Confluence
INVESTMENT MANAGEMENT

SECOND QUARTER
2024

Large Cap Value • Value Equity Strategies

Large Cap Value is focused on seasoned companies that generally have capitalizations above $10 billion. Companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess substantial competitive advantages and that are trading at discounts to our estimate of intrinsic value. The portfolio typically comprises 23-25 holdings and is expected to result in low to moderate turnover. The strategy is appropriate for clients whose primary objective is capital appreciation and whose secondary objective is dividend income.

Market Commentary

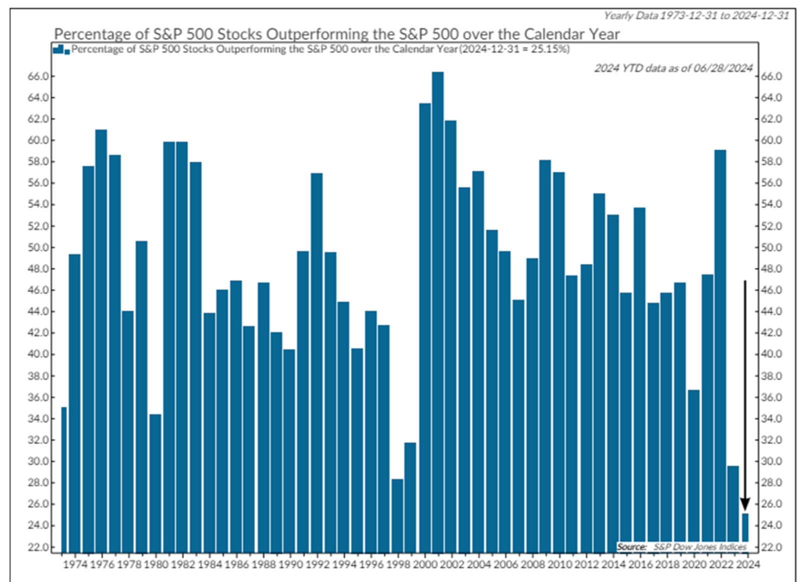
Investor sentiment was building as we entered the year on the prospects of interest rate cuts, a resilient economy, and an abundance of enthusiasm surrounding the latest technological advances. To date, the data has largely been supportive of that sentiment, with strong employment and rising corporate 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%

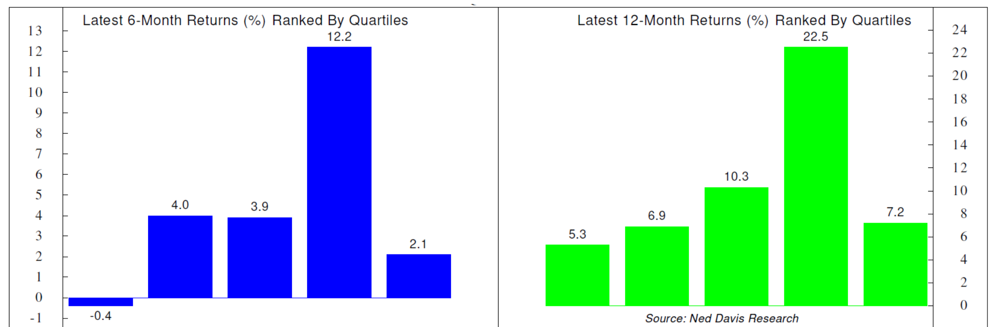
Name	Q2	YTD
NVIDIA	36.7%	149.5%
Apple	23.0%	9.7%
Alphabet	20.8%	30.5%
Tesla	12.6%	(20.4%)
Amazon.com	7.1%	27.2%
Microsoft	6.4%	19.3%
Meta	3.9%	42.7%

