

**OBJECTIVE**

Invests in hard asset companies that are directly responsible for mining, extracting, or producing tangible commodities such as gold, oil, or coal. Investment objective is capital appreciation.

**INVESTMENT PHILOSOPHY**

The Global Hard Assets strategy comprises investments in hard assets, which we define as tangible commodities, such as a gold bar, a barrel of oil or a ton of coal. The portfolio primarily includes common stocks of companies in the hard assets sector which are directly responsible for mining, extracting or producing the hard assets. The portfolio also typically holds various hard asset exchange-traded funds (ETFs), specifically selected to avoid K-1s for tax considerations, thus giving the portfolio exposure to actual commodities which tend to be less affected by financial market factors.

We believe there is value in commodities due to long-term international economic and geopolitical trends that are likely to continue in place for many years and are likely to provide underlying support for commodity prices through the next several economic cycles, even if inflation fails to rise. At the same time, commodities tend to do well under conditions of rising inflation. In particular, we expect these three key trends will support rising hard asset prices in the long run: 1) lack of confidence in fiat currencies will undermine their function as stores of value, which will encourage global savers to use hard assets as an alternative; 2) growth of large emerging economies, which tend to be more resource intensive, will boost commodity demand; 3) decline of U.S. economic and military dominance will lead to a more unstable multi-polar world and encourage inventory accumulation.

**OVERVIEW**

- ◆ Invests in hard asset companies directly responsible for mining, extracting or producing tangible commodities
- ◆ Investment approach utilizes a top-down, global market view coupled with bottom-up proprietary research
- ◆ Investable universe consists of global equities and ETFs focused on the hard assets sector
- ◆ Appropriate for clients whose primary objective is capital appreciation
- ◆ Strategy assets: \$31.2 million<sup>1</sup>

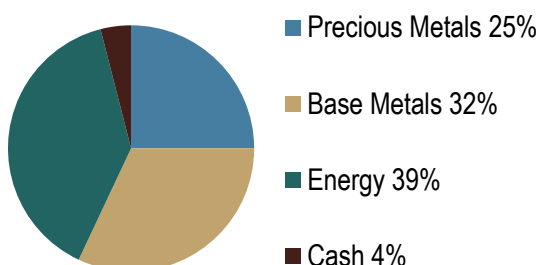
<sup>1</sup> Total strategy assets include assets under management (AUM) and assets under advisement (AUA). As of 12/31/22, AUM = \$14.7 million and AUA = \$16.5 million.

**PORTFOLIO HOLDINGS<sup>1</sup>**

**CHARACTERISTICS**

|  |       |
|--|-------|
| Dividend Yield                                     | 2.8%  |
| Number of Positions                                | 35-55 |
| Annual Turnover<br>(5-Year Rolling as of 12/31/22) | 54%   |

**COMMODITY CLASS ALLOCATION**



**10 LARGEST HOLDINGS**

|                               | WEIGHT |
|-------------------------------|--------|
| Cameco Corp.                  | 4.8%   |
| Mitsui & Co Ltd.              | 3.9%   |
| Franco-Nevada Corp.           | 3.9%   |
| ConocoPhillips                | 3.6%   |
| Chesapeake Energy Corp.       | 3.6%   |
| Southern Copper Corp.         | 3.5%   |
| Southwestern Energy Co.       | 3.5%   |
| EOG Resources Inc.            | 3.2%   |
| Wheaton Precious Metals Corp. | 3.2%   |
| Royal Gold Inc.               | 3.2%   |

## INVESTMENT PROCESS

### TOP-DOWN APPROACH

Our disciplined investment process utilizes a top-down approach to identify investable sectors, coupled with bottom-up, security selection.

#### 1) Geopolitical and global macro analyses define:

- ◆ Sector weightings
- ◆ Acceptable geographic locations of reserves

#### 2) Allocation decisions:

- ◆ Investments are screened based upon our view of commodities compared to equities
- ◆ Commodity vs. equity weightings are decided

#### 3) Security Selection:

- ◆ Equity security selection
- ◆ ETF selection

### BOTTOM-UP SECURITY SELECTION CRITERIA

Once a universe of securities is identified utilizing the macro-analysis, we seek to identify companies that have the ability to increase production and grow reserves over time, thus appreciating capital.

