



Value Equity Investment Approach



Confluence's value equity 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.

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 above-average risk-adjusted returns.

I. Stock Selection Criteria

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

II. Buy Discipline

Invest Based on Price and Patience

We believe that focusing on high-quality companies at attractive valuations is an effective means for limiting downside risk, while maximizing total return potential over an investment cycle. In most strategies, we purchase these businesses only when they are trading at prices below our estimate of intrinsic value.

- 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 (excluding IDEA).

III. Portfolio Construction

Portfolio Holdings

- Generally equal-weight positions at inception (does not apply to Value Opportunities)
- Diversification across a variety of market sectors
- Range of market capitalizations and/or dividend focus
- Typically low-to-moderate turnover

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

Confluence Value Equity Strategies

Large Cap Value

Invests in seasoned businesses that generally have market capitalizations greater than \$10 billion to create a diversified portfolio of businesses with capital appreciation potential.

Small Cap Value

Invests in small capitalization companies, with initial purchases generally focused on companies that have market capitalizations below \$7 billion (consistent with the Russell 2000 or S&P SmallCap 600).

All Cap Value

Invests in companies that range in market capitalizations to create a diversified portfolio of businesses with capital appreciation potential.

Equity Income

Invests in companies of any size capitalization that collectively generate an above-average stream of dividend income, while also providing capital appreciation potential.

Select Equity Income

Invests in large capitalization companies that collectively generate an above-average stream of dividend income, while also providing capital appreciation potential.

Increasing Dividend Equity Account (IDEA)

Invests in mid-to-large capitalization businesses with long track records of distributing earnings to shareholders through dividends – companies that have paid or increased dividends over the last 10 years – with an emphasis on the portfolio's dividend growth rate. Uses rules-based stock selection criteria and portfolio construction distinct from our other value equity strategies (see IDEA fact sheet).

Value Opportunities

Invests in businesses of any size capitalization that have near-term catalysts in which to unlock value. An aggressive approach to generating capital appreciation with concentrated positions (not broadly diversified) and high anticipated turnover.

Visit our [website](#) for fact sheets and performance for individual strategies.

About Confluence

Confluence Investment Management LLC is an independent registered investment adviser that provides professional portfolio management and advisory services to institutional and individual investors. The firm's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, company-specific approach. The Confluence team is dedicated to an exceptional level of client service and communication, and the firm's disciplined investment process and performance record have stood the test of time across a broad range of economic and market cycles.

Value Equities Investment Committee

The Value Equities Investment Committee manages its portfolios in a team-based manner, where the investment process centers around investment professionals conducting extensive due diligence and performing multi-faceted research analysis. The committee is composed of seasoned investment professionals who have a long tenure of working together at their current and predecessor firms, averaging nearly 30 years in the industry.

Name	Title	Financial Experience
Mark Keller, CFA	Chief Investment Officer	48 years
Dan Winter, CFA	CIO – Value Equities	32 years
Tore Stole	Advisory Director – Equity Research	40 years
John Wobbe	Director of Research	28 years
Tom Dugan, CFA	Portfolio Manager	26 years
Joe Hanzlik	Portfolio Manager	32 years
Dustin Hausladen	Equity Analyst	22 years
Blair Brumley, CFA	Equity Analyst	40 years
Brett Mawhiney, CFA	Equity Analyst	18 years
Ben Kim, CFA	Equity Analyst	28 years
John Koenig, CFA	Associate Equity Analyst	10 years

Confluence claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of the firm's composite descriptions and/or GIPS-compliant presentations can be requested by contacting Confluence. Information provided is for educational/illustrative purposes only. The investments or strategies discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Information does not constitute a recommendation of any investment strategy and is not intended as investment advice. Such information should not be relied upon for or in connection with the making of investment decisions and does not constitute a solicitation or an offer to buy or sell securities. 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 achieve profits or avoid incurring losses. Investor results will vary, and past performance is not indicative of future results. Please refer to the written disclosure statement for a description of the risks associated with our investment strategies.

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