

## Small Cap Value • Value Equity Strategies

Small Cap Value is focused on smaller companies that generally have capitalizations below \$3 billion at the time of purchase. 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

Economist Milton Friedman once said that monetary policy works with a “long and variable lag,” and in 2023 the markets are living Friedman’s observation every day.

The equity markets have been choppy through the first three quarters of 2023. One might recall that we entered the year with lots of uncertainty surrounding the surge in inflation witnessed in 2021-2022 along with questions of whether it would persist. There were also elevated concerns of whether the economy was heading into a recession. During the first half of the year, inflation declined and the economy remained resilient, both of which provided the backdrop for a rebound in stocks following a tumultuous 2022. And although inflation has declined, it remains elevated and above the Fed’s target, while concerns about the economy still linger. This unevenness was on display in the third quarter as July and early August were positive based on assumptions of a soft landing (no recession and inflation in check), but that posture was questioned in the back half of the quarter as the equity markets pulled back in late August and September.

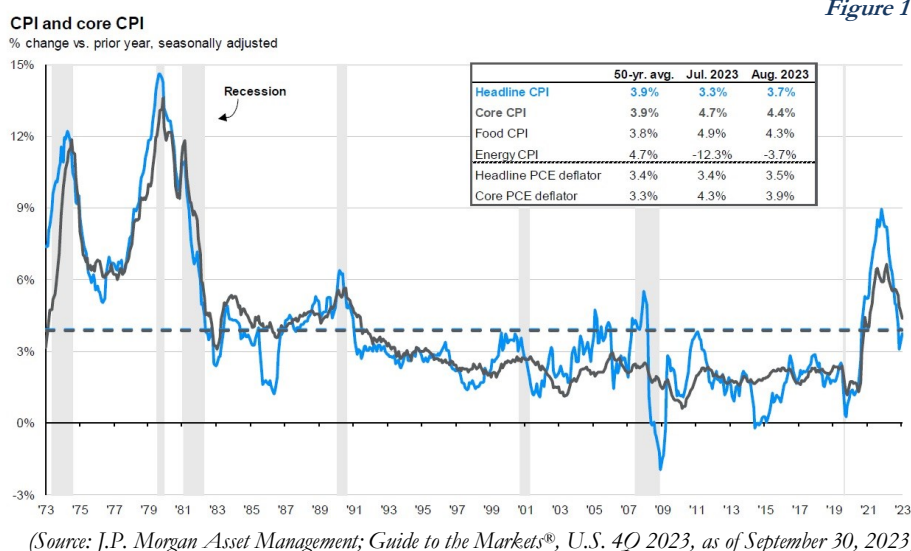


Figure 1

Inflation and interest rates have remained the focal point, with the Fed aggressively raising the Fed funds rate from 0% in early 2022 to 5.5% by July 2023 to combat inflation. While the pace of increases has slowed in 2023, the structure of rates has risen across the board. However, the rise was sharpest on the short end of the curve in the first half of 2023, while the longer end remained relatively stable as the three-month T-bill increased 101 bps, from 4.42% to 5.43%, yet the 10-year Treasury increased only 13 bps, from 3.62% to 3.75% (see Figure 2). This trend switched in the third quarter with the longer end of the curve rising while the short end stabilized as the three-month T-bill increased 12 bps, from 5.43% to 5.55%, yet the 10-year Treasury increased 63 bps, from 3.75% to 4.38%. In essence, the yield curve is beginning to flatten. The rise in longer-term rates was likely driven by a shift in the perception that inflation may be stickier than expected and the Fed may need to keep rates higher for longer. This, of course, put pressure on longer-term securities such as equities and long-dated bonds.

