Confluence INVESTMENT MANAGEMENT

Global Large Cap

September 30, 2019

Objective

Focused on domestic and international large capitalization companies. Investment objective is capital appreciation with a secondary objective of dividend income.

Investment Philosophy

Confluence's investment philosophy is a bottom-up, fundamental approach that seeks to generate above-average returns over the long term by investing in high-quality global companies with well-positioned business models that can grow throughout the economic and business cycles. The investment committee identifies businesses that possess sustainable competitive advantages, generate free cash flow and are led by management teams that create shareholder wealth.

The investment process focuses on managing risk, which we define as the probability of a permanent loss of capital. As part of this process, we strive to avoid paying excessive valuations for these businesses. In addition to fundamental company research, international investments go through country and region assessments to further limit portfolio risk. Country selection considerations center on countries that respect contracts and property rights, have minimal political turmoil and foster low-risk geopolitical environments and favorably valued currencies.

Overview

- Focused on global businesses with sustainable competitive advantages
- Includes domestic and international equities, primarily large cap companies
- Driven by bottom-up fundamental research, while considering macro factors
- Generally 2% position sizes
- Low-to-moderate turnover
- Suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income

Characteristics[1]

	Portfolio	MSCI World
Dividend Yield	1.9%	2.5%
Number of Positions	48-50	1,649
Estimated Annual Turnover	20-30%	

[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards. 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. 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. Contact Confluence for a complete list of holdings. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark yield source: Bloomberg.

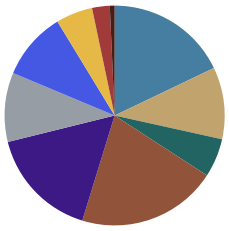
Market Cap[1]

	Portfolio	MSCI World
Weighted Avg. Market Cap ($B)	137.2	167.4
Largest Market Cap ($B)	1,061.6	1,119.3
Median Market Cap ($B)	64.0	12.9
Smallest Market Cap ($B)	7.0	1.9
Large Cap (>$10B)	93%	
Mid Cap ($10B-$2B)	6%	
Small Cap (<$2B)	0%	

10 Largest Holdings[1]

Brookfield Asset Management Inc.	3.3%
Lowe's Companies, Inc.	3.1%
W.R. Berkley Corporation	2.9%
Thermo Fisher Scientific Inc.	2.9%
Kering SA	2.8%
Markel Corporation	2.7%
The TJX Companies, Inc.	2.7%
Illinois Tool Works Inc.	2.6%
Black Knight, Inc.	2.4%
Koninklijke Philips N.V.	2.4%

Sector Allocation[1]



Investment Process

Bottom-Up Security Selection Great Companies at Bargain Prices

Our disciplined investment process is research-driven, seeking to uncover high-quality companies trading at a discount to our estimate of intrinsic value. We define great companies as those with the following attributes:

Durable Competitive Advantages

- Meaningful pricing power
- High barriers to entry
- Superior return on capital over extended periods of time

Free Cash Flow

- Substantial amount available to benefit shareholders
- Should far exceed the capital expenditures needed to maintain and grow the business

Capable Management

- Demonstrated ability to effectively allocate capital
- Alignment of management's interest with investors through large personal investments in company stock

Top-Down Analysis Portfolio Construction

Our disciplined investment process combines bottom-up security selection with a top-down approach to identify equity investments in favorable geographies, sectors and currencies.

In addition to seeking attractive, macro-driven investment opportunities, our analysis also detects possible global risks.

Geopolitical and Global Macro Factors

- Investable geographies, both countries and super-regions
- Currencies that are attractively valued relative to parity models
- Sector weightings to minimize risk and benefit from undiscounted trends
- Global secular trends, including economic, social, political and geopolitical factors, that affect the investable universe

Valuation Analysis & Sell Discipline

Valuations play an important role as we believe avoiding excessive valuations is a key metric in managing risk, while maximizing total return potential over an investment cycle.

- Primary focus is price paid for a stock
- Purchasing companies only when they are trading at a reasonable discount to our internal estimate of intrinsic value
- Risk is defined as *the probability of a permanent loss of capital* as opposed to tracking error of a benchmark

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- Share price reaches or exceeds our estimate of full valuation
- Company's fundamentals deteriorate
- More attractive opportunities are identified

About Confluence Investment Management LLC

Confluence Investment Management 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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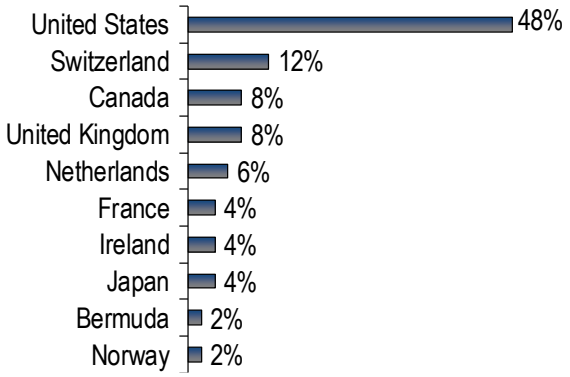
Country Allocation[3]

