

Small Cap Value • Value Equity Strategies

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 appropriate for clients whose primary objective is capital appreciation.

Market Commentary

The small capitalization portion of the equity markets posted another quarterly gain following the tumultuous start to the year as the Russell 2000 Index was up 4.9% and the Russell 2000 Value Index was up 2.6%. Despite the strength of the past couple of quarters, the Russell 2000 and Russell 2000 Value remain deep in negative territory for the year, -8.7% and -21.6%, respectively.

Equity market optimism has been driven by the enormous amount of monetary and fiscal stimulus that has been injected into the economy. The stimulus represents the bridge to economic recovery and ultimately expansion. Despite the support to date from the Federal Reserve, it remains ready to provide additional stimulus as necessary and has even been encouraging Congress to pass another stimulus bill. The fifth fiscal bill is currently caught up in negotiations over quantity, not desire, and the numbers are substantial (\$1.6 trillion versus \$2.2 trillion). To put it in perspective, the previous four bills cumulatively totaled roughly \$2.8 trillion; U.S. GDP in 2019 was \$21.4 trillion. The magnitude of the stimulus programs combined with the progress on treatments and vaccines have improved investor sentiment as reflected by the strength in the markets.

While the liquidity has certainly aided the underlying equity market, it has been very narrowly centered around a small subset of businesses that have benefited from the lockdowns. These businesses are asset-light and more new-economy focused. They tend to trade at high valuations and are more representative of the “growth” style. Furthermore, the current environment is being driven by a relatively few mega-cap technology-oriented businesses that have heavy influence in market cap weighted indexes. More specifically, the top five companies (Microsoft, Apple, Amazon, Facebook, Alphabet) now represent over 22% of the S&P 500 and are up on average 40% year-to-date, accounting for 130% of the index’s return. Said differently, the S&P 500 would be in negative territory for

the year if not for the big five businesses, whereas an equally weighted S&P 500 would be down approximately -5% year-to-date. This narrowness is also reflected in smaller businesses as they are dramatically lagging their larger cap brethren, evidenced by the Russell 1000 Index outperforming the Russell 2000 Index thus far in 2020, up 6.4% versus down 8.7%, respectively.

The wide disparity within the equity markets has been driven by the added tailwind of certain underlying businesses benefiting from the lockdowns as well as the greater financial flexibility that larger companies generally exhibit relative to smaller entities. It is not atypical for larger, more liquid, companies with a faster revenue growth profile to outperform in economic slowdowns. However, as the economy stabilizes and begins its recovery, we would expect a broadening of the market and the actions of the Federal Reserve and Congress seem to point more to the question of when, and not if.

Strategy Commentary

Small Cap Value posted a marginal loss for the quarter, down 1.1%, and is down 15.7% for the year (both gross of fees). [*Net-of-fees returns for the same periods were -1.8% QTD and -17.6% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

The Small Cap strategy posted a marginally down quarter with a very wide dispersion in performance of the underlying holdings, as evidenced by the accompanying table on the next page showing the top and bottom five contributors. Investors clearly remain apprehensive regarding the economy and its impact on specific businesses, which is being reflected in the reaction to news on share prices via sharp responses up or down. Our focus remains on the long-term competitive position and financial strength of each business in the portfolio and that philosophy has not changed for any of the businesses on the table despite near-term headwinds or tailwinds.

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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...

During the quarter, we completed the full position of FARO Technologies, the initial purchase of which was discussed in last quarter's commentary. FARO specializes in the metrology and factory automation industries, and makes laser scanners used for public safety (think measuring crime scenes), manufacturing, and construction. The bottom line is that the company's products can be shown to save its customers money. As we mentioned last quarter, the company is undergoing a management transition and the new CEO has a great track record of streamlining costs, growing revenues, turning businesses around, and providing outsized returns to shareholders. Currently, the stock is trading at a discounted valuation that should help mitigate the downside risk even if the turnaround is not fully achieved.

Our philosophy has always taken a fundamental approach which is focused on understanding a business and what it is worth with a specific goal of identifying competitively advantaged businesses trading at sizable discounts to intrinsic value. The belief is that these types of businesses can not only survive tough economic environments but often enhance their competitive positions. Owning a small but diversified collection of these types of businesses and allowing them to compound at above-average rates over long periods provides the highest probability of generating above-average returns. This process will result in our portfolios over/under-weighting certain areas of the market that either offer more attractive valuations or have superior underlying attributes. Subsequently, our performance in any given time frame will be affected by the market's perception of the value of these individual businesses compared to the broad market. The current environment has created quite the bifurcation, but rest assured we remain committed to implementing our philosophy and sustaining a consistent risk profile that is aligned with investor objectives and risk tolerance.

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

Security	Avg Weight	Contribution
Top 5		
BRP Group, Inc.	4.79	1.87
Morningstar, Inc.	5.06	0.66
Allied Motion Technologies Inc.	3.44	0.53
Brown & Brown, Inc.	4.94	0.52
Avanos Medical, Inc.	4.04	0.48
Bottom 5		
Thermon Group Holdings, Inc.	2.00	(0.50)
Northwest Natural Holding Company	2.82	(0.55)
Frontdoor, Inc.	4.65	(0.59)
Phibro Animal Health Corporation	1.47	(0.59)
i3 Verticals, Inc.	4.04	(0.76)

(Contribution data shown from a sample account)

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10 Largest Holdings (as of 9/30/20)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Cannae Holdings, Inc.	3.42	4.8%
Morningstar, Inc.	6.89	4.6%
BRP Group, Inc.	1.97	4.6%
Frontdoor, Inc.	3.32	4.2%
Avanos Medical, Inc.	1.59	4.2%
Brown & Brown, Inc.	12.80	3.9%
Kadant Inc.	1.26	3.9%
James River Group Holdings, Ltd.	1.36	3.9%
i3 Verticals, Inc.	0.79	3.8%
RE/MAX Holdings, Inc.	0.59	3.7%

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 9/30/20

	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**	11.1%	8.0%	8.5%	8.6%	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*	10.8%	7.7%	8.0%	8.2%	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%	6.9%	7.4%	1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
15-Year*	8.6%	5.4%	7.0%	4.9%	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*	9.9%	6.6%	9.8%	7.1%	1999	(7.1%)	(9.6%)	21.3%	(1.5%)	(28.4%)	745	\$69,869		N/A	N/A	N/A	1.2%
5-Year*	8.2%	5.0%	8.0%	4.1%	2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	\$47,699		N/A	N/A	N/A	1.7%
3-Year*	1.1%	(1.9%)	1.7%	(5.1%)	2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	\$56,254		N/A	N/A	N/A	0.7%
1-Year	(8.9%)	(11.6%)	0.4%	(14.9%)	2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	\$48,944		N/A	N/A	N/A	0.7%
YTD	(15.7%)	(17.6%)	(8.7%)	(21.6%)	2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	\$71,199		15.4%	21.6%	18.4%	0.9%
QTD	(1.1%)	(1.8%)	4.9%	2.6%	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 12/31/2019. 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.