

## OBJECTIVE

Invests in small capitalization companies. Investment objective is capital appreciation.

## INVESTMENT PHILOSOPHY

Confluence's investment philosophy is a bottom-up, fundamental approach that seeks to generate above-average returns over the long-term by identifying businesses that possess substantial competitive advantages and are trading at discounts to our estimate of intrinsic value. Advantages may include strong brand names, highly differentiated services or products, dominant market share, flexible pricing power, protected technology or specialized industrial skill sets. Companies have the ability to generate high levels of cash flow and are led by management teams that create shareholder wealth.

The investment process focuses on managing risk, which we define as the probability of a permanent loss of capital, by owning quality businesses at attractive valuations diversified across a variety of market sectors. This discipline strives to protect investors on the downside while enhancing upside potential. Over time, we believe this approach positions the portfolio to deliver superior risk-adjusted returns.

## OVERVIEW

- ◆ Initial purchases are generally focused on companies that have market capitalizations below \$2 billion
- ◆ Stocks selected through independent research, evaluating the fundamentals of individual companies, and purchased when trading at discounts to our estimate of intrinsic value
- ◆ 3% position sizes
- ◆ Low-to-moderate turnover
- ◆ Because small cap stocks are generally more volatile than large caps, this strategy is appropriate for clients whose primary objective is capital appreciation

## CHARACTERISTICS<sup>1</sup>

	SMALL CAP VALUE	R2000	R2000 VALUE
Dividend Yield	1.4%	1.1%	1.7%
Number of Positions	30-35	2,056	1,507
Annual Turnover (5-yr Rolling)	20%		

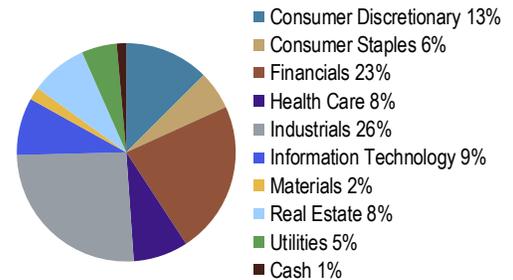
<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses. 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 strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark source: FTSE Russell. Annual turnover 5-yr rolling calculated from sample accounts for periods ending 12/31/2020.

MARKET CAP <sup>1</sup>	SMALL CAP VALUE	R2000	R2000 VALUE
Weighted Avg. Market Cap (\$B)	2.65	3.67	3.12
Largest Market Cap (\$B)	12.96	18.21	18.21
Median Market Cap (\$B)	1.80	1.05	0.93
Smallest Market Cap (\$B)	0.26	-	-
Large Cap (>\$10B)	3%		
Mid Cap (\$10B-\$2B)	49%		
Small Cap (<\$2B)	47%		

## 10 LARGEST HOLDINGS<sup>1</sup>

Kadant Inc.	4.7%
Frontdoor, Inc.	4.2%
Morningstar, Inc.	4.1%
Movado Group, Inc.	4.0%
Avanos Medical, Inc.	3.9%
Cannae Holdings, Inc.	3.7%
BRP Group, Inc.	3.6%
Winnebago Industries, Inc.	3.6%
John Bean Technologies Corp.	3.5%
RBC Bearings Incorporated	3.4%

## SECTOR ALLOCATION<sup>1</sup>



## INVESTMENT PROCESS

### SECURITY SELECTION

#### GREAT COMPANIES AT BARGAIN PRICES

Our disciplined investment process is research-driven, seeking to uncover "great companies" trading at bargain prices. We define great companies as those with the following attributes:

#### Durable Competitive Advantages

- ◆ Meaningful pricing power
- ◆ High barriers to entry
- ◆ Superior return on capital over extended periods of time

#### Free Cash Flow

- ◆ Substantial amount available to benefit shareholders
- ◆ Should far exceed the capital expenditures needed to maintain and grow the business

#### Capable Management

- ◆ Demonstrated ability to effectively allocate capital
- ◆ Alignment of management's interest with investors through large personal investments in company stock

### BUY DISCIPLINE

#### INVEST BASED ON PRICE AND PATIENCE

We believe focusing on high-quality companies and purchasing only when they're being offered at prices below our estimate of intrinsic value is an effective means for limiting downside risk, while maximizing total return potential over an investment cycle.

