Equity Income

Value Equity Strategies

Fourth Quarter 2024

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

Equities had another stellar year in 2024 as the economy remained resilient and monetary policy shifted toward easing. Consequently, there were few impediments to sustaining bullish sentiment. The economy continued to grow at a healthy rate despite sharp rate hikes over the past couple of years, and employment remained strong, facing only minor headwinds. Inflation also decelerated, allowing the Federal Reserve to curtail its restrictive policy and begin cutting rates in the latter part of the year. This backdrop fueled a strong year for equities, with the S&P 500 Index climbing 25%, following a 26% increase in 2023. This marks consecutive years of over 20% gains for the first time since 1998-1999.

While these two years produced similar end results, they unfolded quite differently. Recall that 2023 followed a disastrous 2022, when the S&P 500 fell nearly 20% due to inflation concerns that led to aggressive rate hikes and recession fears. The Fed's last rate hike occurred in July 2023, and by October, policymakers had signaled an end to the tightening cycle, which sparked a strong rally that lasted through the first quarter of 2024. At that time, the market quickly priced in six rate cuts for 2024; however, inflation numbers exceeded expectations in early 2024. This environment prompted the Fed to pause and maintain higher rates for longer than anticipated, pressuring yield-oriented securities while benefiting the faster-growing tech-oriented stocks known as the Magnificent Seven (M7), which had also dominated in 2023.

It was not until the June CPI release on July 11, 2024, that inflation showed signs of easing and improved the odds of rate cuts. This resulted in a strengthening of the equity markets and broader market participation to include previous laggards. The probability of rate cuts was further solidified by labor weakness during the summer, which led to expectations for a more aggressive cut of 50 basis points at the September meeting and provided additional momentum for this broadening.

While the Fed did indeed cut rates by 50 basis points on September 18, followed by additional cuts of 25 basis points each in November and December, longer-dated maturities in the fixed income market experienced a selloff that pushed up yields sharply. This can be attributed to concerns about inflation leveling off above the Fed's stated goal of 2%, contradicting its recent accommodative policy stance, and fears of a resurgence in inflation. The rise in long-term rates – evidenced by a jump of 85 basis points in the 10-year Treasury yield from 3.70% to 4.55% from the first Fed cut to year-end – pressured equity markets in December and ultimately dashed hopes of a broad Santa Claus rally.

Despite strong equity returns, the breadth was narrow again in 2024. This is evident in the return differential between the equally weighted and market cap-weighted S&P 500 indexes: 13% versus 25%, respectively. Underlying returns were led by mega-caps, primarily the M7. Large caps outperformed small caps significantly as the Russell 1000 was up 24.5%, while the Russell 2000 increased by only 11.5%. Growth stocks outperformed value stocks as well, with the Russell 1000 Growth up 33.4% compared to the Russell 1000 Value's gain of just 14.4%. Additionally, lower-yielding stocks outperformed higher-yielding ones as NDR's lowest-yielding dividend quartile rose by 22.1%, while the highest-yielding quartile only managed a mere increase of 2.1% (*Figure 1*).

Figure 1 **– S&P 500 Stock Constituents***
Ranked by Quartiles (Dividend Yield)

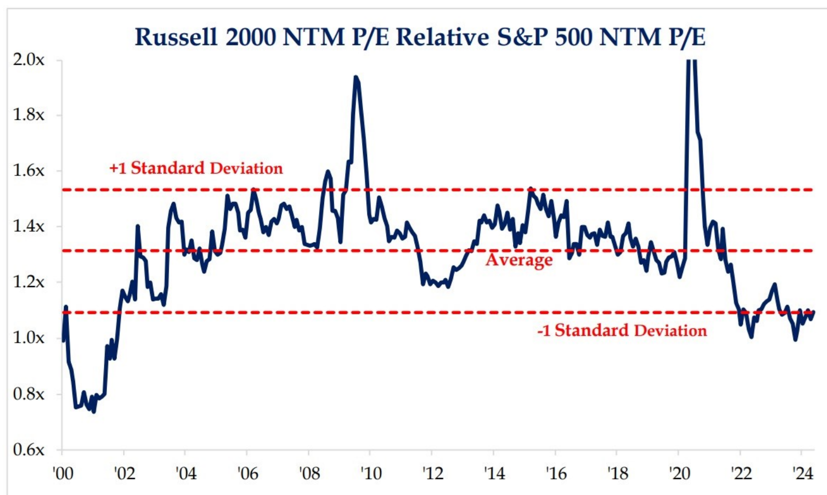
*Actual Historical Constituents. *Returns through 12/31/2024.* Highest yielding in Quartile 1 and lowest in Quartile 4; Non-dividend-payers in Quartile 0. *(Source: Ned Davis Research, Inc.; © Copyright 2025)*

See GIPS Report on pages 7-8.

