

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

The S&P 500 Index increased 12.1% in the fourth quarter of 2020 for a full-year return of 18.4%. Value stocks overall had a strong finish to the year, with the Russell 3000 Value Index up 17.2% in the fourth quarter, bringing its full-year return to 2.9% in 2020.

Much like the Kansas City Chiefs' come-from-behind road to the Super Bowl this year, the final score for the S&P 500 in 2020 tells you nothing about the ups and downs that transpired. For both the Chiefs and the stock market, if you had stopped watching after the ugly first quarter you would have been shocked when you saw the final score.

This epic comeback in the markets was supported by government stimulus and an effective vaccine emerging in early November, but the real stars were the "Top Five" FAANG+ stocks. In 2020, the Top Five (Apple, Microsoft, Amazon, Google, Facebook) were up on average 53% and represented 21.7% of the S&P 500 Index at year-end. These high-quality businesses thrived during the pandemic and have become must-own stocks for most investors—much like the "Nifty Fifty" stocks in the 1970s. Due to the heavy weighting of the Top Five, the S&P 500 Index returned 18.4% in 2020 versus the 12.8% return for the S&P 500 Equal Weight Index, which is a better indicator of how stocks performed on average in 2020. This bifurcation between the top growth stocks and everything else is even more evident in the Russell 3000 Growth Index, which returned 38.3% in 2020 and outperformed the Russell 3000 Value by 35.4%!

As the market continues to mark new highs, there are some indications that we are in a speculative environment. There seems to be a gravitational pull from Tesla's stock increasing 14-fold in a matter of 15 months to become the sixth largest stock in the S&P 500 when it was added to the index on 12/21/20 with a market cap of \$650 billion. As a result, the now "Top Six" FAANG+ stocks had a year-end market cap of \$8.2 trillion. This magnitude of wealth creation changes investor behavior and has correlated with a proliferation of

SPACs (many focused on electric vehicles), a hot IPO market, increased option trading, and stories of individual investors day trading and gambling online during the pandemic.

Bull markets tend to surge higher and last longer than anyone would expect, but then just seem to stop one day. As the dust settles from the pandemic, markets will continue to evaluate the "normalized" economic environment (along with any headwinds from collateral damage and higher debt levels). Will the U.S. return to sluggish 2% GDP growth or will a "postwar" boom jumpstart higher growth? Longer term, rising asset values and valuation multiples will likely continue until sentiment changes around "ZIRP and low inflation forever."

Despite the stock market's final score, living through the ups and downs of 2020 reminds us again of just how unpredictable the future can be and how important it is to have a solid investment philosophy that avoids speculation. As a result, we will continue to stay focused on owning high-quality companies with good management teams that are trading at discounts to our estimate of intrinsic value.

Strategy Commentary

Confluence Value Opportunities finished the year with a very strong fourth quarter return of 20.2%, resulting in a full-year return of 9.5% (both gross of fees). Overall, this value-focused portfolio meaningfully outperformed in the most recent quarter but trailed for the year as the quarter was not enough to offset underperformance from previous quarters. [*Net-of-fees returns were +19.3% QTD and +6.2% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

Value Opportunities tends to be concentrated in value-oriented holdings that are driven more by economic fundamentals, and not the FAANG+ stocks that seem to be priced for perpetual growth. As a result, the full-year underperformance was primarily driven by being underweight Technology and overweight Financials.

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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.

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Strategy Commentary continued...

The opportunistic purchases made during the first quarter sell-off (Charles River, Booking Holdings, Dollar Tree, Healthcare Services Group) had strong returns for the year, but these gains were partially offset by the positions sold (Spectrum Brands, the Dow DuPont spin-offs, Black Knight) to fund the new buys.

During the fourth quarter, BRP Group and Vontier were added to the portfolio, while Axalta, Berkshire Hathaway, and Richemont were sold to fund these new opportunities. BRP Group is a national commercial insurance broker that has a strong culture and strategy for organic growth. Additionally, management has a solid model for acquiring insurance brokers that share a similar culture and focus on long-term growth. BRP was added to the portfolio at a fair valuation given its growth attributes, in our estimate, and we believe it has a long runway for continued growth.

Vontier is an industrial that leads the market for retail fuel pumps and is the second largest manufacturer of hand tools for automotive repair. With the recent spin-off from Fortive, Vontier is now focused on reinvesting its substantial cash flow into attractive acquisition opportunities. Vontier was purchased at an attractive valuation following the spin-off, and we expect the quality of the business along with the high free cash flow should provide the company a lot of optionality for adding value.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Frontdoor, Inc.	11.14	3.13
NXP Semiconductors N.V.	10.63	2.99
Avanos Medical, Inc.	7.46	2.59
Booking Holdings Inc.	7.91	2.58
Healthcare Services Group, Inc.	5.84	2.03
Bottom 5		
Charles River Laboratories International	7.79	0.85
Markel Corporation	8.92	0.58
BRP Group, Inc.	4.62	(0.12)
Compagnie Financière Richemont SA	Sold	(0.29)
Berkshire Hathaway Inc. (Class B)	Sold	(0.51)

The top contributors and detractors for the full year:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Charles River Laboratories International	5.58	6.03
Booking Holdings Inc.	5.47	4.28
NXP Semiconductors N.V.	10.08	2.92
Dollar Tree, Inc.	9.85	2.74
Healthcare Services Group, Inc.	4.28	2.52
Bottom 5		
Compagnie Financière Richemont SA	Sold	(1.34)
Axalta Coating Systems Ltd.	Sold	(1.68)
Markel Corporation	10.07	(1.72)
DuPont de Nemours, Inc.	Sold	(1.92)
Spectrum Brands Holdings, Inc.	Sold	(5.30)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

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5 Largest Holdings (as of 12/31/20)

Company	Market Capitalization (<i>\$ billions</i>)	Portfolio Weight
Frontdoor, Inc.	4.3	10.7%
Dollar Tree, Inc.	25.4	10.5%
NXP Semiconductors N.V.	44.5	10.0%
Vontier Corporation	5.6	9.5%
Cannae Holdings, Inc.	4.1	9.5%

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 12/31/20

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Calendar Year	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%	6.6%	7.0%	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*	9.7%	6.5%	7.5%	6.9%	2002	(14.8%)	(17.1%)	(22.1%)	(15.2%)	7.3%	107	\$7,786		N/A	N/A	N/A	0.9%
15-Year*	11.0%	7.8%	9.9%	7.3%	2003	40.4%	36.5%	28.7%	31.1%	11.7%	126	\$23,976		25.2%	18.1%	16.0%	0.9%
10-Year*	13.0%	9.7%	13.9%	10.4%	2004	4.8%	2.0%	10.9%	16.9%	(6.1%)	189	\$25,252		20.1%	14.9%	14.8%	1.0%
5-Year*	8.6%	5.4%	15.2%	9.7%	2005	4.4%	1.6%	4.9%	6.9%	(0.5%)	179	\$23,399		11.7%	9.0%	9.7%	0.8%
3-Year*	4.6%	1.5%	14.2%	5.9%	2006	27.0%	23.6%	15.8%	22.3%	11.3%	171	\$19,132		7.6%	6.8%	7.0%	1.7%
1-Year	9.5%	6.2%	18.4%	2.9%	2007	2.1%	(0.7%)	5.5%	(1.0%)	(3.4%)	197	\$20,510		8.4%	7.7%	8.3%	0.7%
YTD	9.5%	6.2%	18.4%	2.9%	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	20.2%	19.3%	12.1%	17.2%	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.

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 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.