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.

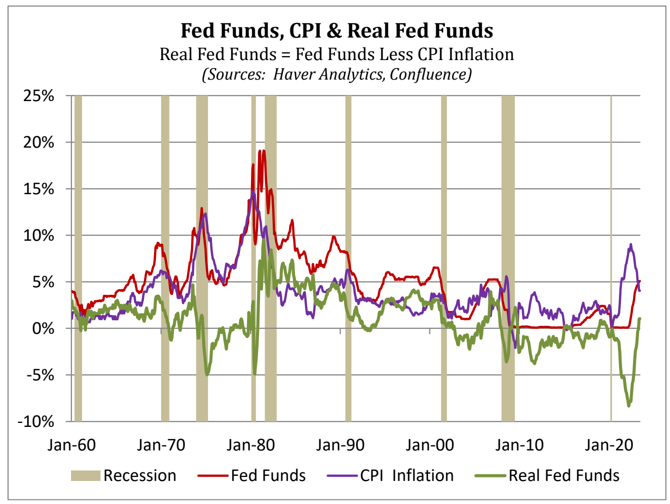
Market Commentary

"The majority of advanced technologies follow a predictable life cycle of hype, disillusionment, realism, and, eventually, productivity."

– Gartner analyst Jackie Fenn, 1995

Risk markets continued their upward trend during the quarter as many of the concerns that pressured the markets in 2022 are gradually receding, while the economy continues to advance. Inflation, and the Federal Reserve's aggressive response, was the primary worry but now that we are past the peak and inflation is trending downward, the Fed has recently decided to pause its rate hikes (*Figure 1*). The domestic debt ceiling also loomed over the financial markets but was resolved in the waning hours in typical Washington, D.C. fashion. The war in Ukraine is progressing more favorably than originally feared and commodity markets have adjusted. Meanwhile, employment remains plentiful and wage growth robust, which have aided the economic advance despite the sharp rise in short-term interest rates and the banking sector stumbles in March. This is likely due to the fact that the last stage of the cycle was not driven by credit expansion but rather liquidity injections, both fiscal and monetary. This would explain why banks were so flush with deposits but have yet to experience credit issues despite the spike in rates. Suffice it to say, the wall of worry has been fading which has boosted investor sentiment as exhibited by the risk markets, per the quilt chart shown below (*Figure 2*).

Figure 1



Risk market returns were broadly positive but widely dispersed with more speculative and longer-duration assets leading the pack. For equity markets, the reduced uncertainty and economic resilience combined with the excess liquidity provided support for equities, but the hype surrounding artificial intelligence (AI) with the release of ChatGPT sparked a frenzy in technology-oriented names, mainly mega caps. These mega cap names have been labeled the "Magnificent Seven" (M7) by none other than CNBC's Jim Cramer and they are Apple (AAPL), Microsoft (MSFT), Amazon (AMZN), Alphabet (GOOG), Nvidia (NVDA), Tesla (TSLA), and Meta (META). In fact, the M7 has added $4.0 trillion (yes, trillion) in market cap year-to-date!

