Confluence
INVESTMENT MANAGEMENT

SECOND QUARTER
2024

Equity Income • Value Equity Strategies

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

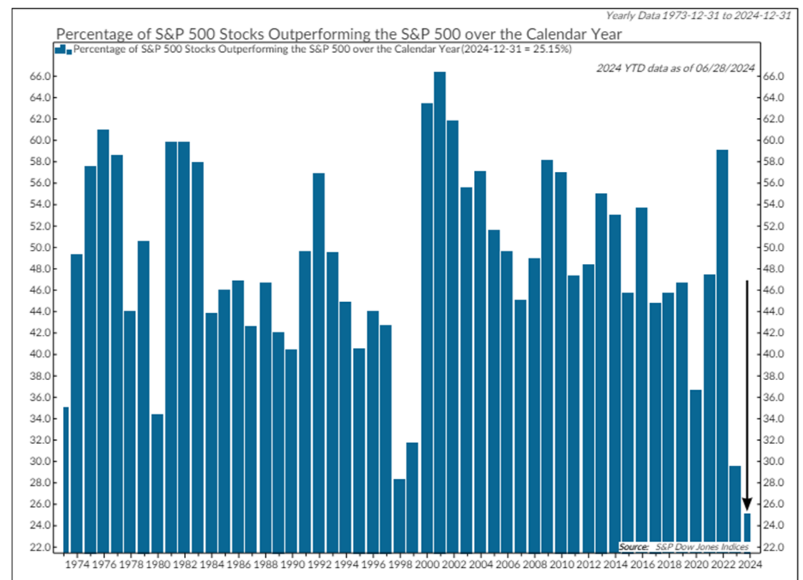
Investor sentiment was building as we entered the year on the prospects of interest rate cuts, a resilient economy, and an abundance of enthusiasm surrounding the latest technological advances. To date, the data has largely been supportive of that sentiment, with strong employment and rising corporate earnings, so much so that the Fed has delayed cutting interest rates. Thus, the probability for rate cuts this year has been reduced to only a couple, down from seven when the year began.

This backdrop helped fuel the broad equity market, which continued its upward path during the second quarter, posting new highs throughout the period. But much like a duck that looks to be gliding effortlessly across the water yet is paddling furiously under the water's surface, the broad equity markets have been elevated on the strength of only a few businesses. The market has narrowed to a level where less than 25% of the businesses in the S&P 500 have outperformed in 2024. This is below levels witnessed in the late 1990s during the later stages of the Tech-Media-Telecom (TMT) bubble, as illustrated by the chart from Ned Davis Research in *Figure 1*. And it's the mega cap, tech-oriented names — Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla, aka the Magnificent 7 (M7) — driving the market. In fact, the top 10 names contributed 77.2% of the S&P 500 returns in 2024 despite representing only 2% of the index, with one name, NVIDIA, contributing 31.6% of the gain. The M7 now hold the top six spots in market cap ranking, and the seventh, Tesla, resides in 10th place. This is the second highest concentration of returns, which, interestingly, bumped calendar-year 2023 to the third highest, per Strategas (*Figure 2*).

The narrow breadth has led to some wide dispersions across different segments of the equity market: market cap-weighted indexes are outperforming equally weighted indexes; large caps are outperforming small caps; businesses with lower dividend yields are outperforming higher dividend yields; growth styles are outperforming value; momentum factor is outperforming the value factor; and domestic equities are outperforming international.

See GIPS Report on pages 6-7

Figure 1 **Percentage of S&P 500 Stocks Outperforming the S&P 500 over the Calendar Year**



(Source: Ned Davis Research, Copyright 2024; YTD data as of 6/28/24)

Figure 2

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10% as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2024	**77.2%**	**14.5%**
2023	68.4%	24.2%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

(Source: Strategas, Bloomberg; 7/1/24)

Market Commentary continued...

