Confluence INVESTMENT MANAGEMENT

FOURTH QUARTER 2023

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

A late-year rally in 2023 produced the bulk of the outsized returns for equity markets following a very tumultuous 2022. The year began with continued concerns regarding both inflation and how the Federal Reserve's aggressive tightening actions would impact the economy. The impact was not clear amongst investors, however, as divergent paths became apparent in the fixed income and equity markets. A sharply inverted yield curve implied fixed income investors were concerned about a recession, while the equity markets had a more optimistic view of the economy following a strong Q4 in 2022 and expectations of earnings growth in 2023. Given these crosscurrents, and coupled with the Fed's continued rate increases in 2023, equity returns were unable to gain traction for most of the year, fluctuating between positive and negative. It was not until late October when the Fed gave a clear signal that rate hikes had likely peaked with rate cuts more probable in 2024, which provided the spark that led to strong rallies in financial assets. From the lows in late October, the 10-year Treasury rallied from a yield of approximately 5% to under 4% and equities were up in the mid-teens, with the S&P 500 up 16%, the S&P 500 Equal Weight up 18%, and the Russell 2000 up 24% during this period. Those returns during the quarter led to a solid year, with the S&P 500 up 26%, the S&P 500 Equal Weight up 14%, and the Russell 2000 up 17% for 2023.

The strong returns of 2023 helped to recoup much of the losses from 2022, leaving many of the large cap indexes essentially flat for the past couple of years, with the S&P 500 up 3% and the S&P 500 Equal Weight up 1%, whereas the small cap Russell 2000 is down 7% since the end of 2021. So, why the contrast between 2022 and 2023 when the economy avoided a recession? While 2022 may have sidestepped an official recession, there were factors at play that typically lead to or indicate recessions, such as: real incomes declined which eroded confidence following the sharp inflationary spike driven by stimulus demand; manufacturing and transport experienced normalization in 2022 following strong demand for goods over services in the prior year; housing and commercial real estate stalled due to the spike in rates; and mega-cap tech saw a sharp pullback as we witnessed a collapse in speculative IPOs, SPACs, meme stocks, and early stage and/or unprofitable businesses. Despite these headwinds, the economy continued to grow and employment remained strong, with unemployment staying below 4%. Many of these headwinds have now subsided or have shifted to tailwinds, allowing the Fed to pause on hikes and begin to contemplate cuts in 2024, which provided support for financial assets.

While equity returns were strong, the breadth was narrow. This is evidenced by the return difference between the equally weighted and market cap-weighted S&P 500 indexes at 14% versus 26%, respectively. Moreover, the S&P 500 ended the year at $41.7 trillion market cap, up $8.2 trillion, and $5.0 trillion of that growth came from the mega-cap tech businesses, primarily the Magnificent 7 (M7), which posted a cumulative 73% return. Hence, approximately two-thirds of the index's return came from just seven names, while the remaining 493 businesses contributed the remaining $3.2 trillion in market cap growth.

The dominance of the M7 is also reflected when looking at the sector contributions as Communication Services (GOOG, META), Technology (AAPL, MSFT, NVDA), and Consumer Discretionary (AMZN, TSLA) trounced all the other sectors (see table, *Figure 1*). It also shows that two of the defensive sectors, Consumer Staples and Utilities, were flat to negative. Energy was the only other sector to post a loss following a stellar 2022, when it returned over 60%.

Figure 1 **Returns and Valuations by Sector**

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
S&P weight	3.9%	2.4%	13.0%	8.8%	10.9%	28.9%	8.6%	2.5%	12.6%	6.2%	2.3%	100.0%
Russell Growth weight	0.5%	0.7%	6.4%	5.9%	15.8%	43.5%	11.4%	0.9%	10.6%	4.1%	0.1%	100.0%
Russell Value weight	7.8%	4.9%	21.8%	13.9%	5.2%	9.5%	4.7%	5.0%	14.6%	7.9%	4.8%	100.0%
Russell 2000 weight	6.9%	4.5%	17.1%	17.0%	11.0%	13.6%	2.3%	6.2%	15.4%	3.4%	2.7%	100.0%
4Q23	-6.9	9.7	14.0	13.1	12.4	17.2	11.0	18.8	6.4	5.5	8.6	11.7
2023	-1.3	12.5	12.1	18.1	42.4	57.8	55.8	12.3	2.1	0.5	-7.1	26.3