- ◆ Companies that extract, mine or produce hard assets
- ◆ Suitable companies possess an ability to grow reserves and increase production
- ◆ Companies domiciled in politically stable countries with developed contract law
- ◆ Securities, including ETFs, provide exposure to a desired tangible asset
- ◆ Sector weights are defined by Confluence's macro and geopolitical views
- ◆ Securities provide exposure to underlying hard assets that are trading at significant discounts to our estimate of value

### SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- ◆ Strategic or macro views have changed
- ◆ The company reaches or exceeds our estimate of full valuation
- ◆ The underlying hard asset reaches or exceeds our estimate of full valuation causing sector rotation of capital
- ◆ Business fundamentals deteriorate
- ◆ The company's country of domicile becomes unstable
- ◆ The company's reserves drastically decline

## PORTFOLIO COMMENTARY<sup>2</sup>

### SECOND QUARTER 2023 MARKET OBSERVATIONS

The Bloomberg commodity index fell 4.0%, with four of the five major commodity sectors registering negative price performance in the second quarter. The only positive sector was softs, which rose a modest 0.5%. The weakest sector was industrial metals, which declined by 18.6%. Precious metals fell 9.9%, with gold dropping 7.9%. Energy commodities declined a modest 0.9%, with crude oil off 5.0%. Agricultural commodities fell 1.6%.

During the quarter, we reduced our precious metals allocation, trimming the allocation by 3% to 25%. Specifically, we sold a silver position. While gold can act as a defensive position in the commodity sector, silver, being a dual use metal, is exposed to weaker economic activity. Our positions in industrial metals and agricultural minerals remained at 29% and 3%, respectively. We added 3% to our energy position due to long-term expectations of stronger oil prices, bringing the allocation to 39%.

In the long run, there are profound changes occurring in the global economy and in geopolitics that we believe favor this portfolio. Central bank gold-buying has been strong, reflecting concerns about the dollar's reserve currency status. China has been engaging in commodity accumulation, which has tended to put a floor under prices, with Beijing buying as prices weaken. The energy transition has not led to any obvious decline in fossil fuel consumption; at the same time, automakers are scrambling to secure electric vehicle metals for future production. We expect a short and shallow recession and as the Federal Reserve ends its tightening cycle, the odds of a rebound in commodities in the coming months are improving.

## PERFORMANCE

### COMPOSITE RETURNS<sup>3</sup> (FOR PERIODS ENDING JUNE 30, 2023)

|                                       | Since Inception** | 10-Year* | 5-Year* | 3-Year* | 1-Year | YTD    | QTD    |
|---------------------------------------|-------------------|----------|---------|---------|--------|--------|--------|
| <b>Global Hard Assets</b>             |                   |          |         |         |        |        |        |
| <i>Pure Gross-of-Fees<sup>4</sup></i> | 1.7%              | 2.3%     | 8.2%    | 12.3%   | 9.5%   | 0.5%   | (0.9%) |
| <i>Max Net-of-Fees<sup>5</sup></i>    | (1.3%)            | (0.7%)   | 5.0%    | 9.0%    | 6.2%   | (1.0%) | (1.7%) |
| <b>Custom Benchmark</b>               | 3.6%              | 3.9%     | 7.2%    | 26.5%   | 9.4%   | 0.8%   | (1.5%) |

| Calendar Year | Pure Gross-of-Fees <sup>4</sup> | Max Net-of-Fees <sup>5</sup> | Custom Benchmark | Difference (Gross-Benchmark) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | Benchmark 3yr Std Dev | Composite Dispersion |
|---------------|---------------------------------|------------------------------|------------------|------------------------------|-----------------|-------------------------|--------------------------|-----------------------|-----------------------|----------------------|
| 2009**        | 14.3%                           | 13.4%                        | 10.2%            | 4.0%                         | 1               | \$1,660                 | \$533,832                | N/A                   | N/A                   | N/A                  |
| 2010          | 37.7%                           | 33.6%                        | 30.8%            | 6.8%                         | 13              | \$6,853                 | \$751,909                | N/A                   | N/A                   | N/A                  |
| 2011          | (20.4%)                         | (22.8%)                      | (10.4%)          | (10.0%)                      | 122             | \$24,223                | \$937,487                | N/A                   | N/A                   | 0.5%                 |
| 2012          | 5.0%                            | 1.9%                         | (0.9%)           | 5.9%                         | 110             | \$21,537                | \$1,272,265              | 24.9%                 | 20.4%                 | 0.4%                 |
| 2013          | (15.4%)                         | (18.0%)                      | (5.8%)           | (9.7%)                       | 92              | \$16,831                | \$1,955,915              | 22.4%                 | 18.7%                 | 0.6%                 |
| 2014          | (14.0%)                         | (16.6%)                      | (17.8%)          | 3.7%                         | 79              | \$11,842                | \$2,589,024              | 17.1%                 | 16.1%                 | 0.3%                 |
| 2015          | (27.4%)                         | (29.6%)                      | (31.5%)          | 4.0%                         | 53              | \$5,653                 | \$3,175,419              | 16.2%                 | 18.1%                 | 0.3%                 |
| 2016          | 23.3%                           | 19.7%                        | 52.3%            | (29.0%)                      | 41              | \$5,596                 | \$4,413,659              | 18.6%                 | 23.5%                 | 0.3%                 |
| 2017          | 2.4%                            | (0.7%)                       | 5.3%             | (3.0%)                       | 34              | \$5,038                 | \$5,944,479              | 17.0%                 | 21.4%                 | 0.2%                 |
| 2018          | (16.2%)                         | (18.7%)                      | (17.2%)          | 0.9%                         | 27              | \$3,540                 | \$5,486,737              | 15.0%                 | 18.4%                 | 0.3%                 |
| 2019          | 12.4%                           | 9.1%                         | 7.3%             | 5.1%                         | 25              | \$3,644                 | \$7,044,708              | 14.7%                 | 15.3%                 | 0.4%                 |
| 2020          | 24.4%                           | 20.7%                        | 3.8%             | 20.5%                        | 26              | \$5,789                 | \$6,889,798              | 25.9%                 | 29.6%                 | 0.2%                 |
| 2021          | 12.6%                           | 9.2%                         | 37.6%            | (25.0%)                      | 31              | \$8,187                 | \$7,761,687              | 26.1%                 | 29.8%                 | 0.7%                 |
| 2022          | 9.3%                            | 6.0%                         | 15.9%            | (6.6%)                       | 50              | \$11,357                | \$6,931,635              | 29.7%                 | 31.9%                 | 0.3%                 |

