

## OBJECTIVE

Invests in companies of any size capitalization that collectively generate an above-average stream of dividend income, while also providing capital appreciation potential.

## INVESTMENT PHILOSOPHY

Confluence's investment philosophy is a bottom-up, fundamental approach that seeks to generate above-average returns over the long-term by identifying businesses that possess substantial competitive advantages and are trading at discounts to our estimate of intrinsic value. Advantages may include strong brand names, highly differentiated services or products, dominant market share, flexible pricing power, protected technology or specialized industrial skill sets. Companies have the ability to generate high levels of cash flow and are led by management teams that create shareholder wealth.

The investment process focuses on managing risk, which we define as the probability of a permanent loss of capital, by owning quality businesses at attractive valuations diversified across a variety of market sectors. This discipline strives to protect investors on the downside while enhancing upside potential. Over time, we believe this approach positions the portfolio to deliver superior risk-adjusted returns.

## OVERVIEW

- ◆ Invests in companies with a high level of dividend income or ability to grow dividend stream over time
- ◆ Positioned to collectively generate above-average stream of dividend income greater than inflation rate
- ◆ Range of market capitalizations
- ◆ 3% position sizes
- ◆ Low-to-moderate turnover
- ◆ Appropriate for clients seeking total return from dividend income and capital appreciation

## CHARACTERISTICS<sup>1</sup>

	EQUITY INCOME	R3000 VALUE	S&P 500
Dividend Yield	2.9%	2.0%	1.4%
Number of Positions	30-35	2,277	505
Annual Turnover (5-yr Rolling)	11%		

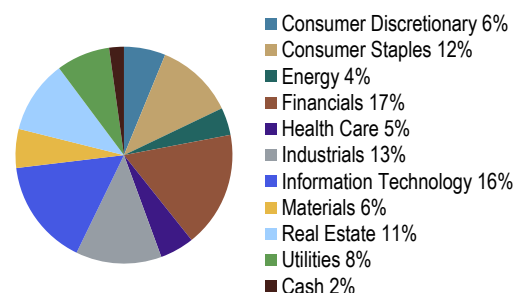
<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses. The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Application of the investment strategy as of a later date will likely result in changes to the listing. Sector weightings/holdings of individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings. Portfolio yield: composite-level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark sources: FTSE Russell/S&P Dow Jones Indices. Annual turnover 5-yr rolling calculated from sample accounts for periods ending 12/31/2020.

MARKET CAP <sup>1</sup>	EQUITY INCOME	R3000 VALUE	S&P 500
Weighted Avg. Market Cap (\$B)	149.7	145.7	563.5
Largest Market Cap (\$B)	2,118.6	1,779.9	2,339.0
Median Market Cap (\$B)	47.9	2.5	30.6
Smallest Market Cap (\$B)	2.8	-	3.8
Large Cap (>\$10B)	84%		
Mid Cap (\$10B-\$2B)	13%		
Small Cap (<\$2B)	0%		

## 10 LARGEST HOLDINGS<sup>1</sup>

Paychex, Inc.	3.6%
Broadridge Financial Solutions, Inc.	3.4%
Snap-on Incorporated	3.4%
Microsoft Corporation	3.2%
Diageo plc	3.2%
The Home Depot, Inc.	3.2%
The Progressive Corporation	3.1%
U.S. Bancorp	3.1%
Fidelity National Financial, Inc.	3.1%
Nestlé S.A.	3.1%

## SECTOR ALLOCATION<sup>1</sup>



## INVESTMENT PROCESS

### SECURITY SELECTION

#### GREAT COMPANIES AT BARGAIN PRICES

Our disciplined investment process is research-driven, seeking to uncover "great companies" trading at bargain prices. We define great companies as those with the following attributes:

#### Durable Competitive Advantages

- ◆ Meaningful pricing power
- ◆ High barriers to entry
- ◆ Superior return on capital over extended periods of time

#### Free Cash Flow

- ◆ Substantial amount available to benefit shareholders
- ◆ Should far exceed the capital expenditures needed to maintain and grow the business

#### Capable Management

- ◆ Demonstrated ability to effectively allocate capital
- ◆ Alignment of management's interest with investors through large personal investments in company stock

### BUY DISCIPLINE

#### INVEST BASED ON PRICE AND PATIENCE

We believe focusing on high-quality companies and purchasing only when they're being offered at prices below our estimate of intrinsic value is an effective means for limiting downside risk while maximizing total return potential over an investment cycle.

- ◆ Primary focus is price paid for a stock (discount to intrinsic value)
- ◆ Each portfolio company is evaluated to determine the highest price we will pay for a security
- ◆ This entry point is generally set at a 25%-50% discount to our internal estimate of intrinsic value
- ◆ Entry points are continually re-assessed
- ◆ Risk is defined as *the probability of a permanent loss of capital* as opposed to tracking error of a benchmark

New accounts may not be fully invested at inception if companies are trading above current entry points.

### SELL DISCIPLINE

To help preserve capital, portfolio positions are continually reviewed.

A company's stock may be sold if:

- ◆ Share price reaches or exceeds our estimate of full valuation
- ◆ Company's fundamentals deteriorate
- ◆ More attractive opportunities are identified

## ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's value-driven, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

