

**Portfolio Objective:** The Small Cap Value portfolio is focused on small-cap companies. The portfolio's investment objective is capital appreciation.

**Portfolio Overview**

The Small Cap Value portfolio is focused on businesses that generally have market capitalizations below \$3 billion. Stocks are selected through our own independent research, evaluating the fundamentals of individual companies. The portfolio positions include companies with sustainable competitive advantages, often derived from unique products and services in niche industries. Stocks are purchased when trading at 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. Because small cap stocks are generally more volatile than large cap stocks, the Small Cap Value portfolio is suitable for clients whose primary objective is capital appreciation.

**Investment Process**

Confluence's investment philosophy seeks to identify companies that have the ability to generate high levels of cash flow through a business model that maintains a competitive advantage over time. These advantages may include strong brand names, highly differentiated services or products, dominant market share, flexible pricing power, protected technology or specialized industrial skills sets. Confluence looks for management teams with proven track records of value-enhancing capital allocation decisions.

Confluence defines risk as the probability of a permanent loss of capital. To protect against this risk, we invest in quality businesses at attractive valuations diversified across a variety of market sectors. This discipline helps to protect against losses, while enhancing upside potential. Over time, we believe that this approach positions the portfolio to deliver superior risk-adjusted returns.

**Security Selection – "Great Companies"**

- Suitable companies possess substantial competitive advantages which are reflected in their ability to maintain pricing power and generate high returns on capital.
- These companies generate more cash than needed to sustain their market-dominant position.
- The businesses are led by management teams that have proven ability to allocate capital and whose interests are aligned with shareholders via inside ownership.
- These businesses are purchased only when trading at significant discounts to our estimates of fair value. This "buy limit" discipline may at times result in higher than usual cash balances at the inception of a new account.

**Sell Discipline**

To help preserve capital, portfolio positions are continually reviewed. A company's stock may be sold if:

- The share price reaches or exceeds our estimate of full valuation.
- More attractive opportunities are identified.
- The company's fundamentals deteriorate.

**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. Our investment philosophy is based upon independent, fundamental research that integrates our evaluation of market cycles, macroeconomics and geopolitical analysis with our 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.

**Portfolio Characteristics<sup>1</sup>**

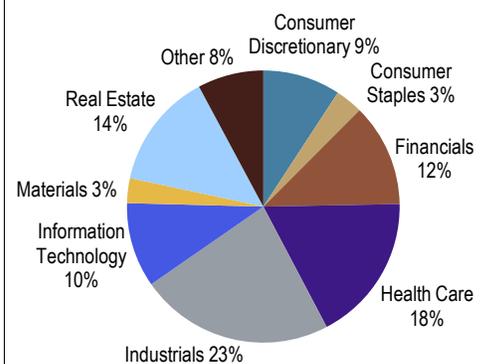
	Portfolio	R2000
Wtd. Avg. Market Cap. (\$B)	1.85	2.54
Median Market Cap. (\$B)	1.36	0.86
Dividend Yield	1.3%	1.3%
Number of Securities	30-35	1,983
Annual Turnover	20-30%	

**Ten Largest Holdings<sup>1</sup>**

- Morningstar, Inc.
- Movado Group, Inc.
- RE/MAX Holdings, Inc.
- Allied Motion Technologies Inc.
- The RMR Group Inc.
- Thermon Group Holdings, Inc.
- Raven Industries, Inc.
- The Boston Beer Company, Inc.
- Rayonier Inc.
- Halyard Health, Inc.