\*Average annualized returns      \*\*Inception is 10/1/2009

See performance disclosures on last page.

#### Portfolio Benchmark

**Custom Benchmark** – Custom benchmark (blended monthly) consists of: CRB Commodity Index 30%, S&P Oil and Gas Exploration and Production 30%, S&P Metals and Mining 25%, NYSE Gold Miners Index 15%. (Source: Bloomberg)

## Confluence Global Hard Assets Committee

Mark Keller, CFA

Joe Hanzlik

Bill O'Grady

Patrick Fearon-Hernandez, CFA

### FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM:

Ron Pond, CFA | *Northwest*  
Director of Sales  
(314) 526-0759  
rpond@confluenceim.com

Jason Gantt | *East*  
Sr. Regional Sales Director  
(314) 526-0364  
jgantt@confluenceim.com

Jim Taylor | *Mid-South*  
Regional Sales Director  
(314) 526-0469  
jtaylor@confluenceim.com

Denis O'Grady | *East & Mid-South*  
Regional Sales Associate (Internal)  
(314) 743-5294  
dogrady@confluenceim.com

Wayne Knowles | *ID, MT, WY*  
Advisory Director  
(314) 526-0914  
wknowles@confluenceim.com

Steve Mikez | *Southwest*  
Sr. Regional Sales Director  
(314) 526-0776  
smikez@confluenceim.com

Michael Kelnosky | *North-Central*  
Regional Sales Director  
(314) 526-0622  
mkelnosky@confluenceim.com

Matt Winter | *Southwest & North-Central*  
Regional Sales Associate (Internal)  
(314) 526-0522  
mwinter@confluenceim.com

## DISCLOSURES

<sup>1</sup> **Portfolio Holdings**—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. Commodity class weightings and holdings of individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Portfolio yield: composite-level weighted average yield, calculated based on annualized current dividends; source: FactSet. Annual turnover 5-year rolling calculated from sample accounts for periods ending 12/31/2022.

<sup>2</sup> **Market Observations**—Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice or a recommendation. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Opinions expressed are current as of the date shown and are subject to change.

<sup>3</sup> **Performance Composite Returns**—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, 2021. 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 Global Hard Assets strategy was inceptioned on October 1, 2009, and the Global Hard Assets Composite was created on October 1, 2009. 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.

<sup>4</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>5</sup> Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite: 0.60% on the first \$500,000; 0.55% on the next \$500,000; 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 Global Hard Assets Composite contains fully discretionary Global Hard Assets wrap accounts. The Global Hard Assets portfolio is focused on investments in hard assets which are defined as tangible commodities, such as a gold bar, a barrel of oil or a ton of coal. The portfolio comprises common stocks of companies in the hard assets sector and hard asset ETFs which give the portfolio exposure to actual commodities.

\*\*Results shown for the year 2009 represent partial period performance from October 1, 2009, through December 31, 2009.

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.

*Global Hard Assets includes securities and asset classes that typically have greater price volatility. Global Hard Assets is subject to commodity pricing, supply & demand and regulatory risks, in addition to U.S. and non-U.S. equities, non-diversification and currency risks. Prices of various commodities and natural resources may be affected by factors such as drought, floods, weather, changes in storage costs, changing supply and demand relationships, transportation costs, embargoes, tariffs and other regulatory developments, as well as foreign currency exchange rates and international interest rates, many of which factors are unpredictable.*