Equity Income

Value Equity Strategies

Confluence INVESTMENT MANAGEMENT

First Quarter 2025

Equity Income is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that have the ability to either pay a high level of dividend income or grow the dividend stream over time. The portfolio typically comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is appropriate for clients seeking total return from dividend income and capital appreciation.

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*.)

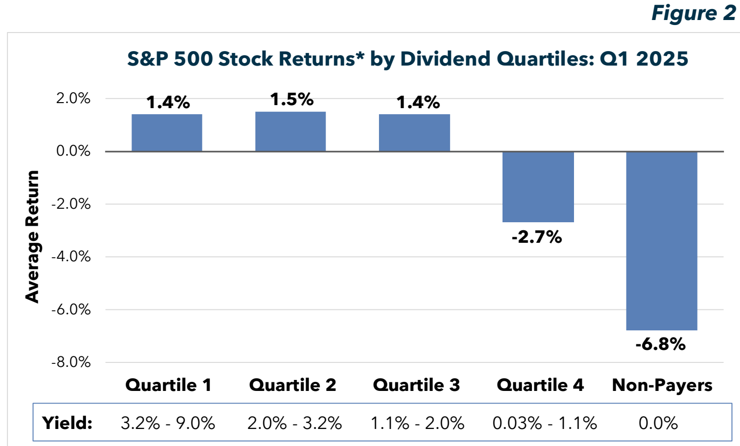
The rotation also influenced sector performance, with the three sectors that hold the M7 stocks – Communication Services (Alphabet and Meta), Consumer Discretionary (Amazon and Tesla), and Information Technology (Microsoft, NVIDIA, and Apple) – emerging as the worst performers during the quarter (see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

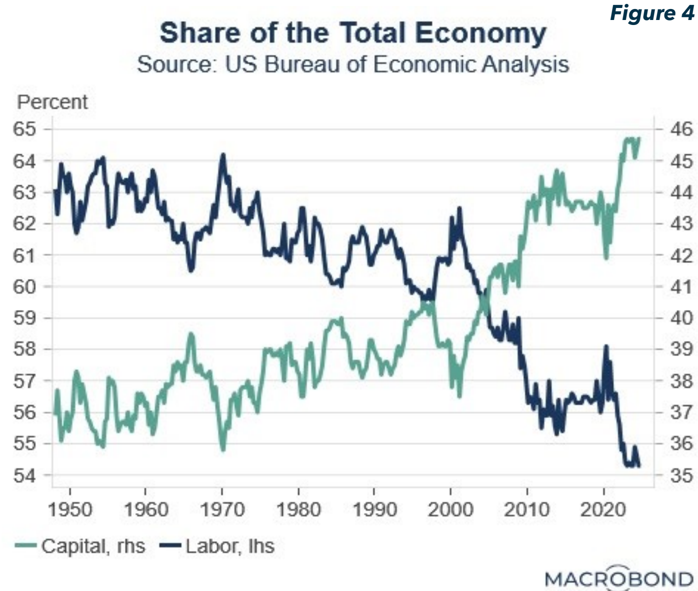
(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 2Q 2025, as of March 31, 2025)

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.

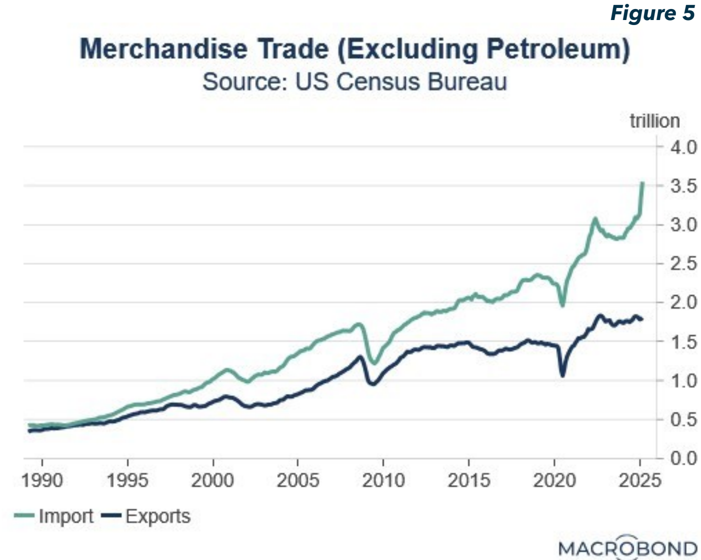
The tariff agenda was revealed in early April and is an attempt to restructure the global order. But why such an aggressive policy when the economy and financial markets appeared to be in good shape? The shift reflects the populist movement that has been gaining momentum for years as global trade has 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.

