Second Quarter

2020

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 spent the better part of the second quarter clawing back from the pandemic-induced sell-off in March as the Russell 1000 Value and S&P 500 indexes gained 14.3% and 20.5%, respectively, which helped offset the weak first quarter. On a year-to-date basis, the Russell 1000 Value and S&P 500 are down 16.3% and 3.1%, respectively.

A great deal of uncertainty remains as to how the world economies will cope with COVID-19 and ultimately recover from it. Nevertheless, actions taken by Congress and the Federal Reserve have thus far been quite effective in preserving confidence and engendering a sense that a "bridge" is in place to get us to the other side of this pandemic. Rising corporate bankruptcies and falling household incomes are pillars of a typical recession, but both are currently being managed through strong and direct policy responses so that in both cases outcomes are better than what should be expected given the level of economic disruption brought on by COVID-19. The reality of these programs being instituted in a timely fashion and enthusiasm around the reopening of the economy fueled equity returns in the second quarter, despite double-digit unemployment and large segments of the economy still functionally incapacitated.

The lockdowns caused capital and liquidity concerns for many entities that took advantage of lower interest rates to optimize their capital structures, so it comes as no surprise that a bifurcation resulted in the markets as evidenced by the year-to-date returns of the Russell 1000 Growth, +9.8%, versus the Russell 1000 Value, -16.3%. Despite the broad-based snapback in the second quarter, the underlying valuation disparities continued. In this environment, investors appear more focused on lockdown risks than valuation risks.

The degree to which investors choose to look at the safety nets currently in the market versus the underlying economic conditions is likely to be dynamic. While sentiment is currently optimistic as demand recovers from extraordinarily low levels, we suspect this could wane once a baseline of demand comes into focus. Our expectation is that the economy will continue to ameliorate, but a return to prior levels of output will be difficult to achieve in the intermediate term.

Strategy Commentary

Large Cap Value gained 17.3% during the second quarter of 2020 and is down 8.7% through the first six months of the year (both gross of fees). (*Net-of-fees returns for the same periods were +16.4% and -10.1%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*)

In past market dislocations, we have found it beneficial to use these opportunities to upgrade the quality of the portfolio and that was the case this past quarter. We have long been attracted to Charles River Laboratories, IHS Markit and Bookings Holdings, and the recent trading environment provided attractive entry points. We sold positions in Allergan, American International Group and Delta Airlines to fund these purchases as we felt the new ideas presented better risk/reward opportunities over the next three to five years.

Charles River Laboratories is the leading provider of early-stage drug research and development services for biotechnology and pharmaceutical companies. Animal research models have been the foundation of its business since 1947. Through this core business, it is the market leader in all things concerning laboratory mice and rats for scientific research, and its competitive advantages are expected to sustain strong cash flow generation. With 50% market share worldwide, this business is an extremely profitable and stable component of Charles River's operations. The company has a reputation of superior quality in a market where quality is incredibly important and commands premium pricing. It has successfully been leveraging these attributes to reinvest in faster-growing, less-penetrated segments of the preclinical market. As a dominant player, Charles River should benefit from the absolute growth of the market and the growing percentage of business being outsourced to contract research organizations.

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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.

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Strategy Commentary continued...

IHS Markit is a leading player in the information services industry, with globally recognized brands serving a variety of industries and workflows. Several attributes of its business model are very appealing and make for an attractive cash generative business. Historically, the company has used its cash flow to buy similar operations and, to a lesser extent, repurchase stock. We expect M&A to be a core part of the its growth strategy going forward, supplemented with a modest recurring dividend and opportunistic share repurchases. The company is still in the early days of initiating a strategy whereby its information assets can be more easily drawn upon and combined with disparate product offerings to provide more robust products and new revenue-generating opportunities. In addition to creating new revenue opportunities, this effort should also improve efficiency within the organization and enhance profit margins.

