

Equity Strategies • Value Opportunities

The Value Opportunities portfolio 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 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 portfolio returned 15.4% in 2016 and was up 3.4% in the fourth quarter (gross of fees). The S&P 500 increased 12.0% for the year and 3.8% for the quarter.

For detailed performance data and disclosures see:
<http://www.confluenceinvestment.com/products-performance/equity-strategies>

Several changes were made to the portfolio in 2016 and a number of holdings contributed to the outperformance. MSC (industrial distributor) and RE/MAX were up 68% and 53%, respectively, in anticipation of stronger economic growth. Stryker (orthopedic devices) continues to execute and outperform, but its contribution was partially offset by losses from Express Scripts, sold in April. Retailers Bed Bath & Beyond and Lowe's were also drags on performance in 2016.

During the fourth quarter we exited our positions in Brown and Brown (insurance brokerage) and Bed Bath & Beyond, and purchased Donnelley Financial Solutions and Allergan. We sold Brown and Brown after it experienced significant valuation expansion and Bed Bath & Beyond was sold as secular headwinds in retail have outweighed the possibility of near-term catalysts.

Donnelley Financial Solutions specializes in software utilities used primarily to file financial documents with the SEC. Following its spin-off from RR Donnelley in October, the stock traded down to a valuation that provided an attractive opportunity. As it pursues objectives and establishes its track record as an independent company, its

growth, capital allocation and valuation should provide catalysts for the stock.

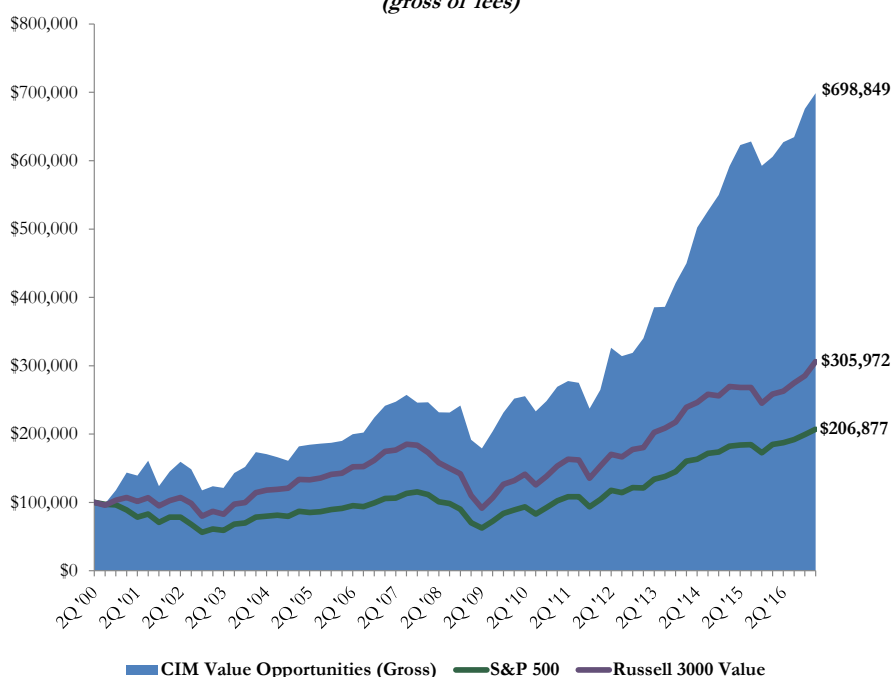
Allergan is a pharmaceutical company with several durable franchises. About 25% of revenue is related to Botox with another 25% from eye care and the remaining 50% from women's health, central nervous system, gastrointestinal and hypertension-related drugs. The stock traded off after regulators blocked Pfizer's acquisition offer and due to continued controversy over pharmaceutical price increases. The stock has several potential catalysts from solid growth prospects and an appealing valuation, made even more attractive by the timely sale of its generic drug business (at full valuation) with proceeds used to pay down debt, initiate a dividend, buy back stock and make tuck-in acquisitions.

2016 began with the market down 10% on recession fears and ended with a U.S. president elected on a populist platform, followed by a spike in interest rates and a stock market surge to finish the year up 12%. These unanticipated events confirmed once again that no one can predict the future. At Confluence, we don't attempt to predict the future, but instead stick to a time-tested philosophy (buying good companies with good management teams at discounts to intrinsic value) and deal with the risks and opportunities as they develop. Investor and economic sentiment ended 2016 on a high, but 2017 could present buying opportunities as expectations are reconciled with policy actions, economic growth and world events.

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Top 5 Portfolio Holdings (as of 12/31/16)

Company	Market Capitalization (\$ billions)	Portfolio Weight
American International Group Inc	67.1	10.0%
Stryker Corp.	44.9	9.2%
Allergan Inc	78.8	9.1%
Markel Corp.	12.7	8.7%
Compagnie Financiere Richemont SA	34.0	8.7%

Investment of \$100,000
(gross of fees)

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. 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. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

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