All Cap Value

Value Equity Strategies

First Quarter 2025

All Cap Value is focused on companies that range in market capitalization to create a diversified portfolio of businesses with capital appreciation potential. 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 our estimate of intrinsic value. The portfolio typically comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Market Commentary

Financial markets exhibited signs of anxiety during the first quarter of 2025 as concerns began to surface around artificial intelligence (AI) financial models as well as uncertainty surrounding the new administration's economic agenda. The release of the DeepSeek chatbot by its Chinese developer in early January garnered praise for its innovative and, more importantly, cost-effective approach to model development. This prompted investors to reconsider their assumptions regarding AI's capital intensity. In February, tariff discussions began to gain traction, culminating in an announcement of an official release date in early April. This uncertainty triggered a sell-off in broad equity markets, with the S&P 500 declining by approximately 4.3% for the quarter, while the Treasury market rallied as the yield on the 10-year Treasury fell by 33 basis points to 4.24%, reflecting a flight to safety.

The most significant event of the quarter was the DeepSeek release, which introduced a novel approach that could challenge existing AI capital investment requirements and impact returns on prior investments. Since late 2022, equity markets have been heavily influenced by AI developments and the associated capital expenditures required to support them, producing outsized returns in select market segments. Consequently, any downward revision of these lofty expectations could disproportionately affect broader markets. DeepSeek's introduction spurred a market rotation away from the leading technology-oriented Magnificent 7 (M7) stocks toward less expensive areas of the market. A rotation should be viewed as healthy, and overdue for value investors, given the large concentration in the M7.

This shift resulted in value stocks outperforming growth stocks and yield/dividend-oriented businesses leading over non-payers and lower-yielding companies. Moreover, heightened uncertainty kept large cap stocks ahead of small caps, while tariff-related developments favored international markets over domestic ones. (See *Figures 1* and *2*.)

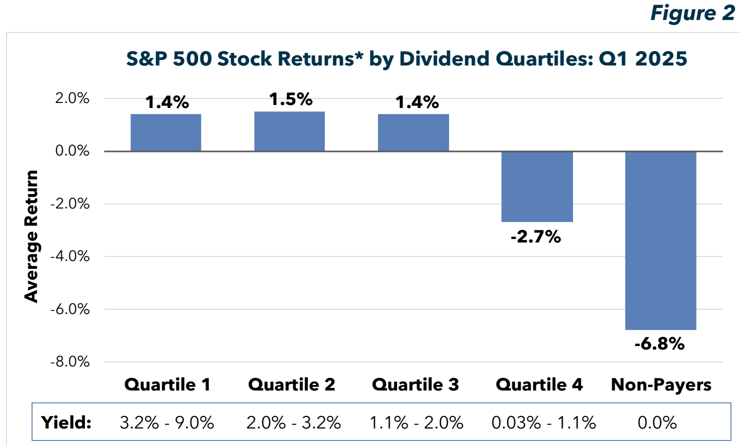
The rotation also influenced sector performance, with the three sectors that hold the M7 stocks – Communication Services (Alphabet and Meta), Consumer Discretionary (Amazon and Tesla), and Information Technology (Microsoft, NVIDIA, and Apple) – emerging as the worst performers during the quarter (see *Figure 3*, sector returns table).

Figure 1

Index	*Q1 2025*	*Index*	*Q1 2025*
Russell 1000	(4.5%)	Russell 2000	(9.5%)
Russell 1000 Growth	(10.0%)	Russell 2000 Growth	(11.1%)
Russell 1000 Value	2.1%	Russell 2000 Value	(7.7%)
S&P 500	(4.3%)	MSCI World ex-US (net)	6.2%

(Sources: Confluence, FTSE Russell, S&P Dow Jones Indices, MSCI)

Figure 2



*Actual Historical Constituents. *Returns through 3/31/2025. (Sources: Confluence, Ned Davis Research)*

