

Value Opportunities • Value Equity Strategies

Value Opportunities is a concentrated portfolio of businesses that range in market capitalization. Companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that are trading at substantial discounts to our estimate of intrinsic value and have near-term catalysts in which to unlock the value. The portfolio may have concentrations in both individual holdings and/or industries. It typically comprises 8-12 holdings and is expected to result in high annual turnover. The strategy is appropriate for clients seeking an aggressive approach to generating capital appreciation.

Market Commentary

The stock market had a solid start to the year, with the S&P 500 Index up 6.2%, as COVID-19 cases declined, vaccinations increased, and expectations for strong economic growth continued to improve, furthered by another large stimulus package. As a result, in mid-February, the “Top 6” FAANG+ stocks (Apple, Microsoft, Amazon, Google, Facebook, Tesla) that have powered the markets over the past two years (as we have previously highlighted) began to underperform. Since then, the market has shifted away from “pandemic-proof” growth stocks and has refocused on businesses that are driven by economic growth. These “economically sensitive” stocks are the vast majority in the stock market, and many are considered value stocks (Financials, Industrials, Energy, Materials, etc.). This is all reflected in the year-to-date returns of the equal-weighted S&P 500 (+11.5%) and the Russell 3000 Value (+11.9%).

Despite the overhang from a year-long pandemic, economic expectations are high and this is being reflected in the stock market. Zero interest rates and fiscal stimulus continue to support asset inflation, but this has not translated into higher consumer inflation (a headscratcher for students of history). At the same time, the economy is poised for a “postwar boom” as consumers are flush with cash and eager to get out and celebrate post-pandemic. As a result, long-term interest rates have risen off the floor and there continue to be characteristics indicative of a speculative environment (examples include GameStop, SPACs, day trading, etc.).

Even with strong economic growth, this optimistic market still carries much risk and uncertainty, so it is important to have a solid investment philosophy that resists the siren song of speculation. As always, we continue to stay focused on owning quality companies with good management teams that are trading at discounts to our estimate of intrinsic value.

Strategy Commentary

The Confluence Value Opportunities strategy increased 3.6% (gross of fees) in the first quarter but trailed the S&P 500 return of 6.2%. [Net-of-fees return was +2.8% QTD. See disclosures on p.2 for fee description; actual investment advisory fees may vary.]

Given the concentrated nature of the Value Opportunities portfolio, its underperformance in the first quarter relative to the S&P 500 is attributable to a few holdings, in particular. The portfolio benefited from strong outperformance in the Technology sector from NXP (a leader in automotive analog semiconductors), but this was more than offset by the underperformance in Financials and Industrials. The Financials sector had a strong start to the year with rising interest rates driving bank stocks higher. The Financial names in the portfolio are focused on insurance (Markel and BRP Group) and private equity (Cannae), all businesses that are less dependent on interest rates. Healthcare Services Group trailed in the Industrials sector as it is focused on healthcare facility maintenance, a solid, non-cyclical business.

There were no changes to the portfolio in the first quarter. Both BRP Group and Vontier were added to the portfolio in Q4 2020 and had a slow start to the year in 2021, but both companies continue to focus on executing proven business models. The concentrated group of businesses in the Value Opportunities portfolio are all solid companies that we believe have good prospects and reasonable valuations, something that is hard to find in this speculative market.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
NXP Semiconductors N.V.	10.79	2.59
Charles River Laboratories International, Inc.	8.20	1.18
Markel Corporation	8.71	0.91
Frontdoor, Inc.	11.78	0.76
Dollar Tree, Inc.	10.36	0.65
Bottom 5		
Healthcare Services Group, Inc.	8.40	0.06
Avanos Medical, Inc.	7.66	(0.34)
BRP Group, Inc.	7.24	(0.75)
Vontier Corporation	9.15	(0.88)
Cannae Holdings, Inc.	8.33	(0.99)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

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.