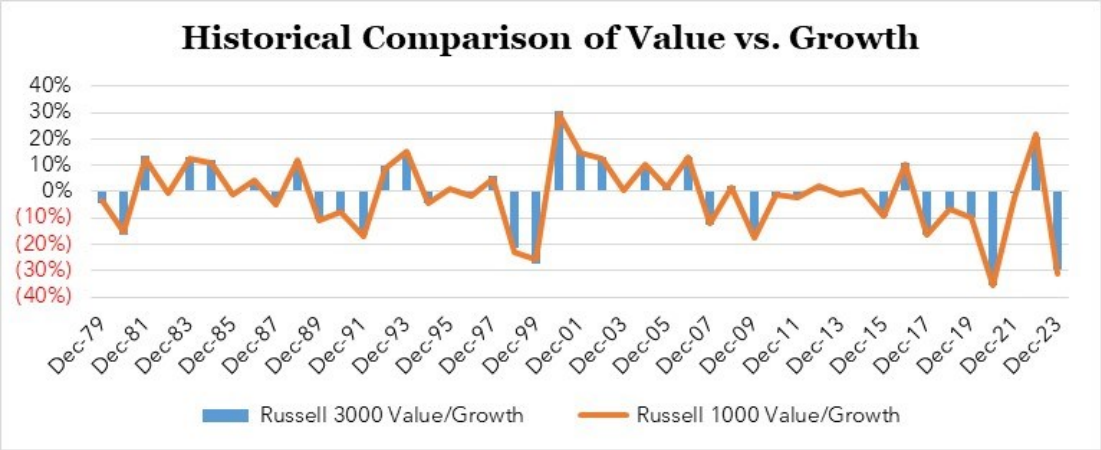
See GIPS Report on pages 5-6.

(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 1Q 2024, as of December 31, 2023)

Market Commentary continued...

It is worth noting that the M7 were the driving force behind the outperformance of large caps over small caps as well as the Growth style trouncing Value by one of the widest historical margins (see *Figure 2*).

Figure 2

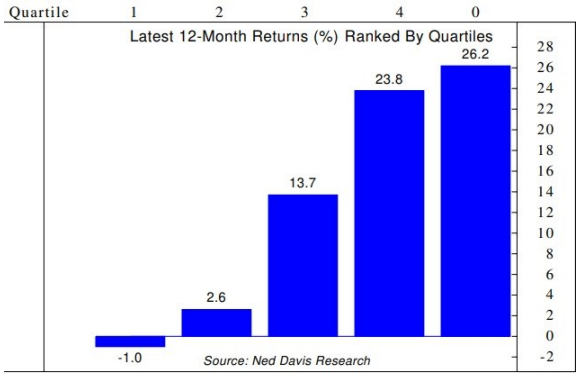


(Sources: Confluence, FactSet)

It is also worth highlighting the impact of the M7 on the dividend segment of the market as the M7 pay little to no dividends, except MSFT and AAPL. There was a clear benefit to the non-paying and lower dividend-yielding businesses as reflected in the following chart showing the S&P 500 returns ranked by yield quartile from Ned Davis Research (*Figure 3*), where higher-yielding quartiles are dramatically lagging the low-paying or non-paying quartiles. Their impact can also be seen when we look at dividend growers versus non-payers (see table, *Figure 4*) as companies that grow their dividends have lagged the non-paying dividend stocks.

Figure 3

S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield)



*Actual Historical Constituents. *Returns through 12/31/2023*

Highest yielding in Quartile 1 and lowest in Quartile 4; Non-dividend-payers are in Quartile 0

Figure 4

Returns of S&P 500 Stocks by Dividend Policy

Portfolio Performance Statistics *Analysis Dates: 12/31/2022 to 12/31/2023*		
Portfolio	**Gain/Annum %**	**Growth of $100**
Dividend Growers & Initiators	8.1%	$108.09
All Dividend-Paying Stocks	8.6%	$108.64
Dividend Payers w/No Change in Dividends	14.2%	$114.22
Dividend Cutters & Eliminators	(1.9%)	$98.10
Non-Dividend Paying Stocks	21.6%	$121.58

Returns based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly.

(Sources, Figures 3 and 4: Ned Davis Research)

Is It Different This Time?

The M7 have driven the broad indexes for the better part of the past seven years, so what causes a rotation? We have addressed this issue in a special *Value Equity Insights* report that offers some perspective on the bifurcation that has occurred in the current market along with historical context in order to help investors navigate the investment landscape more safely.