The accompanying tables (*Figure 3*) reflect the wide dispersion. For example, the S&P 500 Equal Weight Index is lagging the market cap-weighted S&P 500 Index year-to-date, 5.0% versus 15.3%, respectively. The Russell 1000 Value Index has a similar dispersion with the Russell 1000 Growth Index, 6.6% versus 20.7%, respectively. This has been primarily driven by the seven mega cap, tech-oriented stocks, which continue to garner investor flows and are propelling the broad equity markets.

Figure 3

Index	Q2	YTD
Russell 1000 Growth	8.3%	20.7%
S&P 500	4.3%	15.3%
MSCI USA Momentum Factor ETF	4.1%	24.4%
MSCI World ex US	(0.6%)	5.0%
Russell 1000 Value	(2.2%)	6.6%
S&P 500 Equal Weight	(2.6%)	5.1%
Russell 2000	(3.3%)	1.7%
MSCI USA Value Factor ETF	(3.9%)	3.5%

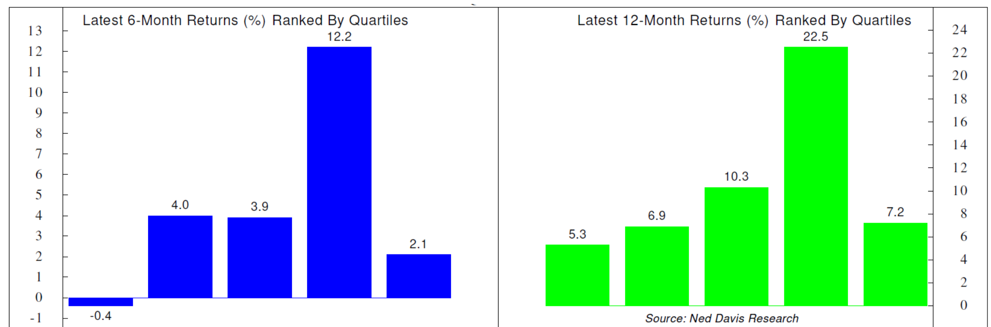
Name	Q2	YTD
NVIDIA	36.7%	149.5%
Apple	23.0%	9.7%
Alphabet	20.8%	30.5%
Tesla	12.6%	(20.4%)
Amazon.com	7.1%	27.2%
Microsoft	6.4%	19.3%
Meta	3.9%	42.7%

(Source: Confluence, FactSet, FTSE Russell, S&P Global)

Delving into the relative dividend yield performance also reflects a large dispersion between higher-yielding businesses and lower-yielding businesses as it appears investor flows are migrating to the M7 as well as higher-yielding money market accounts. While the Magnificent 7 are not known for their level of dividends, all but two (Tesla and Amazon) now pay a dividend, which is contributing to the relative strength of businesses in the lower-yield arena.

These charts from Ned Davis Research (*Figure 4*) reflect the S&P 500 performance by dividend yield, with the highest yields in Quartile 1, the lowest in Quartile 4, and non-payers represented by the last bar/Quartile 0. Over the past six and 12 months, the highest yielders in Quartile 1 have lagged the lower-yielding Quartiles 2-4. Higher interest rates and the ability to earn 5% in a money market account have been headwinds to the appeal of dividend-paying stocks, but this stance may be shortsighted.

