INVESTMENT MANAGEMENT

First Quarter
2016

Equity Strategies • Value Opportunities

The Value Opportunities portfolio is a concentrated portfolio of businesses that range in market capitalization. The companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that are trading at substantial discounts to intrinsic value and that have a near-term catalyst in which to unlock the value. The portfolio may have concentrations in both individual holdings and/or industries. The portfolio typically is comprised of 10-12 holdings and is expected to result in annual turnover of 75-100%. The portfolio is suitable for clients seeking an aggressive approach to generating capital appreciation.

Portfolio Commentary

The first quarter was a volatile environment for equities, with the S&P 500 index spending most of the quarter in decline and officially reaching "correction territory," defined as a 10% decline, before rallying to finish the quarter up 1.3%. The Value Opportunities portfolio outperformed the S&P 500 with a return of 3.5% (gross of fees) over the same period, even though the portfolio did not own the S&P 500's two best performing sectors of the quarter (telecom +17%, utilities +16%).
For detailed performance information and disclosures see: *http://www.confluenceinvestment.com/equity_strategies#prod_43*

With a concentrated portfolio, this outperformance was driven by a few names. In particular, MSC Industrial Direct (industrial distributor) increased 37% in Q1 after selling off in 2015 on concerns of an industrial recession. The portfolio's financial holdings also outperformed, with strong returns from Brown & Brown (insurance brokers) and Morningstar (investment information provider) that were partially offset by negative returns from AIG (insurance) and RE/MAX (real estate brokers). Our health care holdings performed in line with the index as a strong, positive 16% return from Stryker (orthopedic devices) was offset by a 21% decline in Express Scripts (pharmacy benefits manager) related to contract concerns with its largest customer.

The stock market posted one of the worst starts on record to begin 2016 when recession fears grew from expectations of additional Federal Reserve rate increases and a strong dollar in conjunction with a weak global economy and a severe recession in the energy industry. But as the quarter progressed, fear gave way to fundamentals and the market recovered as the economy continued to bump along, U.S. job growth kept pace, oil prices rebounded and the Federal Reserve reiterated a "low and slow" approach to increasing interest rates.

Volatility will surely resurface as the Federal Reserve continues on a path toward normalized interest rates. Over the past 30 years, markets and economies have become increasingly dependent upon the belief that monetary policy can fix anything, the latest iteration being central banks in Europe and Japan experimenting with negative interest rates to induce activity. This dependency seems to be approaching the end of the road as monetary stimulus has lost its effect and has little more to give. The transition back to more normalized monetary policy will be slow and turbulent, so it is especially important to stay focused on owning high-quality businesses with solid management teams and growth prospects, trading at valuations that provide a margin of safety.

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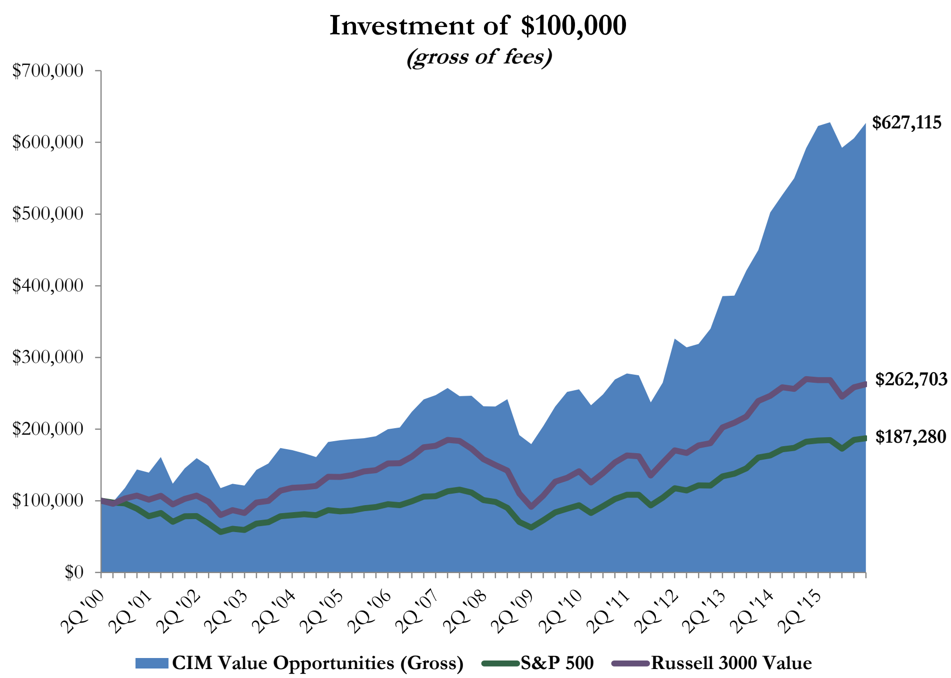
Top 5 Portfolio Holdings (as of 3/31/16)

Company	Market Capitalization ($ billions)	Portfolio Weight
Morningstar Inc.	3.8	10.6%
Stryker Corp.	40.0	10.2%
Markel Corp.	12.5	10.2%
Brown & Brown Inc.	5.0	10.1%
MSC Industrial Direct Co. Inc.	4.7	10.0%



Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.