Outlook

As the Fed pauses and contemplates a shift toward more accommodative policy, the equity markets have rallied on the anticipation that this will result in a soft landing and continued earnings growth. The late-year rally was much broader in breadth than earlier moves and elicits the prospect that the market could broaden further should the economy continue to expand. Of course, 2024 brings with it many uncertainties from elections here and abroad to many simmering geopolitical hotspots, such as the conflicts in Ukraine and the Middle East and China's overtures toward Taiwan, all of which may incite events that impact the financial markets. Meanwhile, the domestic economy has been able to weather the recent spike in inflation and the ensuing monetary tightening without the typical rise in unemployment and ultimate recession, which may or may not continue in 2024. History has shown that uncertainties always abound, which is why it is important to remain steadfast in your investment discipline — something the team at Confluence has been doing for three decades. We remain committed to our philosophy of focusing on fundamentals and valuations as our emphasis is on identifying competitively advantaged businesses trading at attractive valuations.

Strategy Commentary

Small capitalization stocks had an early Santa Claus rally starting in late October that made for a stellar fourth quarter and lifted returns for the full year. The rally was sparked by the Federal Reserve signaling a pause in its rate hikes with a likely easing in 2024, which helped the much-battered small caps rally off their lows in late October and allowed the Russell 2000 Indexes, both Growth and Value, to rise approximately 23%. The rally pushed the Russell 2000 up 14.0% for the quarter and 16.9% for the year, while the Russell 2000 Value was also up 15.2% and 14.6%, respectively, over the same time periods.

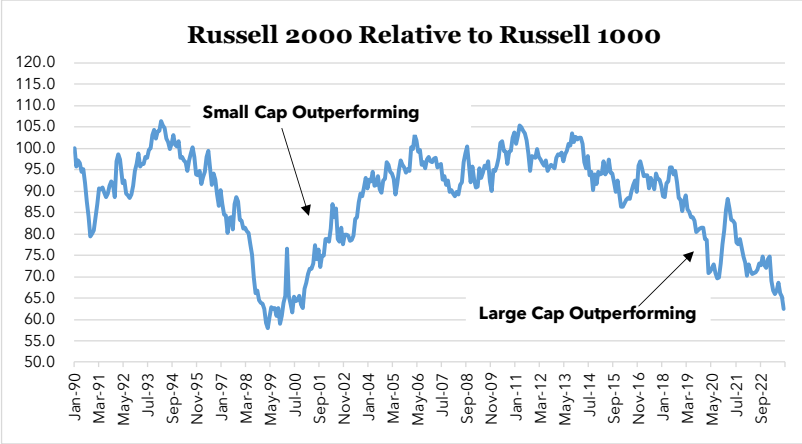
2023 marks yet another year in which small caps have taken a backseat to their large cap brethren as the mega-cap technology businesses have received an abundance of attention (see *Figure* 5). It is also worth mentioning that the excess liquidity put in the system since the Great Financial Crisis of 2008-09 has aided the survival of a larger number of unprofitable, or zombie, businesses than usual, up from a low of 20% to mid-40% (see *Figure 6*). This seems to have deterred the prudent allocation of capital, which presents challenges for competitors seeking returns on capital.

The decade-plus of easy monetary policy has shifted the past couple of years as the fed funds rate has risen from 0% to 5.25-5.50% and the Fed began reducing its balance sheet (Quantitative Tightening, or QT). Interestingly, easy monetary policy has tended to favor large caps relative to small caps, yet despite the shift in policy small cap valuations remain very compelling relative to large caps (see *Figure 7*). In fact, the relative valuation spread is at levels last witnessed during the tech bubble of the late 1990s.

The Confluence Small Cap Value strategy also had a positive fourth quarter, up 7.4% (gross of fees), but it lagged the Russell 2000 and Russell 2000 Value, which were up 14.0% and 15.2%, respectively, as noted above. This led to a full-year gain of 5.7% (gross of fees) for the strategy, which also lagged the Russell 20000 and Russell 2000 Value full-year returns of 16.9% and 14.6%, respectively. [*The strategy's net-of-fees returns for the same periods were 6.6% QTD and 2.6% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

