

**Specialty Finance BDC • Alternative Investment Strategies**

The Specialty Finance BDC strategy is focused on a niche of the financial sector known as business development companies, or BDCs. BDCs lend to and invest in the private debt and equity markets. The majority, if not all, of the portfolio holdings are in BDCs, typically involving 20-30 positions with a moderate level of turnover. This strategy is appropriate for clients seeking alternative investment exposure to the private markets, one that involves high levels of income from an equity portfolio with above-average volatility. Most of the portfolio income will be in the form of non-qualified dividends.

**Market & Strategy Commentary**

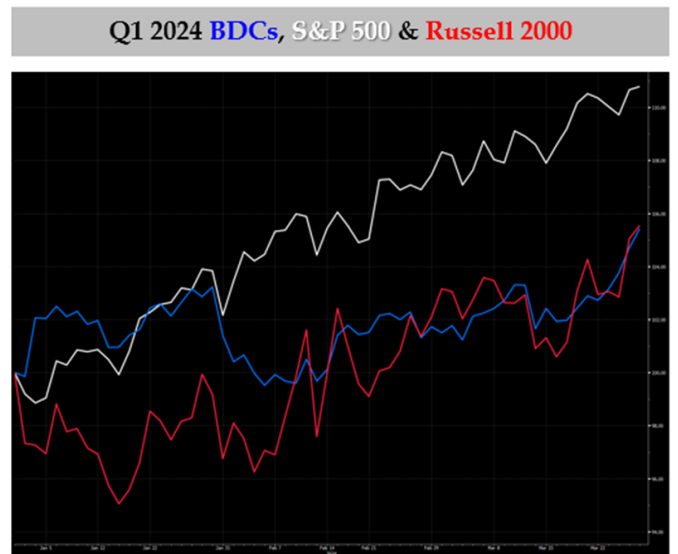
The Confluence Specialty Finance BDC strategy had a total return of 6.1% (gross of fees) in the first quarter of 2024, which was above the benchmark return of 5.7%. Over multi-year periods, the strategy’s returns have generally been near the benchmark. [The strategy’s net-of-fees return for the same period was 5.3% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]

Equity markets began the year delivering strong returns in the first quarter, but interestingly, below the surface of the headline returns were some new trends. Of particular note was the broadening of returns across a wider array of companies. Granted, a small number of large growth stocks continued to outpace most passive indexes; however, not all of the “Magnificent Seven” remained entirely magnificent. In addition, the Energy and Financials sectors took the lead with the highest returns, unseating some of the dominance held by the Technology and Consumer Discretionary sectors. The widening of strong returns extended to include small caps, though in milder fashion. However, small cap financials were generally not included in the wider participation.

Total Return	Q1 2024
S&P 500	10.6%
S&P 500 Financials	12.4%
Russell 2000	5.2%
S&P Small Cap Financials	(0.9%)
MVIS U.S. BDC Index	5.7%

*(Sources: Bloomberg, Confluence) \*as of 3/31/2024*

As we’ve long noted, most BDCs are both small cap and financial. Yet, as has happened in many recent quarters, the returns of BDCs outpaced small cap financials. Here again, there are interesting elements to note when delving deeper into the details. On this chart, we compare the first quarter relative returns of BDCs (blue line), the S&P 500 (white), and the Russell 2000 (red). Optically, the lower volatility of BDCs is visible, continuing a trend from the past year where the 30-day volatility of BDCs has been less than half the level of the Russell 2000 and was actually even lower than the S&P 500. Thus, BDCs haven’t just delivered compelling returns, but they have done so on a risk-adjusted basis. We believe this reflects the good operating results, steady dividends, and strong balance sheets of BDCs.



*(Sources: Bloomberg, Confluence)*

See GIPS Report on pages 3-4.

### Market & Strategy Commentary continued...

Because the strategy utilizes different position sizes, the top contributors and detractors from return tend to come from the larger positions. For the top contributors, stable operating fundamentals continued to create good returns, which translated into ongoing dividend distributions, NAV accretion, and some valuation improvement. After a couple years of increases, quarterly base-level dividend growth has begun to level off, although several special dividends continued. Four of the top five return contributors continued to pay special dividends in the first quarter.