- ◆ Primary focus is price paid for a stock (discount to intrinsic value)
- ◆ Each portfolio company is evaluated to determine the highest price we will pay for a security
- ◆ This entry point is generally set at a 25%-50% discount to our internal estimate of intrinsic value
- ◆ Entry points are continually re-assessed
- ◆ Risk is defined as *the probability of a permanent loss of capital* as opposed to tracking error of a benchmark

New accounts may not be fully invested at inception if companies are trading above current entry points.

### SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- ◆ Share price reaches or exceeds our estimate of full valuation
- ◆ Company's fundamentals deteriorate
- ◆ More attractive opportunities are identified

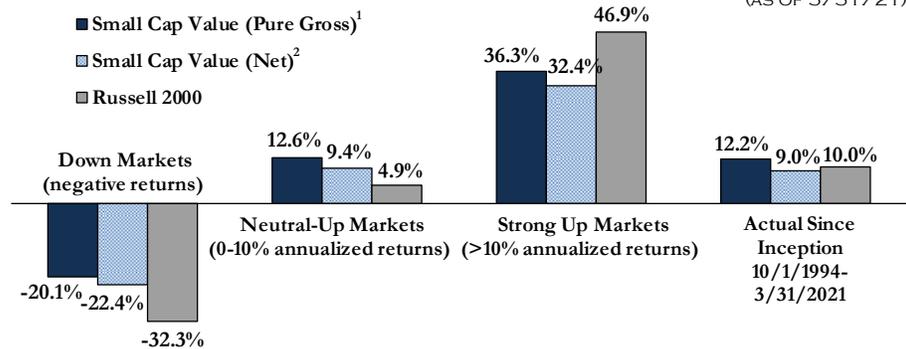
## ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

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.

# HISTORICAL PERFORMANCE<sup>3</sup>

# ANNUALIZED RETURNS

# STATISTICAL ANALYSIS<sup>4</sup>



## Portfolio at Quarter End vs. Russell 2000

Portfolio at Quarter End	vs. Russell 2000
Active Share (as of 3/31/21)	98.31%
Since Inception**	Pure Gross-of-Fees <sup>1</sup> vs. Russell 2000
Downside Capture Ratio	62.43 / 100.00
Alpha	3.89 / 0.00
Beta	0.73 / 1.00
Annualized Standard Deviation	17.56% / 21.70%
R-Squared	0.81 / 1.00
Sharpe Ratio	0.56 / 0.36

\*\*Inception is 10/1/1994

# PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING MARCH 31, 2021)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	R2000	R2000 Value	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</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
Since Inception**	12.2%	9.0%	10.0%	10.4%	1994**	(3.3%)	(3.9%)	(1.9%)	(3.0%)	(1.4%)	389	\$41,690		N/A	N/A	N/A	N/A
25-Year*	11.8%	8.6%	9.4%	10.0%	1995	24.2%	20.8%	28.4%	25.8%	(4.3%)	267	\$34,667		N/A	N/A	N/A	0.8%
20-Year*	11.2%	8.0%	9.8%	9.5%	1996	20.7%	17.4%	16.5%	21.4%	4.2%	249	\$39,188		N/A	N/A	N/A	1.0%
15-Year*	10.1%	6.9%	8.8%	7.4%	1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	\$63,832		N/A	N/A	N/A	1.1%
10-Year*	11.3%	8.0%	11.7%	10.0%	1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	(1.6%)	1,080	\$111,513		N/A	N/A	N/A	1.7%
5-Year*	12.9%	9.5%	16.3%	13.5%	1999	(7.1%)	(9.6%)	21.3%	(1.5%)	(28.4%)	745	\$69,869		N/A	N/A	N/A	1.2%
3-Year*	10.0%	6.7%	14.7%	11.5%	2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	\$47,699		N/A	N/A	N/A	1.7%
1-Year*	53.9%	49.3%	94.8%	97.0%	2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	\$56,254		N/A	N/A	N/A	0.7%
YTD	9.0%	8.1%	12.7%	21.2%	2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	\$48,944		N/A	N/A	N/A	0.7%
QTD	9.0%	8.1%	12.7%	21.2%	2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	\$71,199	\$15,400	\$21,600	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%

\*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 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, 2019. 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>1</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>2</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 \$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.