Figure 3 – Returns by Sector

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
S&P weight	3.7%	2.0%	14.7%	8.5%	10.3%	29.6%	9.2%	2.3%	11.2%	6.1%	2.5%	100.0%	Weight
Russell Growth weight	0.5%	0.7%	7.7%	4.9%	14.9%	46.2%	12.7%	0.6%	7.8%	3.9%	0.2%	100.0%	
Russell Value weight	7.1%	4.2%	23.2%	14.1%	5.8%	8.7%	4.5%	4.7%	14.8%	8.2%	4.8%	100.0%	
Russell 2000 weight	5.1%	3.9%	19.8%	17.6%	9.1%	12.3%	2.6%	6.4%	16.7%	3.2%	3.2%	100.0%	
QTD	10.2	2.8	3.5	-0.2	-13.8	-12.7	-6.2	3.5	6.5	5.2	4.9	-4.3	Return (%)
YTD	10.2	2.8	3.5	-0.2	-13.8	-12.7	-6.2	3.5	6.5	5.2	4.9	-4.3	

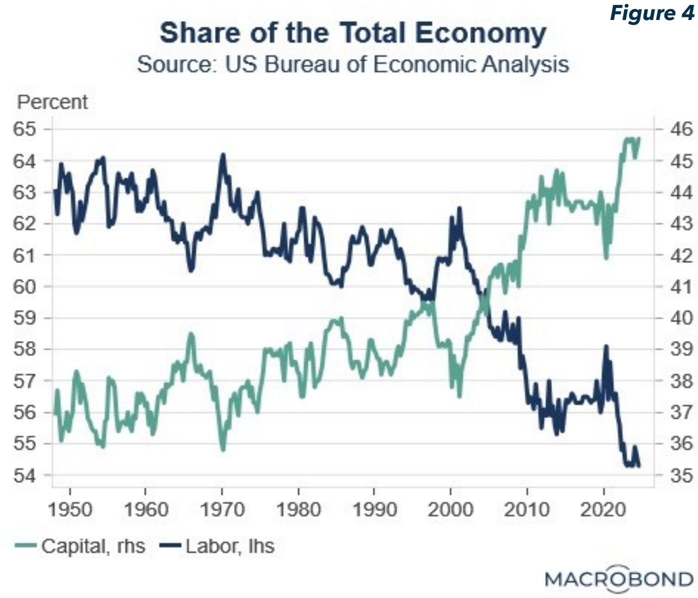
(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 2Q 2025, as of March 31, 2025)

Administration's Impact on Investor Sentiment

While AI dominated attention early in Q1, investor anxiety was heightened when the new administration unveiled its agenda. As this commentary is being written, financial markets remain highly volatile following the end of the quarter — a topic worthy of brief discussion here. For more detailed insights, we encourage readers to follow the regular updates published by our macroeconomic team.

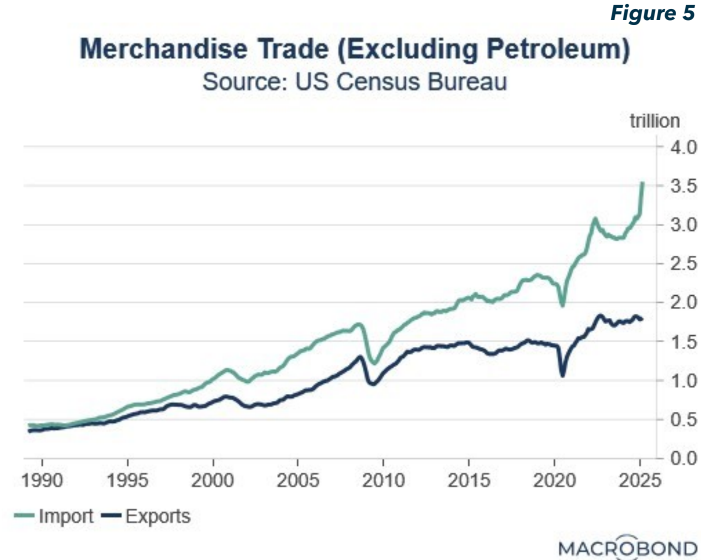
The tariff agenda was revealed in early April and is an attempt to restructure the global order. But why such an aggressive policy when the economy and financial markets appeared to be in good shape? The shift reflects the populist movement that has been gaining momentum for years as global trade has disproportionately benefited capital at labor's expense. *Figure 4* illustrates this trend: Labor's share of total economic output (blue line) remained stable at around 60% from World War II until China joined the World Trade Organization (WTO) in 2001, after which it declined significantly while capital thrived. This imbalance fueled populist movements globally, including the rise of both Bernie Sanders and Donald Trump in 2015 and Brexit across the Atlantic.