Figure 4 **S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield)**

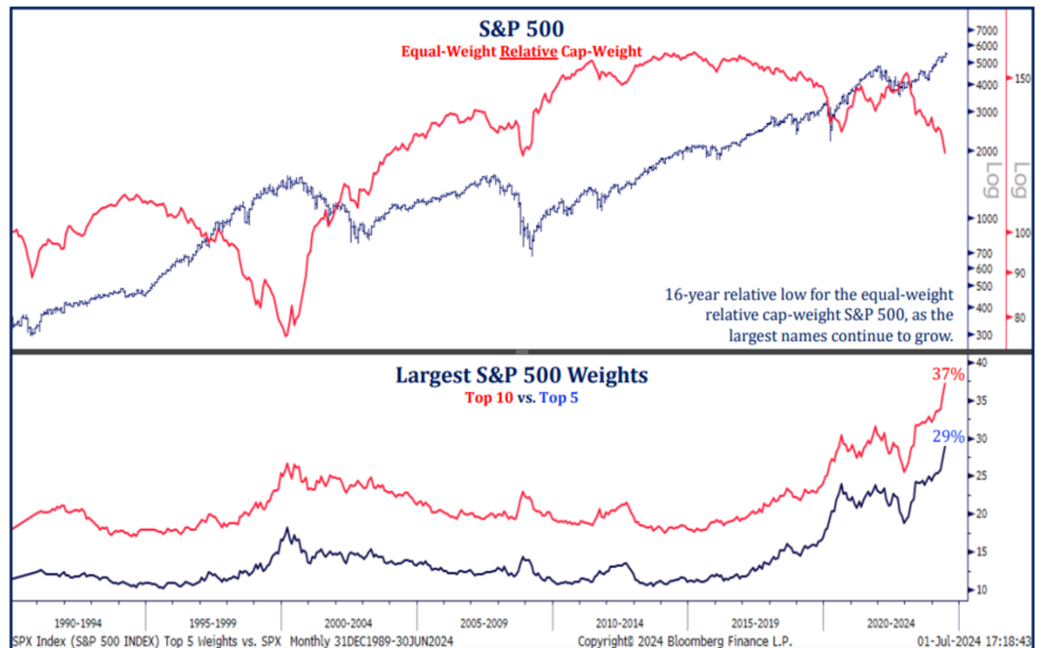


*Actual Historical Constituents. *Returns through 6/30/2024 (Source: Ned Davis Research, Copyright 2024)*

Quality businesses with growing net income have the ability to offset inflation and provide a growing dividend income stream along with capital appreciation, unlike income from a money market account that doesn't grow and is driven by short-term fed funds rates. For an in-depth look at this topic, see our *Value Equity Insights* report examining the advantages of dividend income over interest income.

We are keeping a close eye on the breadth of the market as a broadening would provide for a healthier and more durable environment for equity investors. While a broadening market does not necessarily require a selloff in the current leadership, it does infer a shift in sentiment and money flows toward the laggards. The rotation to the current leadership of mega cap, tech-oriented businesses began in late 2016/ early 2017, with the largest five and 10 businesses by market cap now comprising an unprecedented 29% and 37% of the S&P 500, respectively, which is a peak figure post-WWII (*Figure 5* from Strategas). This includes the sharp correction in 2022 when the Magnificent 7 were down 46%, on average, and lost a combined $4.9 trillion (trillion is not a typo) in market cap.

Figure 5



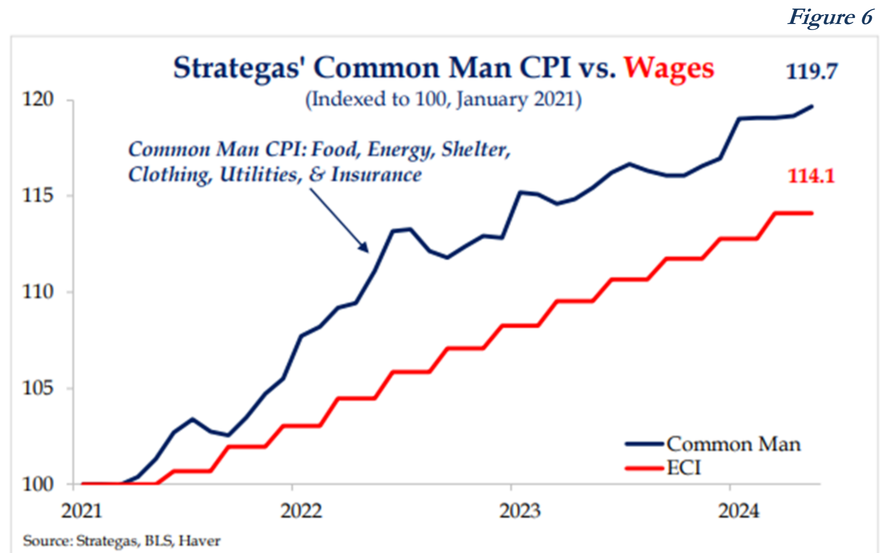
(Source: Strategas)