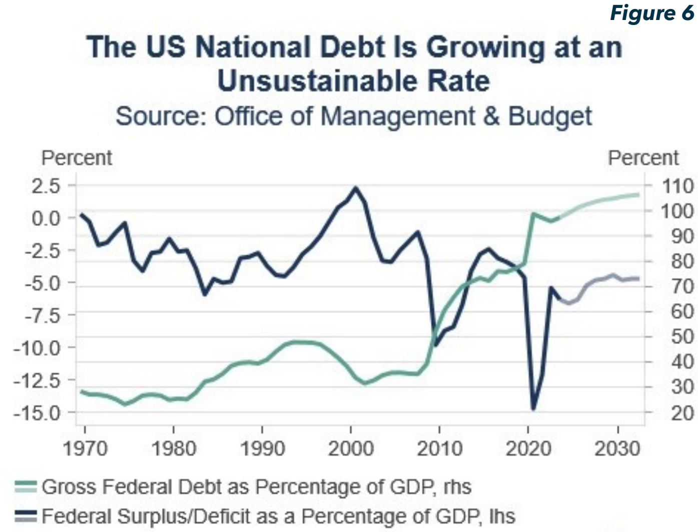
Figure 5



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 objective of the Confluence Equity Income strategy is to provide an above-average stream of income balanced with capital appreciation, while delivering reasonable dividend growth to protect purchasing power. As the table below shows, the strategy continues to generate a high level of growing income.

After taking a step back in the fourth quarter, the market rotation resumed at the start of 2025, benefiting value and yield-oriented businesses once again. This was driven by investors questioning their assumptions around AI expectations following the release of DeepSeek as well as anticipation of the administration's new tariff policies. This triggered a pullback in the technology-oriented Magnificent 7 as investors sought safety in yield-oriented companies and Treasurys. More specifically, the performance of the M7 weighed on growth indexes as the Russell 3000 Growth Index and the S&P 500 Index posted losses of 10.0% and 4.3%, respectively, while the Russell 3000 Value Index posted a gain of 1.6%.

More importantly, the companies held in the Equity Income portfolio continued to pay and grow their dividends. As stated in the table (*Figure 7*), 13 of the 33 companies in the current Equity Income portfolio increased their dividends in Q1, with an average announced growth rate of 4.3%. As of March 31, 2025, the average dividend yield of the current holdings in the Equity Income portfolio is 3.3% *(source: FactSet)*.

***Figure 7* – Annual Dividend Statistics for Equity Income Portfolio at 12/31 *(Dividend Growth Using Announcement Date)*[1]**

			Dividend Change from Prior Year** # of companies with			
Year	**Holdings**	**Avg. Yield+**	Increase	Flat	Decrease	Avg. Growth***
2015	34	3.9%	27	7	0	8.4%
2016	33	3.4%	25	6	2	2.2%
2017	33	3.1%	25	6	1	10.1%
2018	34	3.5%	30	4	0	13.8%
2019	34	3.0%	32	2	0	9.4%
2020*	36	3.4%	26	10	0	4.4%
2021	36	2.8%	30	6	0	5.4%
2022	34	3.3%	31	2	1	6.5%
2023	34	3.4%	28	6	0	5.2%
2024	34	3.3%	30	4	0	5.4%
Average-10 yrs (2015-2024)		3.3%	28	5	0	7.1%
YTD (3/31/2025)	33	3.3%	13		0	4.3%

** 2020 excludes impact of temporary dividend suspensions during the pandemic of 2020. ** Dividend Change from Prior Year excludes impact of special dividends and spin-offs.*
**** For monthly/YTD data, the average growth rate is calculated using only those holdings for which an increase or decrease in the indicated annual dividend amount has been announced. Full-year statistics are calculated as the average of all holdings, including those which did not announce a change to their indicated annual dividend during the year.*
+ Avg. Yield column is the equal-weighted average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividend plus any special dividend paid during the year. Avg. Yield as of 3/31/2025 calculated using Indicated Annual Dividend (IAD) from FactSet.

