

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 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 equity markets posted positive returns during the third quarter, with the Russell 2000 and Russell 2000 Value Indexes up 3.6% and 1.6%, respectively. For the year, both the Russell 2000 and Russell 2000 Value were up 11.5% and 7.2%, respectively. Small Cap Value also posted strong returns of 5.8% for the quarter and 14.3% year-to-date (both gross of fees). *(The portfolio was up 5.0% and 11.7% (net of fees), respectively, over the same time periods. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p. 2 for fee description; actual investment advisory fees may vary.)*

The domestic equity markets, both large and small capitalization, have been strong the past 18-24 months as the economic backdrop, aided by tax reform and regulatory relief, provided a nice tailwind for investors. Although economic strength has been relatively broad based, equity returns have not. Investors are increasingly leaning toward businesses that exhibit above-average growth/momentum while paying less attention to valuations. In fact, the Russell Growth indexes have handily outperformed their Value counterparts the past couple of years (see table below).^[1]

Index	2017	2018 (thru Sept)
Russell 2000	14.7%	11.5%
Russell 2000 Value	7.8%	7.1%
Russell 2000 Growth	22.2%	15.8%

The divergence in the market has been driven by sentiment as investors have shifted to a more optimistic mood following many years of trepidation brought on by the Great Recession that started in 2008. Said differently, investors appear to have shifted their mindset from preserving capital to fears of missing any upside.

We took advantage of the sharp move upward in price and valuation in a number of businesses by selling and repositioning into more attractive opportunities. More specifically, we sold Boston Beer, Bio-Techne, Graco,

Exponent, RMR Group and Avanos Medical and used the proceeds to purchase Resource Connection, e.l.f. Beauty, Kadant, SJW Group and Northwest Natural Holding. This flurry of activity is uncommon but the recent market strength resulted in valuations that warranted taking profits.

The wide dispersion in the market was also reflected in Small Cap Value as shown by the strength in Bio-Techne and John Bean, which posted 27%+ returns over the quarter, while Movado and Varex Imaging were down over 12% and 22%, respectively, over the same period. Overall, the portfolio has performed well considering these unusual bifurcations. More importantly, this disparity generally offers fundamental investors the opportunity to take advantage of the wide divergences, often driven by emotion, to buy cheap and sell dear. The portfolio's top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Wgt	Return	Contrib
Top 5			
Bio-Techne Corp.	2.46	27.57	0.94
John Bean Technologies Corp.	3.10	34.31	0.90
Avanos Medical, Inc.	2.19	25.87	0.85
Cambrex Corporation	3.11	30.78	0.84
The RMR Group Inc.	2.99	20.20	0.77
Bottom 5			
Rayonier Inc.	2.46	(11.91)	(0.33)
Astec Industries, Inc.	2.29	(15.51)	(0.43)
RE/MAX Holdings, Inc.	3.05	(15.01)	(0.50)
Movado Group, Inc.	4.59	(12.82)	(0.59)
Varex Imaging Corp.	2.46	(22.73)	(0.66)

(Attribution data shown from a sample account)

We continue to work diligently to put cash to work in a prudent fashion. We expect the recent levels of volatility to persist and would expect to continue to put money to work 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.

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. 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. 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. **Indices:** The Russell 2000, Russell 2000 Value and Russell 2000 Growth 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. **Table/Chart Data Sources:** ^[1] Source: CIM.

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10 Largest Portfolio Holdings (as of 9/30/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Morningstar, Inc.	5.37	3.8%
Movado Group, Inc.	0.97	3.6%
Raven Industries, Inc.	1.64	3.4%
Cambrex Corporation	2.27	3.4%
Allied Motion Technologies Inc.	0.52	3.4%
John Bean Technologies Corp.	3.77	3.4%
Thermon Group Holdings, Inc.	0.84	3.4%
Forward Air Corporation	2.10	3.3%
Bank of Marin Bancorp	0.59	3.3%
SJW Group	1.26	3.2%

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. 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 9/30/18

	Pure Gross-of-Fees ¹	Net-of-Fees ²	R2000	R2000 Value
QTD	5.8%	5.0%	3.6%	1.6%
YTD	14.3%	11.7%	11.5%	7.2%
1-Year	20.6%	17.0%	15.2%	9.4%
3-Year*	20.1%	16.6%	17.1%	16.1%
5-Year*	13.9%	10.5%	11.1%	9.9%
10-Year*	13.5%	10.1%	11.1%	9.5%
15-Year*	12.6%	9.4%	10.1%	9.5%
20-Year*	12.3%	9.2%	9.4%	9.8%
Since Inception**	12.8%	9.6%	9.7%	10.5%

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

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. 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 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 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. Smaller capitalization companies, due to their size, are generally more vulnerable to adverse general market or economic developments than larger, more established companies.

*Average annualized returns

**Inception is 10/1/1994

	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
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%)	113	\$31,217	\$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

**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 Jan 2001.

Portfolio Benchmarks

Russell 2000® Index – A capitalization-weighted index comprised of 2000 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.

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 400 years of combined financial experience and 200 years of portfolio management experience.