

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 end of the third quarter was a milestone as it marked the 25th anniversary of the Large Cap Value strategy. We are grateful to our clients for the support and remain humbled by the journey, while looking forward to the next 25 years.

The equity markets were relatively benign in the third quarter but continued with a modestly upward bias as the S&P 500 was up 1.7% and the Russell 1000 Value was up 1.4%. When combined with the strong first half of the year, the year-to-date returns are 20.6% for the S&P 500 and 17.8% for the Russell 1000 Value. Large Cap Value also experienced a solid third quarter, up 2.8%, bringing its year-to-date return to 27.0% (both gross of fees). *(The strategy was up 2.0% QTD and 24.2% YTD (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.)*

The equity markets took the recent Fed rate cuts (July and September) in stride as the moves were anticipated. However, this marked a shift from restrictive monetary policy (raising rates), which started in December 2015, to a more accommodative stance. The policy reversal stems from a weakening economy as the Chinese trade conflict is negatively affecting business confidence. While the probability of recession has increased, the strength of the consumer and the banking system should dampen the impact, likely to result in a relatively shallow and short-lived downturn.

While the broad markets were steady, there was rather wide dispersion in sector performance as Utilities and REITs posted high single-digit returns, while Energy and Health Care posted low-to-mid single-digit losses. Our Large Cap Value strategy also saw dispersion among its holdings.

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

Security	Avg Weight	Contribution
Top 5		
W.R. Berkley Corporation	5.50	0.55
Brookfield Asset Management Inc.	4.25	0.45
Markel Corporation	4.92	0.41
Alphabet Inc. (Class C)	3.41	0.40
Lowe's Companies, Inc.	4.15	0.39
Bottom 5		
Oracle Corporation	3.03	(0.10)
Schlumberger Limited	1.24	(0.18)
Diageo plc	4.47	(0.23)
Cerner Corporation	4.50	(0.32)
Compagnie Financiere Richemont SA	2.98	(0.42)

(Contribution data shown from a sample account)

During the quarter, we purchased shares of Delta Airlines. Domestic airline industry dynamics have become more oligopolistic and competitors have acted more rational with longer term horizons following consolidation in the early 2010s, which resulted in the top four airlines capturing over 70% of the market. Delta is in a solid financial position and generates sustainable operating cash flows to invest in its technology and operations as well as new planes to provide a superior customer experience. In turn, this has led to a long-term strategic joint marketing relationship with American Express that currently provides substantial high margin marketing revenues. The company is trading at an attractive cash flow multiple while providing a steady and growing dividend stream with ample coverage.

Going forward, we expect volatility to persist given uncertainty surrounding trade policies and Fed actions (particularly regarding the timing and magnitude of monetary policy changes). Inflation and inflation expectations will likely 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 9/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
W.R. Berkley Corporation	13.2	5.2%
Thermo Fisher Scientific Inc.	116.6	4.7%
Brookfield Asset Management Inc.	53.6	4.3%
Black Knight, Inc.	9.1	4.2%
Cerner Corporation	21.7	4.2%
Diageo plc	96.8	4.2%
Lowe's Companies, Inc.	84.9	4.1%
Stryker Corporation	80.7	4.0%
Markel Corporation	16.3	4.0%
Alphabet Inc. (Class C)	846.0	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 9/30/19

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R1000 Value	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	
Since Inception**	11.4%	8.2%	9.8%	9.7%	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%	
20-Year*	9.2%	6.1%	6.3%	6.9%	1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	\$63,132	N/A	N/A	N/A	1.7%	
15-Year*	10.1%	6.9%	9.0%	7.8%	1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	\$151,053	N/A	N/A	N/A	2.1%	
10-Year*	13.7%	10.3%	13.2%	11.5%	1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	\$297,953	N/A	N/A	N/A	1.8%	
5-Year*	10.3%	7.1%	10.8%	7.8%	1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	\$260,171	N/A	N/A	N/A	1.7%	
3-Year*	12.9%	9.6%	13.4%	9.4%	2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	\$159,096	N/A	N/A	N/A	2.3%	
1-Year	11.5%	8.2%	4.2%	4.0%	2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	\$145,683	N/A	N/A	N/A	1.1%	
YTD	27.0%	24.2%	20.6%	17.8%	2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	\$125,161	N/A	N/A	N/A	0.6%	
QTD	2.8%	2.0%	1.7%	1.4%	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.

(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 12/31/2017. 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 inceptioned 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.

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

²Net 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. 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 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.