

Equity Strategies • Value Opportunities

Value Opportunities 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 our estimates of 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 Value Opportunities strategy declined 2.0% (gross of fees) in the first quarter, trailing the S&P 500 return of -0.8%.

The underperformance was driven by declines in our Consumer Discretionary holdings (Discovery and Richemont), while the overall index sector increased on the strength of Amazon* and Netflix*. Additionally, our holdings in the Materials sector (Axalta and DowDuPont) underperformed along with weak returns from AIG and Natus Medical. These declines were partially offset by solid returns from Black Knight, NXP Semiconductors and Stryker and no exposure to five of the six weakest sectors in Q1 (Telecom, Consumer Staples, Energy, Real Estate and Utilities).

In our year-end commentary we noted the total absence of fear and volatility in 2017, which makes it tougher to find attractively valued investment opportunities. This euphoria continued into 2018, resulting in an S&P 500 high of 2,872 (up 7.4% YTD) on January 26. Then, normal volatility returned to the markets after a 15-month hiatus. Since that time, markets have experienced two pullbacks that have taken them down 10% from the highs.

The most recent pullback in late March is driven by three factors, the most pronounced being fears of a trade war with China. These actions have many pitfalls, but could yield some positive results for the U.S. as a net importer. Second, the Fed continues to increase interest rates and could actually get more aggressive. If higher rates are sustainable across the yield curve, then this will weigh on valuations for virtually all asset classes. Finally, ongoing issues at Facebook* related to

the manipulation of content and the collection of personal data for targeted advertising are, for the first time, challenging the unbridled power of “big data” with serious talk of regulation. Currently this poses probably the biggest threat to the S&P 500 as the five largest stocks (Apple, Google, Microsoft, Amazon and Facebook, aka “FAANG”)* are roughly 15% of the index and have driven a lot of the index performance over the past few years. Even if the FAANG stocks are just flat for a couple of years while regulation sets in, this could be a real headwind for the S&P 500.

As the market reconciles these factors with historically high valuations we will continue to stay focused on owning good companies with good management teams at a discount to intrinsic value, all the while looking for opportunistic buying opportunities.

During the quarter we added DowDuPont, a diversified chemical company, to the portfolio. DowDuPont was created with the merger of Dow Chemicals and DuPont in August 2017. The two companies had complementary businesses, and their combination is unlocking value from revenue synergies and cost savings that will continue until 2019 when it's due to split into three independent companies, each with a specialized focus. DowDuPont has a high-quality management team that should successfully execute this strategy and the recent pullback gave us an opportunity to acquire the stock at an attractive valuation.

This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Information is presented as supplemental information to the disclosures required by GIPS® standards. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. Past performance is no guarantee of future results.

*Not owned in the current portfolio. Past performance is no guarantee of future results.

Equity Strategies • Value Opportunities

Top 5 Portfolio Holdings (as of 3/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Markel Corporation	16.4	10.4%
Compagnie Financière Richemont	45.9	10.3%
DowDuPont Inc.	148.2	9.9%
Black Knight, Inc.	7.1	9.7%
Axalta Coating Systems Ltd.	7.4	9.3%

The listing of “Five Largest Holdings” is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, 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 program may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk and may decline in value due to adverse company, industry or general economic conditions.

Composite Returns For Periods Ending 3/31/18

	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
QTD	(2.0%)	(2.8%)	(0.8%)	(2.8%)								
YTD	(2.0%)	(2.8%)	(0.8%)	(2.8%)								
1-Year Annualized	1.8%	(1.3%)	14.0%	6.8%								
3-Year Annualized	8.0%	4.8%	10.8%	7.9%								
5-Year Annualized	15.3%	11.8%	13.3%	10.7%								
10-Year Annualized	13.0%	9.6%	9.5%	7.9%								
15-Year Annualized	13.3%	10.0%	10.1%	9.8%								
Since Inception Annualized	12.1%	8.9%	5.2%	7.0%								
2017	14.5%	11.1%	21.8%	13.2%	(7.3%)	1,737	\$359,636	\$5,944,479	9.8%	9.9%	10.3%	0.8%
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%
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%
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%
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%
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%
2011	(1.7%)	(4.6%)	2.1%	(0.1%)	(3.8%)	53	\$7,694	\$937,487	23.7%	18.7%	21.0%	0.6%
2010	6.9%	3.7%	15.1%	16.3%	(8.2%)	51	\$7,429	\$751,909	27.9%	21.9%	23.5%	0.7%
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 6/30/2017. 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 inception 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.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri founded in 2007. 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. 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.