

## 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

Good Riddance to 2018! The year was the worst relative performance year in the 18+-year history of Value Opportunities. It was an utterly frustrating year considering the caliber and valuations of the businesses in the portfolio. So, what happened? A number of good businesses that were trading at attractive valuations are now trading at even better valuations, proving even cheap stocks can get a lot cheaper. In a concentrated portfolio like Value Opportunities, generally holding 10-12 names, individual businesses will heavily influence the results. A handful of companies (AIG, SPB, FTDR, AXTA) failed to meet and/or guided down expectations during the third quarter's earnings release. While this did justify some price pressure on the shares, the harsh price declines were unwarranted, in our view. We see the issues as primarily short-term in nature and the share price reactions as excessive, but there was no tolerance for disappointment in the midst of the fourth quarter broad market correction that pushed the S&P 500 down 13.5% and the small cap Russell 2000 down 20.2%. The end result was a horrendous fourth quarter and year, with portfolio returns of -17.4% and -18.8%, respectively (gross of fees). This compares to the S&P 500 and Russell 3000 Value, which had fourth quarter returns of -13.5% and -12.2%, respectively. For the year, the S&P 500 returned -4.4% and the Russell 3000 Value -8.6%. *(The portfolio was down 18.0% and 21.2% (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.2 for fee description; actual investment advisory fees may vary.)*

We entered 2018 fully cognizant of the bifurcation occurring in the market as growth had dramatically outperformed value in 2017 (Russell 3000 Growth +29.6% vs. Value +13.2%), but we stayed true to our value discipline. The portfolio was positioned in businesses that were trading at large discounts to what we perceive is their intrinsic value as opposed to the faster growing and oft-higher valued market

leaders. These trends remained in place for much of 2018 and Value Opportunities lagged going into the fourth quarter. The sharp correction in Q4 helped recalibrate the market bifurcation but also negatively impacted some companies in the portfolio as mentioned above.

It's not the first time we've lagged relative to the benchmarks, and it won't be the last, but rest assured it is the same team at the helm today deploying the same philosophy that produced the solid long-term results. While a year like 2018 is never enjoyable, it serves as a reminder that equity returns are lumpy and we would expect a concentrated portfolio like Value Opportunities to produce lumpy returns, and it has. As we look forward to 2019, the fundamentals of the businesses in the portfolio remain sound and the valuations are extremely compelling, providing ample upside potential. Our team remains dedicated to the task of finding quality businesses trading at bargain prices, focusing on company-specific fundamentals and valuations, and we believe the current market will continue to provide us with opportunities.

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Natus Medical Inc.	7.82	(0.26)
FrontDoor Inc.	5.47	(0.50)
NXP Semiconductors N.V.	7.30	(0.99)
MSC Industrial Direct Co., Inc.	8.90	(1.02)
Allergan plc	3.50	(1.13)
<b>Bottom 5</b>		
Markel Corporation	12.03	(1.53)
DowDuPont Inc.	10.04	(1.62)
Axalta Coating Systems Ltd.	8.64	(1.73)
American International Group, Inc.	7.37	(2.03)
Spectrum Brands Holdings, Inc.	7.93	(3.87)

*(Contribution data shown from a sample account)*

**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.** This 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, Russell 3000 Growth and Russell 3000 Value 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.

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### 5 Largest Portfolio Holdings (as of 12/31/18)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Black Knight, Inc.	6.7	11.1%
Markel Corporation	14.4	11.0%
DowDuPont Inc.	122.7	10.1%
FrontDoor Inc.	2.2	9.4%
Axalta Coating Systems Ltd.	5.6	8.9%

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 12/31/18

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value	Confluence claims compliance with the Global Investment Performance Standards (GIPS®).
QTD	(17.4%)	(18.0%)	(13.5%)	(12.2%)	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.
YTD	(18.8%)	(21.2%)	(4.4%)	(8.6%)	
1-Year	(18.8%)	(21.2%)	(4.4%)	(8.6%)	
3-Year*	2.4%	(0.6%)	9.2%	7.0%	<sup>1</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.
5-Year*	7.6%	4.5%	8.5%	5.8%	<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.
10-Year*	13.0%	9.6%	13.1%	11.1%	
15-Year*	9.2%	6.0%	7.8%	7.0%	
Since Inception**	10.5%	7.3%	4.8%	6.3%	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.

\*Average annualized returns

\*\*Inception is 4/1/2000

	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
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%
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 500 years of combined financial experience and 300 years of portfolio management experience.