Today, the equally weighted S&P 500 is trading at a 16-year low relative to the market cap-weighted S&P 500. Ironically, the equally weighted S&P 500 outperformed for about 16 years following the burst of the TMT bubble in 2000.

Market Commentary continued...

While the lack of breadth in equities is very noteworthy, the elephant in the room remains inflation and, more specifically, its stickiness, as it persists well above the Fed's target of 2.0%. The next chart from Strategas (*Figure 6*) captures the dilemma of the Fed and the political incumbents, as the components of inflation impacting the average consumer the most continue to rise faster than wages. This surge is eroding their purchasing power and hinders confidence.

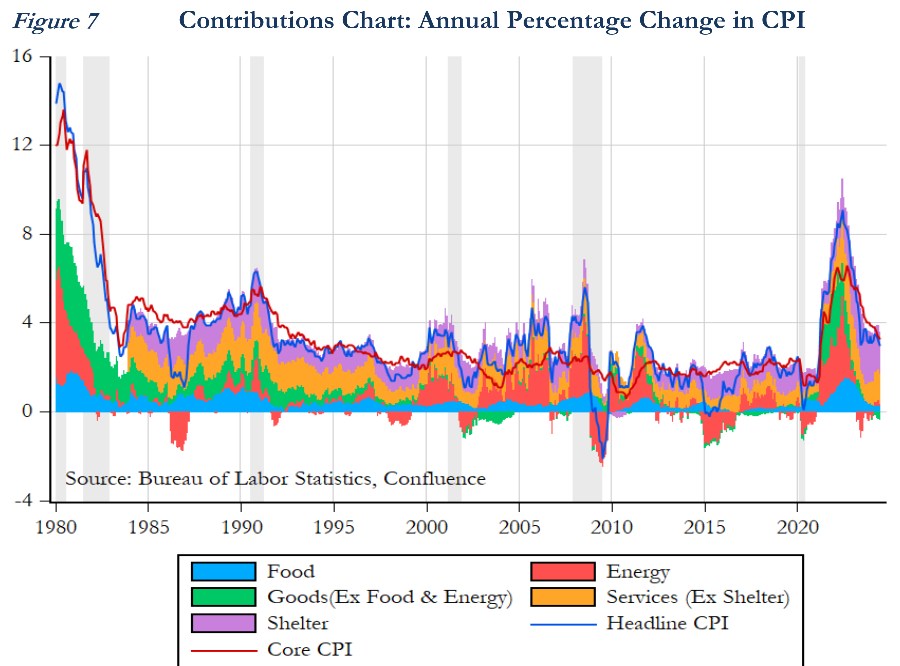
Figure 6



(Source: Strategas)

Furthermore, the final chart in this section is one on inflation from the Confluence macroeconomic team (*Figure 7*). This chart shows how the inflation stickiness is primarily occurring in services and shelter, which are areas difficult to break without there also being consequences to employment. This puts the Fed in a tough position and explains why policymakers have kept rates higher for longer. The Fed is walking on a tightrope as it attempts to bring down inflation without tipping the economy into a recession and pushing up unemployment. The economy has remained in positive territory thus far, but it is currently being aided by the large fiscal deficits that are running at a record peacetime and non-pandemic level of 7% of GDP. It is the highest level relative to unemployment, which compares to a more typical deficit in the 3-5% range. This has produced some volatility in the 10-year Treasury as rates have oscillated between 3.9% and 4.7% in 2024 but not enough to disrupt the broader markets.