(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)**

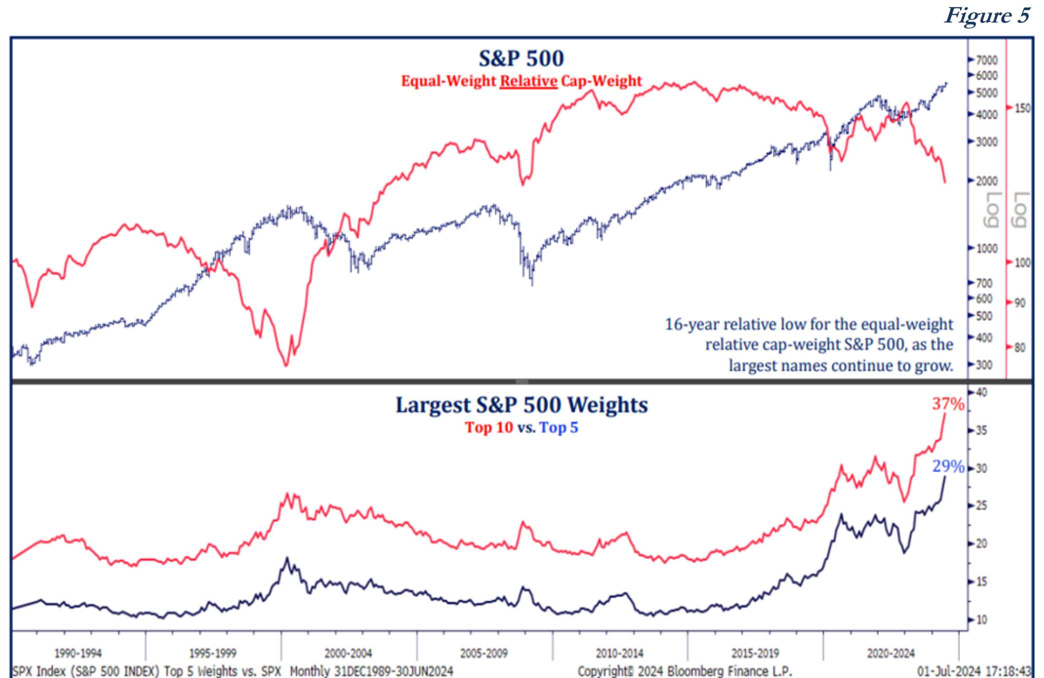


*Actual Historical Constituents. *Returns through 6/30/2024 (Source: Ned Davis Research, Copyright 2024)*

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



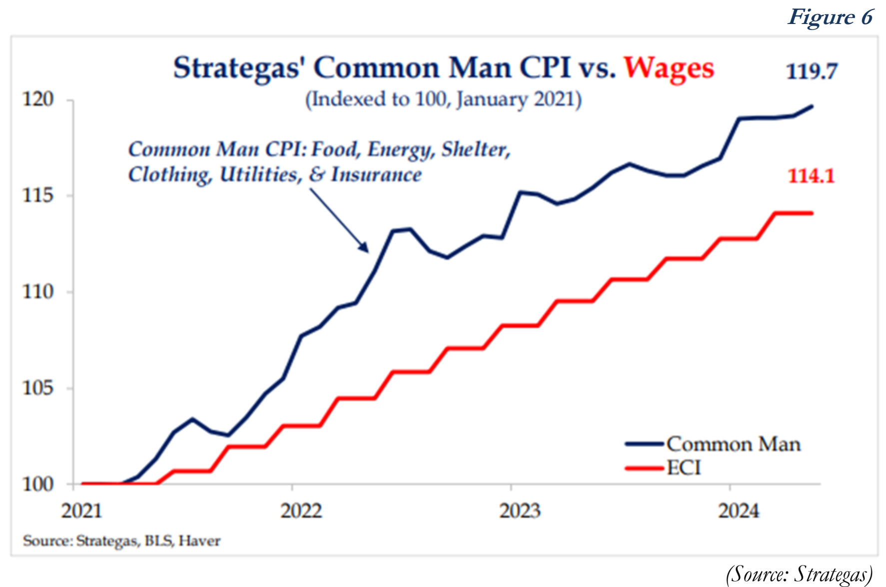
(Source: Strategas)

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.