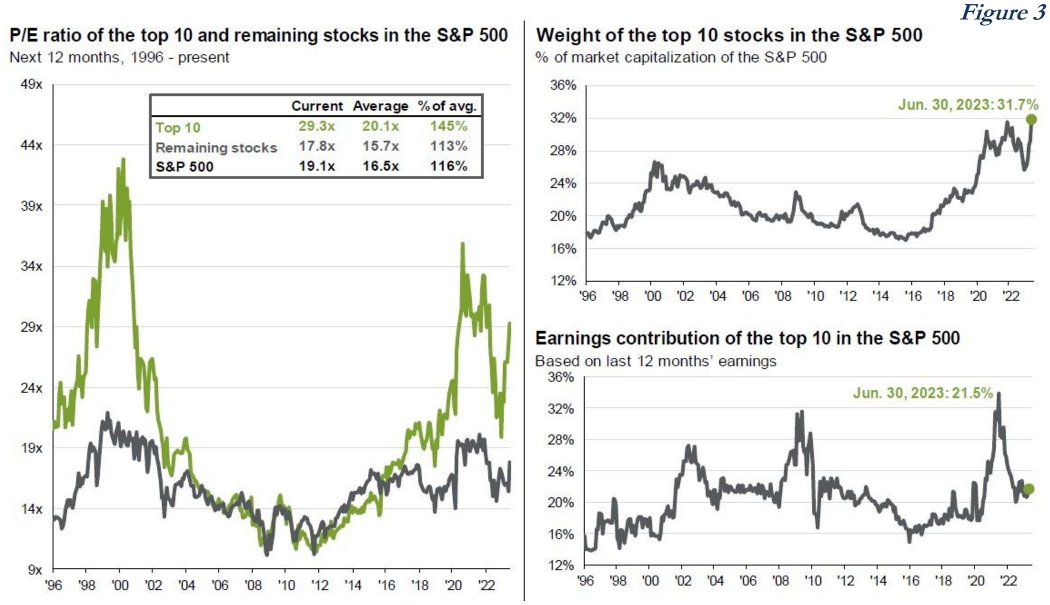
Figure 2 **Quarterly Asset Class Returns as of 6/30/2023**

	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.5%	0.8%	1.1%	1.2%
U.S. Short-Term Bonds	0.3%	0.2%	0.0%	0.1%	0.1%	-0.5%	-2.6%	-0.6%	-1.5%	0.9%	1.5%	-0.3%
U.S. Intermediate-Term Bonds	1.1%	0.7%	-4.1%	2.4%	-0.1%	-0.2%	-6.5%	-4.4%	-5.0%	2.2%	3.3%	-1.2%
U.S. Long-Term Bonds	1.2%	1.0%	-10.8%	6.7%	-0.1%	2.3%	-10.9%	-11.5%	-9.4%	2.3%	5.7%	-1.4%
Speculative Grade Bonds	4.7%	6.5%	0.9%	2.8%	0.9%	0.7%	-4.5%	-10.0%	-0.7%	4.0%	3.7%	1.6%
REITs	1.4%	11.6%	8.9%	12.0%	1.0%	16.3%	-3.9%	-17.0%	-9.9%	5.2%	2.7%	2.6%
U.S. Large Cap Stocks	8.9%	12.1%	6.2%	8.5%	0.6%	11.0%	-4.6%	-16.1%	-4.9%	7.6%	7.5%	8.7%
U.S. Mid-Cap Stocks	4.8%	24.4%	13.5%	3.6%	-1.8%	8.0%	-4.9%	-15.4%	-2.5%	10.8%	3.8%	4.9%
U.S. Small Cap Stocks	3.2%	31.3%	18.2%	4.5%	-2.8%	5.6%	-5.6%	-14.1%	-5.2%	9.2%	2.6%	3.4%
Int'l Developed Market Stocks	4.8%	16.0%	3.5%	5.2%	-0.4%	2.7%	-5.9%	-14.5%	-9.4%	17.3%	8.5%	3.0%
Emerging Market Stocks	9.6%	19.7%	2.3%	5.0%	-8.1%	-1.3%	-7.0%	-11.4%	-11.6%	9.7%	4.0%	0.9%
Commodities	4.6%	14.5%	13.5%	15.7%	5.2%	1.5%	33.1%	2.0%	-10.3%	3.4%	-4.9%	-2.7%

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

Market Commentary continued...

