SECOND QUARTER 2024

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 4.5% (gross of fees) in the second quarter of 2024, which was above the benchmark return of 4.0%. Year-to-date, the strategy's total return was 10.8% (gross of fees), which was also above the benchmark return of 9.8%. Over multi-year periods, the strategy's returns have generally been in line with the benchmark. [*The strategy's net-of-fees returns for the same periods were 3.7% QTD and 9.1% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

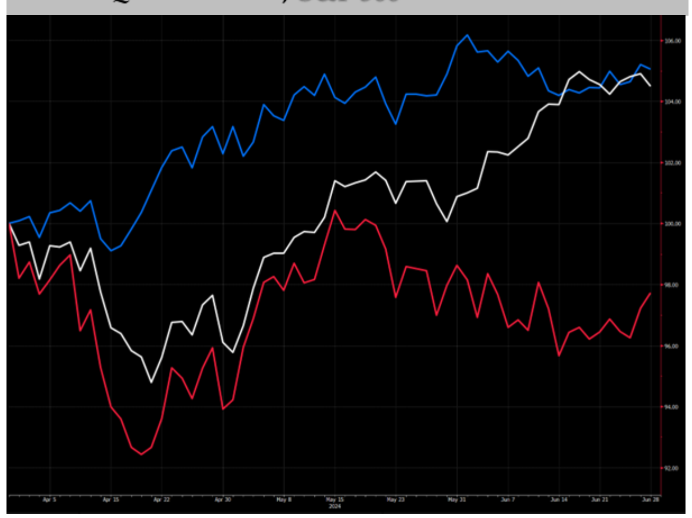
In the second quarter, the S&P 500 delivered yet another strong quarter of returns, extending the dominance of large caps over other areas of the equity market. Although upside participation has gradually begun to include a broader number of industries and companies, market leadership remains concentrated in a relatively small number of stocks. This phenomenon is apparent in our first table, where we see how the Financials sector and small cap returns have diverged from the S&P 500.

Total Return	Q2 2024	YTD 2024
S&P 500	4.3%	15.3%
S&P 500 Financials	(2.0%)	10.2%
Russell 2000	(3.3%)	1.7%
S&P Small Cap Financials	(0.4%)	(1.2%)
MVIS U.S. BDC Index	4.0%	9.8%

(Sources: Bloomberg, Confluence) **as of 6/30/2024*

In contrast to most other equity asset classes outside of the S&P 500, BDCs delivered another quarter of good returns, despite the fact that BDCs are financial companies, and most are small cap. In addition, BDC volatility remained well below that of other equities, including even the S&P 500. We believe stable dividends and relatively high current yields helped stabilize BDC stocks throughout the quarter and over the last year. On this chart, we compare the second quarter normalized total returns of BDCs (blue line), the S&P 500 (white), and the Russell 2000 (red). With lower volatility, BDCs continued to deliver attractive returns not just in absolute terms but also on a risk-adjusted basis.

Q2 2024 BDCs, S&P 500 & Russell 2000



(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. Each of the top five contributors delivered total returns higher than the benchmark in the second quarter, with performance supported by stable operating fundamentals. Crescent and Main Street both increased their quarterly dividends, while Hercules and Main Street both also paid special dividends. Barings and Blackrock TCP both held their dividends steady and benefited from rising valuations as their discounts narrowed relative to the industry.

The five lowest contributors together only detracted around 37 bps. Golub increased its quarterly dividend, while Nuveen Churchill and Golub also paid specials dividends. Accordingly, even among the portfolio's lowest contributors during the second quarter, the dividend trends were in good shape. [*See contribution table on page 3.*]

Private credit provided a measure of protection from tightening Fed policy in recent years because most of the loans have floating rate coupons. At the same time, credit quality has been generally stable, setting the stage for many investors to capture rising income, while avoiding the sting of credit losses. For these reasons, substantial capital has flowed into the private debt markets and the trend continued through the second quarter. BDCs, which lend in a subset of the private debt markets called the "middle markets," were able to deliver the rising income and low levels of defaults throughout the Fed's tightening cycle, paving the way for their stocks to perform well. So, how does it look going forward, especially with so much capital continuing to flow into private debt markets?

One of the challenges BDCs have recently faced is subdued levels of M&A activity in private markets. A significant proportion of middle-market lending is financing private equity transactions. So, with deal activity low, and debt capital widely available, one potential hazard is for credit underwriting standards to decline as lenders are forced to compete for fewer deals. Another trend we continue to watch is whether a few isolated credit problems will begin to widen into a larger problem. We have seen some lenders amending loans to longer maturities and/or accepting payment-in-kind (known as PIK) interest payments in lieu of cash payments. In previous credit cycles, these lending maneuvers were sometimes harbingers of "extend and pretend," where lenders delay bad outcomes but ultimately don't avoid them.

Monitoring credit underwriting is central to our investment process as we believe the ability to make and manage loans is the primary driver of BDC shareholder value creation. For this reason, the BDCs in the portfolio include a variety of different managers, including ones that have track records of successfully navigating various credit, market, and economic conditions. There are signs that middle-market lending volume may rise, particularly with the large amount of private equity capital that needs to be invested. However, for now, we are pleased that the BDC managers in the portfolio have maintained underwriting discipline and delivered good results even during a period of reduced private market transaction volume.

BDC valuations have moved higher in recent quarters and a good portion of the industry is now trading near or above NAV. Yet even with this improvement, valuations remain reasonable. Our expectation is for return levels to settle into a range where the dividend income comprises most, or perhaps even all, of the total return going forward. That said, with the portfolio yield at 9.6% as of quarter end, we believe the yield and return profile remain constructive for investors seeking higher levels of yield.

Contribution[1]

(QTD as of 6/30/2024)

The top contributors and detractors for the portfolio in Q2 2024 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Hercules Capital Inc.	6.24	0.82
Barings BDC Inc.	7.66	0.56
Main Street Capital Corp.	5.78	0.51
Crescent Capital BDC Inc.	3.33	0.39
BlackRock TCP Capital Corp.	4.62	0.30
Bottom 5		
Nuveen Churchill Direct Lending Corp.	2.04	(0.03)
Palmer Square Capital BDC Inc.	0.60	(0.04)
New Mountain Finance Corp.	5.72	(0.05)
Oaktree Specialty Lending Corp.	3.56	(0.06)
Golub Capital BDC Inc.	8.03	(0.20)

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

Performance Composite Returns[2] (For Periods Ending June 30, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Specialty Finance BDC *Pure Gross-of-Fees*[3]	9.8%	7.6%	10.6%	10.6%	26.4%	10.8%	4.5%
Max Net-of-Fees[4]	6.5%	4.4%	7.3%	7.4%	22.7%	9.1%	3.7%
MVIS U.S. BDC Index (MVBIZDTG)	9.6%	7.1%	10.7%	11.0%	24.9%	9.8%	4.0%

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	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)*

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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.

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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.

[1] **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.

[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.

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The Specialty Finance BDC strategy was incepted 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.

[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. 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.