

## 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

During the second quarter of 2021, the stock market continued to calibrate between a rebounding economy, elevated inflation, and potential interest rate actions from the Federal Reserve. As a result, the strong run by economically sensitive value stocks year-to-date reversed some in June as long-term interest rates trended down from the highs in March. Currently, the market consensus is that the post-pandemic inflation surge is transitory, and the Fed will still take the punch bowl away before inflation gets out of hand. With expectations for continued low interest rates, the Russell 3000 Growth Index surged 6.2% in June, while the Russell 3000 Value Index declined 1.1%, but year-to-date the growth index is still trailing at 12.7% versus 17.7% for the value index.

This back and forth will likely continue for a while as the economic consensus fluctuates between two outlooks. One outlook forecasts a post-pandemic economic boom fueled by unlimited monetary and fiscal stimulus that brings higher inflation and interest rates that favor economically sensitive value stocks (Financials, Industrials, Energy, Materials, etc.). Meanwhile, the other outlook anticipates the pre-pandemic world of low inflation, low interest rates, and slow economic growth, which favors growth stocks (FAANG+, etc.) that can grow in most environments.

Despite much economic and market uncertainty, our investment philosophy continues to be durable as the process results in owning competitively advantaged businesses that tend to be economically sensitive but also have pricing power, and these businesses are purchased at valuations not dependent upon low interest rates in perpetuity. As such, we continue to stay focused on owning quality companies with good management teams and trading at attractive valuations.

### Strategy Commentary

The S&P 500 continued its upward march in the second quarter with a return of 8.5%, resulting in a year-to-date return of 15.2%. Confluence Value Opportunities trailed the market with a 0.3% return in the second quarter, bringing the year-to-date return to 3.9% (both gross of fees). *[Net-of-fees returns for the same periods were -0.4% QTD and +2.4% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.]*

The portfolio's relative underperformance in 2021 can be entirely attributed to holdings in the Financials and Consumer Discretionary sectors. The Financials sector is up 26% year-to-date as banks and diversified financials have benefited from rising interest rates and a rebounding economy. Over the first six months of 2021, Market has performed well given rising commercial insurance rates, but BRP Group and Cannae have been the weakest performers.

BRP is a fast-growing commercial insurance broker that has a strong management team and culture that should continue to attract high-quality acquisitions and drive above-average organic growth. As recent acquisitions and double-digit organic growth continue to flow through over the next 12 months, this should be a solid catalyst for the stock. Cannae is underperforming in 2021 as the market is valuing the company at a significant discount to the publicly traded value of its portfolio holdings. The chairman of Cannae, Bill Foley, has a long track record of successfully acquiring, growing, and then monetizing good businesses. As Cannae's portfolio of companies continues to grow in intrinsic value, we feel confident that Foley and the team will find a way to eventually monetize these holdings at full value, which should provide material upside to Cannae's stock price from current levels.

The Consumer Discretionary sector is up 10% year-to-date as retailers and makers of consumer durables and apparel continue to rebound following the pandemic. In the portfolio, Frontdoor and Booking Holdings are flat year-to-date after strong rebounds in 2020, while Dollar Tree is down. Dollar Tree is a retailer that straddled both sides of the pandemic impact. The namesake Dollar Tree stores were negatively impacted since they sell mostly discretionary items (e.g., party supplies, crafts), while the company also operates Family Dollar stores which thrived as they sell mostly staples (food, cleaning supplies). In 2021, the stock has lagged as those tailwinds and headwinds are changing along with challenges from pricing everything at \$1 at Dollar Tree in an inflationary environment. Still, as the pandemic dust settles, we expect it will again be clear that Dollar Tree has a unique, durable retail model that can adapt to higher inflation and should benefit greatly from strong consumer spending.

Continued on page 2...

## Value Opportunities • Value Equity Strategies

## Strategy Commentary continued...

During the second quarter, we sold Avanos Medical at a gain in order to add Gates Industrial to the portfolio. Gates is a global leader in branded, quality replacement and first-fit belts and hoses for autos and industrial vehicles. The company's competitive advantage and niche position result in solid margins and high free cash flow. A private equity firm acquired Gates through a leveraged buyout in 2014 and then took the company public in early 2018. As management continues to pay down debt from the buyout and global vehicle sales and repairs rebound post-pandemic, further recognition of the company's attributes should be a solid catalyst for the stock, especially given its very attractive valuation.

As a concentrated, value-focused portfolio, returns can differ dramatically from the index over the short term. With that said, high-quality growing businesses that are trading at attractive valuations in a fully valued market should outperform over the long term.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Charles River Laboratories International, Inc.	9.60	2.31
Healthcare Services Group, Inc.	8.25	1.03
Vontier Corporation	8.97	0.63
Markel Corporation	9.46	0.38
NXP Semiconductors N.V.	11.35	0.33
<b>Bottom 5</b>		
Avanos Medical, Inc.	Sold	(0.22)
Booking Holdings Inc.	9.24	(0.57)
Frontdoor, Inc.	11.15	(0.83)
Cannae Holdings, Inc.	7.49	(1.15)
Dollar Tree, Inc.	10.24	(1.42)

The top contributors and detractors year-to-date:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Charles River Laboratories International, Inc.	8.90	3.53
NXP Semiconductors N.V.	11.07	2.93
Markel Corporation	9.09	1.30
Healthcare Services Group, Inc.	8.32	1.11
Gates Industrial Corporation plc	1.43	0.20
<b>Bottom 5</b>		
Vontier Corporation	9.06	(0.25)
Avanos Medical, Inc.	Sold	(0.57)
Dollar Tree, Inc.	10.30	(0.80)
BRP Group, Inc.	7.12	(0.92)
Cannae Holdings, Inc.	7.91	(2.17)

*(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.

## Value Opportunities • Value Equity Strategies

### 5 Largest Holdings (as of 6/30/21)

Company	Market Capitalization ( <i>\$ billions</i> )	Portfolio Weight
NXP Semiconductors N.V.	56.7	12.0%
Charles River Laboratories Int'l, Inc.	18.6	11.2%
Frontdoor, Inc.	4.3	10.2%
Dollar Tree, Inc.	23.1	9.4%
Healthcare Services Group, Inc.	2.4	9.3%

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 June 30, 2021)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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**	11.2%	8.0%	7.1%	7.7%	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*	9.3%	6.1%	8.6%	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%	7.6%	10.7%	8.0%	2003	40.4%	36.5%	28.7%	31.1%	11.7%	126	\$23,976		25.2%	18.1%	16.0%	0.9%
10-Year*	13.2%	9.8%	14.8%	11.5%	2004	4.8%	2.0%	10.9%	16.9%	(6.1%)	189	\$25,252		20.1%	14.9%	14.8%	1.0%
5-Year*	8.4%	5.2%	17.6%	12.0%	2005	4.4%	1.6%	4.9%	6.9%	(0.5%)	179	\$23,399		11.7%	9.0%	9.7%	0.8%
3-Year*	6.4%	3.3%	18.7%	12.2%	2006	27.0%	23.6%	15.8%	22.3%	11.3%	171	\$19,132		7.6%	6.8%	7.0%	1.7%
1-Year	28.9%	25.1%	40.8%	45.4%	2007	2.1%	(0.7%)	5.5%	(1.0%)	(3.4%)	197	\$20,510		8.4%	7.7%	8.3%	0.7%
YTD	3.9%	2.4%	15.2%	17.7%	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	0.3%	(0.4%)	8.5%	5.2%	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 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.

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

<sup>2</sup> 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.**