(Table shows past 10 years of dividend history; the Equity Income strategy was incepted 10/1/2000.)

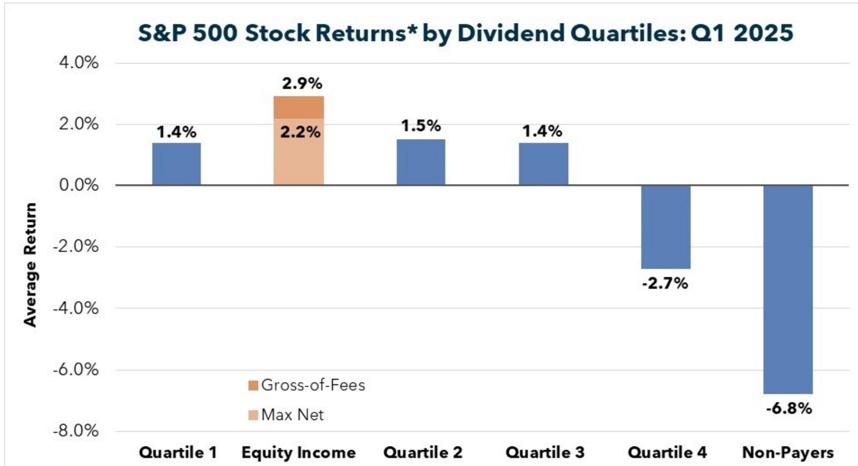
Equity Income was born from the needs of investors who desired a high stream of income to augment their current income or replace their income in retirement. The portfolio is constructed by focusing on individual companies exhibiting these dividend characteristics. They tend to be more mature businesses that generate ample cash flow but possess limited reinvestment options, which allows them to pay higher dividends. Our focus on quality businesses with favorable current dividends has provided a measure of ballast in difficult markets as cash flow is returned to shareholders in the near term (dividends) as opposed to later years for immature or faster growing businesses, which typically need that capital to maintain their growth. The shorter-duration, higher-yielding businesses also tend to trade at lower valuations, which can provide downside protection when sentiment shifts. The result is a portfolio composition that is quite different from the broad-based market, which is most apparent at times of extreme sentiment. In such cases, extreme market optimism and pessimism often coincide with either short-term underperformance or outperformance, respectively, for our strategies. Lastly, it is worth mentioning that the value indexes tend to skew toward asset-intensive businesses that are highly regulated or commodity-oriented and often operate with high leverage, which can also result in differences between our strategies and the indexes.

As discussed in the Market Commentary, the market rotation favored yield-oriented businesses during the first quarter and Equity Income also benefited, posting a gain of 2.9% (gross of fees), which modestly outperformed the Russell 3000 Value Index return of 1.6% for the quarter. [*The strategy's net-of-fees return for the same period was 2.2% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Strategy Commentary continued...

Dissecting the market by yield shows that the rotation was skewed toward the higher-yielding stocks, with the non-payers trailing the pack. This chart (*Figure 8*), based on data from Ned Davis Research, illustrates the S&P 500 stock returns segmented by dividend yield quartile, with the highest yielding in Quartile 1 and the lowest in Quartile 4, while non-dividend-payers are indicated by the bar on the far right. We have positioned Equity Income on the chart where it falls in terms of yield, between Quartiles 1 and 2.

Figure 8



	Quartile 1	Equity Income	Quartile 2	Quartile 3	Quartile 4	Non-Payers
Yield:	3.2% - 9.0%	3.3%	2.0% - 3.2%	1.1% - 2.0%	0.03% - 1.1%	0.0%

*Actual Historical Constituents. *IAD strategy yield and returns as of 3/31/2025.*
(Sources: Confluence, Ned Davis Research, FactSet)

During the quarter, we sold the position in Brookfield Infrastructure Corporation (BIPC) and have yet to redeploy the cash at this time. Our decision to sell was led by recent concerns of global capital flows coupled with increased questions regarding the complexity of the relationship between Brookfield and its subsidiaries. BIPC initially presented an opportunity to invest in global infrastructure projects managed by Brookfield, a company that has consistently demonstrated excellent capital allocation skills. BIPC has shown an ability to generate outsized IRRs on a project level by acquiring assets, putting capital into the asset to de-risk the project's cash flows, and then exiting the investment and reinvesting the proceeds into new opportunities. The underlying cash flows of the project were almost always tied to inflationary contracts and capitalized on GDP growth, providing BIPC with the ability to return a healthy, growing dividend to shareholders.