(as of 9/30/19)



Statistical Analysis[4]

Since Inception*

	Pure Gross-of-Fees[1]	MSCI World
Annualized Standard Deviation	9.20%	10.08%
Sharpe Ratio	1.10	0.88
Beta	0.88	1.00
Alpha	2.13	0.00
R-Squared	0.95	100.00
Downside Capture Ratio	79.95	100.00

**Inception is 1/1/2013*

Performance Composite Returns (For Periods Ending September 30, 2019)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI World
Since Inception**	10.9%	7.6%	9.6%
5-Year*	9.3%	6.1%	7.2%
3-Year*	12.8%	9.5%	10.2%
1-Year	10.2%	7.0%	1.8%
YTD	24.0%	21.2%	17.6%
QTD	2.4%	1.6%	0.5%

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI World	Difference (Gross-MSCI World)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI World 3yr Std Dev	Composite Dispersion
2013	26.5%	22.8%	26.7%	(0.2%)	1	$421	$1,955,915	N/A	N/A	N/A
2014	3.1%	0.1%	4.9%	(1.8%)	1	$434	$2,589,024	N/A	N/A	N/A
2015	(0.7%)	(3.6%)	(0.9%)	0.2%	1	$431	$3,175,419	N/A	N/A	N/A
2016	9.0%	5.8%	7.5%	1.5%	1	$469	$4,413,659	10.2%	10.9%	N/A
2017	20.2%	16.6%	22.4%	(2.2%)	1	$561	$5,944,479	9.1%	10.2%	N/A
2018	(4.6%)	(7.5%)	(8.7%)	4.1%	1	$535	$5,486,737	9.4%	10.4%	N/A

**Average annualized returns*

***Inception is 1/1/2013*

Portfolio Benchmark

MSCI World (Net) Index – A free float-adjusted market capitalization index that is designed to measure developed market equity performance. Performance results are presented net of estimated foreign withholding taxes on dividends, interest and capital gains. *(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 Global Large Cap Composite was created on January 1, 2013. 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. Composite performance is typically net of foreign withholding taxes on dividends, interest income and capital gains with some exceptions based on custodian treatment. 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. 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 0% 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.

Historical performance is based on the Global Large Cap-Direct Composite which was created on January 1, 2013. The Global Large Cap-Direct composite includes accounts that pursue the Global Large Cap strategy, but do not have bundled fees. Gross returns from the Global Large Cap-Direct composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. For all periods, non-fee-paying accounts comprise 100% of composite assets.

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 Global Large Cap Composite contains fully discretionary Global Large Cap wrap accounts. The Global Large Cap portfolio invests in U.S.-listed shares of large capitalization, global companies from developed markets. An index is unmanaged and does not incur management fees, transaction costs or other expenses associated with separately managed accounts. It is not possible to invest directly in the index.

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.

[3] **Country Allocation—**This information is presented as supplemental information to the disclosures required by the GIPS® standards. Country allocations presented do not constitute a recommendation by Confluence or a solicitation of any offer to buy or sell any securities. Country allocations represent a portion currently or previously held in a representative (model) portfolio invested in accordance with the stated strategy. This listing does not represent all of the countries currently or previously owned in the portfolio. Application of the investment strategy as of a later date will likely result in changes to the listing. Contact Confluence to receive a complete list of securities, sectors and/or countries previously held. 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.

[4] **Statistical Analysis—***Standard Deviation:* Measures price variability (risk) over a period of time; higher Standard Deviation indicates more variability in returns. *Sharpe Ratio:* Quantifies risk-adjusted performance by measuring excess return per unit of risk; higher Sharpe Ratio suggests better risk-adjusted performance. *Beta:* Measures portfolio volatility (systematic risk) compared to an appropriate benchmark index; e.g., Beta of 1.1 indicates the investment has approx. 10% more volatility in returns than benchmark index. *Alpha:* Measures nonsystematic return or return that cannot be attributed to the market, i.e., how the manager performed if the market had no gain or loss. *R-Squared:* Indicates whether comparison index is an appropriate benchmark based on correlation; generally, R-Squared above 0.70 is desirable. *Downside Capture Ratio:* Measures performance in down markets relative to index (down market: any quarter where the market return is less than zero); lower Downside Capture Ratio indicates the manager protected capital better during a market decline. *(Data source: Zephyr's PSN SMA Database)*

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The Confluence Mission

Our mission is to provide our clients with superior investment solutions and exceptional client service with the highest standards of ethics and integrity. Our team of investment professionals is committed to delivering innovative products and sound, practical advice to enable investors to achieve their investment objectives.

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