

## 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

The equity markets continued their upward trajectory in the second quarter, with the S&P 500 up 4.3% and the Russell 1000 Value up 3.8%. This follows a very strong start to the year when the S&P 500 was up 13.6% and the Russell 1000 Value was up 11.9% in the first quarter, bringing their year-to-date returns to 18.5% and 16.2%, respectively. Large Cap Value also experienced a solid second quarter, up 7.3%, which followed a strong first quarter return of 14.9%, bringing its year-to-date return to 23.6% (all gross of fees). *(The strategy was up 6.7% QTD and 21.7% YTD (net of fees). Q1 2019 was up 14.0% (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.2 for fee description; actual investment advisory fees may vary.)*

While the equity markets were up in the second quarter, it was a more volatile quarter than the first with the month of May experiencing a mid-single-digit decline. Investor sentiment has been swaying between the prospects of additional FOMC rate cuts as early as summer and slowing domestic economic growth, which may be attributable to the trade tariff uncertainty. All-in-all, investors appear cautiously optimistic about the FOMC actions and the direction of trade discussions, resulting in a strong start to the year. Of course, this is set against the backdrop of an economic expansion that began in 2009 and is approaching the longest, albeit one of the weakest, expansions since 1850.

There was broad strength in the equity markets, with Energy being the only sector in the S&P 500 to post a negative return for the quarter. The remaining sectors all posted returns in the low-to-mid single digits.

Our Large Cap Value strategy also witnessed broad-based strength, with only a handful of businesses down in the mid-single digits for the quarter: Alphabet, Schlumberger and Lowes. These weaknesses were more than offset by the

strength of other names, specifically from American International Group, Cerner and W.R. Berkley. There were no wholesale changes to the portfolio during the quarter.

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Cerner Corporation	4.51	1.12
W.R. Berkley Corporation	5.08	0.82
American International Group, Inc.	2.90	0.64
Mastercard Inc.	4.66	0.56
Starbucks Corporation	4.23	0.55
<b>Bottom 5</b>		
The TJX Companies, Inc.	4.07	(0.01)
Alphabet Inc. (Class A)	0.88	(0.07)
Schlumberger Ltd.	1.44	(0.13)
Alphabet Inc. (Class C)	3.52	(0.29)
Lowes Companies, Inc.	4.38	(0.34)

*(Contribution data shown from a sample account)*

Going forward, we expect volatility to persist as uncertainty continues surrounding trade policies and FOMC actions (particularly regarding the timing and magnitude of changes to monetary policy). We expect inflation and inflation expectations to remain near current levels which supports market valuations. 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.

### ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm'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, 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.

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## 10 Largest Holdings (as of 6/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
W.R. Berkley Corporation	12.1	4.9%
Thermo Fisher Scientific Inc.	117.5	4.8%
Cerner Corporation	23.9	4.7%
Diageo plc	102.2	4.5%
Starbucks Corporation	101.5	4.4%
Mastercard Inc.	270.3	4.3%
Black Knight, Inc.	9.0	4.3%
Berkshire Hathaway Inc. (Class B)	521.8	4.1%
Brookfield Asset Management Inc.	47.7	4.0%
Stryker Corporation	76.7	4.0%

The listing of "10 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.

## Performance Composite Returns For Periods Ending 6/30/19

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R1000 Value	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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	
Since Inception**	11.4%	8.2%	9.9%	9.7%	1994**	3.4%	2.6%	(0.0%)	(1.6%)	3.4%	122	\$10,206	N/A	N/A	N/A	N/A	
20-Year*	8.4%	5.3%	5.9%	6.3%	1995	32.7%	29.1%	37.6%	38.3%	(4.9%)	178	\$24,073	N/A	N/A	N/A	1.1%	
15-Year*	9.9%	6.7%	8.7%	7.8%	1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	\$63,132	N/A	N/A	N/A	1.7%	
10-Year*	14.9%	11.5%	14.7%	13.2%	1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	\$151,053	N/A	N/A	N/A	2.1%	
5-Year*	9.9%	6.6%	10.7%	7.4%	1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	\$297,953	N/A	N/A	N/A	1.8%	
3-Year*	13.0%	9.6%	14.2%	10.2%	1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	\$260,171	N/A	N/A	N/A	1.7%	
1-Year	16.8%	13.4%	10.4%	8.5%	2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	\$159,096	N/A	N/A	N/A	2.3%	
YTD	23.6%	21.7%	18.5%	16.2%	2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	\$145,683	N/A	N/A	N/A	1.1%	
QTD	7.6%	6.7%	4.3%	3.8%	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%

\*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.

### Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

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. 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.

<sup>1</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>2</sup> 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable than alternative investments, including the risk that our estimate of intrinsic value may never be realized by the market or that the price goes down. **Indices:** The S&P 500 Index and Russell 3000 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.