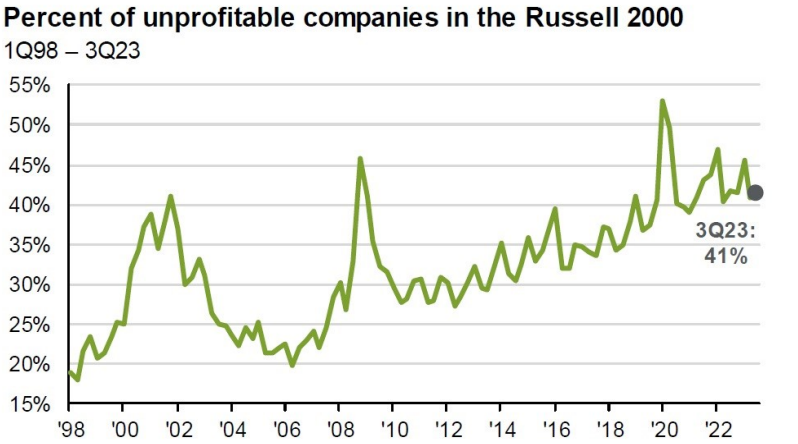
The bulk of the strategy's underperformance for the fourth quarter was during a period that marked the fastest turnaround for the Russell 2000 from its 52-week low to a 52-week high. Our strategy typically doesn't perform relatively well during these massive beta-driven rallies. More specifically, the underperformance can be attributed to the sharp rally in Financials, specifically banks, in which we were underweight, as well as from weakness in a few holdings during Q4 (Core Labs, American Outdoor Brands, and RE/MAX). While the banks rallied due to the drop in interest rates, many still carry large unrealized losses on their investment securities — primarily mortgage-backed securities — and face the headwinds of refinancing their commercial real estate portfolios over the ensuing years. Core Laboratories (CLB) provides geological data to the oil industry and declined with the Energy sector. RE/MAX Holdings (RMAX) was sold during the quarter as the challenges of the industry-wide agent commission model faced further legal scrutiny amidst a slowdown in the housing market. Lastly, American Outdoor Brands (AOUT) came under selling pressure despite no fundamental concerns, and thus the weakness was likely due to tax-loss selling.

Figure 5



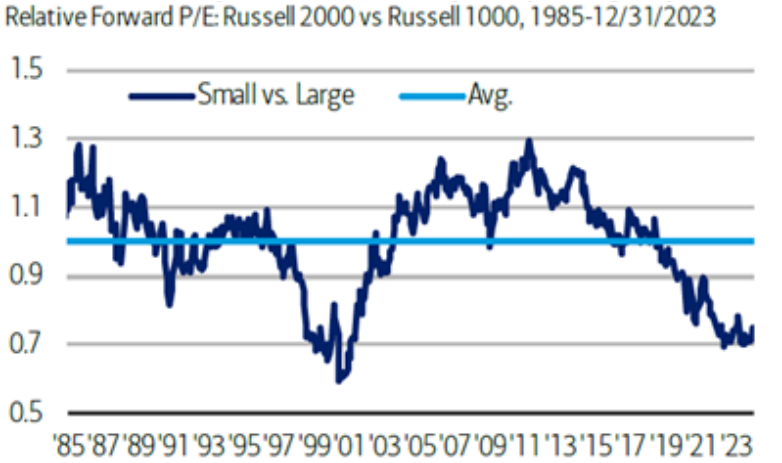
(Sources: Confluence, FactSet)

Figure 6



(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 1Q 2024, as of December 31, 2023)

Figure 7



Strategy Commentary continued...

Overall, it was a challenging year for the Small Cap Value strategy, which was exemplified by one of our longest holdings of 20+ years, Forward Air Corp. (FWRD). In July, management decided to make a transformational acquisition but did so in a manner that intentionally bypassed a shareholder vote. The deal involved taking on excessive debt and massive shareholder dilution for a business that competes with the company's own customers. It was one of the most egregious transactions we have experienced and was out of character for an entity that had compounded at +10% per year by focusing on its niche and operational excellence. The shares responded accordingly, dropping sharply, and we made the decision to sell our position given the lack of consideration for shareholders. While still a long-term gain from the original purchase, the compounding was cut by a few percentage points.

Adding insult to injury, we also had two CEOs abruptly quit after very short tenures: Frontdoor (FTDR) and FARO Technologies (FARO). At FARO, the CEO was brought in after having turned around other businesses with success, and he had recently spoken to us about his plans prior to his unexpected departure. At Frontdoor, the CEO had an extensive background in Silicon Valley and was set to optimize the extensive data that was under-utilized and under-invested prior to Frontdoor being spun out of Service Master. The abrupt change in leadership led to the sale of Frontdoor.

