



# Value Opportunities Investment Process

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## Security Selection

### Great Companies at Bargain Prices.

Our disciplined investment process is research driven attempting to uncover “great companies” trading at bargain prices. We define great companies as those with the following attributes:

Durable Competitive Advantages, should result in ...

- 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

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## Buy Limit Discipline

### Invest Based on Price and Patience

We believe that focusing on great companies and purchasing them only when they’re being offered at prices below 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 assigned a “buy limit” which represents the uppermost price we will pay for a security
- Buy limit is generally set at a 25%-50% discount to Confluence’s internal estimate of intrinsic value
- Buy limits are continually re-assessed
- Risk is defined as *the probability of a permanent loss of capital*

New accounts may not be fully invested at inception if companies are trading above their current buy limits.

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## Sell Discipline

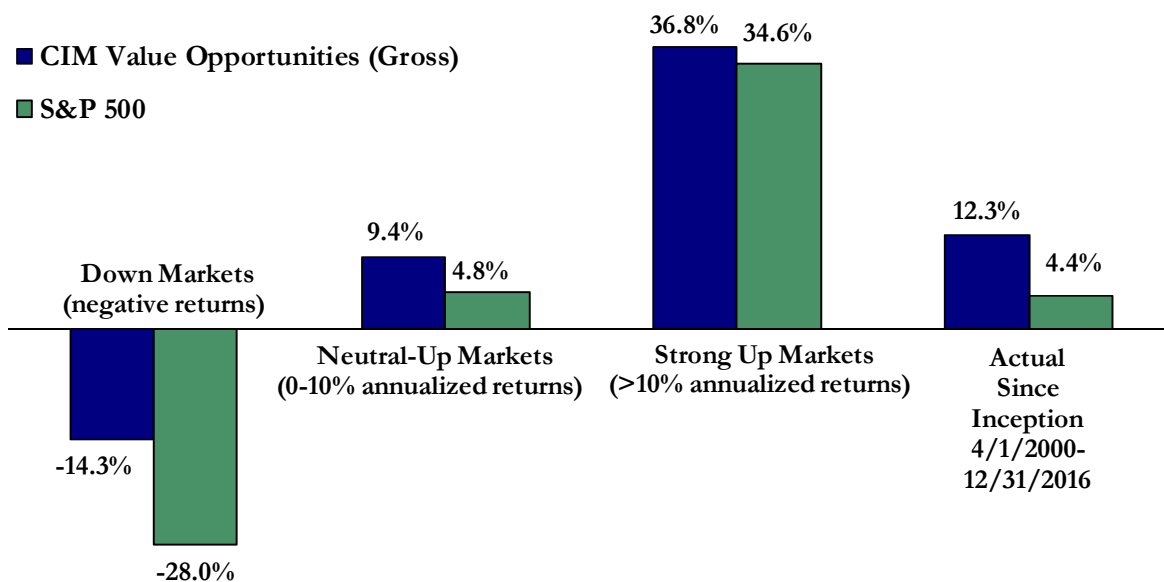
To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

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

## Value Opportunities Historical Performance

### Annualized Gross Returns (as of 12/31/16)



Down Markets: Q2 '00-Q1 '01, Q3 '01, Q2 '02-Q3 '02, Q1 '03, Q3 '04, Q1 '05, Q2 '06, Q4 '07-Q1 '09, Q2 '10, Q3 '11, Q2 '12, Q4 '12, Q3 '15

Neutral-Up Markets: Q1 '02, Q1 '04-Q2 '04, Q2 '05, Q4 '05, Q1 '07, Q3 '07, Q2 '11, Q1 '14, Q3 '14, Q1 '15-Q2 '15, Q1 '16

Strong Up Markets: Q2 '01, Q4 '01, Q4 '02, Q2 '03-Q4 '03, Q4 '04, Q3 '05, Q1 '06, Q3 '06-Q4 '06, Q2 '07, Q2 '09-Q1 '10, Q3 '10-Q1 '11, Q4 '11-Q1 '12, Q3 '12, Q1 '13-Q4 '13, Q2 '14, Q4 '14, Q4 '15, Q2 '16-Q4 '16

