Equity Strategies • Large Cap Value

Large Cap Value is focused on seasoned companies that generally have capitalizations above $10 billion. 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 estimate of intrinsic value. The portfolio typically comprises 23-25 holdings and is expected to result in low to moderate turnover. The strategy is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Strategy Commentary

Equity markets encountered stiff headwinds in the first quarter with the S&P 500 Index falling 19.6% for the quarter, while the Russell 1000 Value Index was down 26.7%. The Large Cap Value strategy also had a tough quarter, down 22.2% (gross of fees). (*The strategy was down 22.8% (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*)

The first quarter of 2020 was truly remarkable – one more fitting of a Hollywood action-packed drama than real-life events. The year began with a positive tone as the longest economic expansion in history was projected to continue in 2020, providing a basis for the continuation of the bull market. Then, in January, concerns of COVID-19 surfaced in Asia that were perceived as disruptive, especially to supply chains, but manageable based on prior experiences with respiratory viruses (SARS, MERS, H1N1). But by mid-to-late February, further data revealed some differences in the pervasiveness and contagiousness of this strain. This eventually led governments around the world to impose aggressive actions to protect the health of their people by effectively shutting down large swaths of the economy – actions never experienced in peace time.

If this were not enough, the Kingdom of Saudi Arabia and Russia also instigated a price war in oil in early March. Hence, in the span of about 45 days the U.S. economy went from a shortage of workers to witnessing the highest jobless claims spike in history. The equity markets tumbled, with the S&P 500 down approximately 35% from the highs reached on February 21 to the lows on March 23, only to rally over 20% on the back of monetary and fiscal policy relief efforts. It was as though a full market cycle occurred in less than a month and a half.

These unexpected events and unprecedented responses to mitigate the spread of the virus prompted central banks around the world to act aggressively to ensure ample liquidity in the banking system. Congress also quickly responded with a heavy dose of fiscal policy relief for individuals and businesses. These efforts will go a long way in providing support while we work through the negative impact of the pandemic. When the fog does clear, we would not expect the same environment that preceded it. Supply chains will be revisited. Businesses will carry more debt, debt that was incurred to survive, and they will likely have a desire to work it off and build reserves. Investor sentiment will likely shift away from "buy the dips" and/or "fear of missing out" toward fundamentals and valuations. Passive investing may pass the baton to active investing. Economic growth will resume but likely at a lower trajectory.

For the quarter, the equity market selloff was broad-based with all sectors posting negative results. Information Technology and Health Care performed relatively well, each down approximately 12%, while Energy and Financials were the laggards, down 50% and 32%, respectively. The relative strength of the mega-cap Technology was most evident in the following two data points: (1) the Russell 1000 Growth Index, which has a much larger weighting in Technology, dramatically outperformed the Russell 1000 Value, -14.1% versus -26.7%, respectively; and (2) the S&P 500 Index, which is weighted by market capitalization, outperformed an equal-weighted S&P 500, -19.6% versus -26.7%, respectively. The top five holdings in the S&P 500 are now Microsoft (MSFT), Amazon (AMZN), Apple (APPL), Google (GOOG/GOOGL) and Facebook (FB); their combined weight is over 19% of the S&P 500 versus 1% for an equally weighted index of 500 stocks.

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Strategy Commentary continued...

The Large Cap Value strategy also experienced the turbulence in the quarter as all sectors posted losses, with Health Care and Communication Services leading and Materials and Industrials lagging. In prior market dislocations we have found it beneficial to use these opportunities to upgrade the quality of the portfolio and that has been the case in the current environment as we began building a few new positions toward the end of the quarter. We look forward to sharing the details once these positions are complete.

We have always taken a pragmatic approach which strives to temper emotions by focusing on the underlying businesses and what they're worth. The objective is to own competitively advantaged businesses that are conservatively financed and guided by good stewards. While the shares of these types of businesses are not immune to near-term sentiment, as we are currently witnessing, their underlying attributes should provide the ballast to not just survive but also take advantage of any dislocations.

