

Equity Strategies • Value Opportunities

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 10-12 holdings and is expected to result in high annual turnover. The strategy is suitable for clients seeking an aggressive approach to generating capital appreciation.

Strategy Commentary

The S&P 500 returned 4.3% in the second quarter and 18.5% year-to-date. By comparison, Value Opportunities increased 9.3% in the second quarter and is up 20.1% year-to-date (both gross of fees). *(The strategy was up 8.5% and 18.3% (net of fees), respectively, over the same periods. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.2 for fee description; actual investment advisory fees may vary.)*

The S&P 500 posted a solid return in the second quarter, but it was a wild ride getting there with the market up 4.0% in April, down 6.4% in May and up 7.0% in June. As in past quarters, trade and interest rates continue to be primary economic topics. While the odds of a quick trade deal with China seem to be decreasing, the main market driver later in the second quarter was falling interest rates. The markets currently ascribe a high probability for a fed funds rate cut in July, but they also indicate that economic concerns triggering the cut will not culminate in recession. It is impossible to predict whether a preemptive cut by the Fed (or a trade deal with China) will successfully jumpstart economic growth, so we stay focused on owning good companies with capable management teams that are trading at a discount to our estimate of intrinsic value.

Value Opportunities has outperformed the S&P 500 year-to-date primarily due to its Consumer Discretionary holdings (Frontdoor and Richemont) along with solid returns in the Technology sector. As we discussed last quarter, Frontdoor continues to rebound strongly from its early challenges as a standalone company, and the new management team must continue to execute on margin improvements and new growth initiatives to drive future returns.

Outperformance has been partially offset by relative underperformance from Natus Medical (sold earlier this year), MSC Industrial (where continued growth has been counteracted by a contracting valuation multiple) and our holdings in the Materials sector. Axalta was up double-digits in the quarter with a catalyst from the board initiating a review of “strategic alternatives,” which looks like it could lead to the sale of this global leader in auto and industrial coatings. The spinoff catalyst at DowDupont was completed in early June, with the company now split into three focused businesses: Dow in commodity chemicals, DuPont in specialty chemicals and Corteva in agriculture seeds and chemicals. Following the spinoff, we expect the real value will be unlocked over the next few years as each management team focuses on maximizing returns as an independent global market leader.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
Frontdoor, Inc.	11.59	2.85
American International Group, Inc.	7.88	1.77
Axalta Coating Systems Ltd.	8.61	1.53
Black Knight, Inc.	12.62	1.32
Compagnie Financière Richemont SA	7.46	1.19
Bottom 5		
Natus Medical Inc.	0.20	0.01
Spectrum Brands Holdings, Inc.	8.72	(0.07)
Dow Inc.	4.51	(0.40)
MSC Industrial Direct Co., Inc.	7.72	(0.83)
DowDuPont Inc.	4.74	(1.03)

(Contribution data shown from a sample account)

ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm’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, 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.

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5 Largest Holdings (as of 6/30/19)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Frontdoor, Inc.	3.7	12.6%
Black Knight, Inc.	9.0	12.3%
Markel Corporation	15.1	9.7%
Axalta Coating Systems Ltd.	7.0	9.6%
American International Group, Inc.	46.3	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. 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.

Performance Composite Returns For Periods Ending 6/30/19

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	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%	5.6%	7.0%	2000**	43.6%	40.7%	(11.1%)	7.3%	54.8%	\$74		N/A	N/A	N/A	N/A	
					2001	1.1%	(1.7%)	(11.9%)	(4.3%)	13.0%	\$7,097		N/A	N/A	N/A	0.4%	
15-Year*	10.9%	7.7%	8.7%	7.8%	2002	(14.8%)	(17.1%)	(22.1%)	(15.2%)	7.3%	\$7,786		N/A	N/A	N/A	0.9%	
					2003	40.4%	36.5%	28.7%	31.1%	11.7%	\$23,976		25.2%	18.1%	16.0%	0.9%	
10-Year*	14.4%	11.0%	14.7%	13.1%	2004	4.8%	2.0%	10.9%	16.9%	(6.1%)	\$25,252		20.1%	14.9%	14.8%	1.0%	
					2005	4.4%	1.6%	4.9%	6.9%	(0.5%)	\$23,399		11.7%	9.0%	9.7%	0.8%	
5-Year*	8.2%	5.0%	10.7%	7.3%	2006	27.0%	23.6%	15.8%	22.3%	11.3%	\$19,132		7.6%	6.8%	7.0%	1.7%	
					2007	2.1%	(0.7%)	5.5%	(1.0%)	(3.4%)	\$20,510		8.4%	7.7%	8.3%	0.7%	
3-Year*	7.2%	4.0%	14.2%	10.2%	2008	(22.3%)	(24.5%)	(37.0%)	(36.2%)	14.7%	\$8,299	\$291,644	18.6%	15.1%	15.5%	N/A	
					2009	31.5%	27.6%	26.5%	19.8%	5.0%	\$14,001	\$533,832	25.2%	19.6%	21.3%	2.0%	
1-Year	(0.9%)	(3.9%)	10.4%	7.3%	2010	6.9%	3.7%	15.1%	16.3%	(8.2%)	\$7,429	\$751,909	27.9%	21.9%	23.5%	0.7%	
YTD	20.1%	18.3%	18.5%	16.0%	2011	(1.7%)	(4.6%)	2.1%	(0.1%)	(3.8%)	\$7,694	\$937,487	23.7%	18.7%	21.0%	0.6%	
QTD	9.3%	8.5%	4.3%	3.7%	2012	28.5%	24.7%	16.0%	17.6%	12.5%	\$9,576	\$1,272,265	18.3%	15.1%	15.8%	0.9%	
					2013	32.3%	28.3%	32.4%	32.7%	(0.1%)	\$18,299	\$1,955,915	13.5%	11.9%	12.9%	0.4%	
					2014	31.6%	27.7%	13.7%	12.7%	17.9%	\$31,040	\$2,589,024	11.4%	9.0%	9.4%	0.9%	
					2015	2.3%	(0.7%)	1.4%	(4.1%)	1.0%	\$113,587	\$3,175,419	10.8%	10.5%	10.7%	0.3%	
					2016	15.4%	12.0%	12.0%	18.4%	3.4%	\$207,565	\$4,413,659	10.9%	10.6%	11.0%	0.5%	
					2017	14.5%	11.1%	21.8%	13.2%	(7.3%)	\$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%

*Average annualized returns
**Inception is 4/1/2000

Portfolio Benchmarks

S&P 500 Index – A capitalization-weighted index of 500 stocks. The Index is 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.

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

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. 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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 near-term catalysts. 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. 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. 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. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable than alternative investments, including the risk that our estimate of intrinsic value may never be realized by the market or that the price goes down. **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.