

## OBJECTIVE

Invests in large capitalization companies that collectively generate an above-average stream of dividend income, while also providing capital appreciation potential.

## 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 our estimate of intrinsic value. Advantages may include strong brand names, highly differentiated services or products, dominant market share, flexible pricing power, protected technology or specialized industrial skill 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.

## OVERVIEW

- ◆ Invests in companies with a high level of dividend income or ability to grow dividend stream over time
- ◆ Positioned to collectively generate an above-average stream of dividend income with a growth rate that should exceed the inflation rate
- ◆ Market capitalizations generally greater than \$10 billion
- ◆ Approximately 4% position sizes
- ◆ Low-to-moderate turnover
- ◆ Appropriate for clients seeking total return from dividend income and capital appreciation
- ◆ Strategy assets: \$9.4 million<sup>1</sup>

<sup>1</sup> Total strategy assets include assets under management (AUM) and assets under advisement (AUA). As of 12/31/22, AUM = \$0.1 million and AUA = \$9.3 million.

## PORTFOLIO HOLDINGS<sup>2</sup>

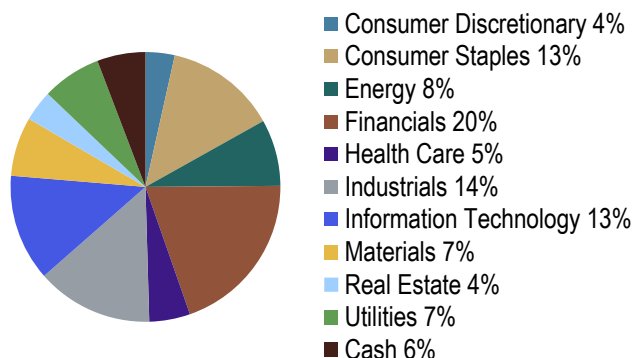
| CHARACTERISTICS           | SELECT EQUITY INCOME | R1000 VALUE | S&P 500 |
|---------------------------|----------------------|-------------|---------|
| Dividend Yield            | 3.0%                 | 2.3%        | 1.8%    |
| Number of Positions       | 23-25                | 852         | 503     |
| Estimated Annual Turnover | 10-20%               |             |         |

### 10 LARGEST HOLDINGS

|                             | WEIGHT |
|-----------------------------|--------|
| Gilead Sciences Inc.        | 4.9%   |
| Eaton Corp plc              | 4.9%   |
| Chubb Ltd.                  | 4.9%   |
| Snap-on Inc.                | 4.6%   |
| Raytheon Technologies Corp. | 4.5%   |
| Progressive Corp.           | 4.5%   |
| Analog Devices Inc.         | 4.3%   |
| Cisco Systems Inc.          | 4.3%   |
| Paychex Inc.                | 4.2%   |
| Chevron Corp.               | 4.2%   |

| MARKET CAP                | SELECT EQUITY INCOME | R1000 VALUE | S&P 500 |
|---------------------------|----------------------|-------------|---------|
| Largest Market Cap (\$B)  | 347.1                | 1,149.0     | 2,066.9 |
| Median Market Cap (\$B)   | 72.1                 | 11.1        | 29.4    |
| Smallest Market Cap (\$B) | 10.2                 | -           | 3.6     |
| Mega Cap (>\$150B)        | 19%                  |             |         |
| Large Cap (\$10B-\$150B)  | 76%                  |             |         |
| Mid Cap (\$3B-\$10B)      | 0%                   |             |         |
| Small Cap (<\$3B)         | 0%                   |             |         |

## SECTOR ALLOCATION



## INVESTMENT PROCESS

### SECURITY SELECTION: GREAT COMPANIES AT BARGAIN PRICES

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

#### Durable Competitive Advantages

- ◆ 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 DISCIPLINE: INVEST BASED ON PRICE AND PATIENCE

We believe focusing on high-quality companies and purchasing 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 evaluated to determine the full value of the business / intrinsic value for the security
- ◆ This entry point is generally set at a 25%-50% discount to our internal estimate of intrinsic value
- ◆ Entry points are continually re-assessed
- ◆ Risk is defined as *the probability of a permanent loss of capital* as opposed to tracking error of a benchmark

New accounts may not be fully invested at inception if companies are trading above current entry points.

### SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed. A company's stock may be sold if:

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

## PERFORMANCE

### COMPOSITE RETURNS<sup>3</sup> (FOR PERIODS ENDING DECEMBER 31, 2022)

|                                       | Since Inception** | 1-Year  | YTD     | QTD   |
|---------------------------------------|-------------------|---------|---------|-------|
| <b>Select Equity Income</b>           |                   |         |         |       |
| <i>Pure Gross-of-Fees<sup>4</sup></i> | 15.7%             | (2.4%)  | (2.4%)  | 13.8% |
| <i>Max Net-of-Fees<sup>5</sup></i>    | 12.3%             | (5.3%)  | (5.3%)  | 12.9% |
| <b>Russell 1000 Value</b>             | 15.0%             | (7.6%)  | (7.6%)  | 12.4% |
| <b>S&amp;P 500</b>                    | 10.6%             | (18.1%) | (18.1%) | 7.5%  |

| Calendar Year | Pure Gross-of-Fees <sup>4</sup> | Max Net-of-Fees <sup>5</sup> | R1000 Value | S&P 500 | Difference (Gross-R1000V) | # of Portfolios | Composite Assets (000s) | Total Firm Assets (000s) | Composite 3yr Std Dev | R1000V 3yr Std Dev | Composite Dispersion |
|---------------|---------------------------------|------------------------------|-------------|---------|---------------------------|-----------------|-------------------------|--------------------------|-----------------------|--------------------|----------------------|
| 2020**        | 15.4%                           | 13.7%                        | 22.7%       | 22.2%   | (7.4%)                    | 1               | \$116                   | \$6,889,798              | N/A                   | N/A                | N/A                  |
| 2021          | 28.0%                           | 24.2%                        | 25.1%       | 28.7%   | 2.9%                      | 1               | \$148                   | \$7,761,687              | N/A                   | N/A                | N/A                  |
| 2022          | (2.4%)                          | (5.3%)                       | (7.6%)      | (18.1%) | 5.2%                      | 1               | \$145                   | \$6,931,635              | N/A                   | N/A                | N/A                  |

\*Average annualized returns

\*\*Inception is 7/1/2020

See performance disclosures on last page.

#### Portfolio Benchmarks

**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.

**S&P 500® Index** – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. (Source: Bloomberg)

## Confluence Value Equities Investment Committee

|                    |                |             |                   |                     |
|--------------------|----------------|-------------|-------------------|---------------------|
| Mark Keller, CFA   | Tom Dugan, CFA | John Wobbe  | Dustin Hausladen  | Blair Brumley, CFA  |
| Daniel Winter, CFA | Tore Stole     | Joe Hanzlik | Kaisa Stucke, CFA | Brett Mawhiney, CFA |

### FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM:

|   |  |  |   |
|---|--|--|---|
| Ron Pond, CFA   <i>Northwest</i><br>Director of Sales<br>(314) 526-0759<br>rpond@confluenceim.com     | Jason Gantt   <i>East</i><br>Sr. Regional Sales Director<br>(314) 526-0364<br>jgantt@confluenceim.com      | Jim Taylor   <i>Mid-South</i><br>Regional Sales Director<br>(314) 526-0469<br>jtaylor@confluenceim.com             | Denis O'Grady   <i>East &amp; Mid-South</i><br>Regional Sales Associate (Internal)<br>(314) 743-5294<br>dogrady@confluenceim.com        |
| Wayne Knowles   <i>ID, MT, WY</i><br>Advisory Director<br>(314) 526-0914<br>wknowles@confluenceim.com | Steve Mikez   <i>Southwest</i><br>Sr. Regional Sales Director<br>(314) 526-0776<br>smikez@confluenceim.com | Michael Kelnosky   <i>North-Central</i><br>Regional Sales Director<br>(314) 526-0622<br>mkelnosky@confluenceim.com | Matt Winter   <i>Southwest &amp; North-Central</i><br>Regional Sales Associate (Internal)<br>(314) 526-0522<br>mwinter@confluenceim.com |

## DISCLOSURES

<sup>2</sup>**Portfolio Holdings**—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. 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/holdings of individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark sources: Bloomberg, S&P Dow Jones Indices/FTSE Russell.

<sup>3</sup>**Performance Composite Returns**—Confluence Investment Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2021. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Select Equity Income strategy was inceptioned on July 1, 2020, and the current Select Equity Income Composite was created on July 1, 2020. 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.

<sup>4</sup>Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>5</sup>Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. 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 0% of the composite. 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.

Performance is based on the Select Equity Income—Direct Composite which was created on July 1, 2020. This composite includes accounts that pursue the Select Equity Income strategy, but have a different fee structure. Gross returns from the Select Equity Income—Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Select Equity Income Composite contains fully discretionary Select Equity Income wrap accounts. Select Equity Income is a value-based, bottom-up portfolio that invests in stocks from market capitalizations typically exceeding \$10B based on their ability to generate an above-average stream of dividend income, while also providing capital appreciation potential. The benchmarks are the Russell 1000 Value Index and the S&P 500 Index (Source: Bloomberg).

\*\*Results shown for the year 2020 represent partial period performance from July 1, 2020, through December 31, 2020. 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.