

Equity Strategies • Small Cap Value

Small Cap Value is focused on companies that generally have capitalizations below \$2 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 comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is suitable for clients whose primary objective is capital appreciation.

Strategy Commentary

It was a tough start to 2020 as equities sold off and the broad market, as represented by the S&P 500 Index, was down over 19%. Meanwhile, small capitalization stocks were hit even harder as the Russell 2000 and Russell 2000 Value Indexes were down 30.6% and 35.7%, respectively. The Small Cap Value strategy was also down 26.0% (gross of fees). *(The strategy was down 26.5% (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

March Madness may have been canceled by the NCAA but the absence of college basketball thrills was merely supplanted by the volatility experienced in the markets. The year began with a positive tone as the longest economic expansion in history was projected to continue in 2020, providing a basis for the continuation of the bull market. Then, in January, concerns of COVID-19 surfaced in Asia that were perceived as disruptive, especially to supply chains, but manageable based on prior experiences with respiratory viruses (SARS, MERS, H1N1). But by mid-to-late February, further data revealed some differences in the pervasiveness and contagiousness of this strain. This eventually led governments around the world to impose aggressive actions to protect the health of their people by effectively shutting down large swaths of the economy – actions never experienced in peace time.

If this were not enough, the Kingdom of Saudi Arabia and Russia also instigated a price war in oil in early March. Hence, in the span of about 45 days the U.S. economy went from a shortage of workers to witnessing the highest jobless claims spike in history. The equity markets tumbled, with the S&P 500 down approximately 35% from the highs reached on February 21 to the lows on March 23, only to rally over 20% on the back of monetary and fiscal policy relief efforts. It was as though a full market cycle occurred in less than a month and a half.

These unexpected events and unprecedented responses to mitigate the spread of the virus prompted central banks around the world to act aggressively to ensure ample liquidity in the banking system. Congress also quickly responded with a heavy dose of fiscal policy relief for individuals and businesses. These efforts will go a long way in providing support while we work through the negative impact of the pandemic. When the fog does clear, we would not expect the same environment that preceded it. Supply chains will be revisited. Businesses will carry more debt, debt that was incurred to survive, and they will likely have a desire to work it off and build reserves. Investor sentiment will likely shift away from “buy the dips” and/or “fear of missing out” toward fundamentals and valuations. Passive investing may pass the baton to active investing. Economic growth will resume but likely at a lower trajectory.

For the quarter, the equity market selloff was broad-based, and especially hard on small capitalization and value-oriented businesses as evidenced by the following data points: (1) the Russell 1000 Index, which is composed of the largest 1,000 companies, dramatically outperformed its small cap brethren in the Russell 2000 Index, -20.2% versus -30.6%, respectively; and (2) the Russell 2000 Growth Index dramatically outperformed the Russell 2000 Value Index, -25.8% versus -35.7%, respectively.

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ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence'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, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

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Strategy Commentary continued...

There were a couple changes to the strategy during the quarter as the proposed sale of Innophos Holdings (IPHS) to One Rock Capital Partners was completed in February. We also added BRP Group (BRP), which is a small commercial insurance broker operating in the Southeast that recently came public. The founder, and current leader, is a seasoned and well-respected veteran of the industry who plans to continue growing the company both organically and via acquisitions.

The remaining activity has primarily been focused on bringing names that were below full position size due to valuations up to full positions. With that being said, we also have a handful of names currently being vetted by the investment committee for possible inclusion in the portfolio. As always, we remain focused on company-specific fundamentals and growth prospects, and we believe the current market will continue to provide us with opportunities.

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

Security	Avg Weight	Contribution
Top 5		
Innophos Holdings, Inc.	0.71	0.00
Phibro Animal Health Corporation	1.58	(0.04)
Healthcare Services Group, Inc.	3.25	(0.04)
Black Knight, Inc.	0.58	(0.07)
Nathan's Famous, Inc.	0.82	(0.09)
Bottom 5		
RE/MAX Holdings, Inc.	3.13	(1.34)
i3 Verticals, Inc.	3.97	(1.38)
Thermon Group Holdings, Inc.	2.96	(1.41)
MTS Systems Corporation	2.71	(1.60)
Allied Motion Technologies Inc.	3.30	(1.90)

(Contribution data shown from a sample account)

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10 Largest Holdings (as of 3/31/20)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Cannae Holdings, Inc.	2.66	5.1%
Frontdoor, Inc.	2.97	4.4%
Morningstar, Inc.	4.98	4.1%
SJW Group	1.65	4.0%
Avanos Medical, Inc.	1.29	3.9%
Northwest Natural Holding Co.	1.88	3.8%
Healthcare Services Group, Inc.	1.78	3.7%
Brown & Brown, Inc.	10.27	3.7%
James River Group Holdings, Ltd.	1.11	3.6%
i3 Verticals, Inc.	0.52	3.3%