Market Commentary continued...

This year marked the eighth consecutive year that large caps outperformed small caps – a record going back over four decades; the previous record was four years (1984-87 and 1995-98). In fact, the Russell 2000 experienced its worst relative performance against the S&P 500 since 1998. This continued market leadership has caused historically extreme valuation spreads between small and large caps (see *Figure 2*).

Figure 2



(Source: Strategas)

The dominance of the M7 is also reflected in sector contributions as Communication Services (GOOG, META), Information Technology (AAPL, MSFT, NVDA), and Consumer Discretionary (AMZN, TSLA) have led all other sectors except Financials. Notably, Consumer Discretionary, Technology, and Communication Services account for approximately 77.8% of the Russell Growth Index, with the M7 stocks dominating within these sectors (*Figure 3*, sector returns table).

Figure 3 **– Returns and Valuations by Sector**

		Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
Weight	**S&P weight**	3.2%	1.9%	13.6%	8.2%	11.3%	32.5%	9.4%	2.1%	10.1%	5.5%	2.3%	100.0%
	Russell Growth weight	0.4%	0.6%	6.5%	4.2%	15.9%	48.6%	13.3%	0.5%	6.6%	3.3%	0.2%	100.0%
	Russell Value weight	6.7%	4.2%	23.1%	14.7%	6.2%	9.3%	4.4%	4.7%	14.2%	7.9%	4.6%	100.0%
	Russell 2000 weight	5.1%	4.3%	18.7%	17.8%	9.7%	13.8%	2.7%	6.1%	16.3%	2.8%	2.7%	100.0%
Return (%)	**QTD**	-2.4	-12.4	7.1	-2.3	14.3	4.8	8.9	-8.5	-10.3	-3.3	-5.5	2.4
	YTD	5.7	0.0	30.6	17.5	30.1	36.6	40.2	5.0	2.6	14.9	23.4	25.0

(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 1Q 2025, as of December 31, 2024)

Perspective on Market Concentration

Given the focus and influence of the top mega-cap, tech-oriented businesses in recent years, it is important to understand their impact and consider it within the historical context. While the M7 are leading the latest advancements in innovation, this is not the first time our economy has experienced the introduction of new evolutionary tools.

Over the past century, our economy has transitioned from an agrarian base to an industrial one, then to a foundation built on intellectual property and services. This evolution has primarily been driven by industrial advancements that have fostered productivity improvements. This progression – from horses and horse-drawn carriages to tractors, railroads, and automobiles; from the telegraph to radio and telephone; and, more recently, with the advent of computers and the internet – has allowed society to grow and prosper. However, human emotions, driven by fear and greed, have also led to cycles of booms and busts as the excitement surrounding each new advancement is often limited only by one's imagination.

The recent advancements in Artificial Intelligence (AI) and Large Language Models (LLMs) seem to have particularly captured the public's imagination. This is evident in the significant impact that the M7 have had on the S&P 500, as this chart demonstrates (*Figure 4*). The M7 account for only 1.4% of the number of companies in the S&P 500, yet their contributions over the past few years have been disproportionately high, ranging from 33% to 63%, despite representing less than 2% of the index.

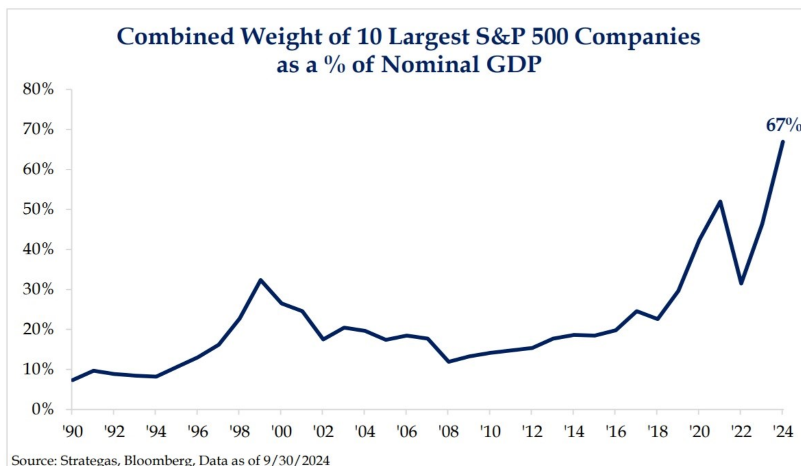
Figure 4

(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 1Q 2025, as of December 31, 2024)

Perspective on Market Concentration continued...