Figure 7 **Contributions Chart: Annual Percentage Change in CPI**



(Sources: Confluence, Bureau of Labor Statistics)

Market Outlook

The economy has been able to withstand a sharp rise in short-term rates without hindering employment levels, while bringing down inflation from post pandemic highs. The economic backdrop and the advancements in technology surrounding artificial intelligence and large language models have sparked investor enthusiasm in a narrow segment of the market. This has benefited the passive index investor as the narrow breadth of market returns has been heavily skewed toward market cap-weighted and momentum traders/investors over the past 6-18 months following the release of ChatGPT in November 2022. The excitement will ultimately need to be met with the expected results, i.e., returns on investment for businesses outlaying the capital, which are not yet evident. Meanwhile, the Fed remains data-dependent on its course toward "normalizing" rates and we expect the economic data to be choppy. Given escalating geopolitical conflicts, not to mention elections in a wide swath of the world, we would expect heightened volatility from the low levels recently experienced. More importantly, we will continue to remain focused on our investment philosophy, which is focused on competitively advantaged businesses trading at attractive valuations.

Strategy Commentary

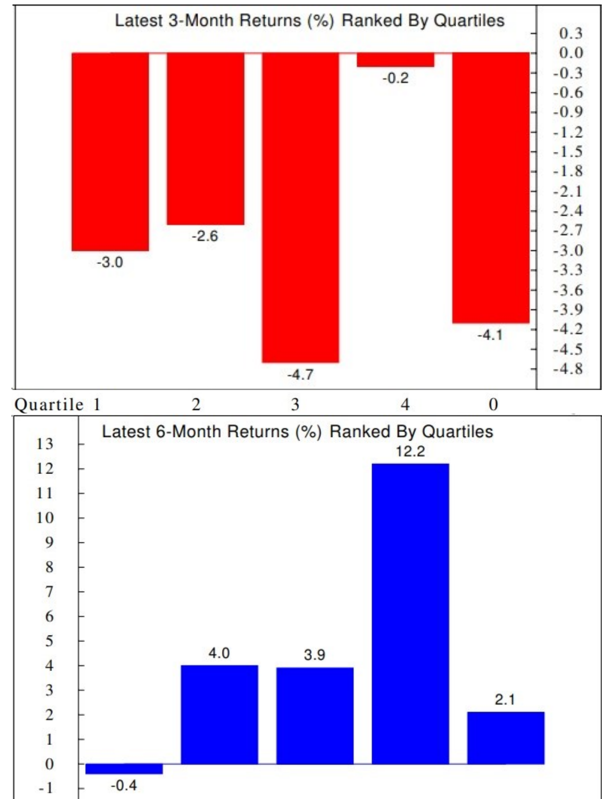
The Confluence Equity Income strategy's objective is to provide an above-average stream of income balanced with capital appreciation, while delivering reasonable dividend growth to protect purchasing power. As the table below shows, the strategy continues to generate a high level of growing income.

As mentioned in the Market Commentary, equity market returns in the second quarter were not broad-based as we saw in the first quarter, which led to bifurcated returns. The mega-cap, technology-oriented stocks posted strong results for the quarter, while value-oriented and yield-centric businesses saw losses (see tables in the Market Commentary, *Figure 3*). In fact, the only sectors in the S&P 500 to post sizable gains were Information Technology and Communication Services, which hold Meta and Alphabet, while six of the 11 sectors posted negative results. Interestingly, in the Russell 1000 Value Index, all but two sectors, Consumer Staples and Utilities, posted losses for the quarter. This was also seen among the relative yield-oriented securities as depicted by Ned Davis Research in their breakdown of the S&P 500 returns ranked by quartiles of dividend yield (*Figure 8*), where Quartile 1 shows the highest yielding, Quartile 4 shows the lowest yielding, and Quartile 0 represents non-payers. The first chart reflects how the higher-yielding stocks have produced lower returns, although all were in negative territory. The narrow strength of the equity markets and the backup in the 10-year Treasury thus far in 2024 have pressured higher-yielding equity securities, which is illustrated by the second chart showing the past six months, i.e., the highest-yielding constituents are lagging the lower-yielding quartiles.