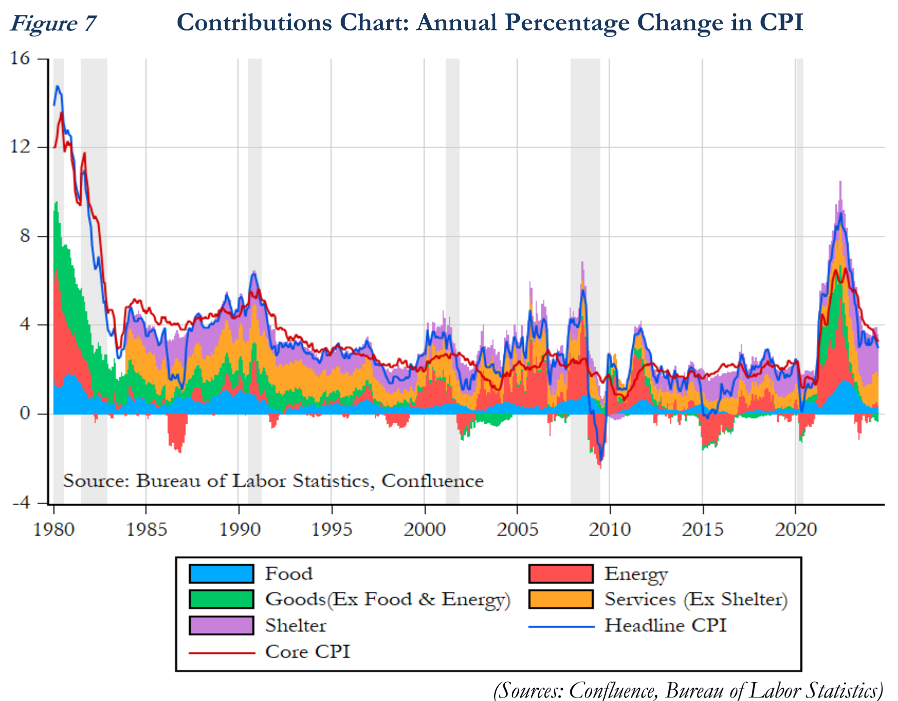
Figure 6



(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 second quarter of 2024 saw greater differentiation in equity market returns. This contrasts with the first quarter, in which virtually every segment of the market advanced. In Q2, large cap and growth indexes extended their positive run, while small/mid-caps and value stocks experienced modest declines. This differentiation was also apparent across sectors, where businesses in the Technology and Communication Services sectors experienced the largest gains, while Energy, Industrials, and Materials retreated.

During the second quarter, the S&P 500 Index advanced 4.3%, while the Russell 1000 Value Index declined by 2.2%. Confluence's Large Cap Value strategy declined by 3.1% (gross of fees). [*The strategy's net-of-fees return for the same period was -3.8% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

One of the more impactful market dynamics over the past several years has been the degree to which performance has been concentrated in a small subset of companies. This effect has ebbed and flowed, such that performance broadens out in some periods, whereas in other periods the market is carried by a select group of high-flyers. While we've observed some signs of broadening performance in recent periods, the second quarter was characterized by extremely concentrated returns in the Information Technology sector. Nineteen of the top 30 performing stocks in the S&P 500 during the second quarter were technology companies, and nearly all the S&P 500's return during the quarter was derived from this sector. Tech-related members of the Magnificent 7, NVIDIA (NVDA), Apple (AAPL), Alphabet (GOOGL), and Tesla (TSLA), collectively represent nearly $10 trillion in market cap. All four companies saw their share prices rise by at least 10% in the second quarter. NVIDIA alone is up approximately 150% in the first half of the year.

While the performance of Large Cap Value trailed that of the benchmarks in the second quarter, we remain far more focused on whether the individual holdings in the portfolio are maintaining or deepening their competitive moats. Our steadfast belief is that appropriately financed, competitively differentiated businesses, led by experienced managers, will create value over the long-term. The highest return on our time and efforts comes from studying businesses to better understand competitive advantages, not from obsessing over what is driving short-term performance.

