

Equity Strategies • All Cap Value

The All Cap Value portfolio is focused on companies ranging in capitalization size and will primarily be a blend of our Large Cap Value and Small Cap Value portfolios. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and are trading at discounts to intrinsic value. The portfolio typically is comprised of 25-30 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Portfolio Commentary

All Cap Value portfolios held up relatively well during the third quarter with a flat performance. By comparison, the S&P 500 Index was down 7.9% over the same period. The portfolio's relative outperformance against the broader market during the quarter was largely due to its limited exposure to the weakest sectors of the market: energy, technology, materials, and utilities.

Although the financial sector was not among the weakest sectors during the quarter, it was events within the financial sector that will ensure the third quarter of 2008 has a place in history books. Either through conservatorship, bankruptcy, or forced merger, Americans witnessed the failings of Freddie Mac, Fannie Mae, American International Group, Washington Mutual, Lehman Brothers, and Merrill Lynch, among others. Equity investors in these companies experienced a significant, and in most cases, permanent loss of capital. Once again, we're reminded of the virtue of investing in what we know and understand. The equity team debated the merits of some of these companies several times over the past 5 years. Every debate ended with the conclusion that we could not understand and or measure the risk we would be assuming by investing in these shares. The fact that these companies were not in our portfolios is not a measure of our intelligence, but rather a function of our discipline.

Unfortunately, the travails of these institutions have consequences. As the third quarter was coming to an end and these prominent institutions lost substantial liquidity, the credit crisis that has been going on for over a year became more acute. The

current troubles in the financial markets, depending on how long they last, can have a direct impact on economic growth and employment. As such, we anticipate increased volatility and additional deleveraging throughout the financial system as investors begin to price in a recession.

Such an environment should provide us with attractive buying opportunities. Clearly, however, it may also mean that some of our existing holdings come under selling pressure. During periods of deleveraging, valuation and fundamental analysis get trumped by margin calls, redemptions, and panic selling. Even the stocks of strong companies with solid prospects for future appreciation are susceptible to forced selling.

During the third quarter, the best performing holdings within the portfolio were TCF Financial and Dr. Pepper Snapple. We have a high degree of confidence in the historical underwriting practices at TCF and expect the company to benefit from consolidation in the banking industry. Shares of Dr. Pepper Snapple were spun off from our original position in Cadbury. At current valuations, we have maintained a position in the shares, but have not made new purchases.

The weakest holdings in the portfolio were EnCana and Cemex. EnCana is a Canadian energy company, and the volatility of its share price has mirrored the dramatic fluctuations in energy prices. Shares of Cemex, a Mexican cement manufacturer, have fallen due to concerns of a global economic slowdown. We don't have immediate plans to sell either of these positions.

Third Quarter
2008

CIM • All Cap Value

Top 10 Portfolio Holdings (as of 9/30/08)

Company	Market Cap (in billions of \$'s)	Portfolio Weight
Berkshire Hathaway	202.9	4.6%
Wal-Mart Stores	235.6	3.4%
PepsiCo Inc.	111.6	3.3%
Western Union	18.0	3.3%
Quest Diagnostics	10.1	3.2%
Thermo Fisher Scientific	23.0	3.2%
Lowe's Companies	34.7	3.1%
Financial Federal Corp.	0.6	3.1%
John Wiley & Sons	2.4	3.1%
Exxon Mobil	403.4	3.1%

Investment Team

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Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to both 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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