Our task is to construct a portfolio of businesses that we believe have the wherewithal to survive the downside, while providing ample opportunity to participate when the recovery occurs. This too shall pass, and rest assured we have a seasoned team of analysts working diligently to ensure the portfolios are aligned accordingly.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
Charles River Laboratories International, Inc.	0.35	0.28
IHS Markit Ltd.	0.51	(0.00)
Booking Holdings Inc.	0.31	(0.01)
Oracle Corporation	3.88	(0.23)
Alphabet Inc. (Class A/Class C)	3.85	(0.46)
Bottom 5		
NXP Semiconductors N.V.	3.90	(1.35)
Axalta Coating Systems Ltd.	2.89	(1.36)
United Technologies Corp.	3.63	(1.36)
American International Group, Inc.	2.55	(1.61)
Delta Air Lines, Inc.	3.29	(1.87)

(Contribution data shown from a sample account)

10 Largest Holdings (as of 3/31/20)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Thermo Fisher Scientific Inc.	113.1	4.9%
Black Knight, Inc.	8.7	4.8%
Cerner Corporation	19.2	4.7%
Alphabet Inc. (Class C)	798.9	4.6%
W.R. Berkley Corporation	9.6	4.4%
Brookfield Asset Management Inc.	44.2	4.3%
Stryker Corporation	62.4	4.3%
Berkshire Hathaway Inc. (Class B)	442.9	4.3%
PepsiCo, Inc.	166.8	4.2%
Fastenal Company	17.9	4.2%

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 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.

Performance Composite Returns For Periods Ending 3/31/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R1000 Value
Since Inception**	10.3%	7.2%	9.1%	8.5%
25-Year*	10.0%	6.9%	8.9%	8.3%
20-Year*	8.2%	5.1%	4.8%	5.4%
15-Year*	8.1%	5.0%	7.6%	5.4%
10-Year*	10.2%	6.9%	10.5%	7.7%
5-Year*	4.5%	1.4%	6.7%	1.9%
3-Year*	2.8%	(0.2%)	5.1%	(2.2%)
1-Year	(8.9%)	(11.6%)	(7.0%)	(17.2%)
YTD	(22.2%)	(22.8%)	(19.6%)	(26.7%)
QTD	(22.2%)	(22.8%)	(19.6%)	(26.7%)

**Average annualized returns*
***Inception is 10/1/1994*

Portfolio Benchmarks

S&P 500 Index – A capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 1000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values.

(Source: Bloomberg)

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R1000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R1000V 3yr Std Dev	Composite Dispersion
1994**	3.4%	2.6%	(0.0%)	(1.6%)	3.4%	122	$10,206		N/A	N/A	N/A	N/A
1995	32.7%	29.1%	37.6%	38.3%	(4.9%)	178	$24,073		N/A	N/A	N/A	1.1%
1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	$63,132		N/A	N/A	N/A	1.7%
1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	$151,053		N/A	N/A	N/A	2.1%
1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	$297,953		N/A	N/A	N/A	1.8%
1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	$260,171		N/A	N/A	N/A	1.7%
2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	$159,096		N/A	N/A	N/A	2.3%
2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	$145,683		N/A	N/A	N/A	1.1%
2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	$125,161		N/A	N/A	N/A	0.6%
2003	30.9%	27.3%	28.7%	30.0%	2.2%	1,010	$163,840		15.8%	18.1%	16.0%	1.0%
2004	15.7%	12.6%	10.9%	16.5%	4.8%	1,052	$197,447		13.7%	14.9%	14.8%	1.0%
2005	(1.6%)	(4.3%)	4.9%	7.1%	(6.5%)	1,064	$188,332		8.7%	9.0%	9.5%	0.6%
2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	$198,952		5.8%	6.8%	6.7%	0.6%
2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	$174,711		6.7%	7.7%	8.1%	0.6%
2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	$25,562	$291,644	13.2%	15.1%	15.4%	N/A
2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	$53,387	$533,832	17.7%	19.6%	21.1%	1.4%
2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	$76,040	$751,909	19.7%	21.9%	23.2%	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%
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%
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%
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%
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%
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%
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%
2018	(4.6%)	(7.4%)	(4.4%)	(8.3%)	(0.2%)	1,029	$364,805	$5,486,737	10.4%	10.8%	10.8%	0.6%
2019	34.5%	30.5%	31.5%	26.5%	3.0%	1,118	$525,944	$7,044,708	11.8%	11.9%	11.8%	0.6%

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 12/31/2018. 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 incepted 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.

[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 (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. **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.

Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy can be obtained by contacting Confluence. *Material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Holdings identified do not represent all of the securities purchased, sold or recommended. Information is presented as supplemental information to the disclosures required by GIPS ® standards. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. Past performance is no guarantee of future results. 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.* ***Indices:*** *The S&P 500 Index and Russell 1000 Value Index are shown as additional information. These indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only & do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.*