

Equity Strategies • Large Cap Value

The Large Cap Value portfolio 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 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 fourth quarter capped off a memorable year filled with events that caught many by surprise, including only one rate hike from the Fed when expectations were set for multiple hikes and populist movements winning victories around the globe. One effect was the refocusing of investors' attention on fiscal stimulus as opposed to monetary policy which had held their attention for much of the past eight years. This left investors feeling rather optimistic as evidenced by the S&P 500 posting a 3.8% return in Q4, bringing its full-year return to 12.0%. Meanwhile, the Russell 1000 Value performed even better, posting a Q4 return of 6.7% and an impressive full-year return of 17.3%. Our Large Cap Value portfolio also had positive returns, 2.4% for Q4 and 8.6% for 2016 (gross of fees).

For detailed performance data and disclosures see:
<http://www.confluenceinvestment.com/products-performance/equity-strategies>

2016 was a year in which our Large Cap Value returns were positive – and better than domestic GDP growth (est. 2.0%) and S&P earnings (est. 7.0%) – but lagged the broad market and value indexes. Why? As a fundamental bottom-up manager, Confluence utilizes a distinct philosophy and deploys it in a relatively concentrated manner, thus performance in any given period will be driven by stock selection. It is this approach that will often result in the over or under-weighting of certain areas of the market that either offer more attractive valuations or have superior underlying attributes. Said differently, we are often underweight commodity-oriented sectors, such as materials and energy, as well as highly regulated industries like

telecom and banking. The markets in 2016 were led by these very areas and explains the bulk of the relative underperformance.

S&P 500 performance was extremely bifurcated as energy, telecom and financial services posted 20%+ returns, while consumer discretionary and consumer staples had single-digit returns and health care had a negative return for 2016. Russell 1000 Value returns had an even larger impact given the larger weightings in sectors that outperformed (energy and financial services) and lower weightings in consumer discretionary, consumer staples and health care.

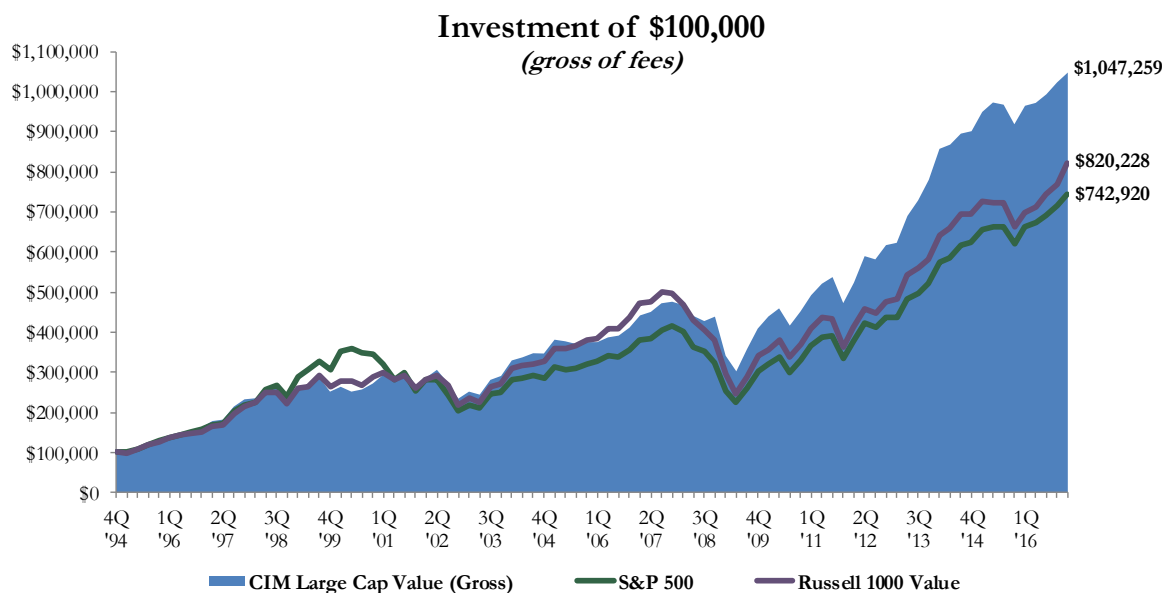
While we lagged the benchmarks, our portfolio had its share of winners. Stryker, Illinois Tool Works, NXP Semiconductors, W.R. Berkley and Berkshire Hathaway all posted returns above 20%. However, it was not enough to offset the laggards, Express Scripts, Bed Bath & Beyond, Wells Fargo and Allergan. Wells Fargo and Bed Bath & Beyond were sold in 2016.

The year's unexpected outcomes are a reminder of how difficult it is to predict future events, even for the best prognosticators. This acknowledgement is fundamental to our investment philosophy. It is why we demand certain characteristics of the companies we invest in, such as financial flexibility, a sustainable competitive advantage, excess free cash flow, capable management teams with good capital allocation skills and a reasonable valuation. These are all tools that help insulate companies and investors during periods of uncertainty.

CIM • Large Cap Value

Top 10 Portfolio Holdings (as of 12/31/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
W.R. Berkley Corp.	8.1	4.8%
Stryker Corp.	44.9	4.6%
Mastercard Inc.	112.5	4.5%
American International Group, Inc.	67.1	4.5%
Berkshire Hathaway Inc. (Class B)	401.7	4.4%
Markel Corp.	12.7	4.4%
Allergan Inc.	78.8	4.3%
NXP Semiconductors N.V.	33.9	4.2%
American Express Company	67.8	4.2%
Fastenal Co.	13.6	4.0%



Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

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