Bookings Holdings is an online travel agent (OTA) that serves as a marketing channel for hotels, airlines and rental car companies. It owns a variety of online properties, most notably Priceline and Booking.com, and is the largest hotel accommodation platform in the world with over 800 million room nights booked last year. The company's business is heavily skewed to the highly fragmented European hotel market rather than depending on lower margin airline tickets or brand-name hotel bookings. It extracts superior economics because small boutique hotels lack better options in terms of marketing their rooms, and this inventory pool is more difficult to replicate given its high degree of fragmentation.

With travel significantly curtailed due to the pandemic, Bookings will experience a significant reduction in revenue this year. Its biggest expense is marketing—roughly 60% of operating costs. Typically, marketing shouldn't be viewed as entirely variable given that stopping it can negatively impact sales growth. However, due to the pandemic's unique circumstances, whereby no amount of marketing is going to lift sales and competitors are also substantially cutting back on marketing spend, we see little downside to significant curtailment. This is a meaningful buffer for the company that few, if any, scaled participants within the travel & leisure universe possess. Upon a resumption in travel, we believe Bookings will offer similar, if not better, upside potential to Delta. At the same time, its conservative balance sheet management and lower fixed cost structure should provide substantial staying power during the period of limited demand and allow the company to better weather this storm.

Regarding the sales, American International Group was originally acquired in 2015 after years of asset rationalizing following the Great Recession of 2008-09 as new management refocused on the core businesses. Unfortunately, they have been unable to generate the returns on equity required to close the valuation discount and it was sold for new opportunities. Our initial investment thesis on Delta, purchased in 2019, was that the company had significantly improved the profitability of its business and the increased value of its credit card relationships would provide a buffer that didn't exist in prior recessions. However, we did not foresee a recession brought on by a global pandemic, whereby unprecedented lockdowns effectively shut down travel and ongoing health concerns keep passengers out of planes for non-financial reasons, prompting regulations that could limit longer-term profitability. While Delta will likely survive, there will be turbulence as the industry adjusts to the new challenges, and the level of dilution required before the company returns to profitability is difficult to predict at this juncture. Lastly, we sold Allergan leading up to the closure of its transaction with Abbvie.

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, 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 which have the wherewithal to survive the downside, while providing ample opportunity to participate when the recovery occurs. 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		
Lowe's Companies, Inc.	4.74	2.31
Fastenal Company	4.73	1.63
Thermo Fisher Scientific Inc.	5.82	1.56
Black Knight, Inc.	5.61	1.34
NXP Semiconductors N.V.	3.61	1.26
Bottom 5		
Carrier Global Corporation	0.07	(0.02)
Markel Corporation	3.04	(0.03)
Berkshire Hathaway Inc. (Class B)	3.50	(0.09)
United Technologies Corporation	0.07	(0.31)
Delta Air Lines, Inc.	0.17	(0.49)

(Contribution data shown from a sample account)

10 Largest Holdings (as of 6/30/20)

Company	Market Capitalization	Portfolio Weight
	($ billions)	
Thermo Fisher Scientific Inc.	143.1	5.2%
Lowe's Companies, Inc.	102.0	5.2%
Black Knight, Inc.	11.4	5.1%
Fastenal Company	24.5	4.9%
Alphabet Inc. (Class C)	966.5	4.7%
Cerner Corporation	20.9	4.3%
Illinois Tool Works Inc.	55.2	4.2%
W.R. Berkley Corporation	10.2	4.2%
Brookfield Asset Management Inc.	49.6	4.1%
PepsiCo, Inc.	183.5	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. 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 6/30/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R1000 Value
Since Inception**	10.9%	7.7%	9.8%	8.9%
25-Year*	10.3%	7.2%	9.3%	8.5%
20-Year*	8.9%	5.8%	5.9%	6.3%
15-Year*	9.4%	6.2%	8.8%	6.2%
10-Year*	13.1%	9.7%	14.0%	10.4%
5-Year*	8.0%	4.8%	10.7%	4.6%
3-Year*	8.0%	4.8%	10.7%	1.8%
1-Year	(0.7%)	(3.6%)	7.5%	(8.9%)
YTD	(8.7%)	(10.1%)	(3.1%)	(16.3%)
QTD	17.3%	16.4%	20.5%	14.3%

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

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%

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)

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.*