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 S&P 500 returned 10.6% year-to-date, mostly from a 7.7% increase in the third quarter. Value Opportunities has trailed the benchmark in 2018, down 1.7% year-to-date and 0.2% in the third quarter (both gross of fees) . *(The portfolio was down 3.9% and 0.9% (net of fees), respectively, over the same time periods. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p. 3 for fee description; actual investment advisory fees may vary.)*

The broad equity markets have been strong over the past 18-24 months as the economic backdrop, aided by tax reform and regulatory relief, provided a nice tailwind for earnings growth. Although strength in the domestic economy has been relatively broad based, equity returns have not. At this stage in the bull market, investors are increasingly leaning toward businesses that exhibit above-average sales growth/momentum while paying less attention to valuations. In fact, the Russell Growth indices have been handily outperforming their Value counterparts the past two years (see table below).[1]

Index	2017	2018 (thru Sept)
S&P 500	21.8%	10.6%
Russell 3000 Value	13.2%	4.2%
Russell 3000 Growth	29.6%	17.0%

Delving deeper into the broader market returns, it reveals that only a handful of names have been driving the market, named by the financial media as the FAANG stocks, an acronym for the underlying businesses (Facebook, Amazon, Apple, Netflix and Google). In fact, returns thus far in 2018, through September are concentrated such that seven stocks in the S&P 500 have contributed 44% of the overall return (shown in the next table).[2] Those stocks are the FAANG stocks plus NVIDIA and Microsoft. As illustrated, the five largest names in the S&P 500 represent 15% of the S&P 500 and have garnered a disproportionate amount of flows as evidenced by their outsized returns, except Facebook. *(Names mentioned in this paragraph are not owned in Value Opportunities.)*

S&P 500 Cap Rank	Symbol	Avg % Wgt	Total Return	Contribution	% Contribution
1	Apple	3.98%	34.92%	1.32%	12.45%
2	Microsoft	3.22%	35.43%	1.03%	9.72%
3	Amazon	2.77%	71.27%	1.47%	13.87%
4	Alphabet - Google	2.59%	14.32%	0.40%	3.77%
5	Facebook	1.83%	(6.80%)	(0.11%)	(1.04%)
32	NVIDIA	0.63%	45.49%	0.24%	2.26%
35	Netflix	0.60%	94.90%	0.35%	3.30%
	Total	**15.62%**		**4.70%**	**44.34%**

[2] *Source: SPDR S&P 500 ETF (SPY)*

This is clearly a period in which the risk profile of the S&P 500 has increased as investors' focus shifts away from managing risk (preserving capital) to the potential of higher returns. As discussed, growth has outperformed value for several years now, but historically these investment styles have reverted to the mean over a market cycle. We view risk as the probability of a permanent loss of capital, not volatility or deviation from a stated benchmark, and we focus on managing risk and maintaining a consistent risk profile throughout the cycle. It is important to note that we are long-term investors that strive to beat the markets on average and over long periods but will vary from the market in any given period. We are willing to accept returns that may vary from the broad market, especially during periods driven primarily by multiple/valuation expansion or narrowly focused environments. Our long history has shown that by protecting capital on the downside we don't need to enhance risk on the upside to outperform over the long-term. To quote Alabama coach Bear Bryant, "Offense sells tickets, but defense wins championships."

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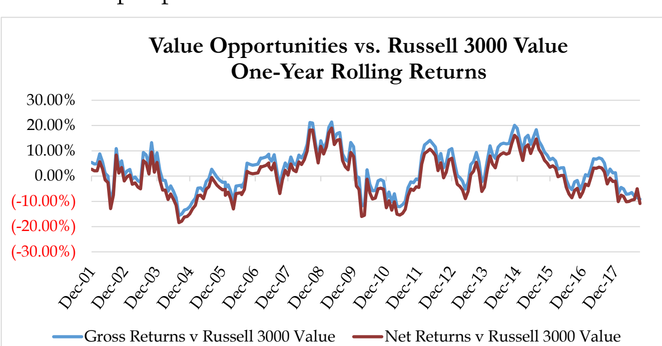
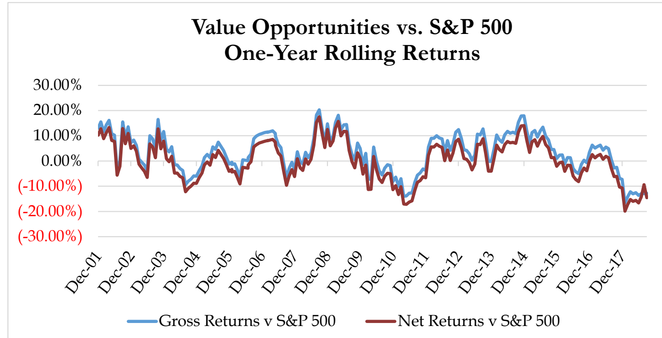
Portfolio Commentary continued…

