

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 equity markets ended the fourth quarter with a thud as the S&P 500 was down 13.5% and the Russell 1000 Value was down 11.7%. The harsh correction during the quarter pushed the S&P 500 into negative territory for the year, down 4.4%, thus ending a record run of nine consecutive years of positive returns and tying with 1991-1999 for the longest streak in history. The Russell 1000 Value fared no better with a -8.3% return for 2018. The Large Cap Value portfolio also had a tough quarter, down 12.3%, and ended the year down 4.6% (both gross of fees). *(The portfolio was down 12.9% and 7.4% (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.3 for fee description; actual investment advisory fees may vary.)*

We entered 2018 on the back of a strong and expanding economy, one of the longest on record, and the tailwind of tax reform which had investors rather optimistic. With this in mind, we were fearful of the possibility of a melt-up in the market and the first few weeks reinforced that concern as the S&P 500 rose sharply, up over 7.0% by late January. The rally ended quickly as the equity markets experienced their first correction of the year in late January/early February as tariff concerns surfaced, startling investors. It proved to be short-lived as investors reverted back to the same names that had led the markets during the past 12-18 months and continued the wide bifurcation between growth and value. The sharp correction in the fourth quarter helped recalibrate the bifurcation in the markets but still left a wide dispersion between the Russell 1000 Growth, down 1.51%, and Value, down 8.27%.

There were many reasons why the equity markets pulled back during the quarter, from rising rates, tariffs and trade wars, global economies slowing, to a slowdown in housing. The reality is the future is always uncertain and the concerns are either over- or under-appreciated. What is clear is that investor sentiment started the year extremely greedy and is now suddenly very fearful. Fortunately, the strength of the economy resulted in solid earnings growth for businesses and the recent pullback provides more attractive valuations. For fundamental long-term investors, which we are, the current environment provides more opportunities.

Looking forward, we expect continued economic expansion as monetary policy nears normalization and fiscal policy continues its friendlier stance on the business community. We expect inflation and inflation expectations to remain near current levels, which supports market valuations. We also see volatility returning to the norm and being more in line with 2018 than the preceding couple of years. As always, we remain focused on company-specific fundamentals and valuations, and believe the current market will provide us with opportunities to buy quality companies at reasonable prices.

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Portfolio Commentary continued...

Similar to the broad markets, Large Cap Value also experienced wide performance dispersion across its holdings with the same underlying dynamics: cheap businesses became cheaper and the fastest growing businesses attracted more investors.

There was only one change during the quarter as we sold American Express to make room for Brookfield Asset Management.

Brookfield is a globally diversified asset manager that operates and invests with a value orientation. The company has an extensive network of investment professionals that enables it to take controlling positions in most of its investments, which are focused in real estate, renewable energy, infrastructure and competitively advantaged businesses. Investments tend to be made during periods of stress within a particular asset class or geography as the company prefers to invest in hard-to-replace physical assets trading below replacement costs. Brookfield has a long and admirable track record as both an operator and a capital allocator. As it has matured, the proportion of its earnings power related to fee income from both private funds and listed partnerships has increased. This type of income tends to be more durable, especially given the type of assets the company invests in, and therefore we felt it was undervalued. We believe the company's durable fee income is reaching an inflection point, which resulted in its addition to the portfolio.

While there are no fundamental concerns with American Express, we simply needed to raise proceeds and the shares have performed well.

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

Security	Avg Weight	Contribution
Top 5		
Starbucks Corporation	3.68	0.43
Diageo plc	4.40	0.07
PepsiCo, Inc.	3.24	(0.04)
American Express Company	0.51	(0.10)
Berkshire Hathaway Inc. (Class B)	4.83	(0.21)
Bottom 5		
The TJX Companies, Inc.	3.94	(0.80)
Lowe's Companies, Inc.	4.28	(0.88)
Schlumberger Ltd.	1.91	(0.90)
Allergan plc	2.95	(0.98)
United Technologies Corporation	4.23	(1.05)

(Contribution 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. 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, 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.

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10 Largest Portfolio Holdings (as of 12/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Berkshire Hathaway Inc. (Class B)	502.6	4.8%
Thermo Fisher Scientific Inc.	90.1	4.7%
Diageo plc	86.1	4.6%
W.R. Berkley Corporation	9.0	4.6%
Fastenal Company	15.0	4.5%
Lowe's Companies, Inc.	74.2	4.4%
Starbucks Corporation	79.9	4.3%
Markel Corporation	14.4	4.3%
Alphabet Inc. (Class C)	723.5	4.2%
Johnson & Johnson	346.1	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 12/31/18

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R1000 Value	Confluence claims compliance with the Global Investment Performance Standards (GIPS®).
QTD	(12.3%)	(12.9%)	(13.5%)	(11.7%)	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. 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.
YTD	(4.6%)	(7.4%)	(4.4%)	(8.3%)	
1-Year	(4.6%)	(7.4%)	(4.4%)	(8.3%)	
3-Year*	6.3%	3.2%	9.2%	6.9%	¹ Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.
5-Year*	6.2%	3.1%	8.5%	5.9%	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.
10-Year*	13.0%	9.7%	13.1%	11.2%	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.
15-Year*	8.8%	5.6%	7.8%	7.0%	
20-Year*	7.8%	4.8%	5.6%	6.2%	
Since Inception**	10.6%	7.5%	9.3%	9.3%	

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

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
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%
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 500 years of combined financial experience and 300 years of portfolio management experience.