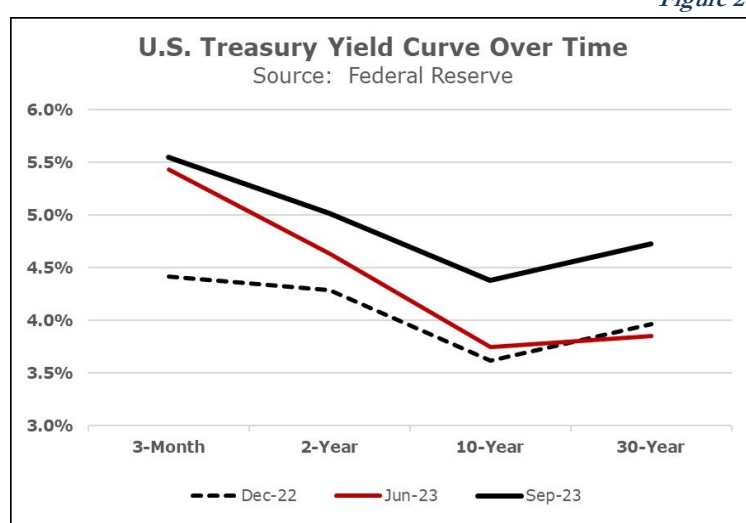
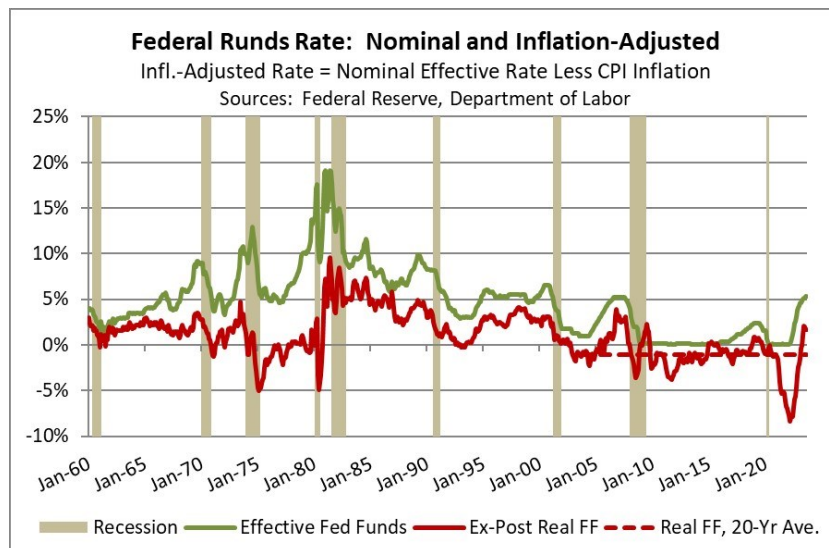


Figure 2

### Market Commentary continued...

Nominal interest rates are now back to levels prior to the Global Financial Crisis of 2008-09 and real interest rates are firmly in positive territory (i.e., nominal interest rates higher than inflation). The market is revealing that the anomaly may have been the past 15-year period of negative real interest rates on the back of excessive stimulus, such as Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE). We are now back to positive real interest rates, the historical norm, which investors have not experienced for 15 years. This chart (*Figure 3*) from the Confluence macroeconomic team shows real rates dating back to the 1960s.

Figure 3



For the equity markets, the rise in longer-term rates during the quarter put downward pressure on stocks, with little discrimination across market capitalization, style, or region. The broad equity markets marked by the S&P 500 Index were down 3.27%, with little difference between Growth and Value as the Russell 3000 Growth and Russell 3000 Value indexes were also down 3.34% and 3.15%, respectively. Small cap stocks also posted negative returns, with the Russell 2000 Index down 5.13%, as did international equities, with the MSCI World ex-U.S. Index down 4.10%. Looking at sector performance, all but Energy and Communication Services posted a negative third quarter with the interest rate-sensitive sectors of Utilities and Real Estate faring the worst, both down a little over 9%. On a year-to-date basis, the outsized strength of the “Magnificent 7” (M7) mega-caps (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla) to start the year is still skewing the returns of the S&P 500, up 13.06%, and the sectors in which they reside (Consumer Discretionary–Amazon and Tesla; Technology–Apple, Microsoft, and NVIDIA; Communication Services–Alphabet and Meta), as well as the Russell 1000 Growth, up 24.98%. Meanwhile, the S&P 500 Equal Weight Index was up only 1.79% year-to-date, in line with the year-to-date returns of the Russell 1000 Value, up 1.79%, and the Russell 2000, up 2.54%.