In a concentrated portfolio, like Value Opportunities, the handful of businesses you invest in and the prices you pay will drive performance over the long term. Despite its concentrated positions, our quality and valuation bias have proven to provide downside protection over the long term despite the portfolio's focus on a handful of businesses. It is important to highlight that the concentration, not the underlying businesses, is why this portfolio is termed aggressive. As a result, in the late years of a bull market downside risks are a faded memory for many, but our team continues to stay focused on consistently executing the investment process and philosophy we have held since inception.

No doubt the recent returns for Value Opportunities have been frustrating. Sometimes investors need to be reminded, usually when the previous bear market has been forgotten, that equity returns are lumpy and Value Opportunities is a concentrated portfolio of 10-12 businesses. Hence, we would expect the portfolio to produce lumpy returns—and it has! We would also expect the portfolio results to vary from period-to-period relative to the underlying benchmarks (Russell 3000 Value and S&P 500). In fact, analyzing the rolling one-year returns from the end of 2000 thru 9/2018 (17.75 years) relative to the Russell 3000 Value produces a standard deviation of 8.19% per period.[3] The chart below illustrates the tracking error on a rolling basis vs. the Russell 3000 Value; if the line is above 0% then Value Opportunities is outperforming. For comparison a chart of the S&P 500 is shown that produces similar results, a standard deviation of 7.91% per period.[3]





As illustrated, it's not the first time we've lagged relative to the benchmarks and it will not be the last, but rest assured it is the same team deploying the same philosophy at the helm today that produced the long-term results.

Looking forward, we expect continued economic expansion as monetary policy remains accommodative and fiscal policy leans toward a friendlier business climate, resulting in a more optimistic business outlook. We also expect inflation and inflation expectations to remain in check near current levels, which supports market valuations. We continue to work diligently to put cash to work in a prudent fashion but acknowledge it is taking a little longer than normal. As always, we remain focused on company-specific fundamentals and growth prospects, and believe the current market will continue to provide us with opportunities to buy quality companies at reasonable prices.

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

Security	Avg Wgt	Return	Contrib
Top 5			
Allergan Inc.	8.45	14.69	1.14
Markel Corp.	11.00	9.60	0.98
MSC Industrial Direct Co. Inc.	7.77	4.57	0.35
Natus Medical Inc.	7.20	3.33	0.24
American International Group Inc.	7.76	1.02	0.08
Bottom 5			
Compagnie Financiere Richemont SA	7.82	(2.73)	(0.21)
Black Knight Inc	10.88	(2.99)	(0.33)
Axalta Coating Systems LTD	8.92	(3.79)	(0.34)
Spectrum Brands Holdings Inc	9.20	(7.98)	(0.69)
NXP Semiconductors N.V.	4.13	(21.59)	(0.82)

(Attribution data shown from a sample account)

5 Largest Portfolio Holdings (as of 9/30/18)

Company	Market Capitalization *($ billions)*	Portfolio Weight
Black Knight, Inc.	7.8	10.6%
Markel Corporation	16.5	10.5%
DowDuPont Inc.	148.4	10.0%
Allergan plc	64.7	9.5%
Axalta Coating Systems Ltd.	7.0	9.0%

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 9/30/18

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	S&P 500	R3000 Value
QTD	(0.2%)	(0.9%)	7.7%	5.4%
YTD	(1.7%)	(3.9%)	10.6%	4.2%
1-Year	0.5%	(2.5%)	17.9%	9.4%
3-Year*	9.9%	6.7%	17.3%	13.7%
5-Year*	13.3%	10.0%	13.9%	10.6%
10-Year*	12.5%	9.2%	12.0%	9.8%
15-Year*	11.6%	8.4%	9.7%	8.9%
Since Inception**	11.8%	8.6%	5.7%	7.2%

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

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).
The Value Opportunities Strategy was incepted 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.

	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
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

**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.

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.

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. The Confluence team has more than 400 years of combined financial experience and 200 years of portfolio management experience.