

Equity Strategies • Large Cap Value

Large Cap Value 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 our estimates of 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

The Large Cap Value strategy posted a marginal loss of 0.5% (gross of fees) for the quarter, slightly ahead of the broad-based S&P 500, down 0.8%, and comparing favorably to the Russell 1000 Value, down 2.8%.

After nine consecutive quarters of positive returns, the broad equity markets posted a negative return in Q1 2018. To the casual observer, this return might imply a relatively benign period but it was quite the contrary. The year started off with the continued strength seen throughout 2017 as the S&P 500 roared up roughly 8% through the later part of January. This progress was in spite of rising long-term rates due to inflation fears and caused investors to focus on growth/ momentum stocks over higher yielding areas, such as Utilities and REITs. The exuberance ended in late January as investors witnessed a sharp 10% correction from the highs, the first correction since February 2016, which reintroduced volatility to the market after a relatively long absence. The S&P 500 remains in the correction phase and has been trading within the range, albeit with much higher volatility.

Market weakness during the quarter was fairly widespread with all sectors reporting declines except Consumer Discretionary and Information Technology. Both sectors of the index were carried by a handful of large cap names that exemplify the term “momentum,” such as Netflix*, up 54%, and Amazon*, up 24%. While we expect continued economic growth and solid earnings, especially in light of the recently enacted tax reform, we are cognizant of the Fed’s efforts to normalize monetary policy. When

combined with the uncertainty from the new administration, the Fed’s actions will likely produce higher volatility than what has been experienced recently. For active investors, volatility is welcome as it provides opportunities to take advantage of the price swings.

Large Cap Value had a handful of solid performers, with MasterCard and Alphabet (aka Google) posting low double-digit returns that helped offset the broad weakness in the market. During the quarter we added one new position, Oracle. Oracle operates in the enterprise software space and is in the early stages of transitioning to Software-as-a-Service (SaaS) and cloud offerings. The transition will take time and reduce near-term growth but should provide for enhanced revenue and margin opportunities. The shares offered an attractive entry point for long-term investors.

We continue to work diligently to put cash to work in a prudent fashion but acknowledge that it is taking a little longer than normal. However, should the recent levels of volatility persist, we would expect to put the money to work a little faster going forward. 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.

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**Not owned in the current portfolio. Past performance is no guarantee of future results.*

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Top 10 Portfolio Holdings (as of 3/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Mastercard Inc.	184.1	4.7%
Markel Corporation	16.4	4.7%
Berkshire Hathaway Inc. (Class B)	492.0	4.5%
W.R. Berkley Corporation	8.8	4.4%
Thermo Fisher Scientific Inc.	83.0	4.3%
The TJX Companies, Inc.	51.6	4.3%
Diageo plc	83.2	4.3%
Compagnie Financière Richemont SA	45.9	4.2%
Stryker Corporation	60.0	4.1%
Fastenal Company	15.7	4.1%

The listing of “Ten 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.

Composite Returns For Periods Ending 3/31/18

	Pure Gross-of-Fees	Net-of-Fees*	S&P 500	R1000 Value	Difference (Gross-S&P500)	No. of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R1000 Value 3yr Std Dev	Composite Dispersion
QTD	(0.5%)	(1.3%)	(0.8%)	(2.8%)								
YTD	(0.5%)	(1.3%)	(0.8%)	(2.8%)								
1-Year	8.4%	5.2%	14.0%	6.9%								
3-Year Annualized	7.5%	4.3%	10.8%	7.9%								
5-Year Annualized	11.9%	8.6%	13.3%	10.8%								
10-Year Annualized	10.6%	7.4%	9.5%	7.8%								
15-Year Annualized	11.3%	8.1%	10.1%	9.7%								
20-Year Annualized	8.0%	4.9%	6.5%	6.6%								
Since Inception Annualized	11.2%	8.1%	9.8%	9.8%								
2017	16.1%	12.6%	21.8%	13.6%	(5.7%)	1,049	\$380,737	\$5,944,479	9.0%	9.9%	10.2%	0.6%
2016	8.6%	5.4%	12.0%	17.3%	(3.4%)	1,003	\$396,038	\$4,413,659	10.0%	10.6%	10.8%	0.4%
2015	1.6%	(1.4%)	1.4%	(3.8%)	0.2%	858	\$352,556	\$3,175,419	10.1%	10.5%	10.7%	0.5%
2014	10.7%	7.5%	13.7%	13.4%	(2.9%)	618	\$278,339	\$2,589,024	8.6%	9.0%	9.2%	0.5%
2013	37.6%	33.6%	32.4%	32.6%	5.2%	373	\$208,844	\$1,955,915	10.6%	11.9%	12.7%	0.9%
2012	19.0%	15.4%	16.0%	17.5%	3.0%	249	\$143,568	\$1,272,265	13.5%	15.1%	15.5%	0.4%
2011	6.4%	3.2%	2.1%	0.4%	4.3%	228	\$89,145	\$937,487	17.1%	18.7%	20.7%	0.3%
2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	\$76,040	\$751,909	19.7%	21.9%	23.2%	0.4%
2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	\$53,387	\$533,832	17.7%	19.6%	21.1%	1.4%
2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	\$25,562	\$291,644	13.2%	15.1%	15.4%	N/A
2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	\$174,711		6.7%	7.7%	8.1%	0.6%
2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	\$198,952		5.8%	6.8%	6.7%	0.6%
2005	(1.6%)	(4.3%)	4.9%	7.1%	(6.5%)	1,064	\$188,332		8.7%	9.0%	9.5%	0.6%
2004	15.7%	12.6%	10.9%	16.5%	4.8%	1,052	\$197,447		13.7%	14.9%	14.8%	1.0%
2003	30.9%	27.3%	28.7%	30.0%	2.2%	1,010	\$163,840		15.8%	18.1%	16.0%	1.0%
2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	\$125,161		N/A	N/A	N/A	0.6%
2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	\$145,683		N/A	N/A	N/A	1.1%
2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	\$159,096		N/A	N/A	N/A	2.3%
1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	\$260,171		N/A	N/A	N/A	1.7%
1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	\$297,953		N/A	N/A	N/A	1.8%
1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	\$151,053		N/A	N/A	N/A	2.1%
1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	\$63,132		N/A	N/A	N/A	1.7%
1995	32.7%	29.1%	37.6%	38.3%	(4.9%)	178	\$24,073		N/A	N/A	N/A	1.1%
1994*	3.4%	2.6%	(0.0%)	(1.6%)	3.4%	122	\$10,206		N/A	N/A	N/A	N/A

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 6/30/2017. 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 Large Cap Value Strategy was inception on October 1, 1994 and the current Large Cap Value 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. 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. Gross returns are shown as supplemental information.

*Net 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 is available upon request. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 Large Cap Value Composite contains fully discretionary Large Cap Value wrap accounts. Large Cap Value is a value-based, bottom-up portfolio that utilizes stocks with market capitalizations typically exceeding \$10 billion. The primary benchmark is the S&P 500 Index and the Russell 1000 Value Index is shown as additional information.

**Results shown for the year 1994 represent partial period performance from October 1, 1994 through December 31, 1994.

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 and/or performance was calculated quarterly prior to January 2001.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri founded in 2007. 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. 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 400 years of combined financial experience and 200 years of portfolio management experience.