in some of the more interest rate sensitive areas of the economy, such as automotive and housing, the domestic economy is growing and we remain encouraged that growth will continue in 2019, even if at a slower pace than 2018. Further, although the unemployment rate remains near record lows and wages are growing at the fastest pace since the recovery began, inflation remains subdued and the excesses typically found in late cycle economies are largely absent, save for certain areas of credit. With the majority of U.S. stocks now in correction territory, we would not rule out the prospect for higher portfolio turnover in the coming months as we look to take advantage of new opportunities.

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Portfolio Commentary continued...

During the quarter, we finished purchasing shares of Nestle. Nestle is a global consumer products company that we view as reasonably valued based on current fundamentals. We believe there is potential in the shares as new management looks to further rationalize the company's product portfolio and improve operating efficiencies, both of which should benefit operating margins. Longer term, we believe shares could garner a higher valuation multiple as management continues to shift the company toward faster growing product categories targeting Nutrition, Health and Wellness.

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

Security	Avg Weight	Contribution
Top 5		
Praxair, Inc.	1.07	0.07
Diageo plc	3.36	0.05
The Southern Company	2.79	0.04
Black Knight, Inc.	0.01	0.00
Pfizer Inc.	3.24	(0.01)
Bottom 5		
Northern Trust Corporation	3.47	(0.63)
The Progressive Corporation	4.25	(0.65)
Polaris Industries Inc.	3.13	(0.76)
Broadridge Financial Solutions, Inc.	2.81	(0.83)
Weyerhaeuser Company	2.41	(0.86)

(Contribution data shown from a sample account)

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. This 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.

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10 Largest Portfolio Holdings (as of 12/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Pfizer Inc.	252.3	3.7%
Microsoft Corporation	779.8	3.6%
Diageo plc	86.1	3.6%
Linde plc	86.0	3.5%
Fastenal Company	15.0	3.5%
The Progressive Corporation	35.2	3.5%
Johnson & Johnson	346.1	3.4%
Paychex, Inc.	23.4	3.4%
Nestlé S.A.	247.9	3.3%
3M Company	110.9	3.2%

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 12/31/18

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value
QTD	(10.4%)	(11.1%)	(13.5%)	(12.2%)
YTD	(8.9%)	(11.6%)	(4.4%)	(8.6%)
1-Year	(8.9%)	(11.6%)	(4.4%)	(8.6%)
3-Year*	8.1%	4.9%	9.2%	7.0%
5-Year*	7.1%	3.9%	8.5%	5.8%
10-Year*	11.7%	8.4%	13.1%	11.1%
15-Year*	8.2%	5.0%	7.8%	7.0%
Since Inception**	9.7%	6.6%	5.1%	6.3%

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

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

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. 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.

¹Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

²Net 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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.

	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
2018	(8.9%)	(11.6%)	(4.4%)	(8.6%)	(4.5%)	7,772	\$1,945,646	\$5,486,737	9.7%	10.8%	11.1%	0.5%
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

**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.

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.

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. The Confluence team has more than 500 years of combined financial experience and 300 years of portfolio management experience.