

Equity Strategies • Small Cap Value

Small Cap Value 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 our estimates of 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

The Small Cap Value strategy posted a marginal loss in Q1 of 0.6% (gross of fees), in line with the Russell 2000 Index, down 0.1%, and comparing favorably to the Russell 2000 Value Index, down 2.6%.

After seven consecutive quarters of positive returns, the broad small capitalization markets, represented by the Russell 2000, posted a negative return in the first quarter. To the casual observer, this return might imply a relatively benign period, but it was quite the contrary. The year started off with the continued strength seen throughout 2017 as the Russell 2000 began the year up approximately 5% through the later part of January. This progress was in spite of rising long-term rates due to inflation fears and caused investors to focus on growth/momentum names over higher yielding areas, such as Utilities and REITs. The exuberance ended in late January as investors witnessed a sharp 9% correction from the highs, reintroducing volatility to the market after a relatively long absence.

Market weakness during the quarter was fairly widespread with all sectors in the Russell 2000 reporting declines except Health Care and Financials, with Financials up only marginally. While we expect continued economic growth and solid earnings, especially in light of the recently enacted tax reform, we are cognizant of the Fed's efforts to normalize monetary policy. When combined with the uncertainty from the new administration, the Fed's actions will likely produce higher volatility than what

has been experienced recently. For active investors, volatility is welcome as it provides opportunities to take advantage of the price swings.

Small Cap Value had a wide dispersion in returns across holdings as Patterson Companies and Luxoft were the laggards, while Movado and RE/MAX were the leaders. We took advantage of the recent volatility to complete purchases of several names: Cambrex Corp., Allied Motion Technologies, Gladstone Commercial and Astec Industries. Lastly, during the quarter, Campbell's completed the acquisition of our holding of Snyder's-Lance.

We continue to work diligently to put cash to work in a prudent fashion but acknowledge that it is taking a little longer than normal. However, should the recent levels of volatility persist we would expect to put the money to work a little faster going forward. 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.

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. 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.

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Top 10 Portfolio Holdings (as of 3/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Morningstar, Inc.	4.06	4.2%
Movado Group, Inc.	0.88	4.1%
RE/MAX Holdings, Inc.	1.07	3.7%
Allied Motion Technologies Inc.	0.37	3.6%
The RMR Group Inc.	1.06	3.6%
Thermon Group Holdings, Inc.	0.73	3.4%
Raven Industries, Inc.	1.25	3.3%
The Boston Beer Company, Inc.	2.24	3.3%
Rayonier Inc.	4.54	3.3%
Halyard Health, Inc.	2.16	3.2%

The listing of "Ten 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.

Composite Returns For Periods Ending 3/31/18

	Pure Gross-of-Fees	Net-of-Fees*	R2000	R2000 Value	Difference (Gross-R2000)	No. of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R2000 3yr Std Dev	R2000 Value 3yr Std Dev	Composite Dispersion
QTD	(0.6%)	(1.3%)	(0.1%)	(2.6%)								
YTD	(0.6%)	(1.3%)	(0.1%)	(2.6%)								
1-Year	12.3%	8.9%	11.8%	5.2%								
3-Year Annualized	11.7%	8.4%	8.4%	7.9%								
5-Year Annualized	13.0%	9.6%	11.5%	10.0%								
10-Year Annualized	11.8%	8.5%	9.8%	8.6%								
15-Year Annualized	13.3%	10.0%	11.5%	10.8%								
20-Year Annualized	9.9%	6.8%	7.4%	8.0%								
Since Inception Annualized	12.4%	9.3%	9.4%	10.3%								
2017	19.5%	16.0%	14.6%	7.8%	4.9%	354	\$103,862	\$5,944,479	10.8%	13.9%	14.0%	0.9%
2016	23.7%	20.0%	21.3%	31.7%	2.4%	198	\$56,608	\$4,413,659	11.6%	15.8%	15.5%	1.2%
2015	(1.7%)	(4.7%)	(4.4%)	(7.5%)	2.7%	158	\$34,928	\$3,175,419	10.3%	14.0%	13.5%	0.4%
2014	9.3%	6.1%	4.9%	4.2%	4.4%	140	\$34,077	\$2,589,024	8.6%	13.1%	12.8%	0.6%
2013	27.4%	23.6%	38.8%	34.5%	(11.5%)	112	\$31,108	\$1,955,915	12.2%	16.4%	15.8%	0.5%
2012	16.0%	12.6%	16.3%	18.1%	(0.4%)	105	\$26,346	\$1,272,265	15.6%	20.2%	19.9%	0.3%
2011	(0.9%)	(3.8%)	(4.2%)	(5.5%)	3.3%	85	\$18,032	\$937,487	21.8%	25.0%	26.0%	1.2%
2010	24.6%	20.9%	26.9%	24.5%	(2.3%)	83	\$19,208	\$751,909	23.3%	27.7%	28.4%	1.5%
2009	29.6%	25.8%	27.2%	20.6%	2.4%	54	\$9,823	\$533,832	20.9%	24.8%	25.6%	2.3%
2008	(21.8%)	(24.0%)	(33.8%)	(28.9%)	12.0%	61	\$8,568	\$291,644	14.0%	19.8%	19.1%	N/A
2007	(1.7%)	(4.4%)	(1.6%)	(9.8%)	(0.1%)	543	\$84,018		7.5%	13.2%	12.6%	1.1%
2006	19.1%	15.9%	18.4%	23.5%	0.8%	694	\$117,282		7.1%	13.8%	12.3%	1.1%
2005	8.2%	5.3%	4.6%	4.7%	3.6%	722	\$111,469		9.0%	15.1%	14.1%	1.6%
2004	23.2%	19.9%	18.3%	22.2%	4.9%	572	\$101,835		12.7%	19.0%	17.5%	1.4%
2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	\$71,199		15.4%	21.6%	18.4%	0.9%
2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	\$48,944		N/A	N/A	N/A	0.7%
2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	\$56,254		N/A	N/A	N/A	0.7%
2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	\$47,699		N/A	N/A	N/A	1.7%
1999	(7.1%)	(9.6%)	21.3%	(1.5%)	(28.4%)	745	\$69,869		N/A	N/A	N/A	1.2%
1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	(1.6%)	1,080	\$111,513		N/A	N/A	N/A	1.7%
1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
1996	20.7%	17.4%	16.5%	21.4%	4.2%	249	\$39,188		N/A	N/A	N/A	1.0%
1995	24.2%	20.8%	28.4%	25.8%	(4.3%)	267	\$34,667		N/A	N/A	N/A	0.8%
1994**	(3.3%)	(3.9%)	(1.9%)	(3.0%)	(1.4%)	389	\$41,690		N/A	N/A	N/A	N/A

Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 6/30/2017. A copy of the verification report is available upon request.

Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Small Cap Value Strategy was inceptioned on October 1, 1994 and the current Small 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. 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. Gross returns are shown as supplemental information.

*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: 1.00% on the first \$500,000; 0.90% on the next \$500,000; and 0.75% 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 is available upon request. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 Small Cap Value Composite contains fully discretionary Small Cap Value wrap accounts. Small Cap Value is a value-based, bottom-up portfolio that utilizes stocks with a market capitalization typically less than \$2 billion. The primary benchmark is the Russell 2000 Index and the Russell 2000 Value Index is shown as additional information.

**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.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri founded in 2007. 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. 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 400 years of combined financial experience and 200 years of portfolio management experience.