Figure 4

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
<b>S&amp;P weight</b>	4.7%	2.4%	12.8%	8.3%	10.7%	27.5%	8.9%	2.4%	13.4%	6.6%	2.4%	100.0%
<b>Russell Growth weight</b>	0.6%	0.7%	6.6%	6.0%	16.0%	42.1%	11.6%	0.9%	11.3%	4.3%	0.0%	100.0%
<b>Russell Value weight</b>	9.1%	4.8%	20.6%	13.2%	5.0%	9.1%	5.0%	4.7%	15.3%	8.3%	4.9%	100.0%
<b>Russell 2000 weight</b>	8.5%	4.6%	16.1%	17.1%	10.6%	13.3%	2.4%	6.1%	14.9%	3.6%	2.9%	100.0%
<b>QTD</b>	12.2%	-4.8%	-1.1%	-5.2%	-4.8%	-5.6%	3.1%	-9.5%	-2.7%	-6.0%	-9.2%	-3.3%
<b>YTD</b>	6.0%	2.6%	-1.6%	4.5%	26.7%	34.7%	40.4%	-8.1%	-4.1%	-4.8%	-14.4%	13.1%

(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 4Q 2023, as of September 30, 2023)

The lingering concerns around inflation and recession have been swirling since early 2023 and are not likely to be resolved any time soon. This apprehension will tend to result in swings between optimism of soft landings and pessimism of hard landings, with these bouts causing continued choppiness for investors. The optimist can lean on the fiscal policies that are providing a tailwind for the economy, which are large spending programs such as the Infrastructure Bill, Inflation Reduction Act, and the CHIPS Act (Creating Helpful Incentives to Produce Semiconductors) as well as the strong labor market. The pessimist can point to the headwinds the economy is facing, such as higher rates, oil prices, the return of student loan payments, and inflation. We don't consider ourselves prognosticators in calling markets over the near-term, but the return of real rates should be welcome to savers. It should also place the importance of risk management and fundamentals closer to the forefront for investors as we navigate an environment that is no longer awash with easy money (ZIRP and QE).

## Strategy Commentary

Equity markets faced a sell-off during the second half of the third quarter as concerns of interest rates remaining higher for longer began to gain more traction, which pushed up yields on the longer end of the yield curve (10- to 30-year) and weighed on stocks. The only sector to buck the trend was Energy, which posted double-digit returns, as the geopolitical backdrop helped lift oil prices which benefited small capitalization energy stocks. The only other sector in small caps to show a positive gain was Financials, which was up marginally, while the remaining sectors saw negative returns with Health Care and Utilities posting low double-digit losses.

The small cap equity markets posted negative results for the quarter, with the Russell 2000 and Russell 2000 Value indexes down 5.1% and 3.0%, respectively, bringing their year-to-date returns to 2.5% for the Russell 2000 and -0.6% for the Russell 2000 Value. The Confluence Small Cap Value strategy did not escape the sell off as it declined 6.6% during the quarter and is down 1.5% year-to-date (both gross of fees). *[The strategy's net-of-fees returns for the same periods were -7.3% QTD and -3.7% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

As we have discussed in prior quarters, small cap businesses have not performed as well as their large cap brethren over the last few years. The past decades of easy monetary policy—Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE)—when rates were held on the floor and the Federal Reserve's balance sheet swelled, were intended to spark more risk taking. Thus, it should be no surprise that the result was less prudent allocations of capital. This is very apparent in the small cap and venture capital/early-stage equity environment in which unprofitable businesses were able to continue attracting capital despite not producing earnings. These unprofitable entities, or “zombie” companies, have risen more than twofold in the small cap market as their percentage of the overall market has grown from the low-20s to mid-40s (Figure 5). Meanwhile, the venture capital or early-stage funding markets have produced an outsized number of unicorns (companies valued at over \$1 billion) that are not generating sufficient cash flow.