Figure 4



The initial step toward benefiting Main Street is a tariff policy designed to rebalance US trade by supporting re-industrialization and thereby creating "good jobs." It also aims to reduce US reliance on critical imports (an issue highlighted during COVID-19), while generating revenue to help address fiscal deficits. Essentially, tariffs act as a consumption tax and production subsidy that should reduce imports, while incentivizing domestic production. *Figure 5* highlights America's persistent trade imbalance, currently over $1.2 trillion.

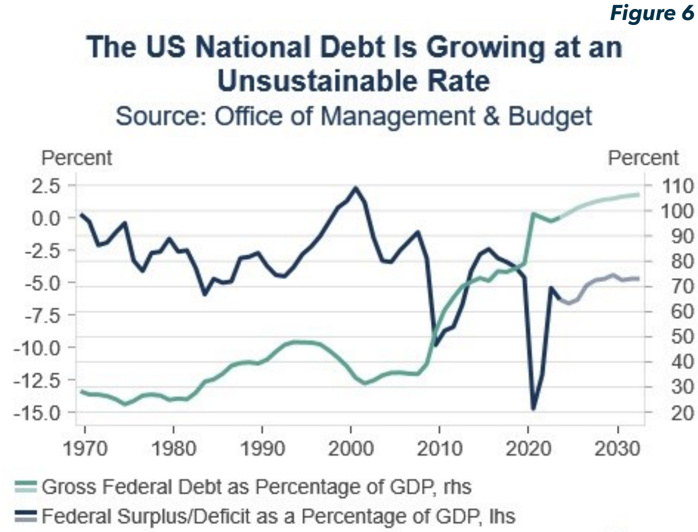
Figure 5



Fiscal Challenges

The agenda also addresses fiscal deficits and national debt levels that have become unsustainable under existing policies. *Figure 6* shows US national debt approaching 100% of GDP alongside fiscal deficits exceeding 5% — a rarity outside wartime or severe crises. The situation must be addressed at some point, or the burden of servicing the debt will undermine our ability to provide the social safety nets of Medicare, Medicaid, and/or Social Security.

Figure 6



(Sources: Confluence, Macrobond)

The first part of the agenda has shaken markets given the bold attempt to address the above issues. Future steps on the agenda will entail deregulation and tax policy reforms aimed at addressing inflation and boosting economic growth through measures such as tariffs to support domestic industries, inflation control to lower yields and ease the debt burden, spending cuts, and restoring fiscal discipline.

Market Outlook

The administration's audacious attempts to tackle these issues challenge the framework developed over generations by leveraging geopolitics to reshape America's global position. While risky, this approach seeks to rebuild American manufacturing sectors harmed by unfair trade practices — especially those involving China — and reset post-World War II global economic structures. Resistance and potential missteps are inevitable; however, we believe long-term investors should view volatility as an opportunity, a principle central to our investment philosophy.

Strategy Commentary

The rotation from the Magnificent 7 (M7) mega-cap tech stocks to the other 490+ stocks in the S&P 500 resumed in the first quarter of this year. As discussed in our fourth quarter commentary, this rotation began in July 2024 but was partially reversed in December when the M7 came roaring back. At the time, we thought this was a flight to “safety” (ironically, in highly valued growth stocks) given the uncertainty around interest rates. However, as time goes by, it seems this may have been a waning surge in the M7/AI mania that we have been observing over the past few years…only time will tell.

