Confluence INVESTMENT MANAGEMENT

FIRST QUARTER
2022

Large Cap Value • Value Equity Strategies

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 appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Market Commentary

Equity markets struggled to start the new year as investors grappled with the latest Omicron wave, the Russian invasion of Ukraine, and the actions of the Federal Reserve. These concerns weighed not only on domestic equity markets but all asset classes except for commodities. Even Treasuries, often viewed as safe havens, reported losses across maturities, with the 10-year Treasury yield moving up from 1.62% to 2.32% and resulting in a -6.86% loss of principal. The only asset to escape the downdraft was commodities as supply has been slower to ramp back up despite solid demand as economies are reopening (see *Figure 1* with asset class returns, from Confluence's Asset Allocation Committee). Companies are also struggling with labor shortages as well as recent outages caused by Omicron which are putting upward pressure on wages. Inflation has also been pressured by supply chain issues that are testing the limits of the global just-in-time inventory approach – an approach that helped put downward pressure on inflation over the past few decades. The Russian invasion only advanced concerns surrounding the supply of agriculture products and certain commodities, which was further exasperated by the sanctions imposed on Russia. These headwinds offset the positive effects of economies reopening and the ensuing strong demand.

Figure 1

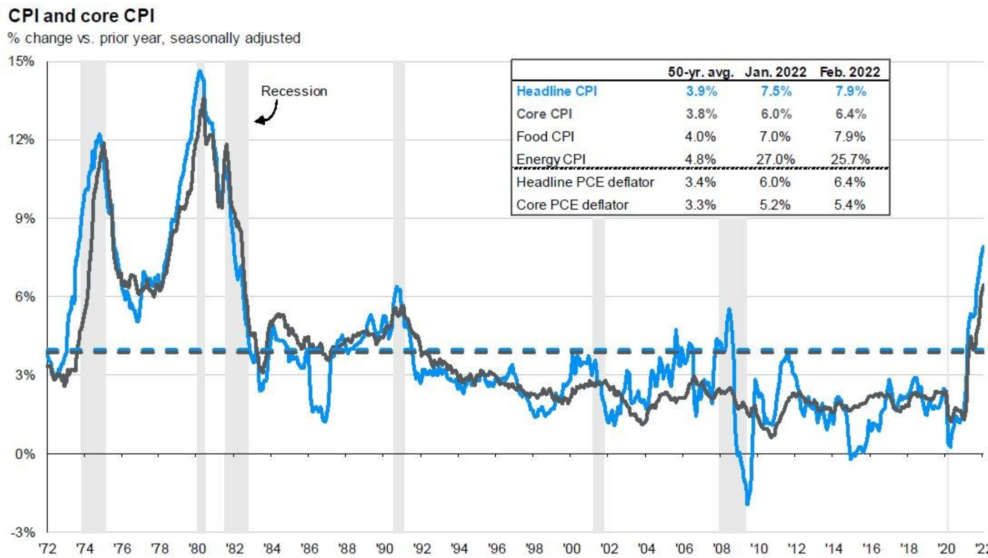
2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2022
Emerging Markets 78.5%	REITs 28.0%	Long-Term Bonds 22.0%	Emerging Markets 18.2%	US Small Cap 41.3%	REITs 30.1%	REITs 3.2%	US Small Cap 26.6%	Emerging Markets 37.3%	Cash 1.9%	US Large Cap 31.5%	US Large Cap 18.4%	REITs 43.2%	Commodities 33.1%
Speculative Bonds 57.5%	US Mid-Cap 26.6%	Intermediate-Term Bonds 10.6%	REITs 18.1%	US Mid-Cap 33.5%	Long-Term Bonds 20.1%	US Large Cap 1.4%	US Mid-Cap 20.7%	Int'l Developed 25.0%	Short-Term Bonds 1.6%	US Mid-Cap 26.2%	Emerging Markets 18.3%	Commodities 40.4%	Cash 0.0%
US Mid-Cap 37.4%	US Small Cap 26.3%	REITs 8.3%	US Mid-Cap 17.9%	US Large Cap 32.4%	US Large Cap 13.7%	Intermediate-Term Bonds 1.4%	Speculative Bonds 17.5%	US Large Cap 21.8%	Intermediate-Term Bonds -0.1%	REITs 26.0%	Long-Term Bonds 15.5%	US Large Cap 28.7%	Short-Term Bonds -2.6%