The concentration of the M7 within the "broad" S&P 500 Index has also reached unprecedented levels when measured by their market caps relative to GDP (see *Figure 5*). The market capitalization-to-GDP ratio is a metric that compares the total value of publicly traded stocks in a country to its gross domestic product (GDP). In essence, the value of the businesses that impact GDP should be proportionate in size to the economy. This ratio serves as a broad indicator of whether the stock market is overvalued or undervalued relative to the economy. It was popularized by Warren Buffett, who described it as "probably the best single measure of where valuations stand at any given moment" in a 2001 interview.

Figure 5



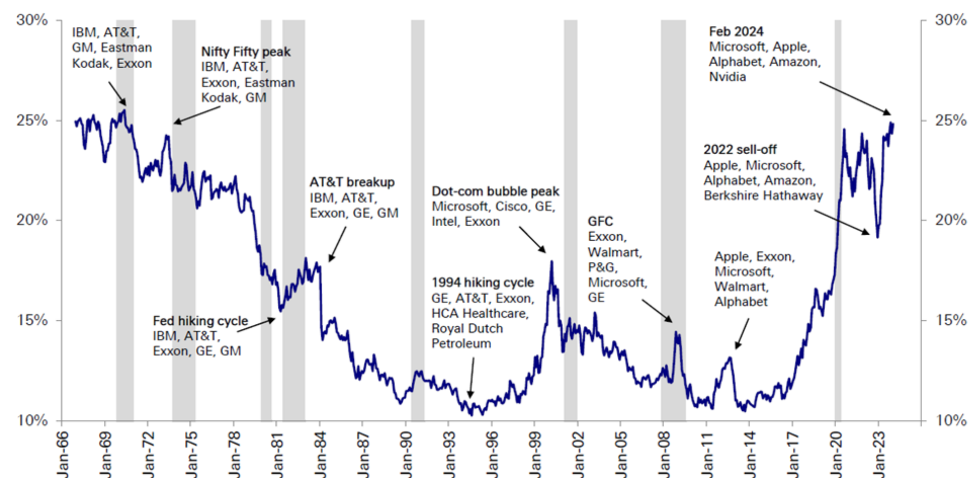
(Source: Strategas)

Prior to the late 1990s, this ratio historically fluctuated between the low 30s and high 80s. However, post-2000, it has seen a significant increase, reaching highs in the low 190s. This upward trend reflects various factors, including increased investor sentiment and changes in market dynamics. Currently, the top 10 businesses alone account for about 67% of GDP, which raises concerns about potential overvaluation based on historical averages.

Lastly, the weighting of the top five companies as a percentage of the S&P 500 (see *Figure 6*) is also at extremes, ending the year at 28.6% of the S&P 500. As we have noted in previous discussions (see our report, "Is It Different This Time?"), these are exceptional businesses with solid earnings and promising prospects. However, there are concerns regarding how much of this potential has already been priced into their shares, leaving little margin for safety.

We see parallels with the top businesses of the late 1960s and early 1970s, known as the Nifty Fifty, which also held strong competitive positions and generated impressive earnings. While they thrived for decades, they ultimately proved to be suboptimal investments as earnings struggled to catch up with their lofty valuations. We suspect that history may rhyme once again in the coming period.

Figure 6



(Source: DB Asset Allocation, Deutsche Bank)

Market Outlook

Throughout most of 2024, market sentiment leaned toward risk-taking with an emphasis on crowded areas of the market, an approach that was ultimately rewarded. However, December ended on a subdued note as longer-duration bonds and equities outside the M7 sold off amid investor apprehension regarding inflation leveling off above targeted levels. The year also concluded with uncertainties surrounding the presidential election and Donald Trump's return to the presidency with a slim majority in both houses of Congress — potentially complicating his agenda.

The US also faces considerable debt refinancing needs alongside ongoing deficits, suggesting that 2025 may be more volatile than 2024. Nevertheless, domestic economic resilience and sound employment have fostered solid earnings growth alongside promising prospects for 2025 earnings growth.

Historically, uncertainties abound, making it essential to remain steadfast in one's investment discipline — something Confluence has practiced for three decades. We remain committed to our philosophy of focusing on fundamentals and valuations to identify competitively advantaged businesses that are 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.