With the emergence of DeepSeek in late January, investors have started to question the predetermined winners of the AI era. For more information on the ramifications of DeepSeek, you can Google it (or ask AI!), but the important thing to remember is that the very essence of the tech sector is innovation, so it is difficult to find the ***sustainable competitive advantages*** that our investment approach requires. When it comes to technology and innovation, better/faster/cheaper will eventually emerge and always win. We are not sure if DeepSeek is that much better/faster/cheaper when it comes to AI, but we are sure that those innovations are coming, and most likely from startups rather than the incumbents.

With the rotation re-engaged in the first quarter, the S&P 500 Index was down 4.3%, while the Russell 3000 Value Index was up 1.6% and the S&P 500 Equal Weight Index was nearly flat at -0.6%. By comparison, Confluence’s All Cap Value strategy was down slightly at -0.8% (gross of fees) in the first quarter. [*The strategy’s net-of-fees return for the same period was -1.5% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

In the first quarter, the All Cap Value strategy outperformed the S&P 500 primarily due to the Financials sector where our insurance holdings continue to benefit from a favorable P&C insurance market. Additionally, All Cap Value outperformed in the Technology and Consumer Discretionary sectors, which are both heavily influenced by the M7.

The top contributors to Q1 performance were all insurance related: Brown and Brown (BRO), Progressive (PGR), Berkshire Hathaway (BRK.B), W. R. Berkley (WRB), and Baldwin Insurance Group (BWIN). The weakest contributors during the quarter were Oracle (ORCL), software/cloud services; Dun & Bradstreet (DNB), business credit data; Alphabet (GOOG), Google search; Diageo (DEO), liquor; and Charles River Laboratories (CRL), drug development products and services.

In September 2024, we initiated a partial position in apparel retailer Lululemon Athletica (LULU), and as the stock appreciated considerably over the past several months, we chose to exit the investment during the first quarter of this year in order to purchase Disney (DIS).

Lululemon is a designer, distributor, and retailer of technical athletic apparel, footwear, and accessories. The company offers a comprehensive line of performance apparel including pants, shorts, tops, and jackets designed for athletic activities including yoga, running, and training. It has been one of the most successful retail concepts of the last few decades. Lululemon is the market leader across the North American women’s apparel segment and is three times the size of its closest competitor in female athletic apparel (Nike). The company possesses a very strong hybrid retail model where it couples a successful online presence with a physical retail footprint. The ability to do both online and in-person retail well is a competitive advantage, particularly within apparel as consumers want to touch the product. The brand is also known for consistent innovation in technical performance fabrics, which has allowed it to maintain a price premium.

For all the reasons above, Lululemon’s stock has traditionally traded as an expensive growth stock. However, when its North American business began to slow last year, a fear emerged that it was losing market share to upstart competitors and that the company’s brand appeal was eroding. As a result, the stock price was cut in half. We felt that the slowdown had more to do with macroeconomic factors, some self-inflicted missteps, and a natural maturation of its domestic business. We did not see evidence that the brand itself was losing its shine and saw an opportunity to add a high-quality retailer at a very favorable valuation. We initiated a partial position with the intent to build a full position over time. Over the last few months, the market appears to have reached a similar conclusion and the stock was up almost 50% since our initial purchase. While we believe the company is on the right track, at the current valuation we determined there were better alternatives.

The Walt Disney Company is a world-class creator of media and experiences that are delivered via streaming, theme parks, cable television, cruises, and movie theatres. Over the past 60 years (since Walt Disney passed away), the company has gone through long cycles of growth followed by inertia with management ups and downs along the way. Throughout this time, though, the quality (and long shelf life) of its content library has prevailed. Following the strong growth of ESPN across cable packages in the 1990s and 2000s, Disney has spent the last 10 years adjusting to a world where content is delivered via streaming, and this has been reflected in a flat stock price. We believe the company has reached an inflection point with its direct streaming product, which is now at scale and profitable. Over the next 10 years, Disney’s pole position in streaming along with continued first-class execution at Disney Parks and a board keenly focused on finding the right successor to CEO Bob Iger should result in solid long-term returns.