Int'l Developed 31.8%	Emerging Markets 18.9%	Speculative Bonds 4.4%	Int'l Developed 17.3%	Int'l Developed 22.8%	US Mid-Cap 9.8%	Short-Term Bonds 0.7%	US Large Cap 12.0%	US Mid-Cap 16.2%	Speculative Bonds -2.3%	US Small Cap 22.8%	US Mid-Cap 13.7%	US Small Cap 26.8%	REITs -3.9%
REITs 28.0%	Speculative Bonds 15.2%	US Large Cap 2.1%	US Small Cap 16.3%	Speculative Bonds 7.4%	Intermediate-Term Bonds 6.8%	Cash 0.1%	Commodities 11.4%	US Small Cap 13.2%	Long-Term Bonds -4.1%	Int'l Developed 22.0%	US Small Cap 11.3%	US Mid-Cap 24.8%	Speculative Bonds -4.5%
US Large Cap 26.5%	US Large Cap 15.1%	Short-Term Bonds 1.6%	US Large Cap 16.0%	REITs 2.5%	US Small Cap 5.8%	Int'l Developed -0.8%	Emerging Markets 11.2%	Long-Term Bonds 10.4%	US Large Cap -4.4%	Long-Term Bonds 18.8%	Intermediate-Term Bonds 9.5%	Int'l Developed 11.3%	US Large Cap -4.6%
US Small Cap 25.6%	Long-Term Bonds 10.6%	US Small Cap 1.0%	Speculative Bonds 15.6%	Short-Term Bonds 0.7%	Speculative Bonds 2.5%	US Small Cap -2.0%	REITs 8.5%	Speculative Bonds 7.5%	REITs -4.6%	Emerging Markets 18.4%	Int'l Developed 7.8%	Speculative Bonds 5.4%	US Mid-Cap -4.9%
Commodities 13.5%	Intermediate-Term Bonds 9.6%	Cash 0.1%	Long-Term Bonds 8.7%	Cash 0.1%	Short-Term Bonds 0.8%	US Mid-Cap -2.2%	Long-Term Bonds 5.7%	Commodities 5.8%	US Small Cap -8.5%	Commodities 17.6%	Speculative Bonds 6.2%	Cash 0.0%	US Small Cap -5.6%
Intermediate-Term Bonds 7.4%	Commodities 9.0%	Commodities -1.2%	Intermediate-Term Bonds 7.2%	Commodities -1.2%	Cash 0.0%	Long-Term Bonds -2.8%	Intermediate-Term Bonds 3.2%	REITs 5.2%	US Mid-Cap -11.1%	Speculative Bonds 14.4%	Short-Term Bonds 3.3%	Short-Term Bonds -0.4%	Int'l Developed -5.9%
Short-Term Bonds 3.8%	Int'l Developed 7.8%	US Mid-Cap -1.7%	Short-Term Bonds 1.5%	Emerging Markets -2.6%	Emerging Markets -2.2%	Speculative Bonds -4.6%	Short-Term Bonds 1.3%	Intermediate-Term Bonds 3.9%	Int'l Developed -13.8%	Intermediate-Term Bonds 10.6%	Cash 0.7%	Intermediate-Term Bonds -2.2%	Intermediate-Term Bonds -6.5%
Long-Term Bonds 1.8%	Short-Term Bonds 2.8%	Int'l Developed -12.1%	Cash 0.1%	Intermediate-Term Bonds -3.4%	Int'l Developed -4.9%	Emerging Markets -14.9%	Int'l Developed 1.0%	Short-Term Bonds 0.9%	Commodities -13.8%	Short-Term Bonds 4.1%	REITs -8.0%	Emerging Markets -2.5%	Emerging Markets -7.0%
Cash 0.2%	Cash 0.1%	Emerging Markets -18.4%	Commodities 0.1%	Long-Term Bonds -9.4%	Commodities -33.1%	Commodities -32.9%	Cash 0.3%	Cash 0.9%	Emerging Markets -14.6%	Cash 2.3%	Commodities -23.7%	Long-Term Bonds -2.8%	Long-Term Bonds -10.9%