The smaller contributors/detractors generally had fairly mild return profiles during the quarter, although Blackrock TCP did report some increasing credit concerns. This BDC also merged with its publicly traded sister BDC, which may have created additional technical pressure on the stock price during the quarter. [*See contribution table on last page.*]

The BDC industry continues to evolve and grow. The evolution has involved substantial improvement over the years in the level and structure of managerial fees, which have become better aligned with shareholder interests. It has also included better balance sheet management and capital allocation policies, in our view. We were pleased to see one of our portfolio holdings (Oaktree) recently lower its base management fee to 100 bps, a level that is increasingly becoming the standard for many larger BDCs. We expect this trend to benefit shareholders in the long-term, and it should help lift valuations across the industry.

Meanwhile, industry growth has occurred not only in the number and size of publicly traded BDCs, but also in the quality. During the first quarter, four new BDCs entered the public arena, while an existing one that had struggled for many years was finally merged into another.

### Outlook

Recent BDC earnings reports indicate that the industry's solid operating fundamentals are likely to continue in the near-term. Credit metrics are stable and continue to support existing dividend levels. There are a few credit issues that appear to be forming here and there, but on the whole, operating fundamentals are intact. While we have no special insight on Fed policy, it appears "higher for longer" has become a greater probability. For BDCs, higher short-term rates can be helpful, given that most of the industry's loans are floating rate. That said, higher rates will continue to put pressure on BDC borrowers. Thus far, these borrowers have managed through the challenges of tighter Fed policy. However, credit quality remains a central risk for BDC investors, so we will continue to closely monitor industry default metrics.

## Specialty Finance BDC • Alternative Investment Strategies

### Contribution<sup>1</sup>

(YTD as of 3/31/2024)

The top contributors and detractors for the portfolio in 2024 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Blackstone Secured Lending Fund	6.06	0.91
Golub Capital BDC Inc.	8.08	0.85
Barings BDC Inc.	7.71	0.81
Hercules Capital Inc.	6.09	0.80
Main Street Capital Corp.	5.65	0.65
<b>Bottom 5</b>		
FS KKR Capital Corp.	1.57	(0.01)
New Mountain Finance Corp.	5.18	(0.01)
OFS Capital Corp.	0.73	(0.10)
Oaktree Specialty Lending Corp.	3.93	(0.15)
BlackRock TCP Capital Corp.	5.55	(0.57)

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

### Performance Composite Returns<sup>2</sup> (For Periods Ending March 31, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
<b>Specialty Finance BDC</b>							
<i>Pure Gross-of-Fees<sup>3</sup></i>	9.6%	7.6%	10.2%	11.7%	28.5%	6.1%	6.1%
<i>Max Net-of-Fees<sup>4</sup></i>	6.3%	4.4%	6.9%	8.4%	24.7%	5.3%	5.3%
<b>MVIS U.S. BDC Index (MVBIZDTG)</b>	9.4%	7.0%	10.7%	12.6%	28.4%	5.7%	5.7%

