First Quarter

2016

Equity Strategies • Large Cap Value

The Large Cap Value portfolio is focused on seasoned companies that generally have capitalizations above $10 billion. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and that are trading at discounts to intrinsic value. The portfolio typically is comprised of 23-25 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Portfolio Commentary

On the surface, the broad equity markets appeared to have a rather mundane start with the S&P 500 up 1.3% in Q1. The reality was far different as the S&P 500 had one of the worst starts to the year, declining over 10% through mid-February before reversing course and recouping its losses and then some by quarter end. Our Large Cap Value strategy was up 0.7% (gross of fees) for the quarter. *For detailed performance data and disclosures see: http://www.confluenceinvestment.com/equity_strategies#prod_40*

The pessimistic mood of investors can be traced back to the Fed's decision in mid-December to raise interest rates for the first time since 2006, which drew concerns about the pace and magnitude of future increases. Why the uncertainty? Since the 2008 Great Recession, central banks around the world have gone to unprecedented efforts to stabilize and grow their economies. They have resorted to Zero Interest Rate Policies, Quantitative Easing and even negative interest rates in some parts of the world. In the U.S., the FOMC enacted ZIRP for an extended period and conducted multiple rounds of QE to keep the economy moving. While it was successful in growing the economy, the growth has been rather anemic relative to past recoveries. Thus, the first rate increase late last year and expectations for multiple increases in 2016 caused investors to fear that the Fed would move too fast and too much, possibly pushing the U.S. into recession. As the FOMC March meeting neared and it looked less likely that an increase would occur then, investor pessimism began to wane. With the official FOMC statement, it became clear that the pace of future rate increases would be slow and rates would stay low, which aided the equity markets' continued improvement.

While the broad market posted positive overall results, it was not consistent across all sectors. The utilities and telecom sectors had double-digit returns, while health care and financials posted single-digit declines. Utilities and telecom tend to be higher yielding arenas that are more interest rate-sensitive and benefit from the delay. Financials were disappointed by the FOMC decision as it delays the widening of the income spread.

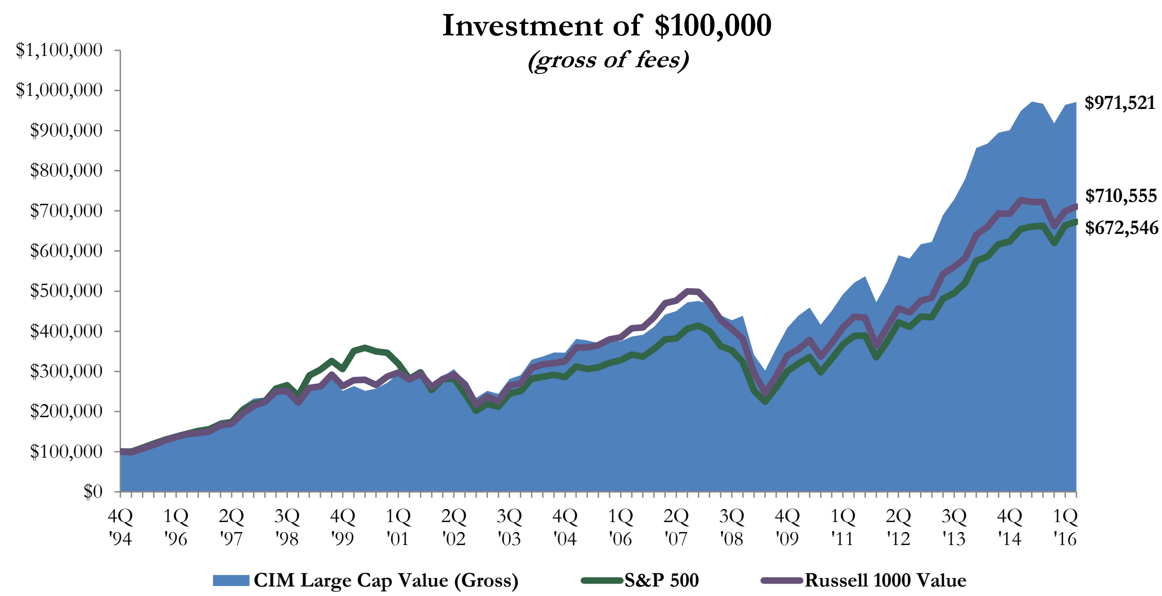
There were no changes to the portfolio during the quarter. The biggest contributors were Stryker and Illinois Tool Works, while the detractors were Express Scripts and American Express. Express Scripts came under pressure due to concerns over its Anthem relationship. This is an example of how the opacity of the Pharmacy Benefits Management model can work against ESRX in the public markets; since it's very difficult to triangulate Anthem's exact impact, the path of least resistance is to assume the worst. AXP's decision to not renew its Costco relationship due to onerous terms has put the shares under pressure; however, the share price more than reflects near-term uncertainty. The franchise remains valuable and the "closed loop" network of AXP has scarcity value.

As always, we remain focused on company-specific fundamentals and growth prospects, and believe the current market will continue to provide us with opportunities to buy quality companies at reasonable prices.

CIM • Large Cap Value

Top 10 Portfolio Holdings (as of 3/31/16)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Markel Corp.	12.5	4.9%
The TJX Companies, Inc.	51.9	4.7%
Stryker Corp.	40.0	4.6%
W.R. Berkley Corp.	6.9	4.4%
MasterCard Inc.	104.9	4.4%
Thermo Fisher Scientific, Inc.	56.1	4.3%
Expeditors International of Washington Ir	8.9	4.3%
Pepsico, Inc.	149.8	4.1%
Berkshire Hathaway Inc. (Class B)	350.2	4.1%
Johnson & Johnson	298.5	4.1%



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.