There were also solid performers from a handful of names and specifically from a couple of new additions: AZEK Company (AZEK) and Stewart Information Services (STC). AZEK manufactures composite decking and has managed the past couple of years exceptionally well given the lockdowns and reopening backdrop. The company has positioned itself to excel in the fast-growing composite decking market. Stewart is a title insurer operating in an oligopolistic market and has recently brought in a new CEO who is an insurance veteran. He seeks to streamline operations to enhance margins and cash flow.

Over the past 18 months, we have taken advantage of the opportunities being presented in the small cap space to better position the portfolio going forward. As such, we have added 11 new holdings during the past 18 months (AZEK, STC, SPB, WGO, HAYW, TRIP, CVCO, GTES, UFPT, JJSF, and ECVT), which is above our norm, and we also have a handful on deck waiting for appropriate valuations.

Outlook

The past few years have been challenging for small cap investors as well as our Small Cap Value strategy. Small caps seemed to be on the end of a whip as investors grappled with the rapidly changing environment, including the COVID lockdowns and subsequent reopening, the influx of liquidity, the inflationary spike, the Fed's aggressive tightening, and now the Fed's intent to pause and possibly cut rates in early 2024. The rotation has been swift as sentiment swayed from optimism to fear early in the pandemic with an ensuing flock to safety followed by a relief rally. Then the influx of liquidity provided the path for a mad dash to meme and Reddit-driven stocks, which was followed by the strength in commodities/energy and fears of recession. Now, there is a belief that a soft landing is possible as the Fed pauses and investors expect cuts in 2024.

It has been a trying time, and especially so for disciplined investors, but it is within the character of smaller businesses to be more susceptible to economic and sentiment swings. We also experienced sharp rotations in the late 1990s that were not too dissimilar to the current environment, and we were able to manage through that tough period by staying disciplined. As discussed in prior commentaries, the return to positive real interest rates should result in businesses and investors sharpening their focus on the real cost of capital, which requires greater discernment in risk analysis. Our philosophy has always been focused on managing risk, defined by Confluence as the *probability of a permanent loss of capital*, which has historically produced solid downside protection and lower volatility for our strategies. This process is centered on fundamental analysis that emphasizes owning competitively advantaged, quality businesses trading at attractive valuations with a long-term investment horizon.

Contribution[1]

(YTD as of 12/31/2023)

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

Security	Avg Weight (%)	Contribution (%)
Top 5		
Azek Co. Inc.	4.09	2.38
RBC Bearings Inc.	4.48	1.52
Kadant Inc.	3.13	1.51
Stewart Information Services	3.07	1.40
Morningstar Inc.	3.34	1.28
Bottom 5		
SJW Group	3.75	(0.72)
Veritex Holdings Inc.	*Sold*	(0.82)
FARO Technologies Inc.	*Sold*	(0.84)
RE/MAX Holdings Inc.	*Sold*	(0.87)
Forward Air Corp.	*Sold*	(1.40)

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

Performance Composite Returns[2] (For Periods Ending December 31, 2023)

	Since Inception**	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Small Cap Value *Pure Gross-of-Fees[3]*	10.8%	9.5%	9.1%	10.9%	7.1%	6.5%	1.1%	5.7%	5.7%	7.4%
Max Net-of-Fees[4]	7.6%	6.4%	6.0%	7.6%	4.0%	3.4%	(1.9%)	2.6%	2.6%	6.6%
Russell 2000	8.8%	7.9%	8.1%	11.3%	7.1%	9.9%	2.2%	16.9%	16.9%	14.0%
Russell 2000 Value	9.5%	8.6%	7.7%	10.2%	6.7%	10.0%	7.9%	14.6%	14.6%	15.2%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	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%
2023	5.7%	2.6%	16.9%	14.6%	(11.1%)	277	$75,681	$7,200,019	18.2%	21.1%	21.8%	0.9%

**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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Daniel Winter, CFA	Tore Stole	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA

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See Territory Map on the Confluence website for sales coverage.

Disclosures

Market & Strategy Commentary—*Figure* 7: Reprinted by permission. Copyright © 2024 Bank of America Corporation ("BAC"). The use of this chart in no way implies that BAC or any of its affiliates endorses the views or interpretation or the use of such information or acts as any endorsement of the use of such information. The information is provided "as is" and none of BAC or any of its affiliates warrants the accuracy or completeness of the information.

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All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance & liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk & may decline in value due to adverse company, industry or general economic conditions. There can be no assurance that any investment objective will be achieved.

Indexes: 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.

[1] **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.

[2] **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 incepted 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.

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

[4] 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.

The investment strategies described herein are those of Confluence Investment Management. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Confluence materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.