Equity Income has also faced pressure in the current environment, posting a loss of 3.7% in the second quarter, which brings down its year-to-date gain to 2.4% (both gross of fees). [*The strategy's net-of-fees return for the same periods were -4.4% QTD and 0.9% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Figure 8

S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield)



*Actual Historical Constituents. *Returns through 6/30/2024 (Source: Ned Davis Research, Copyright 2024)*

Nevertheless, despite the tough environment, the companies held in the Equity Income portfolio continued to pay and grow their dividends. As stated in the table (*Figure 9*), 19 of the 34 companies in the current Equity Income portfolio have increased their dividends, with an average announced growth rate of 5.8%. As of June 30, 2024, the average dividend yield for the Equity Income portfolio is 3.4% *(source: FactSet)*.

Figure 9 **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***
2014	33	3.4%	29	4	0	13.0%
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%
Average-10 yrs (2014-2023)		3.3%	28	5	0	7.8%
YTD (6/30/24)	34	3.4%	19	-	0	5.8%

** 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 reports, 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 6/30/2024 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.)

Strategy Commentary continued...

As we have discussed in the past, with real rates returning to positive territory, the headwinds facing yield-oriented investments will likely subside. The recent inflation data reflects the progress, albeit it is occurring slower than investors expected. While it has certainly been trying for disciplined investors with a yield focus, as the economist Herb Stein once observed, "If something cannot go on forever, it will stop." We believe this can be applied to the outperformance of everything AI-related as well as the top five technology-oriented stocks. When this eventually occurs, a broadening in the market will likely transpire.

For the quarter, the Equity Income portfolio benefited from the underlying strength in Analog Devices (ADI) and Southern Co. (SO), which operate in the analog semiconductor arena and utilities, respectively. Both are benefiting from the added demand surrounding the infrastructure and energy needed to support the technological advances. The laggards, Fastenal (FAST) and Snap-On (SNA), operate in the Industrials sector and have faced concerns of a slowing industrial environment as the Fed delays rate cuts. Both companies are competitively advantaged operators, and we remain positive on their fundamentals. [*See contribution tables on p.6*.]

There was one change during the quarter as we swapped Nestlé (NSRGY) for Hershey (HSY). The Hershey Company is one of the largest confectionary companies in the world, amassing a portfolio of top brands and embedded cultural relevance over its 125+-year history. Through its confectionary operations, the company produces and sells its eponymous Hershey candy bars, Reese's candies, Twizzlers, York Peppermint Patties, and Kit Kat bars. The company derives 82% of its sales from North American Confectionary sales, while 10% comes from North American Salty Snacks, and the remainder is from International sales.

Hershey exhibits multiple sources of competitive advantages, including a formidable portfolio of leading brands and a significant distribution network, which reaches nearly every type of retail outlet in the country. Strong consumer preference for the company's brands, led by taste and embedded cultural significance, have supported Hershey's pricing power and volume growth over time. The company maintains industry-leading operating margins and generates significant free cash flow.

Hershey's strong financial performance has been complemented by a consistent focus on judicious capital allocation. The company has paid an uninterrupted dividend since 1930 and has raised its dividend in 29 of the past 30 years. Management has also deployed capital toward share repurchases, reducing the average share count by 11% since 2011. Additionally, Hershey has been deploying capital to grow its Salty Snacks portfolio, acquiring brands such as Dot's Pretzels, Skinny Pop, and Pirate's Booty Popcorn. The company's vast distribution network has allowed it to rapidly grow and scale these brands.