The rotation that occurred in the third quarter, which benefited value and yield-oriented businesses, had a sharp reversal in the fourth quarter. December was especially ugly as concern swirled around inflation remaining stubbornly above the Fed's target. This triggered a selloff in the 10-year Treasury, pushing its yield from 4.18% to 4.55% in December, which also put pressure on higher-yielding stocks and prompted a return to the Magnificent 7 (M7) companies. More specifically, the Russell 3000 Value Index posted a loss in December of 6.9% compared to a gain of 0.5% for the Russell 3000 Growth as the M7 produced an average return of 5.6%. With the Santa Claus rally getting disrupted by Scrooge, the quarter ended with a 2.0% loss for the Russell 3000 Value and a 2.4% gain for the S&P 500.

While the M7 stocks have ruled the market year-to-date, only four pay any sort of dividend, with NVIDIA, Apple, and Meta yielding roughly 0.03%, 0.4%, and 0.3%, respectively, while Microsoft currently yields 0.8% with a solid history of dividend growth. Meanwhile, the companies held in the Equity Income portfolio continued to pay and grow their dividends. As stated in the table (*Figure 7*), 30 of the 34 companies in the current Equity Income portfolio have increased their dividends and four companies announced special dividends. For those companies which announced a change in their indicated annual dividend, the average announced growth rate was 6.1%. The average growth rate across the current portfolio, including those companies which did not report a change in their annual dividend, was 5.4% for the full year.

As of December 31, 2024, the equal-weighted average dividend yield of the current holdings in the Equity Income portfolio, including 2024 special dividend payments announced, 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%

** 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.*
**** 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.

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

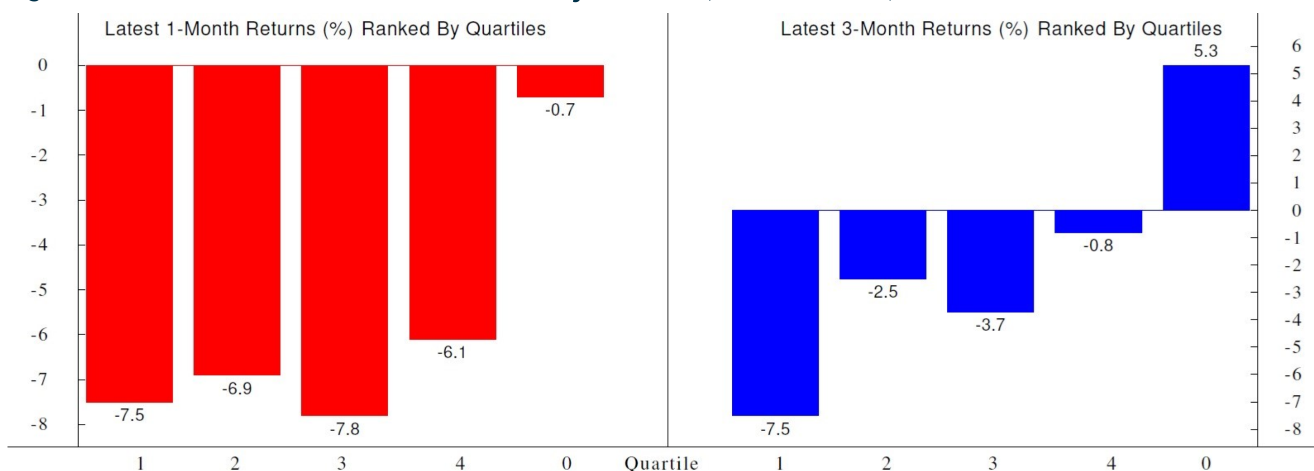
Equity Income was born from the needs of investors who desired a high stream of income to augment their current income or replace their income in retirement. The portfolio is constructed by focusing on individual companies exhibiting these dividend characteristics. They tend to be more mature businesses 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 been shown to provide 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.

Strategy Commentary continued…

As discussed in the Market Commentary, the strength in equities was very narrow during the quarter and Equity Income was no exception as the strategy was down 2.2% in the fourth quarter but finished the year up 12.2% (both gross of fees). Returns were roughly in-line with the Russell 3000 Value Index, which was down 2.0% for the quarter but up 14.0% for the year. [*The strategy's net-of-fees returns for the same periods were -2.9% QTD and +8.9% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Dissecting the market by yield also shows that the selloff in December as well as the fourth quarter as a whole was skewed toward the higher-yielding stocks, with the non-payers leading the pack. These charts from Ned Davis Research (*Figure 8*) reflect returns by yield quartile, with the highest yielding in Quartile 1 and the lowest in Quartile 4, while non-dividend-payers are in Quartile 0.