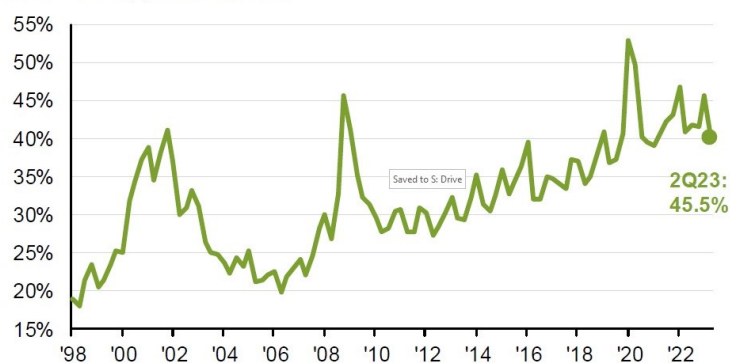
The increase in rates, and return to positive real rates, will likely bring more prudent capital allocation which should pressure zombie company funding at a point when small caps offer historically compelling valuations. As the next chart shows (Figure 6), small caps are also trading at relative lows to their large cap brethren.

The detractors to Small Cap Value during the quarter included the announcement of a poorly constructed acquisition from Forward Air (FWRD), which managed to bypass a shareholder vote, as well as the underweighting in Energy. With regard to Energy, our value equity investment philosophy focuses on competitively advantaged businesses that possess pricing power which can generate above-average returns on invested capital over prolonged periods. This approach often steers away from highly regulated or commodity-oriented industries, such as Energy, which hinders their pricing power and long-term returns on capital. Thus, the strategy has historically had less exposure to Energy outside the businesses that serve a niche market, such as current holding Core Labs (CLB).

Regarding Forward Air, it was a holding for 20+ years in Small Cap Value as the company possessed a strong competitive position in its core business—less-than-truckload shipments carried between airport locations—which produced attractive returns on capital and was guided by good stewards for shareholder value. That rationale was changed, overwhelmingly, by the decision announced this quarter that Forward Air would merge with privately held Omni Logistics. Not only would the acquisition shrink the portion of the business we favored, but Omni is a large customer of Forward Air and is therefore a considerable competitor to many of the company's other customers. In addition to the business logic issues, we were appalled by the structure of the deal. The implied price for adding Omni to Forward Air at the time the deal was announced was approximately \$3.2 billion, a big bite for a company whose market capitalization at the time was roughly \$2.8 billion. The structure utilized a significant amount of debt and a substantial stake of the combined entity through the liberal use of the company's own common stock. Importantly, the deal was structured in such a way as to bypass a shareholder vote relating to the initial issuance of common shares.

Figure 5

**Percent of unprofitable companies in the Russell 2000**  
1Q98 – 2Q23, pro-forma EPS



(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 4Q 2023, as of September 30, 2023)

Figure 6

**Market Cap of R2000/Market Cap of R1000 Coming Off Historic Lows**



(Source: Kailash Capital)



### Strategy Commentary continued...

Forward Air's management believes that the company's next logical step is to grow and do so quickly through the mechanism of this acquisition. They may be right. However, we do not believe they are right to pursue that new ambition on the backs of their existing shareholders, especially without their agreement. Ultimately, while each element discussed here is important, and each was analyzed and discussed with equal levels of urgency, in the end we no longer had confidence that Forward Air's management and its philosophy toward its shareholders were properly aligned.