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 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 3/31/20

	Pure Gross-of-Fees ¹	Net-of-Fees ²	R2000	R2000 Value	Calendar Year	Pure Gross-of-Fees ¹	Net-of-Fees ²	R2000	R2000 Value	Difference (Gross-R2000)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R2000 3yr Std Dev	R2000V 3yr Std Dev	Composite Dispersion
Since Inception**	10.8%	7.6%	7.5%	7.9%	1994**	(3.3%)	(3.9%)	(1.9%)	(3.0%)	(1.4%)	389	\$41,690		N/A	N/A	N/A	N/A
					1995	24.2%	20.8%	28.4%	25.8%	(4.3%)	267	\$34,667		N/A	N/A	N/A	0.8%
25-Year*	11.0%	7.8%	7.6%	8.1%	1996	20.7%	17.4%	16.5%	21.4%	4.2%	249	\$39,188		N/A	N/A	N/A	1.0%
20-Year*	10.3%	7.1%	5.3%	6.8%	1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
15-Year*	8.1%	5.0%	5.7%	4.1%	1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	(1.6%)	1,080	\$111,513		N/A	N/A	N/A	1.7%
10-Year*	8.8%	5.6%	6.9%	4.8%	1999	(7.1%)	(9.6%)	21.3%	(1.5%)	(28.4%)	745	\$69,869		N/A	N/A	N/A	1.2%
5-Year*	3.8%	0.7%	(0.3%)	(2.4%)	2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	\$47,699		N/A	N/A	N/A	1.7%
3-Year*	(1.0%)	(3.9%)	(4.7%)	(9.5%)	2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	\$56,254		N/A	N/A	N/A	0.7%
1-Year	(17.6%)	(20.0%)	(24.0%)	(29.7%)	2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	\$48,944		N/A	N/A	N/A	0.7%
YTD	(26.0%)	(26.5%)	(30.6%)	(35.7%)	2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	\$71,199		15.4%	21.6%	18.4%	0.9%
QTD	(26.0%)	(26.5%)	(30.6%)	(35.7%)	2004	23.2%	19.9%	18.3%	22.2%	4.9%	572	\$101,835		12.7%	19.0%	17.5%	1.4%
					2005	8.2%	5.3%	4.6%	4.7%	3.6%	722	\$111,469		9.0%	15.1%	14.1%	1.6%
					2006	19.1%	15.9%	18.4%	23.5%	0.8%	694	\$117,282		7.1%	13.8%	12.3%	1.1%
					2007	(1.7%)	(4.4%)	(1.6%)	(9.8%)	(0.1%)	543	\$84,018		7.5%	13.2%	12.6%	1.1%
					2008	(21.8%)	(24.0%)	(33.8%)	(28.9%)	12.0%	61	\$8,568	\$291,644	14.0%	19.8%	19.1%	N/A
					2009	29.6%	25.8%	27.2%	20.6%	2.4%	54	\$9,823	\$533,832	20.9%	24.8%	25.6%	2.3%
					2010	24.6%	20.9%	26.9%	24.5%	(2.3%)	83	\$19,208	\$751,909	23.3%	27.7%	28.4%	1.5%
					2011	(0.9%)	(3.8%)	(4.2%)	(5.5%)	3.3%	85	\$18,032	\$937,487	21.8%	25.0%	26.0%	1.2%
					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%
					2013	27.4%	23.6%	38.8%	34.5%	(11.5%)	113	\$31,217	\$1,955,915	12.2%	16.4%	15.8%	0.5%
					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%
					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%
					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%
					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%
					2018	(8.6%)	(11.3%)	(11.0%)	(12.9%)	2.5%	400	\$88,885	\$5,486,737	13.1%	15.8%	15.8%	0.8%
					2019	27.0%	23.2%	25.5%	22.4%	1.5%	449	\$124,071	\$7,044,708	14.5%	15.7%	15.7%	0.8%

*Average annualized returns

**Inception is 10/1/1994

Portfolio Benchmarks

Russell 2000® Index – A capitalization-weighted index measuring performance of approximately 2,000 companies in the Russell 3000® Index.

Russell 2000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values.

(Source: Bloomberg)

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 12/31/2018. 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 inception 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.

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

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: 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 market capitalizations typically less than \$2 billion. *Smaller capitalization companies, due to their size, are generally more vulnerable to adverse general market or economic developments than larger, more established companies.* **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.

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. 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. 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. **Indices:** The Russell 2000 and Russell 2000 Value Indexes 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.