Primary contributors to performance in the second quarter included enterprise application provider Oracle (ORCL) and technology-giant Alphabet (GOOGL). The strong relative performance of both companies was propelled by a similar theme — an acceleration in growth related to cloud computing. Cloud computing is the delivery of computing services over the internet, allowing users to access and use those resources on-demand without having to own physical infrastructure. It offers a host of cost and performance advantages and has become an essential component of modern enterprise IT strategy. Oracle's most recent quarter exhibited strong growth in its cloud-related businesses and the company is on-track to exceed long-term revenue and profit targets. Similarly, the market was encouraged by Alphabet's recent earnings report, which beat expectations thanks to impressive growth in its cloud and AI businesses. [*See contribution tables on page 6.*]

Two primary detractors from second quarter performance included fastener and tool distributor Fastenal (FAST) and building products manufacturer Masco (MAS). Fastenal's most recent results were impacted by a soft-demand environment, which led to revenue and profits missing expectations. Fastenal supplies its customers with necessary products, possesses an excellent distribution network, competes against a highly fragmented market, and is known for excellent service. The company has used consistent financial results and smart capital allocation to compound value over many years. For these reasons, we like Fastenal's business. However, the market also recognizes these attributes, and the stock carries a premium valuation. The combination of a high valuation with missed expectations can result in more significant short-term price movements. As always, we seek to own high-quality businesses in the strategy, but we are also mindful of market valuations relative to our own estimates of intrinsic value.

Elevated interest rates have kept a lid on the repair and remodel markets, to which Masco is naturally tied as a manufacturer of plumbing and paint products. Against this challenging backdrop, Masco enjoyed a stronger than expected start to the year and was a standout performer in the first quarter. However, the company's most recent results reintroduced some uncertainty around when its end-markets will stabilize. Masco's share price has suffered from this reversal of sentiment.

A new addition to the portfolio is Martin Marietta Materials (MLM), a natural resource-based building materials company. Through a network of quarries, mines, and distribution yards, MLM supplies aggregates, including crushed stone, sand, and gravel, as well as cement, ready mixed concrete, and asphalt. These materials are used in a wide variety of infrastructure and construction applications. Regulations and local zoning make it extremely difficult to develop a new quarry or mine, which represents a tremendous barrier to entry. Additionally, due to the high cost of transporting rock relative to the value of the rock itself, the business possesses monopolistic traits in local geographies. In fact, aggregates are the only commodity we have known to grow price year-over-year in virtually any economic environment. While the business must still contend with fluctuating volumes, we expect strong demand over the next several years due to growth in infrastructure projects, onshoring, and the need for residential construction.

We have also begun establishing two new positions that we look forward to discussing once they are complete.

Strategy Commentary continued...

During the second quarter, we eliminated positions in Clarivate (CLVT) and Brookfield Corporation (BN). Clarivate, a subscription-based provider of data and analytics that organizes information related to patents, trademarks, academic studies, and scientific research, possessed many attributes we found attractive. The company builds a product once and sells it many times, resulting in above-average margins and large amounts of free cash flow. Management desired to build on this model through a series of acquisitions that could deliver higher growth and returns, a strategy we were on board with. However, these efforts proved unsuccessful and their inability to drive growth left us frustrated. The combination of underperformance and growing leverage elevated our concerns of the investment being a value trap. We feel we have given management an adequate amount of time to show improvement, but they have yet to deliver in a meaningful way. With that in mind, we decided there were better uses of our capital.

Brookfield is a Canadian corporation that acquires and operates “real assets” around the world, primarily Class A office buildings and retail, utility assets, toll roads, energy pipelines, data centers, and renewable energy assets. Brookfield is a good business and has delivered a solid return since we initially purchased it in 2018. We made the decision to exit the position as it approached our estimate of intrinsic value. Debt financing and commercial real estate markets are an important part of Brookfield’s business model. If interest rates remain elevated, this will be a headwind to financing and real estate values. With Brookfield nearing our estimate of intrinsic value, we decided to book our gains and reinvest the proceeds in a new opportunity.