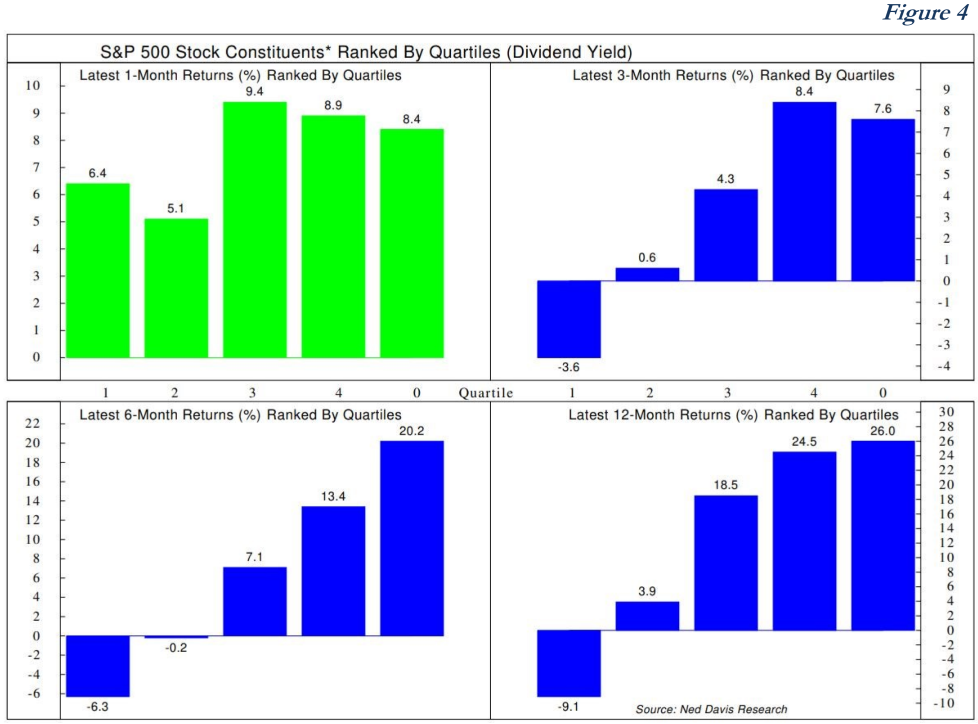
Figure 3



(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 3Q 2023, as of June 30, 2023)

The M7 impact on market cap-weighted indexes like the S&P 500 was meaningful and accounted for approximately 65% quarter-to-date and 73% year-to-date of the overall index return, while the impact on growth indexes was even more significant. The influence and valuations are reflected in the narrow concentration of the top 10 companies in the S&P 500, which now constitute a record 31.7%. J.P. Morgan Asset Management compiled a history of the valuations and weightings of the top 10 stocks, all of which are at the upper end of historical levels, aside from earnings contribution (*Figure 3*). The influence of the M7 is also apparent in the second quarter dispersion between the Russell 1000 Growth Index, up 12.8%, compared to the Russell 1000 Value Index, up 4.1%. More concisely, the difference is also evident in the S&P 500 Equal Weight Index, up 4.0%, versus the S&P 500, up 8.7%.

Figure 4



*Actual Historical Constituents. *Returns through 6/30/2023 (Source: Ned Davis Research)*

Returns of dividend payers in the S&P 500, ranked by quartile from highest dividend yield (bar 1) to lowest (4), compared to all S&P 500 stocks with zero dividends, reflected in the fifth bar (0).

The variance in long-duration versus short-duration (i.e., businesses generating earnings/cash flow in the near-term versus later years) is also reflected in the S&P 500 yield quartiles, with the higher yielding equities lagging the low yield and non-dividend payers (*Figure 4*).

The hype of AI will likely disappoint investors in a similar fashion to prior "revolutions" of the past few hundred years. For example, railroad investors of the late 19th century saw more track laid than what is in existence today. More recently, the advent of the internet in the 1990s immensely benefited the businesses of semiconductors and networking yet the industry leaders in semis and networking, Intel and Cisco, trade at lower levels today than their peak almost 25 years ago. AI, much like the technological advances before it, will likely take the path stated in the quote at the beginning of this report: hype, disillusionment, realism, and, eventually, productivity. For an economy grappling with inflationary pressures driven by low unemployment and a splintering global economy, advances in productivity would be a welcome relief.

