Confluence INVESTMENT MANAGEMENT

Global Large Cap

September 30, 2021

Objective

Invests in 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

- Invests in 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
- Appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income

Characteristics[1]

Characteristics[1]	Global Large Cap	MSCI World
Dividend Yield	1.3%	1.7%
Number of Positions	48-50	1,561
Estimated Annual Turnover	20-30%	

[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards. 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. 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. Sector weightings/holdings of individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings. Portfolio yield: composite-level weighted average gross yield, calculated based on annualized current dividends; source: Bloomberg. Benchmark yield source: MSCI.

Market Cap[1]

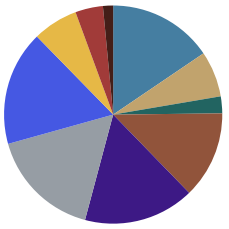
Market Cap[1]	Global Large Cap	MSCI World
Weighted Avg. Market Cap ($B)	223.1	389.5
Largest Market Cap ($B)	2,118.6	2,361.3
Median Market Cap ($B)	95.7	15.2
Smallest Market Cap ($B)	6.7	0.3

Large Cap (>$10B)	94%
Mid Cap ($10B-$2B)	4%
Small Cap (<$2B)	0%

10 Largest Holdings[1]

Kering SA	3.0%
Brookfield Asset Management Inc.	2.9%
Alphabet Inc. (Class C)	2.8%
Charles River Laboratories Int'l, Inc.	2.7%
Illinois Tool Works Inc.	2.7%
Lowe's Companies, Inc.	2.6%
Novo Nordisk A/S	2.6%
Thermo Fisher Scientific Inc.	2.5%
Sony Group Corporation	2.5%
IHS Markit Ltd.	2.5%

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 provides professional portfolio management and advisory services to institutional and individual clients. Confluence'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, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

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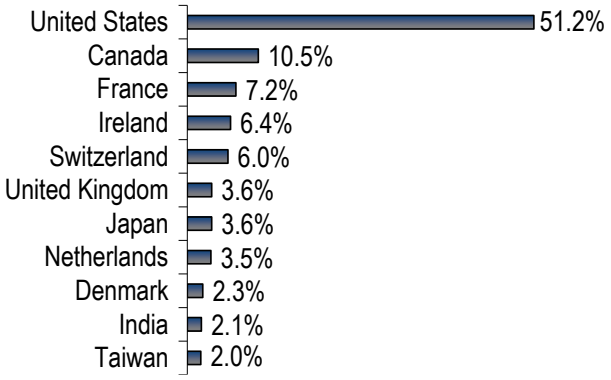
Country Allocation[3]

(as of 9/30/21)



Statistical Analysis[4]

	vs. MSCI World
Active Share (as of 9/30/21)	88.75%

Since Inception**	Pure Gross-of-Fees[1]	MSCI World
Downside Capture Ratio	90.70	100.00
Alpha	0.85	0.00
Beta	0.89	1.00
Annualized Standard Deviation	12.79%	14.14%
R-Squared	0.97	1.00
Sharpe Ratio	0.84	0.79

***Inception is 1/1/2013*

Performance Composite Returns (For Periods Ending September 30, 2021)

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI World
Since Inception**	11.5%	8.1%	11.8%
5-Year*	13.1%	9.7%	13.7%
3-Year*	12.4%	9.0%	13.1%
1-Year	23.5%	19.9%	28.8%
YTD	10.8%	8.3%	13.0%
QTD	(1.0%)	(1.7%)	(0.0%)

**Average annualized returns*
***Inception is 1/1/2013*

Calendar Year	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
2019	31.4%	27.5%	27.7%	3.8%	1	$704	$7,044,708	10.5%	11.1%	N/A
2020	9.6%	6.3%	15.9%	(6.3%)	2	$2,176	$6,889,798	16.7%	18.3%	N/A

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)*
(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.)

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, 2020. 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 Large Cap strategy was incepted on January 1, 2013, and the current 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. Non-fee-paying accounts comprise 100% of composite assets for all periods.
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 Large Cap Composite contains fully discretionary Global Large Cap wrap accounts. The Global Large Cap portfolio invests in U.S.-listed shares of global large capitalization companies.
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. Country allocation weightings exclude cash and cash equivalents. 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. 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.

[4] **Statistical Analysis—***Active Share:* Measures percentage of portfolio holdings that differ from the benchmark index; calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio and the weight of each holding in the benchmark index, as of the date shown, and dividing by two. *(Calculated by Confluence. Index holdings/weights sourced from MSCI, Inc.)*
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. *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. *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. *Standard Deviation:* Measures price variability (risk) over a period of time; higher Standard Deviation indicates more variability in returns. *R-Squared:* Indicates whether comparison index is an appropriate benchmark based on correlation; generally, R-Squared above 0.70 is desirable. *Sharpe Ratio:* Quantifies risk-adjusted performance by measuring excess return per unit of risk; higher Sharpe Ratio suggests better risk-adjusted performance. *(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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