Strategy Commentary continued…

In the first quarter, we also completed our new position in Valvoline (VVV) and sold longtime holding Markel (MKL).

Valvoline has transformed into a pure-play oil change retailer after divesting its motor oil business in 2023. The Valvoline Instant Oil Change business offers stable, high-return growth, supported by 18 consecutive years of same-store sales gains. While EV adoption poses a long-term risk, we believe it is gradual and manageable, with opportunities to offset through market share gains and unit expansion. As an industry-leading oil change retailer, Valvoline can now focus on delivering strong revenue and earnings growth over the long term.

In early February, Markel Group was sold in the portfolio at an average price of around $1,875 per share. We were long-term holders of Markel as we first purchased the stock in the All Cap Value portfolio almost 20 years ago at around $325. Markel was a successful investment over the years as its specialty insurance business grew with solid underwriting profits along with a public equity investment portfolio that outperformed. However, the company shifted its focus from insurance toward being a holding company of private equity investments in non-insurance-related businesses. As a result, Markel's insurance business has underperformed its specialty insurance peers (several of which we also own) in the past five years, which we found concerning given the favorable insurance market. Recently, an activist investor got involved to re-focus the company on specialty insurance, and management has been responsive. Consequently, the stock traded up over 25% and approached our estimate of intrinsic value, and we decided to sell. It is always difficult to sell a stock that has returned many-fold, but we believe it is the prudent thing to do when better opportunities are available.

Outlook

While there is always uncertainty in the stock market, it is particularly high today given all the initiatives underway from the second Trump administration (tariffs, DOGE, food and health oversight, tax cuts, geopolitical issues, etc.). Furthermore, market volatility has increased due to rising concerns about a recession following the tariff actions in early April.

Still, at Confluence, we remain focused on owning great businesses with capable management teams that are purchased with a margin of safety. This investment approach has historically provided solid downside protection and long-term outperformance as the stock prices of these high-quality companies tend to bounce coming out of a recession like a tennis ball, instead of going splat at the bottom like a tomato!

In fact, market downturns often present us with opportunities to add great companies, ones we have long admired, to the portfolio at a discount to our estimate of intrinsic value, which should help drive above-average returns in the future.

Contribution[1]

The top contributors and detractors for the portfolio in Q1 2025 are shown in the following table:

(YTD as of 3/31/2025)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Brown & Brown Inc.	4.66	0.94
Progressive Corp.	4.31	0.83
Berkshire Hathaway Inc. (Class B)	4.20	0.68
W. R. Berkley Corp.	2.78	0.58
Baldwin Insurance Group Inc.	2.58	0.39
Bottom 5		
Charles River Laboratories International Inc.	2.01	(0.42)
Diageo plc	2.53	(0.50)
Alphabet Inc.	3.00	(0.55)
Dun & Bradstreet Holdings Inc.	1.67	(0.55)
Oracle Corp.	3.44	(0.56)