The recent economic backdrop in the small cap markets has created many opportunities and we have been busy capitalizing on the situation to improve the quality of the portfolio. Since late 2022, we have added six new names (Hagerty, Stewart Information Services, John B. Sanfilippo & Son, Cavco Industries, Ecovyst, and Tripadvisor), and we are also in the initial stages of building two new positions. The team remains committed to vetting additional ideas and we anticipate further opportunities for the portfolio.

One of the more recent purchases was Tripadvisor, Inc. (TRIP), which operates the world's largest travel guidance website, Tripadvisor.com, and has established itself as an indispensable content destination for travelers. Tripadvisor.com has consistently been one of the most popular travel and tourism websites in the U.S., with over 1 billion reviews for hotels and attractions generated from 400 million average monthly unique users. This well-respected global brand generates attractive profitability and solid free cash flows. Additionally, TRIP owns Viator, a pureplay online travel agency for the local attractions, tours, and activities marketplace. Viator is the market leader in a highly fragmented market with numerous small operators rapidly converting from offline to online (today, only ~20% are online). We believe Viator is well positioned to dominate this industry as it has the largest supply of bookable activities on its platform and a large audience on its Tripadvisor website to cross-sell, with a long runway for top- and bottom-line growth. Next year, Viator could be the most significant contributor to the company's revenues. Investors' myopic focus on the core Tripadvisor business has given us a compelling opportunity to own a profitable, growing, unleveraged business at a considerable discount to our estimate of intrinsic value. A sum-of-the-parts analysis shows that the core Tripadvisor business is valued at near-zero, with Viator and the company's solid balance sheet providing good value.

John B. Sanfilippo and Son, Inc. (JBSS), another recent addition, produces domestic snack and recipe nuts sold to the retail, food service, and commercial markets. JBSS offers branded solutions through its Fisher® and Orchard Valley Harvest™ labels, as well as a full suite of private label nuts and snack mixes. Industry consolidation over the past few years has driven the market to become a virtual oligopoly, in which JBSS maintains a leading position. JBSS consistently generates high returns on capital and strong free cash flow, a portion of which is dedicated to an annual common dividend and frequent special dividends. The JBSS business model continues to migrate more toward branded products that offer attractive investment opportunities. Trail and snack mixes now account for nearly 30% of revenue, up from only 11% in 2014. The company is steadily becoming more of a branded consumer snack business, rather than a commodity nut business, but thus far the company's valuation has not yet reflected this transformation.

Another recent purchase in the portfolio is Ecovyst (ECVT), a provider of specialty catalysts as well as services and sales tied to the provision of sulfuric acid used in various refinery, mining, and industrial processes. The business is primarily centered on helping companies produce fuels that meet stringent performance and regulatory emissions standards and also supplies catalysts used in the production of polyethylene and nylon as well as in mineral mining processes. By management's estimate, Ecovyst is either the #1 or #2 U.S. market share leader for products in each of its segments (Ecoservices and Catalyst Technologies), which generate 90% of sales. Ecovyst's products are critical to customers' end-product performance, yet they typically represent only a small portion of customers' overall end-product costs. Hence, the product pricing is rarely a factor in winning business. Instead, the company relies on its collaborative relationships with long-standing customers and its reputation for quality and reliability in both product performance and supply. We expect ECVT to show considerable stability in profit margins as its sales contracts typically include cost pass-through clauses. Last year, contracts with an indexed pass-through clause—minimally capturing labor, energy, and freight costs, with price adjustments made quarterly—accounted for 83% of the revenues generated in the company's core Ecoservices business. Moreover, contracts for the Ecoservices business are typically multi-year in length and include minimum take-or-pay volume provisions. While such structured contracts are not as ubiquitous in the Catalyst Technologies segment, the company is typically either the sole or dual supplier of offerings for which the availability of supply necessarily far outranks the relatively small price paid, from the customers' perspective. Hence, price increases in the Catalyst Technologies business segment tend to stick.