(Source: Confluence Asset Allocation Committee. See disclosures on p.5 for asset class composition.)

Market Commentary continued...

Inflation is the primary concern weighing on investors, which has not really been present for a few decades (see CPI and core CPI graph, *Figure 2*). In fact, we have to look back to the 1970s and early 1980s for the last time inflation wreaked havoc on markets. At that time, Paul Volcker was brought in to chair the FOMC to break inflation. He did so by aggressively raising interest rates to a high of 20%, which worked but also resulted in a double-dip recession. During the decades that followed we saw more prudent monetary policy combined with globalization and technological innovation, which kept inflation in check. It was so successful that the past few generations have little to no experience with inflation as the chart below illustrates from Confluence's macro team (*Figure 3*). Thus, with inflation running much higher than expected, investors are grappling with how much of the rise is transitory and how much is structural as they determine their inflationary expectations, which has induced the recent volatility. What is certain is that the FOMC will be shifting monetary policy away from easing conditions as shown during the quarter with an increase in rates of 25 bps and a reduction in the Fed's balance sheet. Of course, the key question is, what will be the pace and magnitude of future tightening?

Figure 2



(Chart source: J.P. Morgan Asset Management; Guide to the Markets - U.S., Data as of March 31, 2022)

Figure 3

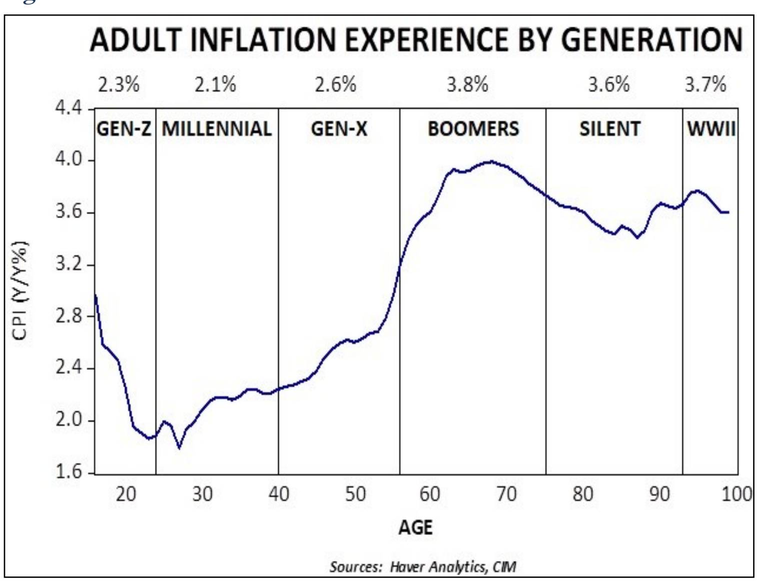
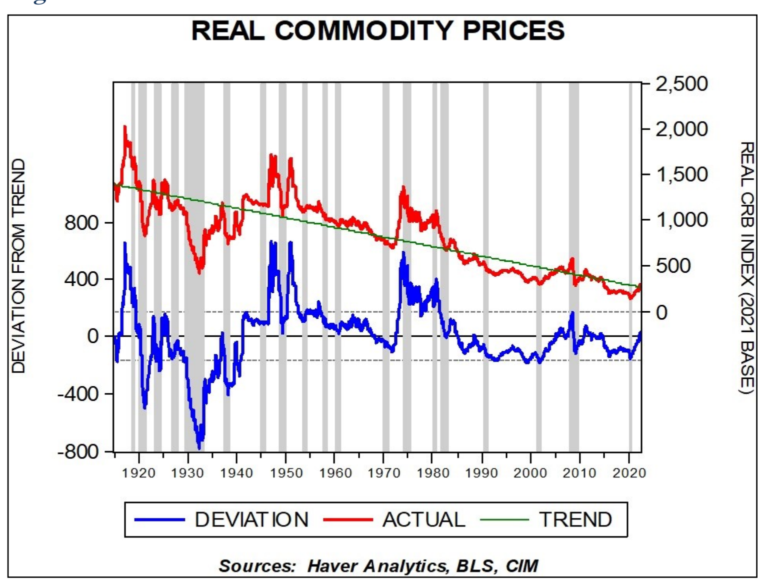


