

Equity Strategies • Small Cap Value

The Small Cap Value portfolio is focused on companies that generally have capitalizations below \$3 billion. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess competitive advantages and that are trading at substantial discounts to intrinsic value. The portfolio typically is comprised of 30-35 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients whose primary objective is capital appreciation.

Portfolio Commentary

Fresh off the Federal Open Market Committee's rate increase in mid-December 2015, its first increase since 2006, investors took an overly pessimistic view of risk assets (equities). The year started with a selloff in equities, with the S&P 500 index down over 10% and the Russell 2000 down over 15% through the early part of February. Late in the day on February 11th, with rumors of OPEC stemming oil production to support oil prices, the equity markets began to reverse course. From mid-February through quarter-end, the S&P 500 was up over 13% and the Russell 2000 up over 17%. The returns for the full quarter were 1.3% for the S&P 500, -1.5% for the Russell 2000 and 1.7% for the Russell 2000 Value. Our Small Cap Value strategy posted solid returns over the same period, up 6.8% (gross of fees).

For detailed performance information and disclosures see:
http://www.confluenceinvestment.com/equity_strategies#prod_41

Why the uncertainty? Since the 2008 Great Recession, central banks around the world have gone to unprecedented efforts to stabilize and grow their economies. They have resorted to Zero Interest Rate Policies (ZIRP), Quantitative Easing (QE) and even negative interest rates in some parts of the world. In the U.S., the FOMC enacted ZIRP for an extended period and conducted multiple rounds of QE to keep the economy moving. While it was successful in growing the economy, the growth has been rather anemic relative to past recoveries. Thus, the first rate increase late last year and

expectations for multiple rate increases in 2016 caused investors to fear that the Fed would move too fast and too much, possibly pushing the U.S. into recession. As the FOMC March meeting neared and it looked less likely that an increase would occur then, investor pessimism began to wane. With the official FOMC statement, it became clear that the pace of future rate increases would be slow and rates would stay low, which aided the equity markets' continued improvement.

The Small Cap Value strategy performed very well during the quarter, with only five names declining and the rest posting positive results. Tumi Holdings led the way as it agreed to be acquired by Samsonite during the quarter. There were a couple of changes to the portfolio as we sold shares of Pennant Park Investment Corp. and Ritchie Brothers Auctioneers.

Going forward, our current view calls for a lengthy period of rising but low interest rates as the employment landscape remains sluggish with a low participation rate. There is also ample global capacity which should keep inflation subdued. We expect to see a very slow pace of rate increases which should allow the economy to maintain growth and equities to maintain their footing in spite of higher interest rates, albeit with higher volatility.

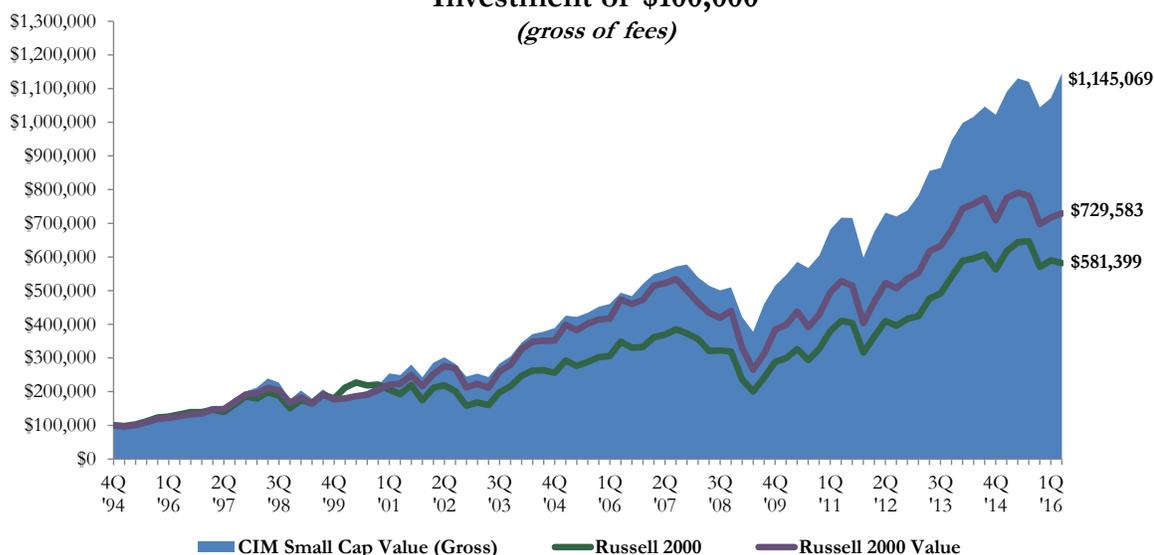
As always, we remain focused on company-specific fundamentals and growth prospects, and believe the current market will continue to provide us with opportunities to buy quality companies at reasonable prices.

CIM • Small Cap Value

Top 10 Portfolio Holdings (as of 3/31/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
VCA Antech Inc	4.68	4.2%
John Bean Technologies Corp.	1.65	3.6%
Patterson Companies, Inc	4.61	3.5%
Graco Inc	4.63	3.4%
National Interstate Corp.	0.60	3.4%
Morningstar Inc	3.79	3.3%
Potbelly Corp.	0.36	3.2%
Brown & Brown Inc	4.96	3.2%
Snyder's-Lance, Inc	3.00	3.2%
RE/MAX Holdings, Inc	0.60	3.1%

Investment of \$100,000
(gross of fees)



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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