

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 posted another solid quarterly gain following the tumultuous start to the year as the S&P 500 Index was up 8.9% and the Russell 1000 Value Index was up 5.6%. The quarterly strength lifted the S&P 500 into positive territory for the year, up 5.6%, while the Russell 1000 Value remains deep in negative territory for the year, down 11.6%.

Equity market optimism has been driven by the enormous amount of monetary and fiscal stimulus that has been injected into the economy. The stimulus represents the bridge to economic recovery and ultimately expansion. Despite the support to date from the Federal Reserve, it remains ready to provide additional stimulus as necessary and has even been encouraging Congress to pass another stimulus bill. The fifth fiscal bill is currently caught up in negotiations over quantity, not desire, and the numbers are substantial (\$1.6 trillion versus \$2.2 trillion). To put it in perspective, the previous four bills cumulatively totaled roughly \$2.8 trillion; U.S. GDP in 2019 was \$21.4 trillion. The magnitude of the stimulus programs combined with the progress on treatments and vaccines have improved investor sentiment as reflected by the strength in the markets.

While the liquidity has certainly aided the underlying equity market, it has been very narrowly centered around a small subset of businesses that have benefited from the lockdowns. These businesses are asset-light and more new-economy focused. They tend to trade at high valuations and are more representative of the “growth” style. In fact, the Russell 1000 Growth Index has generated extremely strong returns for the quarter and year-to-date, up 13.2% and 24.3%, respectively. Analyzing a little further, the year-to-date dispersion between the Russell 1000 Growth and Russell 1000 Value Indexes is wider than 1999 amid the tech bubble and makes today’s difference the widest in its history (36% today versus 27% in 1999). Furthermore, the current environment is being driven by a relatively few mega-cap technology-oriented businesses

that have heavy influence in market cap weighted indexes. More specifically, the top five companies (Microsoft, Apple, Amazon, Facebook, Alphabet) now represent over 22% of the S&P 500 and are up on average 40% year-to-date, accounting for 130% of the index’s return. Said differently, the S&P 500 would be in negative territory for the year if not for the big five businesses, whereas an equally weighted S&P 500 would be down approximately -5% year-to-date.

Strategy Commentary

Large Cap Value also posted a solid quarter, up 10.2%, and is now hovering near breakeven for the year at 0.5% (both gross of fees). [*Net-of-fees returns for the same periods were +9.3% QTD and -1.7% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

Our philosophy has always been a fundamental approach which is focused on understanding a business and what it is worth with a specific goal of identifying competitively advantaged businesses trading at sizable discounts to intrinsic value. The belief is that these types of businesses can not only survive tough economic environments but often enhance their competitive positions. Owning a small but diversified collection of these types of businesses and allowing them to compound at above-average rates over long periods provides the highest probability of generating above-average returns. This process will result in our portfolios over/under-weighting certain areas of the market that either offer more attractive valuations or have superior underlying attributes. Subsequently, our performance in any given time frame will be affected by the market’s perception of the value of these individual businesses compared to the broad market. The current environment has created quite the bifurcation, but rest assured we remain committed to implementing our philosophy and sustaining a consistent risk profile that is aligned with investor objectives and risk tolerance.

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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...

The Large Cap Value strategy had no changes and performed well for the quarter as returns were broad-based. Lowe's and Charles River Labs were the leaders as the underlying strength of their businesses remains solid, while Axalta Coatings and Raytheon Technologies were the laggards given the cyclical headwinds they face.

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

Security	Avg Weight	Contribution
Top 5		
Lowe's Companies, Inc.	5.74	1.25
Thermo Fisher Scientific Inc.	5.03	1.17
Black Knight, Inc.	5.56	1.07
Charles River Laboratories International, Inc.	3.69	1.01
Starbucks Corporation	4.01	0.66
Bottom 5		
Brookfield Asset Management Inc.	4.02	0.04
Alphabet Inc. (Class A)	0.65	0.02
Dun & Bradstreet Holdings, Inc.	1.15	(0.01)
Axalta Coating Systems Ltd.	2.56	(0.04)
Raytheon Technologies Corporation	2.78	(0.17)