<sup>3</sup> **Historical Performance Chart**—Annualized returns using calendar quarter performance data. **Down Markets:** annualized negative benchmark return; **Neutral-Up Markets:** annualized positive benchmark return is less than 10%; **Strong Up Markets:** annualized benchmark return is greater than 10%. The Russell 2000® Index is an unmanaged market capitalization-weighted index measuring the performance of approximately 2,000 of the smallest companies in the Russell 3000® Index. **Down Markets:** Q4 '94, Q1 '97, Q4 '97, Q2 '98-Q3 '98, Q1 '99, Q3 '99, Q2 '00, Q4 '00-Q1 '01, Q3 '01, Q2 '02-Q3 '02, Q1 '03, Q3 '04, Q1 '05, Q2 '06, Q3 '07-Q1 '08, Q3 '08-Q1 '09, Q2 '10, Q2 '11-Q3 '11, Q2 '12, Q3 '14, Q3 '15, Q1 '16, Q1 '18, Q4 '18, Q3 '19, Q1 '20; **Neutral-Up Markets:** Q4 '95, Q3 '96, Q3 '00, Q2 '04, Q4 '05, Q3 '06, Q1 '07, Q2 '08, Q4 '12, Q1 '14-Q2 '14, Q2 '15, Q2 '19; **Strong Up Markets:** Q1 '95-Q3 '95, Q1 '96-Q2 '96, Q4 '96, Q2 '97-Q3 '97, Q1 '98, Q4 '98, Q2 '99, Q4 '99, Q1 '00, Q2 '01, Q4 '01-Q1 '02, Q4 '02, Q2 '03-Q1 '04, Q4 '04, Q2 '05-Q3 '05, Q1 '06, Q4 '06, Q2 '07, Q2 '09-Q1 '10, Q3 '10-Q1 '11, Q4 '11-Q1 '12, Q3 '12, Q1 '13-Q4 '13, Q4 '14-Q1 '15, Q4 '15, Q2 '16-Q4 '17, Q3 '12, Q1 '13-Q4 '13, Q2 '14, Q4 '14, Q4 '15, Q2 '16-Q4 '17, Q2 '18-Q3 '18, Q1 '19, Q4 '19, Q2 '20-Q1 '21. <sup>4</sup> **Statistical Analysis—Active Share:** Measures % of portfolio holdings that differ from benchmark index; calculated by taking the sum of the absolute value of the differences of the weight of each holding in manager's portfolio & the weight of each holding in benchmark index, as of the date shown, dividing by two. (Calculated by Confluence. Index holdings/weights sourced from exchange-traded funds: iShares Russell 2000 [IWM].) **Downside Capture Ratio:** Measures performance in down markets relative to index (down market: any quarter where the market return is less than zero); lower Downside Capture Ratio indicates manager protected capital better during a market decline. **Alpha:** Measures nonsystematic return or return that cannot be attributed to the market, i.e., how manager performed if the market had no gain or loss. **Beta:** Measures portfolio volatility (systematic risk) compared to an appropriate benchmark index; e.g., Beta of 1.1 indicates the investment has approx. 10% more volatility in returns than benchmark index. **Standard Deviation:** Measures price variability (risk) over a period of time; higher Standard Deviation indicates more variability in returns. **R-Squared:** Indicates whether comparison index is an appropriate benchmark based on correlation; generally, R-Squared above 0.70 is desirable. **Sharpe Ratio:** Quantifies risk-adjusted performance by measuring excess return per unit of risk; higher Sharpe Ratio suggests better risk-adjusted performance. (Data source: Zephyr's PSN SMA Database)

### Confluence Value Equities Investment Committee

Mark Keller, CFA	Chris Stein	Tore Stole	Joe Hanzlik	Kaisa Stucke, CFA	Brett Mawhiney, CFA
Daniel Winter, CFA	Tom Dugan, CFA	John Wobbe	Dustin Hausladen	Blair Brumley, CFA	

### FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM:

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