Figure 4



For the equity markets, the quarter reflected the strength of commodities as the Energy sector led the way with gains of 39% and was the only sector other than the Utilities sector, up 5%, to post a gain. The quarter ended with the broad market proxy, the S&P 500 Index, down 4.6% and the small capitalization proxy, the Russell 2000 Index, down 7.5%. Regarding style, the value indexes have larger exposures to commodities and utilities, thus value outperformed growth with the Russell 1000 Value Index down 0.7% and the Russell 1000 Growth Index down 9.0%. While commodities are drawing a lot of attention and have had some good periods from time-to-time, over the long run innovation via means of extraction and users finding more efficient usage have historically put downward pressure on commodity prices (see *Figure 4*).

Large Cap Value • Value Equity Strategies

Strategy Commentary

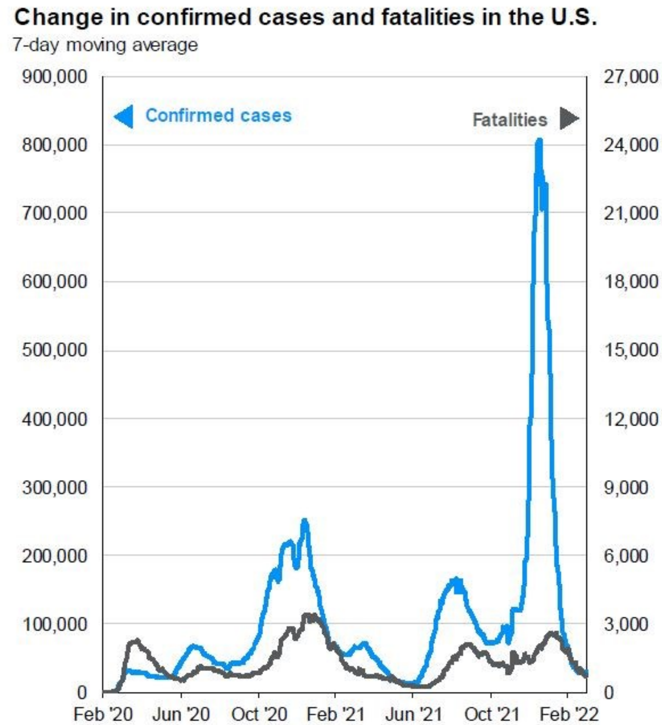
Confluence Large Cap Value also had a sluggish start to the year on the heels of a strong 2021, reporting a first quarter loss of 5.9% (gross of fees). This compares to the broad market S&P 500 Index, which was down 4.6%, and the Russell 1000 Value Index, also down 0.7%. [*Net-of-fees return for the same period was -6.6% QTD. See disclosures on p.5 for fee description; actual investment advisory fees may vary.*]

The start of 2022 began with strong headwinds as COVID spread at a record pace, Russia invaded Ukraine, and inflation hit a 40-year high, yet ended with a two-week rally of 8.5% in the S&P 500 that coincided with a rapid rise in the 10-year Treasury yield. This quarter-end rally saw a return to areas that displayed excess exuberance over the past couple of years, such as GameStop (GME) and Tesla (TSLA), which were up +113% and +40%, respectively, in the last two weeks of the quarter.