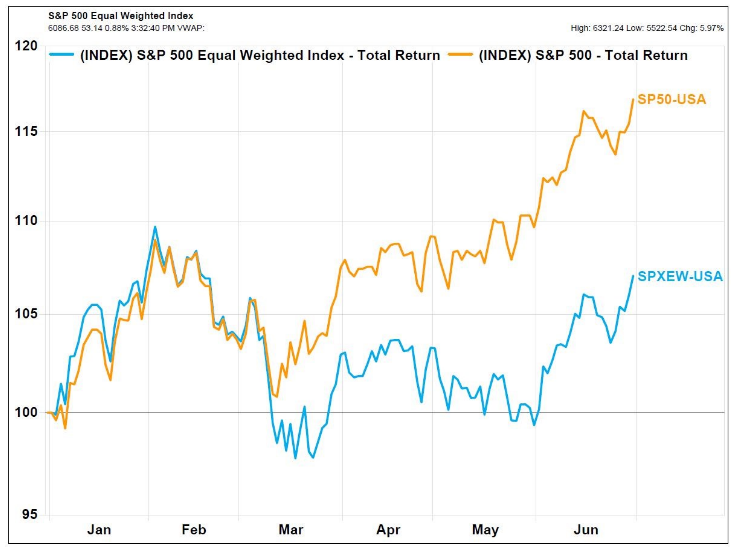
The U.S. economy's avoidance of a recession so far despite the headwinds of monetary policy restraint speaks to its underlying strength. Consumers are benefitting from the tight job market which is leading to strong wage growth while also being supported by the excess savings built up during the pandemic. While inflation has rolled over from its peak, it remains well above the Fed's target of 2%. Future data will impact whether additional rate hikes are needed. For the equity markets, the near-term focus on long-duration, high-growth companies appears at odds with the rise in rates and inflation. The current earnings environment has met or exceeded expectations, but there are a handful of crosscurrents, including rising rates, wage pressures, and the normalization of the supply chain. As always, we remain focused on finding competitively advantaged businesses with pricing power to protect against inflation that are trading at attractive valuations.

Strategy Commentary

The Confluence Large Cap Value strategy fared well in the second quarter, posting a 6.0% return and bringing the year-to-date gain to 11.8% (both gross of fees). This compares to the Russell 1000 Value Index which was up 4.1% for the quarter and 5.1% for the year. [*The strategy's net-of-fees returns for the same periods were 5.2% QTD and 10.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

For the broad markets, the current environment is being driven by a handful of names with lots of momentum, such as the M7 mentioned earlier in the Market Commentary, which pushed the S&P 500 up 8.7% for the quarter and 16.9% for the year. These seven companies represent only 1.4% of the index's businesses yet their market cap weight is approximately 28% and they contributed roughly 70% of the index return for the quarter and year. When weighting each business equally, the performance is less robust – the S&P 500 Equal Weight index is up only 4.0% for the quarter and 7.0% year-to-date (see *Figure 5*).

Figure 5



(Source: Confluence, FactSet)

The strategy's relative outperformance to the value benchmark is largely attributable to our focus on competitively advantaged businesses as opposed to the highly regulated and commodity-oriented businesses that performed so well last year. Of course, our emphasis on valuations, specifically businesses trading at discounts to intrinsic value, means that in a momentum-driven environment the strategy will likely lag the broad markets.

Delving a little deeper, the influence of the M7 is also evident at the sector level as their sheer size drove the few sectors in which they reside: Communication Services (Google +35% and META +138%), Consumer Discretionary (Amazon +55% and Tesla +112%), and Technology (Apple +49%, NVDA +189%, and MSFT +42%). These three sectors were up between 33%-43%, while the remaining sectors performed in the range of -6% to +10% (see *Figure 6*).

Figure 6 **Returns and Valuations by Sector**

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
S&P weight	4.1%	2.5%	12.4%	8.5%	10.7%	28.3%	8.4%	2.5%	13.4%	6.7%	2.6%	100.0%
Russell Growth weight	0.5%	0.7%	6.4%	6.0%	16.0%	43.3%	10.7%	1.0%	11.0%	4.4%	0.1%	100.0%
Russell Value weight	7.9%	4.8%	20.1%	13.5%	5.3%	9.0%	5.1%	4.9%	15.8%	8.4%	5.2%	100.0%
Russell 2000 weight	6.8%	4.6%	15.1%	17.4%	10.5%	13.7%	2.5%	6.1%	16.9%	3.4%	3.0%	100.0%
QTD	-0.9%	3.3%	5.3%	6.5%	14.6%	17.2%	13.1%	0.3%	3.0%	0.5%	-2.5%	8.7%
YTD	-5.5%	7.7%	-0.5%	10.2%	33.1%	42.8%	36.2%	1.5%	-1.5%	1.3%	-5.7%	16.9%