Outlook

As we enter the back half of the year, the big picture questions that have dominated the conversation remain. Multiple unresolved geopolitical conflicts, large economies undergoing changing political regimes, evolving expectations on interest rates, and impacts from the cumulative effects of inflation each provide fodder for debate. The uncertainty surrounding these questions underscores the importance of identifying businesses with favorable traits that are robust and sustainable. We believe it is more important to be accurate in our assessments of these individual companies and their managers than it is to predict large complex events. That is where our focus will remain.

Contribution[1]

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		
Alphabet Inc.	5.17	0.93
Oracle Corp.	4.65	0.58
Booking Holdings Inc.	5.43	0.54
NXP Semiconductors N.V.	4.62	0.40
TJX Cos. Inc.	4.40	0.40
Bottom 5		
Lowe's Cos. Inc.	3.73	(0.52)
Starbucks Corp.	3.55	(0.57)
Illinois Tool Works Inc.	5.00	(0.60)
Fastenal Co.	3.45	(0.70)
Masco Corp.	5.55	(0.92)

(YTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Oracle Corp.	4.47	1.40
Alphabet Inc.	4.79	1.33
TJX Cos. Inc.	4.33	0.76
NXP Semiconductors N.V.	4.39	0.75
Booking Holdings Inc.	5.51	0.70
Bottom 5		
Illinois Tool Works Inc.	5.15	(0.47)
Dun & Bradstreet Holdings Inc.	1.87	(0.50)
Clarivate plc	*Sold*	(0.60)
Keysight Technologies Inc.	3.99	(0.62)
Starbucks Corp.	3.82	(0.77)

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

	Since Inception**	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Large Cap Value *Pure Gross-of-Fees[3]*	11.1%	8.7%	9.9%	13.2%	9.9%	10.0%	5.3%	9.3%	4.6%	(3.1%)
Max Net-of-Fees[4]	8.0%	5.6%	6.7%	9.9%	6.7%	6.8%	2.2%	6.1%	3.1%	(3.8%)
S&P 500	10.7%	7.7%	10.3%	14.8%	12.8%	15.0%	10.0%	24.5%	15.3%	4.3%
Russell 1000 Value	9.6%	6.8%	8.1%	11.8%	8.2%	9.0%	5.5%	13.0%	6.6%	(2.2%)