For the quarter, Large Cap Value's underperformance can be attributed to the lack of commodity exposure, primarily the Energy sector, as well as trailing in the Consumer Discretionary and Industrials sectors. In the Consumer Discretionary sector, TJX Companies (TJX), Starbucks (SBUX), and Lowe's (LOW) were laggards, and Fortune Brands Home & Security (FBHS) and Illinois Tool Works (ITW) underperformed in the Industrials sector. We would note that Tesla and Amazon (AMZN) each represent over 20% of holdings in the Consumer Discretionary sector of the S&P 500, thus they have a large impact on the index's performance. On the positive side, the hardening of insurance rates and the rise of interest rates benefited our relative performance in Financials, with W. R. Berkley (WRB), Markel (MKL), and Berkshire Hathaway (BRK.B) leading the way.

There were a couple changes to the portfolio during the quarter. First, the acquisition of IHS Markit (INFO) by S&P Global (SPGI) was completed. This leaves the portfolio with a position in S&P Global, which has a dominant market position in the ratings and data analytics for financial markets. We have long admired the business and remain holders of the shares of SPGI. Second, we acquired a new position in Clarivate (CLVT), funded by proceeds from the sale of Axalta Coating Systems (AXTA).

Figure 5



(Chart source: J.P. Morgan Asset Management; Guide to the Markets - U.S., Data as of March 31, 2022)

Clarivate (CLVT) operates a collection of subscription-based services focused largely on analytics in the areas of scientific and academic research, patent intelligence and compliance standards, pharmaceutical and biotech intelligence, trademark, domain, and brand protection; basically, it is the database for innovation. Clarivate has all the hallmarks of a business that can generate consistent and sustainable cash flow as it is asset-light, subscription-based, and has high customer retention rates. The company has roots that go back decades and was originally part of Thomson Reuters. As part of Thomson, the business was never managed in a way that reflected the underlying potential of the assets and this was recognized by outside investors who successfully carved the asset out of Thomson. A few years later, it ended up in the hands of Jerre Stead, who has a solid track record of maximizing shareholder value, with the most recent example being IHS Markit Ltd. (INFO). IHS Markit has a business model very similar to Clarivate and we presume that Mr. Stead will follow a similar game plan at Clarivate. To date, Clarivate has undertaken a number of sizeable acquisitions that have further expanded its product breadth, while also creating greater scale to leverage its fixed costs. This expansionary phase has muddied the short-term outlook and created what we felt was an attractive entry point.

Outlook

It will take time for all these events to settle out, but initially it looks like ongoing trade disputes with China, a disjointed global supply chain, and global trade disruptions from the Russian invasion of Ukraine have halted the multi-decade trend of increased globalization. As a result, inflation pressures could persist and force the Fed to aggressively raise rates, something the stock market has not experienced in over 20 years. If the Fed does follow through with aggressive tightening, then a complacent stock market could see some volatility over the next 12 months. This uncertainty will likely result in added volatility and refocus investors' attention on fundamentals and valuations. Fortunately, these types of environments often create opportunities for long-term, fundamental investors to uncover some great companies trading at attractive valuations. Of course, we remain focused on our core strength, which is analyzing and valuing businesses.