(Contribution data shown from a sample account)

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10 Largest Holdings (as of 9/30/20)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Lowe's Companies, Inc.	125.3	5.7%
Black Knight, Inc.	13.7	5.4%
Fastenal Company	25.9	4.6%
Thermo Fisher Scientific Inc.	174.7	4.4%
Illinois Tool Works Inc.	61.1	4.2%
Stryker Corporation	78.3	4.2%
Starbucks Corporation	100.4	4.1%
Cerner Corporation	22.1	4.1%
W.R. Berkley Corporation	10.9	4.1%
Berkshire Hathaway Inc. (Class B)	508.9	3.9%

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 9/30/20

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R1000 Value	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
Since Inception**	11.2%	8.0%	10.0%	9.1%	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%
25-Year*	10.5%	7.3%	9.3%	8.4%	1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	\$63,132		N/A	N/A	N/A	1.7%
20-Year*	9.2%	6.0%	6.4%	6.2%	1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	\$151,053		N/A	N/A	N/A	2.1%
15-Year*	10.0%	6.8%	9.2%	6.4%	1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	\$297,953		N/A	N/A	N/A	1.8%
10-Year*	13.3%	9.9%	13.7%	9.9%	1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	\$260,171		N/A	N/A	N/A	1.7%
5-Year*	11.3%	8.0%	14.1%	7.6%	2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	\$159,096		N/A	N/A	N/A	2.3%
3-Year*	10.9%	7.6%	12.3%	2.6%	2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	\$145,683		N/A	N/A	N/A	1.1%
1-Year	6.4%	3.3%	15.1%	(5.0%)	2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	\$125,161		N/A	N/A	N/A	0.6%
YTD	0.5%	(1.7%)	5.6%	(11.6%)	2003	30.9%	27.3%	28.7%	30.0%	2.2%	1,010	\$163,840		15.8%	18.1%	16.0%	1.0%
QTD	10.2%	9.3%	8.9%	5.6%	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	\$291,644	13.2%	15.1%	15.4%	N/A
					2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	\$198,952	\$533,832	8.7%	9.0%	9.5%	0.6%
					2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	\$174,711	\$751,909	6.7%	6.8%	6.7%	0.6%
					2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	\$25,562	\$937,487	13.7%	14.9%	14.8%	0.6%
					2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	\$53,387	\$1,955,915	17.7%	19.6%	21.1%	1.4%
					2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	\$76,040	\$3,175,419	19.7%	21.9%	23.2%	0.4%
					2011	6.4%	3.2%	2.1%	0.4%	4.3%	228	\$89,145	\$5,944,479	17.1%	18.7%	20.7%	0.3%
					2012	19.0%	15.4%	16.0%	17.5%	3.0%	249	\$143,568	\$7,044,708	13.5%	15.1%	15.5%	0.4%
					2013	37.6%	33.6%	32.4%	32.6%	5.2%	373	\$208,844	\$10,000,000	10.6%	11.9%	12.7%	0.9%
					2014	10.7%	7.5%	13.7%	13.4%	(2.9%)	618	\$278,339	\$15,000,000	8.6%	9.0%	9.2%	0.5%
					2015	1.6%	(1.4%)	1.4%	(3.8%)	0.2%	858	\$352,556	\$20,000,000	10.1%	10.5%	10.7%	0.5%
					2016	8.6%	5.4%	12.0%	17.3%	(3.4%)	1,003	\$396,038	\$25,000,000	10.0%	10.6%	10.8%	0.4%
					2017	16.1%	12.6%	21.8%	13.6%	(5.7%)	1,049	\$380,737	\$30,000,000	9.0%	9.9%	10.2%	0.6%
					2018	(4.6%)	(7.4%)	(4.4%)	(8.3%)	(0.2%)	1,029	\$364,805	\$35,000,000	10.4%	10.8%	10.8%	0.6%
					2019	34.5%	30.5%	31.5%	26.5%	3.0%	1,118	\$525,944	\$40,000,000	11.8%	11.9%	11.8%	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 12/31/2019. 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.

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.