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5 Largest Holdings (as of 3/31/21)

Company	Market Capitalization (<i>\$ billions</i>)	Portfolio Weight
NXP Semiconductors N.V.	55.5	12.2%
Frontdoor, Inc.	4.6	11.1%
Dollar Tree, Inc.	26.7	10.8%
Booking Holdings Inc.	95.4	9.0%
Charles River Laboratories Int'l, Inc.	14.6	8.6%

The listing of "5 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 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.

Performance Composite Returns (For Periods Ending March 31, 2021)

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000V 3yr Std Dev	Composite Dispersion
Since Inception**	11.3%	8.1%	6.8%	7.5%	2000**	43.6%	40.7%	(11.1%)	7.3%	54.8%	1	\$74		N/A	N/A	N/A	N/A
					2001	1.1%	(1.7%)	(11.9%)	(4.3%)	13.0%	79	\$7,097		N/A	N/A	N/A	0.4%
20-Year*	10.1%	6.9%	8.5%	7.8%	2002	(14.8%)	(17.1%)	(22.1%)	(15.2%)	7.3%	107	\$7,786		N/A	N/A	N/A	0.9%
15-Year*	10.9%	7.7%	10.0%	7.7%	2003	40.4%	36.5%	28.7%	31.1%	11.7%	126	\$23,976		25.2%	18.1%	16.0%	0.9%
10-Year*	13.1%	9.7%	13.9%	10.9%	2004	4.8%	2.0%	10.9%	16.9%	(6.1%)	189	\$25,252		20.1%	14.9%	14.8%	1.0%
5-Year*	8.6%	5.4%	16.3%	11.8%	2005	4.4%	1.6%	4.9%	6.9%	(0.5%)	179	\$23,399		11.7%	9.0%	9.7%	0.8%
3-Year*	6.5%	3.4%	16.8%	11.0%	2006	27.0%	23.6%	15.8%	22.3%	11.3%	171	\$19,132		7.6%	6.8%	7.0%	1.7%
1-Year	52.4%	47.9%	56.3%	58.3%	2007	2.1%	(0.7%)	5.5%	(1.0%)	(3.4%)	197	\$20,510		8.4%	7.7%	8.3%	0.7%
YTD	3.6%	2.8%	6.2%	11.9%	2008	(22.3%)	(24.5%)	(37.0%)	(36.2%)	14.7%	29	\$8,299	\$291,644	18.6%	15.1%	15.5%	N/A
QTD	3.6%	2.8%	6.2%	11.9%	2009	31.5%	27.6%	26.5%	19.8%	5.0%	37	\$14,001	\$533,832	25.2%	19.6%	21.3%	2.0%
					2010	6.9%	3.7%	15.1%	16.3%	(8.2%)	51	\$7,429	\$751,909	27.9%	21.9%	23.5%	0.7%
					2011	(1.7%)	(4.6%)	2.1%	(0.1%)	(3.8%)	53	\$7,694	\$937,487	23.7%	18.7%	21.0%	0.6%
					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%
					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%
					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%
					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%
					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%
					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%
					2018	(18.8%)	(21.2%)	(4.4%)	(8.6%)	(14.4%)	1,494	\$236,097	\$5,486,737	11.9%	10.8%	11.1%	0.8%
					2019	28.6%	24.7%	31.5%	26.2%	(2.9%)	1,129	\$230,991	\$7,044,708	13.6%	11.9%	12.0%	0.7%
					2020	9.5%	6.2%	18.4%	2.9%	(8.9%)	745	\$165,389	\$6,889,798	20.0%	18.5%	20.0%	1.3%

*Average annualized returns

**Inception is 4/1/2000

Portfolio Benchmarks

S&P 500® Index – A capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 3000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 3000® 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.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. 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.

¹ Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

² 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 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 near-term catalysts. Catalysts include reorganizations, turnarounds, and other unique situations that are anticipated to come to fruition in approximately 6-18 months. This short-term investment time frame often leads to high turnover. *Because of the concentrated positions, the portfolio is more susceptible to movements of any one holding.*

**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.

Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy can be obtained by contacting Confluence. 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. Top 5 contributors/detractors reflects the strategy's best and worst performers, based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. 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. 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. Indices: The S&P 500 Index and Russell 3000 Value Index are shown as additional information. These indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only & do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.