Calendar Year	Pure Gross-of-Fees <sup>3</sup>	Max Net-of-Fees <sup>4</sup>	Benchmark (MVBIZDTG)	Difference (Gross-Benchmark)	# of Portfolios	Composite Assets (000s)	Total Strategy Assets (000s)***	Total Firm Assets (000s)	Composite 3yr Std Dev	Benchmark 3yr Std Dev	Composite Dispersion
2011**	1.1%	0.9%	(0.7%)	1.8%	1	\$104	\$6,645	\$937,487	N/A	N/A	N/A
2012	27.9%	24.1%	34.5%	(6.6%)	1	\$133	\$34,748	\$1,272,265	N/A	N/A	N/A
2013	15.8%	12.4%	16.3%	(0.5%)	2	\$1,459	\$42,929	\$1,955,915	N/A	N/A	N/A
2014	(4.4%)	(7.2%)	(7.8%)	3.4%	18	\$3,644	\$51,015	\$2,589,024	9.7%	11.4%	0.0%
2015	(3.3%)	(6.2%)	(4.1%)	0.8%	25	\$4,621	\$51,912	\$3,175,419	12.0%	12.7%	0.3%
2016	22.1%	18.4%	24.4%	(2.4%)	21	\$3,857	\$64,970	\$4,413,659	13.1%	13.7%	0.8%
2017	0.9%	(2.1%)	0.1%	0.8%	19	\$2,905	\$55,878	\$5,944,479	12.4%	13.6%	0.3%
2018	(1.7%)	(4.6%)	(6.6%)	4.8%	24	\$3,702	\$54,037	\$5,486,737	11.1%	12.9%	0.2%
2019	25.0%	21.3%	27.3%	(2.3%)	35	\$7,179	\$57,964	\$7,044,708	10.9%	13.1%	0.5%
2020	(6.8%)	(9.6%)	(11.2%)	4.4%	33	\$6,782	\$27,280	\$6,889,798	31.6%	30.8%	1.0%
2021	32.0%	28.1%	36.4%	(4.5%)	38	\$9,856	\$20,805	\$7,761,687	31.4%	30.5%	0.7%
2022	(10.2%)	(12.9%)	(8.6%)	(1.7%)	42	\$9,231	\$18,086	\$6,931,635	33.2%	32.7%	0.3%
2023	25.8%	22.1%	27.3%	(1.5%)	42	\$10,797	\$13,104	\$7,200,019	16.1%	17.6%	0.5%

\*Average annualized returns

\*\*Inception is 12/1/2011

See performance disclosures on last page.

### Portfolio Benchmark

**MVIS U.S. Business Development Companies Index (MVBIZDTG)** – A total return index that measures the performance of the largest and most liquid companies which are classified as BDCs in the U.S. The index is reviewed on a quarterly basis, is modified float market cap-weighted, and the maximum component weight is 20%.

(Source: Bloomberg)

## Confluence Specialty Finance BDC Committee

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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.

Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including possible loss of principal, that investors should be prepared to bear. Equity securities are subject to market risk and 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 or that any investment will be profitable or avoid incurring losses.

**Index:** The MVIS U.S. BDC Index is shown as additional information. This index is unmanaged. An investor cannot invest directly in an index. It is shown for illustrative purposes only & does not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

**<sup>1</sup> Contribution**—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.

**<sup>2</sup> 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, 2022. 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.

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The Specialty Finance BDC strategy was inceptioned on December 1, 2011, and the current Specialty Finance BDC Composite was created on February 1, 2013. 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.

<sup>3</sup> Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

<sup>4</sup> Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 0.80% on the first \$500,000; 0.70% on the next \$500,000; and 0.60% 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. Subsequent to February 1, 2013, bundled fee accounts make up 100% of the composite. 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.

Performance prior to February 1, 2013, is based on the Specialty Finance BDC—Direct Composite which was created on December 1, 2011. The Specialty Finance BDC—Direct Composite includes accounts that pursue the Specialty Finance BDC strategy, but do not have bundled fees. Gross returns from the Specialty Finance BDC—Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

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 Specialty Finance BDC Composite contains fully discretionary Specialty Finance BDC wrap accounts. The Specialty Finance BDC portfolio invests primarily in Business Development Companies (BDCs) to earn current income with potential long-term capital appreciation.

The benchmark was changed prospectively starting 7/1/2021 as the prior benchmark, the Wells Fargo BDC Index (WFBDC), was discontinued in July 2021.

\*\*Results shown for the year 2011 represent partial period performance from December 1, 2011, through December 31, 2011. \*\*\*Total Strategy Assets are shown as supplemental information. 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.

*A BDC's portfolio typically will include a substantial amount of securities purchased in private placements, and its portfolio may carry risks similar to those of a private equity or private debt fund. Securities that are not publicly registered may be difficult to value and may be difficult to sell at a price representative of their intrinsic value. To the extent a BDC focuses its investments in a specific sector, the BDC will be susceptible to adverse conditions and economic or regulatory occurrences affecting the specific sector or industry group, which tends to increase volatility and result in higher risk. BDCs may employ the use of leverage in their portfolios through borrowings or the issuance of preferred stock. While leverage often serves to increase the yield of a BDC, this leverage also subjects the BDC to increased risks, including the likelihood of increased volatility and the possibility that the BDC's common share income may fall if the interest rate on any borrowings rises.*