Recent events have raised concerns regarding global capital flows, and this volatility along with concerns of weakening global GDP have called into question BIPC's ability to continue to generate outsized returns on its projects. Moreover, the complexity of Brookfield's entire enterprise has created headline risks regarding the relationship of its entities with the parent company. While Confluence believes that BIPC continues to be a good steward of capital, we also believe the headline risk could cause volatility and downward pressure on the stock going forward. Thus, exiting the investment allows us to redeploy capital into a more compelling risk/reward opportunity.

For the quarter, the portfolio was led by Progressive (PGR), Fidelity National Financial (FNF), and WEC Energy Group (WEC). Progressive has experienced solid improvement in insurance pricing combined with growing market share as the company's data-driven model has allowed it to capitalize on the current environment. Fidelity National Financial continues to execute well on its title insurance. WEC is a utility serving the north central region (WI, IL, MI, MN) that is benefiting from growing industrial demand and is well-positioned to gain from data center expansion and industry onshoring.

The laggards for the quarter were Polaris (PII), T. Rowe Price Group (TROW), and Diageo (DEO). Polaris offers higher-end products for the outdoor motor sports world, leading with design and utilizing an asset-light model to assemble. The company has stumbled as competitive promotional activity impacted sales and margins, and it now faces some headwinds with a stretched consumer. T. Rowe Price is an asset manager that leans toward the growth style, which faced headwinds in the quarter. Lastly, Diageo is a global spirits leader that is facing tariff concerns while also dealing with investor destocking. Diageo's portfolio is predominantly premium brands, which should weather the near-term winds.

Outlook

There are no shortages of events to worry over as the market, more specifically businesses, await clarity on the rule changes surrounding the tariffs. This uncertainty has elevated the risk of recession as businesses are likely to delay long-term investments until the regulations are understood. As a result, we can expect increased volatility, which could potentially lead to a realignment of fundamentals and valuations in areas of speculative excess.

Meanwhile, at Confluence, we continue to emphasize the importance of dividend-paying stocks that can grow their dividends. These stocks not only provide income streams in the current environment but also help protect purchasing power amid inflation. Fortunately, such conditions also create opportunities for long-term fundamental investors to identify excellent businesses trading at attractive valuations. As always, we remain focused on our core strengths of analyzing and valuing businesses.

Contribution[2]

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		
Progressive Corp.	4.55	0.90
Fidelity National Financial Inc.	3.64	0.58
WEC Energy Group Inc.	3.57	0.56
Gilead Sciences Inc.	2.49	0.50
Paychex Inc.	4.36	0.45
Bottom 5		
Brookfield Infrastructure Corp.	*Sold*	(0.25)
Clorox Co.	2.92	(0.27)
Polaris Inc.	1.01	(0.34)
T. Rowe Price Group Inc.	2.43	(0.46)
Diageo plc	2.49	(0.51)

Performance Composite Returns[3] (For Periods Ending March 31, 2025)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Equity Income *Pure Gross-of-Fees*[4]	10.4%	9.4%	11.3%	9.7%	15.0%	6.4%	8.6%	2.9%	2.9%
Max Net-of-Fees[5]	7.2%	6.2%	8.0%	6.5%	11.6%	3.2%	5.4%	2.2%	2.2%
Russell 3000 Value	7.5%	7.9%	10.3%	8.6%	16.1%	6.2%	6.6%	1.6%	1.6%
S&P 500	7.7%	10.2%	13.1%	12.5%	18.6%	9.0%	8.2%	(4.3%)	(4.3%)