Over the past year, a few short-term concerns in the market have had an outsized impact on Hershey's stock, bringing the valuation multiple to lows rarely seen in the past 20 years. Most of these factors are centered around general macroeconomic concerns and consumer spending pressures. Hershey's significant brand loyalty, distribution capacity, and ability to adapt to changing consumer preferences have allowed the company to weather similar environments in the past. The company has many levers it can pull to adjust pack size and pricing levels to manage these headwinds and maintain or grow its competitive position. The market's focus on short-term headwinds has created an opportunity to own Hershey at an attractive discount relative to the long-term value of the business. Over time, we expect Hershey to continue generating industry-leading profitability and returns on capital, which should ultimately lead to value creation for shareholders.

Outlook

With inflation rising well above the Fed's target of 2.0% and continuing to stay elevated, interest rates have also risen, creating a near-term headwind for fixed income and dividend-yielding businesses. The long period of 0% interest rates is now over and the 10-year Treasury is back to levels seen prior to the Great Financial Crisis of 2008-09 and, most importantly, above inflation. This means the 10-year Treasury is once again providing real rates of return versus the negative rates that were prevalent over much of the past 15 years. We would expect this to impact investors' capital allocation decisions, leading to more prudence with a focus on fundamentals and valuations. At Confluence, we remain committed to a disciplined approach of seeking competitively advantaged businesses trading at attractive valuations. It is an approach we have deployed since 1994, guided by the same leadership which has served our clients well through previous uncertain periods, including the dot-com era and housing bubble. That is where our focus will remain.

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Contribution[2]

The top contributors and detractors for the portfolio in Q2 2024 and year-to-date are shown in the following tables:

(QTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Analog Devices Inc.	3.28	0.46
Southern Co.	2.73	0.24
Kinder Morgan Inc.	2.31	0.22
Colgate-Palmolive Co.	2.54	0.21
Microsoft Corp.	2.96	0.18
Bottom 5		
Weyerhaeuser Co.	1.74	(0.40)
Diageo plc	2.78	(0.40)
Polaris Inc.	1.93	(0.47)
Snap-on Inc.	4.22	(0.50)
Fastenal Co.	2.57	(0.53)

(YTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Progressive Corp.	4.41	1.21
Microsoft Corp.	3.64	0.68
Colgate-Palmolive Co.	2.45	0.52
Analog Devices Inc.	3.13	0.47
Chubb Ltd.	3.34	0.42
Bottom 5		
United Parcel Service Inc.	2.58	(0.33)
Weyerhaeuser Co.	1.83	(0.34)
Polaris Inc.	2.02	(0.35)
Diageo plc	2.56	(0.37)
Snap-on Inc.	4.31	(0.38)

Performance Composite Returns[3] (For Periods Ending June 30, 2024)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Equity Income *Pure Gross-of-Fees[4]*	10.2%	9.2%	12.4%	9.2%	8.7%	5.1%	8.5%	2.4%	(3.7%)
Max Net-of-Fees[5]	7.0%	6.0%	9.1%	5.9%	5.5%	2.0%	5.3%	0.9%	(4.4%)
Russell 3000 Value	7.4%	8.1%	11.7%	8.1%	8.9%	5.1%	12.9%	6.2%	(2.3%)
S&P 500	7.8%	10.3%	14.8%	12.8%	15.0%	10.0%	24.5%	15.3%	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
2000**	13.5%	12.8%	3.9%	(7.8%)	9.7%	2	$125		N/A	N/A	N/A	N/A
2001	11.6%	8.6%	(4.3%)	(11.9%)	16.0%	32	$6,341		N/A	N/A	N/A	0.2%
2002	0.6%	(2.1%)	(15.2%)	(22.1%)	15.8%	342	$36,726		N/A	N/A	N/A	0.8%
2003	32.1%	28.5%	31.1%	28.7%	0.9%	1,204	$168,181		11.0%	16.0%	18.1%	0.9%
2004	12.1%	9.1%	16.9%	10.9%	(4.8%)	2,811	$425,234		10.2%	14.8%	14.9%	1.1%
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%

**Average annualized returns* ***Inception is 10/1/2000* *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)*

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Disclosures

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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] **Annual Dividend Statistics—***Figure 9:* 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 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.

[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.