Contribution[1]

(YTD as of 3/31/2022)

The top contributors and detractors for the portfolio thus far in 2022 are shown in this table:

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

Security	Avg Weight (%)	Contribution (%)
Top 5		
W. R. Berkley Corporation	3.86	0.73
Berkshire Hathaway Inc. (Class B)	4.35	0.70
Markel Corporation	3.11	0.58
Raytheon Technologies Corporation	3.15	0.42
Clarivate Plc	2.20	0.34
Bottom 5		
The TJX Companies, Inc.	3.22	(0.68)
Starbucks Corporation	3.57	(0.91)
NXP Semiconductors N.V.	4.91	(0.99)
Fortune Brands Home & Security, Inc.	3.35	(1.15)
Lowe's Companies, Inc.	6.14	(1.38)

Performance Composite Returns[2] (For Periods Ending March 31, 2022)

	Since Inception**	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Pure Gross-of-Fees[3]	11.7%	10.3%	10.1%	10.8%	13.6%	13.5%	16.4%	13.2%	(5.9%)	(5.9%)
Net-of-Fees[4]	8.5%	7.1%	6.9%	7.6%	10.2%	10.1%	13.0%	9.8%	(6.6%)	(6.6%)
S&P 500	10.7%	9.4%	9.2%	10.3%	14.6%	16.0%	18.9%	15.6%	(4.6%)	(4.6%)
Russell 1000 Value	10.0%	8.7%	8.1%	7.4%	11.7%	10.3%	13.0%	11.6%	(0.7%)	(0.7%)

Calendar Year	Pure Gross-of-Fees[3]	Net-of-Fees[4]	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%
2020	13.0%	9.7%	18.4%	2.8%	(5.4%)	1,229	$647,076	$6,889,798	18.8%	18.5%	19.6%	0.9%
2021	26.8%	23.0%	28.7%	25.1%	(1.9%)	1,251	$738,402	$7,761,687	18.2%	17.2%	19.1%	0.6%

**Average annualized returns*

See performance disclosures on next page.

***Inception is 10/1/1994*

Portfolio Benchmarks

S&P 500® Index – A capitalization-weighted index of 500 stocks 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)*

Disclosures

Market & Strategy Commentary—*Figure 1*: Asset class representation: Cash (ICE BofA 3M T-Bill); Short-Term Bonds (ICE BofA 1-3 Year US Corp&Govt); Intermediate-Term Bonds (ICE BofA 5-10 Year US Corp&Govt); Long-Term Bonds (ICE BofA 10+Yr US Corp&Govt); Speculative Grade/High-Yield Bonds (ICE BofA US High Yield Master); REITs (FTSE NAREIT Equity); Large Cap (S&P 500); Mid-Cap (S&P MidCap 400); Small Cap (S&P Small Cap 600); Foreign Developed Country (MSCI EAFE); Emerging Markets (MSCI Emerging Markets); Commodities (S&P GSCI). Data source: Morningstar Direct.

Information is presented as supplemental information to the disclosures required by GIPS® standards. 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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results.

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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.

[1]**Contribution—**Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers, based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

[2]**Performance Composite Returns—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 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.

[3] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[4] 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. 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 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.

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.

Confluence Value Equities Investment Committee

Mark Keller, CFA	Tom Dugan, CFA	John Wobbe	Dustin Hausladen	Blair Brumley, CFA
Daniel Winter, CFA	Tore Stole	Joe Hanzlik	Kaisa Stucke, CFA	Brett Mawhiney, CFA

For more information contact a member of our sales team:

Wayne Knowles
National Sales Director
(314) 526-0914
wknowles@confluenceim.com

Ron Pond, CFA | *West*
Sr. Regional Sales Director
(314) 526-0759
rpond@confluenceim.com

Jason Gantt | *East*
Sr. Regional Sales Director
(314) 526-0364
jgantt@confluenceim.com

Michael Kelnosky | *North-Central*
Regional Sales Director
(314) 526-0622
mkelnosky@confluenceim.com

Jim Taylor | *Mid-South*
Regional Sales Director
(314) 526-0469
jtaylor@confluenceim.com

20 Allen Ave., Ste. 300, St. Louis, MO 63119 • (314) 743-5090 www.ConfluenceInvestment.com