

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

The end of the third quarter was a milestone as it marked the 25th anniversary of the Small Cap Value strategy. We are grateful to our clients for the support and remain humbled by the journey, while looking forward to the next 25 years.

Small cap equity markets were relatively benign in the third quarter but with a bias to the downside as the Russell 2000 and Russell 2000 Value were down 2.4% and 0.6%, respectively. When combined with the strong first half of the year, the year-to-date returns are 14.2% for the Russell 2000 and 12.8% for the Russell 2000 Value. Small Cap Value was also down for the quarter, -1.1%, bringing its year-to-date return to 17.5% (both gross of fees). *(The strategy was down 1.8% QTD and up 14.9% YTD (net of fees). 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 equity markets took the recent Fed rate cuts (July and September) in stride as the moves were anticipated. However, this marked a shift from restrictive monetary policy (raising rates), which started in December 2015, to a more accommodative stance. The policy reversal stems from a weakening economy as the Chinese trade conflict is negatively affecting business confidence. While the probability of recession has increased, the strength of the consumer and the banking system should dampen the impact, likely to result in a relatively shallow and short-lived downturn.

While small caps were relatively flat, there was rather wide dispersion in sector performance as Utilities and REITs were up, but Energy and Health Care posted losses. Our Small Cap Value strategy also saw dispersion among its holdings as Cambrex and Monotype Imaging posted solid gains on news that they will be acquired, while i3 Verticals and Phibro reported poor results and the shares responded accordingly.

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

Security	Avg Weight	Contribution
Top 5		
Frontdoor, Inc.	5.86	0.69
Cambrex Corporation	2.42	0.68
Monotype Imaging Holdings Inc.	2.90	0.46
SJW Group	3.74	0.45
Natus Medical Inc.	2.11	0.43
Bottom 5		
Avanos Medical, Inc.	2.70	(0.43)
Patterson Companies, Inc.	2.08	(0.53)
John Bean Technologies Corporation	3.35	(0.64)
Phibro Animal Health Corporation	1.74	(0.68)
i3 Verticals, Inc.	3.46	(1.30)

(Contribution data shown from a sample account)

During the quarter we trimmed Cambrex, as needed, to add Healthcare Service Group (HCSG). HCSG provides outsourced housekeeping, facility maintenance and dietary services for long-term healthcare facilities. HCSG operates in a niche segment where it has consistently earned above-average returns on capital, built upon market leadership combined with an asset-light business model. The company has traditionally competed with in-house services and its ability to run these services at a more efficient level has allowed it to take share from in-house operations over time, which has helped drive organic growth over the last thirty years. Free cash flow has traditionally been returned to shareholders through a steadily rising dividend, but recent weakness provided an attractive entry point.

Going forward, we expect volatility to persist given uncertainty surrounding trade policies and Fed actions (particularly regarding the timing and magnitude of monetary policy changes). Inflation and inflation expectations will likely remain near current levels which supports market valuations. 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.

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.

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10 Largest Holdings (as of 9/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Frontdoor, Inc.	4.11	4.8%
Morningstar, Inc.	6.25	4.3%
Cannae Holdings, Inc.	1.98	4.3%
SJW Group	1.94	3.8%
Gladstone Commercial Corp.	0.74	3.6%
Northwest Natural Holding Co.	2.17	3.6%
RBC Bearings Incorporated	4.13	3.5%
Resources Connection, Inc.	0.54	3.3%
Brown & Brown, Inc.	10.14	3.2%
RE/MAX Holdings, Inc.	0.57	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 9/30/19

	Pure Gross-of-Fees ¹	Net-of-Fees ²	R2000	R2000 Value	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**	12.0%	8.8%	8.9%	9.7%	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%	(4.3%)	267	\$34,667		N/A	N/A	N/A	0.8%
20-Year*	11.8%	8.6%	8.0%	9.0%	1996	20.7%	17.4%	16.5%	4.2%	249	\$39,188		N/A	N/A	N/A	1.0%
15-Year*	10.3%	7.1%	8.2%	7.2%	1997	46.5%	42.5%	22.4%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
10-Year*	12.7%	9.4%	11.2%	10.1%	1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	1,080	\$111,513		N/A	N/A	N/A	1.7%
5-Year*	10.7%	7.4%	8.2%	7.2%	1999	(7.1%)	(9.6%)	21.3%	(1.5%)	745	\$69,869		N/A	N/A	N/A	1.2%
3-Year*	10.9%	7.7%	8.2%	6.5%	2000	34.4%	30.7%	(3.0%)	22.8%	374	\$47,699		N/A	N/A	N/A	1.7%
1-Year	(6.0%)	(8.8%)	(8.9%)	(8.3%)	2001	12.6%	9.6%	2.5%	14.0%	395	\$56,254		N/A	N/A	N/A	0.7%
YTD	17.5%	14.9%	14.2%	12.8%	2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	434	\$48,944		N/A	N/A	N/A	0.7%
QTD	(1.1%)	(1.8%)	(2.4%)	(0.6%)	2003	36.2%	32.5%	47.3%	46.0%	464	\$71,199		15.4%	21.6%	18.4%	0.9%
					2004	23.2%	19.9%	18.3%	22.2%	572	\$101,835		12.7%	19.0%	17.5%	1.4%
					2005	8.2%	5.3%	4.6%	4.7%	722	\$111,469		9.0%	15.1%	14.1%	1.6%
					2006	19.1%	15.9%	18.4%	23.5%	694	\$117,282		7.1%	13.8%	12.3%	1.1%
					2007	(1.7%)	(4.4%)	(1.6%)	(9.8%)	543	\$84,018		7.5%	13.2%	12.6%	1.1%
					2008	(21.8%)	(24.0%)	(33.8%)	(28.9%)	61	\$8,568	\$291,644	14.0%	19.8%	19.1%	N/A
					2009	29.6%	25.8%	27.2%	20.6%	54	\$9,823	\$533,832	20.9%	24.8%	25.6%	2.3%
					2010	24.6%	20.9%	26.9%	24.5%	83	\$19,208	\$751,909	23.3%	27.7%	28.4%	1.5%
					2011	(0.9%)	(3.8%)	(4.2%)	(5.5%)	85	\$18,032	\$937,487	21.8%	25.0%	26.0%	1.2%
					2012	16.0%	12.6%	16.3%	18.1%	105	\$26,346	\$1,272,265	15.6%	20.2%	19.9%	0.3%
					2013	27.4%	23.6%	38.8%	34.5%	113	\$31,217	\$1,955,915	12.2%	16.4%	15.8%	0.5%
					2014	9.3%	6.1%	4.9%	4.2%	140	\$34,077	\$2,589,024	8.6%	13.1%	12.8%	0.6%
					2015	(1.7%)	(4.7%)	(4.4%)	(7.5%)	158	\$34,928	\$3,175,419	10.3%	14.0%	13.5%	0.4%
					2016	23.7%	20.0%	21.3%	31.7%	198	\$56,608	\$4,413,659	11.6%	15.8%	15.5%	1.2%
					2017	19.5%	16.0%	14.6%	7.8%	354	\$103,862	\$5,944,479	10.8%	13.9%	14.0%	0.9%
					2018	(8.6%)	(11.3%)	(11.0%)	(12.9%)	400	\$88,885	\$5,486,737	13.1%	15.8%	15.8%	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 12/31/2017. 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.

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 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.* **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.

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. 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 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.