### Outlook

Going forward, the markets are still contending with elevated inflation that persists at levels well above the Fed's target, and while the economy remains resilient, there are continued concerns of an ensuing recession. Our crystal ball is filled with the muddy waters of the Mississippi so we refrain from speculating on whether there will be a hard or soft landing, although we find that when the calls get louder for one or the other it tends to indicate that something different will occur. More importantly, the return to positive real interest rates will result in businesses and investors sharpening their focus on the real cost of capital, which requires greater discernment in risk analysis. At Confluence, we remain committed to our philosophy that focuses on managing risk, not returns, with an emphasis on owning competitively advantaged, quality businesses trading at attractive valuations with a long-term investment horizon.

## Small Cap Value • Value Equity Strategies

### Contribution<sup>1</sup>

(YTD as of 9/30/2023)

The top contributors and detractors for the portfolio thus far in 2023 are shown in this table:

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Azek Co. Inc.	4.36	1.50
Hayward Holdings Inc.	3.26	1.22
Spectrum Brands Holdings Inc.	4.18	1.13
Frontdoor Inc.	Sold	0.80
Kadant Inc.	3.05	0.71
<b>Bottom 5</b>		
Bank of Marin BanCorp	Sold	(0.62)
Veritex Holdings Inc.	Sold	(0.79)
FARO Technologies Inc.	Sold	(0.81)
SJW Group	3.83	(1.03)
Forward Air Corp.	Sold	(1.35)

### Performance Composite Returns<sup>2</sup> (For Periods Ending September 30, 2023)

	Since Inception**	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
<b>Small Cap Value</b>										
Pure Gross-of-Fees <sup>3</sup>	10.6%	9.9%	9.4%	9.0%	6.9%	0.5%	6.1%	8.4%	(1.5%)	(6.6%)
Max Net-of-Fees <sup>4</sup>	7.4%	6.7%	6.3%	5.7%	3.8%	(2.5%)	2.9%	5.1%	(3.7%)	(7.3%)
<b>Russell 2000</b>	8.4%	8.0%	8.1%	8.1%	6.6%	2.4%	7.1%	8.9%	2.5%	(5.1%)
<b>Russell 2000 Value</b>	9.1%	8.3%	7.7%	7.1%	6.2%	2.5%	13.3%	7.8%	(0.6%)	(3.0%)

Calendar Year	Pure Gross-of-Fees <sup>3</sup>	Max Net-of-Fees <sup>4</sup>	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
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%
1996	20.7%	17.4%	16.5%	21.4%	4.2%	249	\$39,188		N/A	N/A	N/A	1.0%
1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	(1.6%)	1,080	\$111,513		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%
2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	\$47,699		N/A	N/A	N/A	1.7%
2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	\$56,254		N/A	N/A	N/A	0.7%
2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	\$48,944		N/A	N/A	N/A	0.7%
2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	\$71,199		15.4%	21.6%	18.4%	0.9%
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%
2020	4.5%	1.4%	19.9%	4.6%	(15.4%)	400	\$122,151	\$6,889,798	21.6%	25.3%	26.1%	1.5%
2021	16.9%	13.4%	14.8%	28.2%	2.1%	378	\$124,263	\$7,761,687	20.2%	23.3%	25.0%	1.3%
2022	(16.3%)	(18.8%)	(20.5%)	(14.5%)	4.1%	361	\$98,842	\$6,931,635	21.6%	26.0%	27.3%	0.5%

\*Average annualized returns

\*\*Inception is 10/1/1994

See performance disclosures on last page.

### 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 Value Equities Investment Committee

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## Disclosures

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

**<sup>1</sup>Contribution**—Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings.

**<sup>2</sup>Performance Composite Returns**—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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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.

<sup>3</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>4</sup> 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. 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 \$3 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.

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