Returns are annualized 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 Standard & Poor's 500 Index (S&P 500®) is an unmanaged market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

### Composite Returns (%) For Periods Ending 12/31/16

	Pure Gross-of-Fees	Net-of-Fees*	S&P 500	R3000 Value	Pure Gross-of-Fees	Net-of-Fees*	S&P 500	R3000 Value	Difference (Gross-S&P500)	No. of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000 Value 3yr Std Dev	Composite Dispersion	
<b>QTD</b>	3.4	2.6	3.8	7.2	2016	15.4	12.0	12.0	18.4	3.4	959	\$207,565	\$4,413,659	10.9	10.6	11.0	0.5
<b>YTD</b>	15.4	12.0	12.0	18.4	2015	2.3	(0.7)	1.4	(4.1)	1.0	554	\$113,587	\$3,175,419	10.8	10.5	10.7	0.3
<b>1-Year Annualized</b>	15.4	12.0	12.0	18.4	2014	31.6	27.7	13.7	12.7	17.9	110	\$31,040	\$2,589,024	11.4	9.0	9.4	0.9
<b>3-Year Annualized</b>	15.8	12.4	8.9	8.5	2013	32.3	28.3	32.4	32.7	(0.1)	76	\$18,299	\$1,955,915	13.5	11.9	12.9	0.4
<b>5-Year Annualized</b>	21.4	17.8	14.7	14.8	2012	28.5	24.7	16.0	17.6	12.5	53	\$9,576	\$1,272,265	18.3	15.1	15.8	0.9
<b>10-Year Annualized</b>	11.2	8.0	6.9	5.8	2011	(1.7)	(4.6)	2.1	(0.1)	(3.8)	53	\$7,694	\$937,487	23.7	18.7	21.0	0.6
<b>15-Year Annualized</b>	11.0	7.9	6.7	7.6	2010	6.9	3.7	15.1	16.3	(8.2)	51	\$7,429	\$751,909	27.9	21.9	23.5	0.7
<b>Since Inception Annualized</b>	12.3	9.1	4.4	6.9	2009	31.5	27.6	26.5	19.8	5.0	37	\$14,001	\$533,832	25.2	19.6	21.3	2.0
					2008	(22.3)	(24.5)	(37.0)	(36.2)	14.7	29	\$8,299	\$291,644	18.6	15.1	15.5	N/A
					2007	2.1	(0.7)	5.5	(1.0)	(3.4)	197	\$20,510		8.4	7.7	8.3	0.7
					2006	27.0	23.6	15.8	22.3	11.3	171	\$19,132		7.6	6.8	7.0	1.7
					2005	4.4	1.6	4.9	6.9	(0.5)	179	\$23,399		11.7	9.0	9.7	0.8
					2004	4.8	2.0	10.9	16.9	(6.1)	189	\$25,252		20.1	14.9	14.8	1.0
					2003	40.4	36.5	28.7	31.1	11.7	126	\$23,976		25.2	18.1	16.0	0.9
					2002	(14.8)	(17.1)	(22.1)	(15.2)	7.3	107	\$7,786		N/A	N/A	N/A	0.9
					2001	1.1	(1.7)	(11.9)	(4.3)	13.0	79	\$7,097		N/A	N/A	N/A	0.4
					2000**	43.6	40.7	(11.1)	7.3	54.8	1	\$74		N/A	N/A	N/A	N/A

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 6/30/2016. 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 Value Opportunities Strategy was inceptioned on April 1, 2000 and the current Value Opportunities 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. Gross returns are shown as supplemental information.

\*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 Value Opportunities Composite contains fully discretionary Value Opportunities wrap accounts. Value Opportunities is a concentrated, value-based, bottom-up portfolio that utilizes stocks from all market capitalizations with a focus on a near-term catalyst. Catalysts include reorganizations, turnarounds and other unique situations that are anticipated to come to fruition in approximately six to 18 months. This short-term investment time frame often leads to high turnover. The primary benchmark is the S&P 500 Index and the Russell 3000 Value Index is shown as additional information.

\*\*Results shown for the year 2000 represent partial period performance from April 1, 2000 through December 31, 2000.

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.

Approved for client use. This data is provided for information only and is not intended for trading purposes.