(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 3Q 2023, as of June 30, 2023)

It is not atypical at turning points in the cycle to witness these quick rotations and wide dispersions within the market as investors attempt to predict the next move. At Confluence, we subscribe to a pragmatic and long-term investment approach that is focused on understanding businesses and determining their worth with an emphasis on acquiring competitively advantaged companies trading at a discount to their intrinsic value. This often steers us away from commodity-oriented and highly regulated industries as their competitive landscapes inherently hinder their ability to generate above-average returns on capital over long periods. This philosophy instead guides us toward entities operating in niche or oligopolistic arenas that can dictate their own pricing, which often allows them to produce above-average returns on capital. It is a process that tends to produce a higher-quality portfolio of businesses that can compound over longer periods but may vary from the indexes over the short-run, as we have witnessed.

There were no changes to the portfolio during the quarter. Year-to-date performance was driven by the strength of Oracle (ORCL), Alphabet (GOOG/GOOGL), and Stryker (SYK), while Thermo Fisher Scientific (TMO), Leslie's (LESL), and W.R. Berkley (WRB) were the detractors. Oracle continues to make progress in transitioning its customers to the cloud, while Alphabet benefits from the growth in its cloud business. Stryker remains strong in its execution; interestingly, as an orthopedic provider, the company also happens to be benefitting from the recent pickleball craze. Meanwhile, Leslie's is struggling with the post-pandemic transition and weather, and although Thermo Fischer Scientific's business remains strong, its valuation is slightly stretched. Lastly, W.R. Berkley reported a messy quarter with catastrophic reserve development but still posted mid-teens ROE. *[See contribution table on next page.]*

Outlook

Going forward, the markets still need to contend with inflation that persists above the Fed's target as the economy remains resilient in the face of the Fed's restraint. And while many uncertainties have receded, risk markets have responded accordingly. The markets await further data on whether the Fed's recent pause will be temporary or the first step before easing. At Confluence, we are not prognosticators but rather business analysts that remain committed to our philosophy of investing in quality businesses trading at attractive valuations.

Contribution[1]

(YTD as of 6/30/2023)

The top contributors and detractors for the portfolio thus far in 2023 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	4.35	1.90
Alphabet Inc.	4.20	1.38
Stryker Corp.	5.68	1.35
NXP Semiconductors N.V.	4.25	1.20
Booking Holdings Inc.	4.10	1.18
Bottom 5		
Raytheon Technologies Corp.	3.43	(0.07)
Dun & Bradstreet Holdings Inc.	2.53	(0.13)
Thermo Fisher Scientific Inc.	4.48	(0.24)
Leslie's Inc.	2.29	(0.57)
W. R. Berkley Corp.	3.07	(0.64)

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

Performance Composite Returns[2] (For Periods Ending June 30, 2023)

	Since Inception**	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Large Cap Value *Pure Gross-of-Fees[3]*	11.2%	8.7%	10.6%	11.2%	11.2%	11.5%	14.1%	16.5%	11.8%	6.0%
Max Net-of-Fees[4]	8.0%	5.6%	7.4%	7.9%	7.9%	8.2%	10.7%	13.1%	10.2%	5.2%
S&P 500	10.3%	7.6%	10.0%	10.9%	12.8%	12.3%	14.6%	19.6%	16.9%	8.7%
Russell 1000 Value	9.5%	7.0%	8.5%	8.4%	9.2%	8.1%	14.3%	11.5%	5.1%	4.1%

Calendar Year	Pure Gross-of-Fees[3]	Max 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%
2022	(15.5%)	(18.0%)	(18.1%)	(7.6%)	2.7%	1,274	$609,865	$6,931,635	21.0%	20.9%	21.3%	0.6%

**Average annualized returns* ***Inception is 10/1/1994* *See performance disclosures on last page.*

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)*

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Disclosures

Market & Strategy Commentary—*Figure 2*: 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.

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 and Russell 1000 Value 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 (net), 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.

[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, 2021. 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.

The investment strategies described herein are those of Confluence Investment Management. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Confluence materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.