Performance Composite Returns[2] (For Periods Ending March 31, 2025)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
All Cap Value *Pure Gross-of-Fees*[3]	9.7%	9.9%	12.2%	10.5%	15.9%	6.8%	3.6%	(0.8%)	(0.8%)
Max Net-of-Fees[4]	6.5%	6.7%	8.8%	7.3%	12.5%	3.6%	0.5%	(1.5%)	(1.5%)
S&P 500	10.0%	10.2%	13.1%	12.5%	18.6%	9.0%	8.2%	(4.3%)	(4.3%)
Russell 3000 Value	7.8%	7.9%	10.3%	8.6%	16.1%	6.2%	6.6%	1.6%	1.6%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	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
2005	2.4%	(0.4%)	4.9%	6.9%	(2.5%)	242	$27,603		N/A	N/A	N/A	0.5%
2006	14.4%	11.3%	15.8%	22.3%	(1.4%)	224	$26,916		N/A	N/A	N/A	0.6%
2007	4.6%	1.8%	5.5%	(1.0%)	(0.9%)	220	$27,835		6.9%	7.7%	8.3%	0.7%
2008	(26.9%)	(28.9%)	(37.0%)	(36.2%)	10.1%	19	$1,778	$291,644	13.9%	15.1%	15.5%	N/A
2009	26.8%	23.0%	26.5%	19.8%	0.3%	33	$11,558	$533,832	18.6%	19.6%	21.3%	2.8%
2010	9.7%	6.4%	15.1%	16.3%	(5.4%)	41	$13,980	$751,909	21.0%	21.9%	23.5%	0.5%
2011	3.6%	0.5%	2.1%	(0.1%)	1.5%	40	$14,294	$937,487	18.4%	18.7%	21.0%	0.6%
2012	18.0%	14.5%	16.0%	17.6%	2.0%	40	$11,654	$1,272,265	14.6%	15.1%	15.8%	0.3%
2013	35.3%	31.3%	32.4%	32.7%	2.9%	73	$22,893	$1,955,915	11.2%	11.9%	12.9%	0.7%
2014	14.7%	11.3%	13.7%	12.7%	1.0%	119	$34,036	$2,589,024	8.8%	9.0%	9.4%	0.4%
2015	0.1%	(2.9%)	1.4%	(4.1%)	(1.3%)	207	$50,568	$3,175,419	10.0%	10.5%	10.7%	0.6%
2016	14.2%	10.8%	12.0%	18.4%	2.2%	345	$91,109	$4,413,659	9.7%	10.6%	11.0%	0.6%
2017	15.7%	12.3%	21.8%	13.2%	(6.1%)	649	$167,342	$5,944,479	8.7%	9.9%	10.3%	1.1%
2018	(5.2%)	(8.0%)	(4.4%)	(8.6%)	(0.8%)	689	$168,742	$5,486,737	10.1%	10.8%	11.1%	0.6%
2019	35.6%	31.6%	31.5%	26.2%	4.2%	818	$262,167	$7,044,708	11.7%	11.9%	12.0%	1.1%
2020	17.3%	13.8%	18.4%	2.9%	(1.1%)	953	$333,804	$6,889,798	18.5%	18.5%	20.0%	0.9%
2021	23.4%	19.7%	28.7%	25.3%	(5.3%)	1,084	$422,786	$7,761,687	17.5%	17.2%	19.3%	0.6%
2022	(16.2%)	(18.7%)	(18.1%)	(8.0%)	2.0%	1,065	$342,473	$6,931,635	20.5%	20.9%	21.5%	0.7%
2023	18.8%	15.3%	26.3%	11.6%	(7.5%)	1,046	$385,449	$7,200,019	16.9%	17.3%	16.7%	0.7%
2024	14.3%	10.9%	25.0%	14.0%	(10.7%)	1,047	$412,337	$7,280,773	17.0%	17.2%	16.9%	0.5%

**Average annualized returns* ***Inception is 1/1/2005* *See performance disclosures on last page.*

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 Value Equities Investment Committee

Mark Keller, CFA	Tore Stole	Tom Dugan, CFA	Dustin Hausladen	Brett Mawhiney, CFA
Daniel Winter, CFA	John Wobbe	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA

For more information contact a member of our sales team: (314) 530-6729 or sales@confluenceim.com

See Territory Map on the Confluence website for sales coverage.

Disclosures

Market & Strategy Commentary—Individual holding performance and contribution methodology 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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance & liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk & may decline in value due to adverse company, industry or general economic conditions. There can be no assurance that any investment objective will be achieved.

Indexes: The S&P 500 and Russell 3000 Value 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.

[1] **Contribution—**Contribution data shown from a sample account, based on individual stock performance and portfolio weighting. Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), 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. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings.

[2] **Performance Composite Returns—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, 2023. 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 All Cap Strategy was incepted on January 1, 2005, and the current All Cap Value 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 US Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[3] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[4] 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: 0.60% on the first $500,000; 0.55% on the next $500,000; and 0.50% 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 All Cap Value Composite contains fully discretionary All Cap Value wrap accounts. All Cap Value is a value-based, bottom-up portfolio that utilizes stocks from all market capitalizations.

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.