

Equity Strategies • Large Cap Value

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

Portfolio Commentary

The broad markets posted the year's strongest returns during the third quarter, with the S&P 500 up 7.7%, lifting its year-to-date return to 10.6%. The Russell 1000 Value also posted solid returns, up 5.7% in the quarter and lifting the index out of negative territory for the year, now up 3.9%. Large Cap Value also posted positive results for the quarter, up 7.8%, bringing the year-to-date return to 8.7% (both gross of fees). *(The portfolio was up 7.0% and 6.3% (net of fees), respectively, over the same time periods. 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.)*

The broad equity markets have been strong the past 18-24 months as the economic backdrop, aided by tax reform and regulatory relief, provided a nice tailwind for investors. Although strength in the domestic economy has been relatively broad based, equity returns have not. At this stage in the bull market, investors are increasingly leaning toward businesses that exhibit above-average growth/momentum while paying less attention to valuations. In fact, the Russell Growth indexes have been handily outperforming their Value counterparts the past couple years (see table below).^[1]

Index	2017	2018 (thru Sept)
S&P 500	21.8%	10.6%
Russell 1000 Value	13.7%	3.9%
Russell 1000 Growth	30.2%	17.1%

Delving deeper into broader market returns reveals that only a handful of names have been driving the market, called the FAANG stocks for the underlying businesses (Facebook, Amazon, Apple, Netflix and Google). In

fact, returns thus far in 2018, through September, are concentrated such that seven stocks in the S&P 500 have contributed 44% of the overall return (shown in the next table).^[2] As illustrated, the five largest names in the S&P 500 represent 15% of the S&P 500 and have garnered a disproportionate amount of flows as evidenced by their outsized returns, except Facebook. *(GOOG is the only name mentioned in this paragraph owned in Large Cap Value.)*

S&P 500 Cap Rank	Symbol	Avg % Wgt	Total Return	Contribution	% Contribution
1	Apple	3.98%	34.92%	1.32%	12.45%
2	Microsoft	3.22%	35.43%	1.03%	9.72%
3	Amazon	2.77%	71.27%	1.47%	13.87%
4	Alphabet - Google	2.59%	14.32%	0.40%	3.77%
5	Facebook	1.83%	(6.80%)	(0.11%)	(1.04%)
32	NVIDIA	0.63%	45.49%	0.24%	2.26%
35	Netflix	0.60%	94.90%	0.35%	3.30%
Total		15.62%		4.70%	44.34%

^[2] Source: SPDR S&P 500 ETF (SPY)

Looking forward, we expect continued economic expansion as monetary policy remains accommodative and fiscal policy leans toward a friendlier business climate, resulting in a more optimistic business outlook. We also expect inflation and inflation expectations to remain in check 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.

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Portfolio Commentary continued...

Large Cap Value has also experienced wide dispersion in the underlying businesses as evidenced by Lowe's and TJX Companies posting 18%+ returns for the quarter, while Schlumberger and NXP Semiconductors were down over 8% and 21%, respectively, over the same period. Overall, the portfolio has performed well considering the narrowing of the market. More importantly, this disparity generally offers fundamental investors the opportunity to take advantage of the wide, often driven by emotion, to buy cheap and sell dear.

There were no full position changes during the quarter but over the year we have taken advantage of market strength by trimming a few positions that had valuation expansion and repositioned into undervalued names. The top-performing and worst-performing positions during the quarter were as follows in the table to the right:

Security	Avg Wgt	Return	Contrib
Top 5			
Lowe's Companies, Inc.	4.54	20.73	0.89
The TJX Companies, Inc.	5.02	18.11	0.87
Fastenal Company	4.38	21.35	0.85
Thermo Fisher Scientific Inc.	4.51	17.93	0.76
Berkshire Hathaway Inc. (Class B)	4.10	14.71	0.58
Bottom 5			
Compagnie Financière Richemont SA	3.53	(2.73)	(0.10)
Black Knight, Inc.	4.37	(2.99)	(0.13)
Axalta Coating Systems Ltd.	3.65	(3.79)	(0.14)
Schlumberger Ltd.	2.43	(8.44)	(0.22)
NXP Semiconductors N.V.	2.01	(21.75)	(0.52)

(Attribution data shown from a sample account)

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. This 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. 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, Russell 1000 Value and Russell 1000 Growth 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. **Table/Chart Data Sources:** ^[1] Source: CIM, Ned Davis; ^[2] Source: SPDR S&P 500 ETF (SPY).

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10 Largest Portfolio Holdings (as of 9/30/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
The TJX Companies, Inc.	70.2	5.0%
Thermo Fisher Scientific Inc.	98.3	4.5%
Lowe's Companies, Inc.	93.1	4.5%
Berkshire Hathaway Inc. (Class B)	527.6	4.4%
Fastenal Company	16.6	4.4%
W.R. Berkley Corporation	9.7	4.4%
Markel Corporation	16.5	4.3%
Mastercard Inc.	231.1	4.2%
United Technologies Corporation	111.9	4.1%
Diageo plc	86.9	4.1%

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 9/30/18

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R1000 Value
QTD	7.8%	7.0%	7.7%	5.7%
YTD	8.7%	6.3%	10.6%	3.9%
1-Year	15.0%	11.5%	17.9%	9.4%
3-Year*	12.9%	9.6%	17.3%	13.5%
5-Year*	11.1%	7.8%	13.9%	10.7%
10-Year*	11.7%	8.3%	12.0%	9.8%
15-Year*	10.6%	7.4%	9.7%	8.9%
20-Year*	9.4%	6.3%	7.4%	7.6%
Since Inception**	11.4%	8.2%	10.1%	9.9%

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

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.

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 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.

	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
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%
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%
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%
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%
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%
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%
2011	6.4%	3.2%	2.1%	0.4%	4.3%	228	\$89,145	\$937,487	17.1%	18.7%	20.7%	0.3%
2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	\$76,040	\$751,909	19.7%	21.9%	23.2%	0.4%
2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	\$53,387	\$533,832	17.7%	19.6%	21.1%	1.4%
2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	\$25,562	\$291,644	13.2%	15.1%	15.4%	N/A
2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	\$174,711		6.7%	7.7%	8.1%	0.6%
2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	\$198,952		5.8%	6.8%	6.7%	0.6%
2005	(1.6%)	(4.3%)	4.9%	7.1%	(6.5%)	1,064	\$188,332		8.7%	9.0%	9.5%	0.6%
2004	15.7%	12.6%	10.9%	16.5%	4.8%	1,052	\$197,447		13.7%	14.9%	14.8%	1.0%
2003	30.9%	27.3%	28.7%	30.0%	2.2%	1,010	\$163,840		15.8%	18.1%	16.0%	1.0%
2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	\$125,161		N/A	N/A	N/A	0.6%
2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	\$145,683		N/A	N/A	N/A	1.1%
2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	\$159,096		N/A	N/A	N/A	2.3%
1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	\$260,171		N/A	N/A	N/A	1.7%
1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	\$297,953		N/A	N/A	N/A	1.8%
1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	\$151,053		N/A	N/A	N/A	2.1%
1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	\$63,132		N/A	N/A	N/A	1.7%
1995	32.7%	29.1%	37.6%	38.3%	(4.9%)	178	\$24,073		N/A	N/A	N/A	1.1%
1994**	3.4%	2.6%	(0.0%)	(1.6%)	3.4%	122	\$10,206		N/A	N/A	N/A	N/A

**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.

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.

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. The Confluence team has more than 400 years of combined financial experience and 200 years of portfolio management experience.