

## PORTFOLIO OBJECTIVE

The Large Cap Value portfolio is focused on large-cap companies. The portfolio's investment objective is capital appreciation with a secondary objective of dividend income.

## INVESTMENT PHILOSOPHY

Confluence's investment philosophy is a bottom-up, fundamental approach that seeks to generate above-average returns over the long-term by identifying businesses that possess substantial competitive advantages and are trading at discounts to intrinsic value. Advantages may include strong brand names, highly differentiated services or products, dominant market share, flexible pricing power, protected technology or specialized industrial skills sets. Companies have the ability to generate high levels of cash flow and are led by management teams that create shareholder wealth.

The investment process focuses on managing risk, which we define as the probability of a permanent loss of capital, by owning quality businesses at attractive valuations diversified across a variety of market sectors. This discipline strives to protect investors on the downside while enhancing upside potential. Over time, we believe this approach positions the portfolio to deliver superior risk-adjusted returns.

## PORTFOLIO OVERVIEW

- ◆ Focused on seasoned businesses that generally have market capitalizations above \$10 billion
- ◆ Stocks selected through independent research, evaluating the fundamentals of individual companies, and purchased when trading at discounts to our estimates of intrinsic value
- ◆ 23-25 Positions
- ◆ Low-to-Moderate turnover, typically 20%-30% annually
- ◆ Suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income

## CHARACTERISTICS<sup>1</sup>

	PORTFOLIO	S&P500
Dividend Yield	1.3%	2.0%
Number of Securities	23-25	505
Annual Turnover	20-30%	

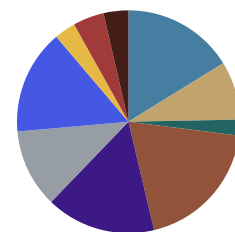
<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable 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. 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. Please contact Confluence for a complete list of holdings. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark yield source: Bloomberg.

MARKET CAP <sup>1</sup>	PORTFOLIO	S&P500
Weighted Avg. Market Cap (\$B)	122.6	230.7
Largest Market Cap (\$B)	904.9	904.9
Median Market Cap (\$B)	65.8	21.2
Smallest Market Cap (\$B)	5.9	2.5
Large Cap (>\$10B)	89%	
Mid Cap (\$10B-\$2B)	7%	
Small Cap (<\$2B)	0%	

## 10 LARGEST HOLDINGS<sup>1</sup>

Thermo Fisher Scientific Inc.	4.9%
Diageo plc	4.7%
W.R. Berkley Corporation	4.6%
Lowe's Companies, Inc.	4.5%
Mastercard Inc.	4.4%
Starbucks Corporation	4.3%
Stryker Corporation	4.3%
Brookfield Asset Management Inc.	4.2%
Black Knight, Inc.	4.2%
Alphabet Inc. (Class C)	4.2%

## SECTOR ALLOCATION<sup>1</sup>



- Consumer Discretionary 16%
- Consumer Staples 9%
- Energy 2%
- Financials 19%
- Health Care 16%
- Industrials 11%
- Information Technology 15%
- Materials 3%
- Communication Services 5%
- Cash 4%

## INVESTMENT PROCESS

### SECURITY SELECTION GREAT COMPANIES AT BARGAIN PRICES

Our disciplined investment process is research driven, attempting to uncover "great companies" trading at bargain prices. We define great companies as those with the following attributes:

#### Durable Competitive Advantages, should result in...

- ◆ Meaningful pricing power
- ◆ High barriers to entry
- ◆ Superior return on capital over extended periods of time

#### Free Cash Flow

- ◆ Substantial amount available to benefit shareholders
- ◆ Should far exceed the capital expenditures needed to maintain and grow the business

#### Capable Management

- ◆ Demonstrated ability to effectively allocate capital
- ◆ Alignment of management's interest with investors through large personal investments in company stock

### BUY LIMIT DISCIPLINE INVEST BASED ON PRICE AND PATIENCE

We believe focusing on great companies and purchasing them only when they're being offered at prices below our estimate of intrinsic value is an effective means for limiting downside risk while maximizing total return potential over an investment cycle.

- ◆ Primary focus is price paid for a stock (discount to intrinsic value)
- ◆ Each portfolio company is assigned a "buy limit" which represents the uppermost price we will pay for a security
- ◆ Buy limit is generally set at a 25%-50% discount to our internal estimate of intrinsic value
- ◆ Buy limits are continually re-assessed
- ◆ Risk is defined as *the probability of a permanent loss of capital*

New accounts may not be fully invested at inception if companies are trading above their current buy limits.

### SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- ◆ The share price reaches or exceeds our estimate of full valuation
- ◆ The company's fundamentals deteriorate
- ◆ More attractive opportunities are identified

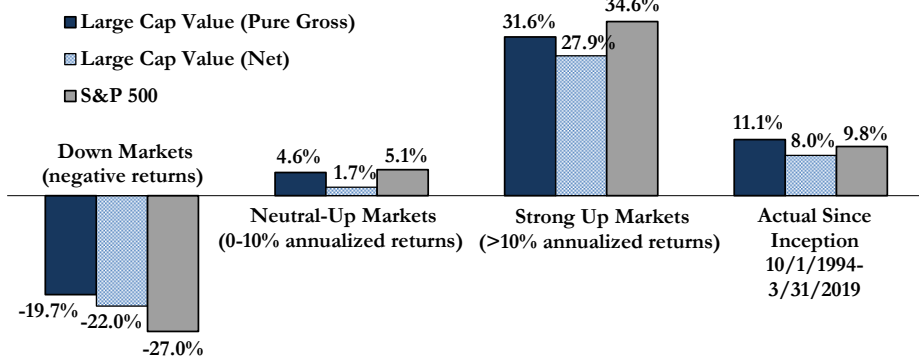
## ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

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.

## HISTORICAL PERFORMANCE<sup>1</sup>

## ANNUALIZED RETURNS

(AS OF 3/31/19)



Returns are annualized using calendar quarter performance data. **Down Markets** - annualized negative benchmark return; **Neutral-Up Markets** - annualized positive benchmark return is less than 10%; **Strong Up Markets** - annualized benchmark return is greater than 10%. The Standard & Poor's 500 Index (S&P 500®) is an unmanaged market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

**Down Markets:** Q4 '00-Q1 '01, Q3 '01, Q2 '02-Q3 '02, Q1 '03, Q3 '04, Q1 '05, Q2 '06, Q4 '07-Q1 '09, Q2 '10, Q3 '11, Q2 '12, Q4 '12, Q3 '15, Q1 '18, Q4 '18; **Neutral-Up Markets:** Q1 '02, Q1 '04-Q2 '04, Q2 '05, Q4 '05, Q1 '07, Q3 '07, Q2 '11, Q1 '14, Q3 '14, Q1 '15-Q2 '15, Q1 '16; **Strong Up Markets:** Q2 '01, Q4 '01, Q4 '02, Q2 '03-Q4 '03, Q4 '04, Q3 '05, Q1 '06, Q3 '06-Q4 '06, Q2 '07, Q2 '09-Q1 '10, Q3 '10-Q1 '11, Q4 '11-Q1 '12, Q3 '12, Q1 '13-Q4 '13, Q2 '14, Q4 '14, Q4 '15, Q2 '16-Q4 '17, Q2 '18-Q3 '18, Q1 '19

## STATISTICAL ANALYSIS<sup>1</sup> SINCE INCEPTION\*

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500
Annualized Standard Deviation	14.9%	14.8%	16.0%
Sharpe Ratio	0.58	0.37	0.45
Beta	0.85	0.85	1.00
R-Squared	84.07	84.20	100.00

\*Inception is 10/1/1994

**Standard Deviation** - A measure of price variability (risk) over a period of time. A higher Standard Deviation indicates more variability in returns from month to month.

**Sharpe Ratio** - Quantifies risk-adjusted performance by measuring the excess return per unit of risk. A higher Sharpe Ratio suggests better risk-adjusted performance.

**Beta** - A measure of a stock or portfolio's volatility (systematic risk) compared to an appropriate benchmark index. A Beta of 1.1 indicates the investment has approximately 10% more volatility in returns than the benchmark index.

**R-Squared** - Indicates whether the comparison index is an appropriate benchmark based on correlation. Generally an R-Squared above 70 is desirable.

## PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING MARCH 31, 2019)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R1000 Value
QTD	14.9%	14.0%	13.6%	11.9%
YTD	14.9%	14.0%	13.6%	11.9%
1-Year	10.1%	6.9%	9.5%	5.7%
3-Year*	11.1%	7.8%	13.5%	10.4%
5-Year*	9.0%	5.7%	10.9%	7.7%
10-Year*	16.0%	12.6%	15.9%	14.5%
15-Year*	9.6%	6.4%	8.6%	7.6%
20-Year*	8.4%	5.3%	6.0%	6.7%
Since Inception**	11.1%	8.0%	9.8%	9.7%

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

### Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

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.

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

<sup>2</sup>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.

\*\*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.

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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

### 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.

### Confluence Equity Investment Team

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Tore Stole	Brett Mawhiney, CFA
John Wobbe	

### The Confluence Mission

Our mission is to provide our clients with superior investment solutions and exceptional client service with the highest standards of ethics and integrity. Our team of investment professionals is committed to delivering innovative products and sound, practical advice to enable investors to achieve their investment objectives.

## FOR MORE INFORMATION CONTACT ONE OF OUR SALES TEAM MEMBERS:

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