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	S&P 500	R1000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R1000V 3yr Std Dev	Composite Dispersion
1994**	3.4%	2.6%	(0.0%)	(1.6%)	3.4%	122	$10,206		N/A	N/A	N/A	N/A
1995	32.7%	29.1%	37.6%	38.3%	(4.9%)	178	$24,073		N/A	N/A	N/A	1.1%
1996	29.9%	26.4%	23.0%	21.6%	6.9%	417	$63,132		N/A	N/A	N/A	1.7%
1997	31.9%	28.3%	33.4%	35.2%	(1.5%)	973	$151,053		N/A	N/A	N/A	2.1%
1998	9.0%	6.0%	28.6%	15.6%	(19.6%)	2,360	$297,953		N/A	N/A	N/A	1.8%
1999	2.9%	0.1%	21.0%	7.3%	(18.1%)	2,138	$260,171		N/A	N/A	N/A	1.7%
2000	11.5%	8.4%	(9.1%)	7.0%	20.6%	1,104	$159,096		N/A	N/A	N/A	2.3%
2001	(2.5%)	(5.1%)	(11.9%)	(5.6%)	9.4%	1,065	$145,683		N/A	N/A	N/A	1.1%
2002	(12.2%)	(14.6%)	(22.1%)	(15.5%)	9.9%	1,027	$125,161		N/A	N/A	N/A	0.6%
2003	30.9%	27.3%	28.7%	30.0%	2.2%	1,010	$163,840		15.8%	18.1%	16.0%	1.0%
2004	15.7%	12.6%	10.9%	16.5%	4.8%	1,052	$197,447		13.7%	14.9%	14.8%	1.0%
2005	(1.6%)	(4.3%)	4.9%	7.1%	(6.5%)	1,064	$188,332		8.7%	9.0%	9.5%	0.6%
2006	17.8%	14.5%	15.8%	22.2%	2.0%	957	$198,952		5.8%	6.8%	6.7%	0.6%
2007	5.9%	3.0%	5.5%	(0.2%)	0.4%	834	$174,711		6.7%	7.7%	8.1%	0.6%
2008	(27.0%)	(29.1%)	(37.0%)	(36.8%)	9.9%	119	$25,562	$291,644	13.2%	15.1%	15.4%	N/A
2009	28.6%	24.8%	26.5%	19.7%	2.2%	149	$53,387	$533,832	17.7%	19.6%	21.1%	1.4%
2010	12.1%	8.8%	15.1%	15.5%	(3.0%)	192	$76,040	$751,909	19.7%	21.9%	23.2%	0.4%
2011	6.4%	3.2%	2.1%	0.4%	4.3%	228	$89,145	$937,487	17.1%	18.7%	20.7%	0.3%
2012	19.0%	15.4%	16.0%	17.5%	3.0%	249	$143,568	$1,272,265	13.5%	15.1%	15.5%	0.4%
2013	37.6%	33.6%	32.4%	32.6%	5.2%	373	$208,844	$1,955,915	10.6%	11.9%	12.7%	0.9%
2014	10.7%	7.5%	13.7%	13.4%	(2.9%)	618	$278,339	$2,589,024	8.6%	9.0%	9.2%	0.5%
2015	1.6%	(1.4%)	1.4%	(3.8%)	0.2%	858	$352,556	$3,175,419	10.1%	10.5%	10.7%	0.5%
2016	8.6%	5.4%	12.0%	17.3%	(3.4%)	1,003	$396,038	$4,413,659	10.0%	10.6%	10.8%	0.4%
2017	16.1%	12.6%	21.8%	13.6%	(5.7%)	1,049	$380,737	$5,944,479	9.0%	9.9%	10.2%	0.6%
2018	(4.6%)	(7.4%)	(4.4%)	(8.3%)	(0.2%)	1,029	$364,805	$5,486,737	10.4%	10.8%	10.8%	0.6%
2019	34.5%	30.5%	31.5%	26.5%	3.0%	1,118	$525,944	$7,044,708	11.8%	11.9%	11.8%	0.6%
2020	13.0%	9.7%	18.4%	2.8%	(5.4%)	1,229	$647,076	$6,889,798	18.8%	18.5%	19.6%	0.9%
2021	26.8%	23.0%	28.7%	25.1%	(1.9%)	1,251	$738,402	$7,761,687	18.2%	17.2%	19.1%	0.6%
2022	(15.5%)	(18.0%)	(18.1%)	(7.6%)	2.7%	1,274	$609,865	$6,931,635	21.0%	20.9%	21.3%	0.6%
2023	16.9%	13.4%	26.3%	11.4%	(9.4%)	1,281	$611,018	$7,200,019	17.8%	17.3%	16.5%	0.7%

**Average annualized returns* ***Inception is 10/1/1994* *See performance disclosures on last page.*

Portfolio Benchmarks

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.

Russell 1000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 1000® Index companies with lower price-to-book ratios and lower forecasted growth values. *(Source: Bloomberg)*

Confluence Value Equities Investment Committee

Mark Keller, CFA | Tom Dugan, CFA | John Wobbe | Dustin Hausladen | Brett Mawhiney, CFA
Daniel Winter, CFA | Tore Stole | Joe Hanzlik | Blair Brumley, CFA | Ben Kim, CFA

FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM: (314) 530-6729 or sales@confluenceim.com

See Territory Map on the Confluence website for sales coverage.

Disclosures

Market & Strategy Commentary—Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy 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.

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 1000 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] **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.

[2] **Performance Composite Returns—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The Large Cap Value Strategy was incepted on October 1, 1994, and the current Large Cap Value 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.

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

[4] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly (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 Large Cap Value Composite contains fully discretionary Large Cap Value wrap accounts. Large Cap Value is a value-based, bottom-up portfolio that utilizes stocks with market capitalizations typically exceeding $10 billion.

**Results shown for the year 1994 represent partial period performance from October 1, 1994, through December 31, 1994. 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 and/or performance was calculated quarterly prior to January 2001.

The investment strategies described herein are those of Confluence Investment Management. These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Confluence materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.