*The listing of "Ten Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, application of the will likely result in changes to the listing. Contact Confluence for a complete list of holdings.*

**Sector Allocation<sup>1</sup>**



*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.*

*<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards.*

**For more information contact one of our sales team members:**

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**Composite Returns**  
For Periods Ending 3/31/18

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Russell 2000	R2000 Value
QTD	(0.6%)	(1.3%)	(0.1%)	(2.6%)
YTD	(0.6%)	(1.3%)	(0.1%)	(2.6%)
1-Year	12.3%	8.9%	11.8%	5.2%
3-Year Annualized	11.7%	8.4%	8.4%	7.9%
5-Year Annualized	13.0%	9.6%	11.5%	10.0%
10-Year Annualized	11.8%	8.5%	9.8%	8.6%
15-Year Annualized	13.3%	10.0%	11.5%	10.8%
20-Year Annualized	9.9%	6.8%	7.4%	8.0%
Since Inception* Annualized	12.4%	9.3%	9.4%	10.3%

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Russell 2000	R2000 Value
2017	19.5%	16.0%	14.6%	7.8%
2016	23.7%	20.0%	21.3%	31.7%
2015	(1.7%)	(4.7%)	(4.4%)	(7.5%)
2014	9.3%	6.1%	4.9%	4.2%
2013	27.4%	23.6%	38.8%	34.5%
2012	16.0%	12.6%	16.3%	18.1%
2011	(0.9%)	(3.8%)	(4.2%)	(5.5%)
2010	24.6%	20.9%	26.9%	24.5%
2009	29.6%	25.8%	27.2%	20.6%
2008	(21.8%)	(24.0%)	(33.8%)	(28.9%)
2007	(1.7%)	(4.4%)	(1.6%)	(9.8%)
2006	19.1%	15.9%	18.4%	23.5%
2005	8.2%	5.3%	4.6%	4.7%
2004	23.2%	19.9%	18.3%	22.2%
2003	36.2%	32.5%	47.3%	46.0%
2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)
2001	12.6%	9.6%	2.5%	14.0%
2000	34.4%	30.7%	(3.0%)	22.8%
1999	(7.1%)	(9.6%)	21.3%	(1.5%)
1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)
1997	46.5%	42.5%	22.4%	31.8%
1996	20.7%	17.4%	16.5%	21.4%
1995	24.2%	20.8%	28.4%	25.8%
1994*	(3.3%)	(3.9%)	(1.9%)	(3.0%)

\*Inception is 10/1/94

**Statistical Analysis<sup>1</sup>**  
Since Inception\*

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	Russell 2000
Annualized Standard Deviation	15.9%	15.8%	19.8%
Sharpe Ratio	0.62	0.42	0.39
Beta	0.70	0.70	1.00
R-Squared	76.40	76.53	100.00

**Portfolio Benchmark**

**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.

**Financial Terms**

**Standard Deviation** – A measure of price variability (risk) over a period of time. A higher Standard Deviation indicates more variability in returns from month to month.

**Sharpe Ratio** – Quantifies risk-adjusted performance by measuring the excess return per unit of risk. A higher Sharpe Ratio suggests better risk-adjusted performance.

**Beta** – A measure of a stock or portfolio's volatility (systematic risk) compared to an appropriate benchmark index. A Beta of 1.1 indicates the investment has approximately 10% more volatility in returns than the benchmark index.

**R-Squared** – Indicates whether the comparison index is an appropriate benchmark based on correlation. Generally an R-Squared above 70 is desirable.

**Firm Overview**

**The Confluence Team**

Mark Keller, CFA	Dustin Hausladen
Brian Hansen	Chris Stein
William O'Grady	Tore Stole
Patty Dahl	Tom Dugan, CFA
Joe Hanzlik	John Wobbe
David Miyazaki, CFA	Kaisa Stucke, CFA
Daniel Winter, CFA	Blair Brumley, CFA
Gregory Ellston	Brett Mawhiney, CFA
	John Laux

**The Confluence Mission**

Our mission is to provide our clients with superior investment solutions and exceptional client service with the highest standards of ethics and integrity. Our team of investment professionals is committed to delivering innovative products and sound, practical advice to enable investors to achieve their investment objectives.

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

<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards.

The Small Cap Value Strategy was inception 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 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-of-fees and net-of-fees and include the reinvestment of all income. Pure gross-of-fees returns are shown as supplemental information.

<sup>2</sup> Net-of-fees 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 and description of composites and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. The Small Cap Value Composite contains fully discretionary Small Cap Value accounts. Yield data source: FactSet. Weighted average dividend yield of holdings in the portfolio, calculated based on annualized current dividends.

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