Figure 8 **– S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield)**



*Actual Historical Constituents. *Returns through 12/31/2024.* Highest yielding in Quartile 1 and lowest in Quartile 4; Non-dividend-payers in Quartile 0. *(Source: Ned Davis Research, Inc.; © Copyright 2025)*

The full year reflects a different picture with a large split between the non-paying/lower-yielding quartile and the higher-yielding names as the former outperformed by a wide margin (see Market Commentary, *Figure 1*). Comparing these NDR S&P 500 Dividend Yield Quartile charts with Equity Income, our portfolio's focus on quality companies with above-average yields (generally 1.5 to 2.0 times the broad market) puts the sweet spot in Quartile 2. Looking at the 12-month time period in *Figure 1*, Equity Income's gross return compares favorably to the S&P 500 Quartile 2 return of 11.0%, while the non-payers returned 15.5% (Quartile 0) over the past year, demonstrating the bifurcation that occurred in 2024. Quartile 4 is now heavily influenced by the marginal dividend payers of the M7 and explains their outperformance of 22.1%.

During the quarter, we sold the remaining position in Rayonier (RYN) and began to build a new position, which we look forward to discussing when complete.

For the year, the portfolio was led by Progressive (PGR), Kinder Morgan (KMI), and Entergy (ETR). Progressive has experienced solid improvement in insurance pricing combined with growing market share as the company's data-driven model has allowed it to take advantage of the current environment. Kinder Morgan owns pipeline and critical infrastructure assets that are benefitting from the growth in natural gas, and its liquification (LNG) for shipment stands to gain as the new administration plans to focus on domestic energy independence. Lastly, Entergy is a utility serving the Southeast that has increased earnings expectations due to population growth in its base and rising industrial demand, which stands to benefit from data centers and industry onshoring.

The laggards for the year were Polaris (PII), United Parcel Services (UPS), and Dow (DOW). Polaris offers higher-end products for the outdoor motor sports world that leads with design and utilizes 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. United Parcel Services is a newer holding that has also faced near-term pressure from the lower-end consumer spending headwinds, while navigating costs tied to its recent union contract. Lastly, Dow is a leading diversified producer of commodity chemicals that has experienced a slowdown in its end markets and pressure on input costs.

Outlook

Looking ahead, the economy appears to have smoothly transitioned from the aggressive interest rate hikes of 2022-2023 to the swift rate cuts implemented in late 2024. This "Goldilocks" outcome has caused investor sentiment to lean very bullish for much of the year, particularly as the market broadened in the third quarter. However, concerns about persistent inflation late in the year raised questions about the timing and magnitude of future Federal Reserve actions, resulting in an increase in longer-term bond yields which also pressured stocks.

The rise in yields coupled with policy changes from the new administration introduces additional uncertainties that could influence the market throughout the coming year. These uncertainties will likely result in increased volatility and could potentially lead to a reunion of fundamentals and valuations in those areas of speculative excess.

Meanwhile, 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 Q4 2024 and the full year are shown in the following tables:

(QTD as of 12/31/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Snap-on Inc.	4.69	0.71
Kinder Morgan Inc.	2.86	0.62
Entergy Corp.	2.84	0.42
Cisco Systems Inc.	2.46	0.27
Northern Trust Corp.	1.96	0.25
Bottom 5		
Fidelity National Financial Inc.	3.61	(0.33)
Dow Inc.	1.54	(0.45)
Linde plc	3.71	(0.46)
Polaris Inc.	1.43	(0.51)
Lockheed Martin Corp.	3.14	(0.54)

(YTD as of 12/31/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Progressive Corp.	4.60	1.99
Kinder Morgan Inc.	2.44	1.33
Entergy Corp.	2.47	1.19
Snap-on Inc.	4.34	0.83
Paychex Inc.	4.00	0.81
Bottom 5		
Weyerhaeuser Co.	1.72	(0.33)
Nestle S.A.	*Sold*	(0.35)
Dow Inc.	1.88	(0.42)
United Parcel Service Inc.	2.40	(0.48)
Polaris Inc.	1.81	(0.78)

Performance Composite Returns[3] (For Periods Ending December 31, 2024)

	Since Inception**	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Equity Income *Pure Gross-of-Fees[4]*	10.4%	9.2%	11.5%	9.7%	8.8%	4.6%	12.2%	12.2%	(2.2%)
Max Net-of-Fees[5]	7.2%	6.0%	8.2%	6.5%	5.6%	1.5%	8.9%	8.9%	(2.9%)
Russell 3000 Value	7.5%	7.8%	10.7%	8.4%	8.6%	5.4%	14.0%	14.0%	(2.0%)
S&P 500	8.0%	10.3%	13.9%	13.1%	14.5%	8.9%	25.0%	25.0%	2.4%

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)*

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

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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.