Calendar Year	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	R3000 Value	S&P 500	Difference (Gross-R3000V)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R3000V 3yr Std Dev	S&P 500 3yr Std Dev	Composite Dispersion
2005**	0.4%	(2.3%)	6.9%	4.9%	(6.4%)	3,775	$536,505		8.4%	9.7%	9.0%	0.6%
2006	15.3%	12.1%	22.3%	15.8%	(7.1%)	3,122	$489,578		5.7%	7.0%	6.8%	0.8%
2007	1.5%	(1.3%)	(1.0%)	5.5%	2.5%	2,490	$381,383		6.2%	8.3%	7.7%	0.8%
2008	(18.9%)	(21.2%)	(36.2%)	(37.0%)	17.4%	346	$44,339	$291,644	12.0%	15.5%	15.1%	N/A
2009	18.8%	15.3%	19.8%	26.5%	(1.0%)	459	$85,079	$533,832	18.1%	21.3%	19.6%	0.8%
2010	16.1%	12.7%	16.3%	15.1%	(0.1%)	555	$128,855	$751,909	20.2%	23.5%	21.9%	0.8%
2011	5.1%	2.0%	(0.1%)	2.1%	5.2%	918	$225,088	$937,487	18.6%	21.0%	18.7%	1.0%
2012	17.8%	14.3%	17.6%	16.0%	0.2%	1,200	$337,610	$1,272,265	13.5%	15.8%	15.1%	0.6%
2013	26.1%	22.4%	32.7%	32.4%	(6.6%)	1,947	$606,780	$1,955,915	10.5%	12.9%	11.9%	1.3%
2014	11.4%	8.1%	12.7%	13.7%	(1.3%)	2,834	$858,027	$2,589,024	8.4%	9.4%	9.0%	0.4%
2015	0.1%	(2.9%)	(4.1%)	1.4%	4.3%	3,528	$939,550	$3,175,419	9.4%	10.7%	10.5%	0.4%
2016	18.0%	14.5%	18.4%	12.0%	(0.4%)	5,272	$1,549,506	$4,413,659	9.4%	11.0%	10.6%	0.4%
2017	17.5%	14.0%	13.2%	21.8%	4.3%	7,423	$2,177,984	$5,944,479	8.4%	10.3%	9.9%	1.1%
2018	(8.9%)	(11.6%)	(8.6%)	(4.4%)	(0.3%)	7,772	$1,945,646	$5,486,737	9.7%	11.1%	10.8%	0.5%
2019	31.0%	27.1%	26.2%	31.5%	4.7%	8,249	$2,725,466	$7,044,708	10.8%	12.0%	11.9%	0.8%
2020	4.6%	1.5%	2.9%	18.4%	1.8%	7,557	$2,440,128	$6,889,798	17.1%	20.0%	18.5%	0.8%
2021	27.2%	23.5%	25.3%	28.7%	1.9%	7,508	$3,048,035	$7,761,687	16.6%	19.3%	17.2%	0.5%
2022	(7.9%)	(10.6%)	(8.0%)	(18.1%)	0.2%	7,457	$2,609,193	$6,931,635	19.1%	21.5%	20.9%	0.4%
2023	10.8%	7.5%	11.6%	26.3%	(0.8%)	7,462	$2,743,018	$7,200,019	15.6%	16.7%	17.3%	0.7%
2024	12.2%	8.9%	14.0%	25.0%	(1.7%)	6,078	$2,437,094	$7,280,773	15.3%	16.9%	17.2%	0.4%

**Average annualized returns   **Inception is 10/1/2000. Additional years of performance available on our website.* *See performance disclosures on last page.*

Portfolio Benchmarks

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.

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. *(Source: Bloomberg)*

Confluence Value Equities Investment Committee

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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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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] **Annual Dividend Statistics—***Figure 7:* Annual dividend income history is available upon request. Current portfolio statistics exclude companies that have been sold and include companies that have been purchased year-to-date.

[2] **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.

[3] **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 Equity Income strategy was incepted on October 1, 2000, and the current Equity Income 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.

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

[5] 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 Equity Income Composite contains fully discretionary Equity Income wrap accounts. Equity Income is a value-based, bottom-up portfolio that invests in stocks from all market capitalizations based on their ability to generate an above-average stream of dividend income, while also providing capital appreciation potential.

**Results shown for the year 2000 represent partial period performance from October 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.