SECOND QUARTER 2024

Small Cap Value • Value Equity Strategies

Small Cap Value is focused on smaller companies that generally have capitalizations below $3 billion at the time of purchase. These companies are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that possess competitive advantages and that are trading at substantial discounts to our estimates of intrinsic value. The portfolio typically comprises 30-35 holdings and is expected to result in low to moderate turnover. The strategy is appropriate for clients whose primary objective is capital appreciation.

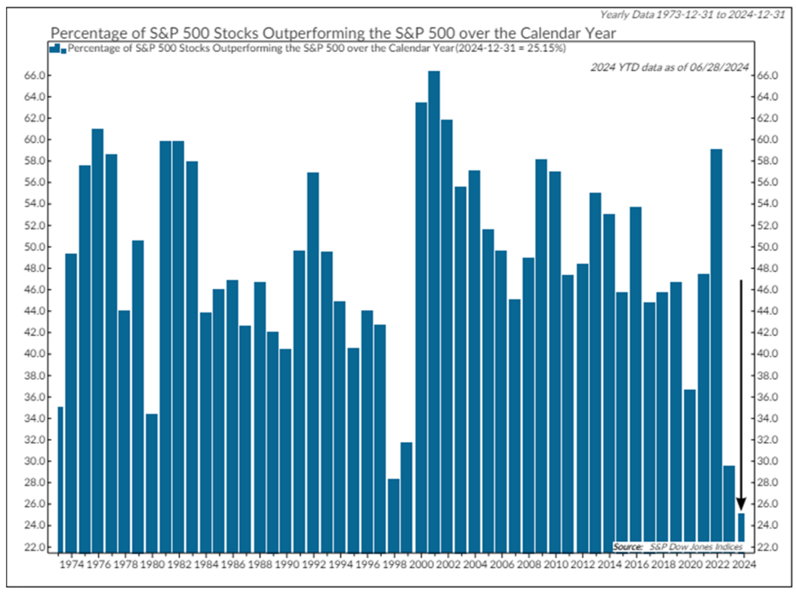
Market Commentary

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.

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)

See GIPS Report on pages 6-7

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%

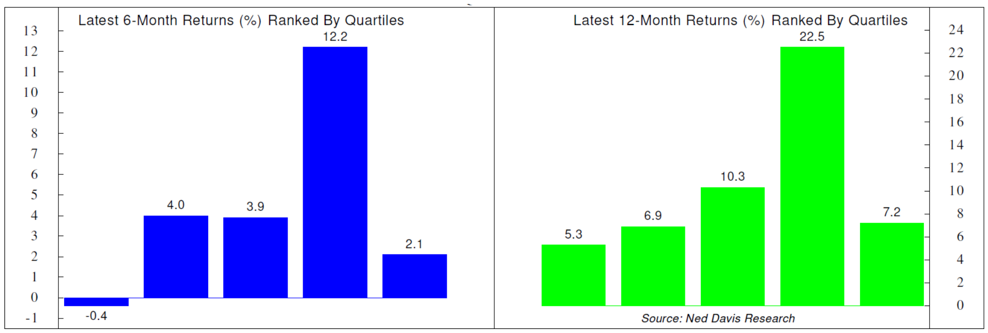
Name	Q2	YTD
NVIDIA	36.7%	149.5%
Apple	23.0%	9.7%
Alphabet	20.8%	30.5%
Tesla	12.6%	(20.4%)
Amazon.com	7.1%	27.2%
Microsoft	6.4%	19.3%
Meta	3.9%	42.7%

(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)**

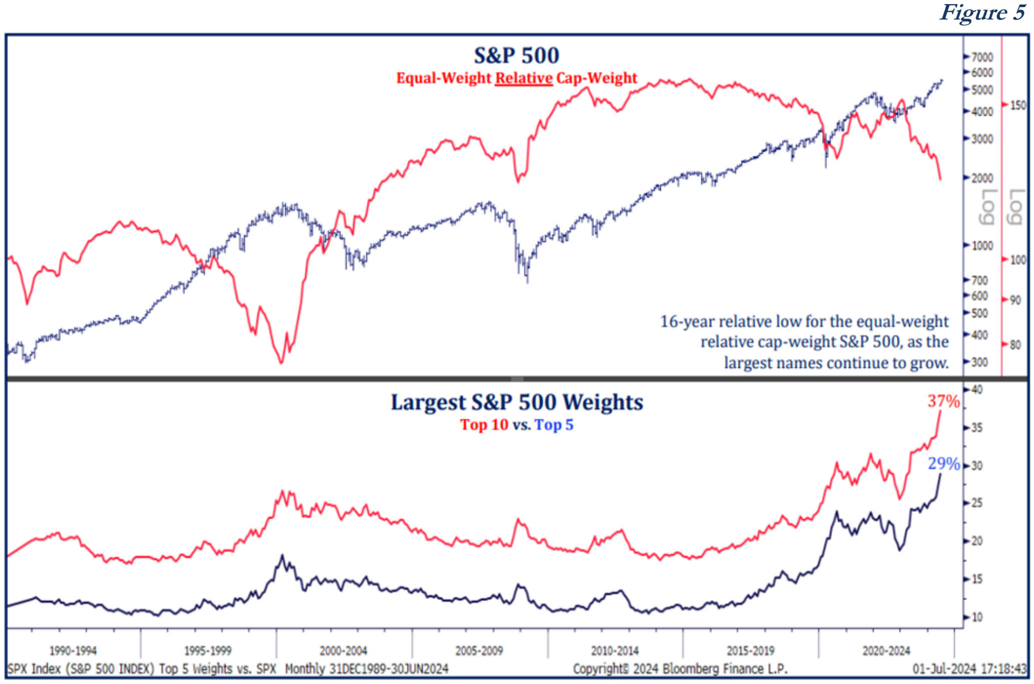


*Actual Historical Constituents. *Returns through 6/30/2024 (Source: Ned Davis Research, Copyright 2024)*

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



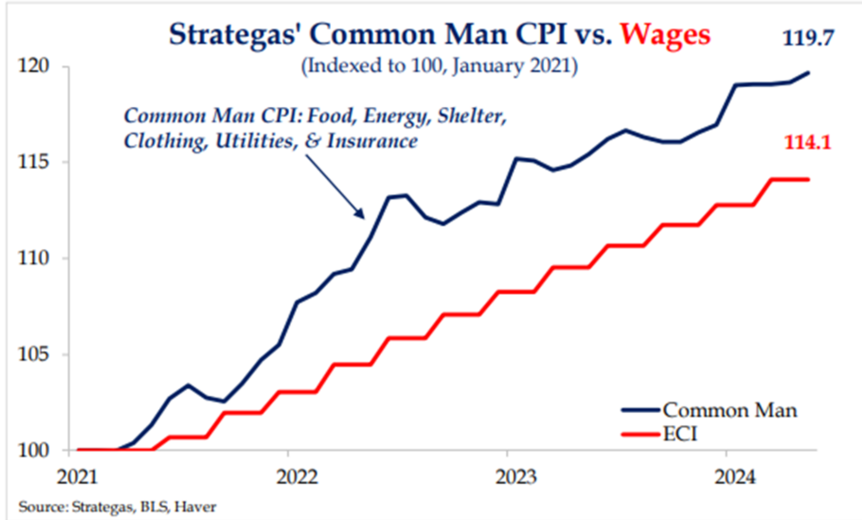
(Source: Strategas)

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.

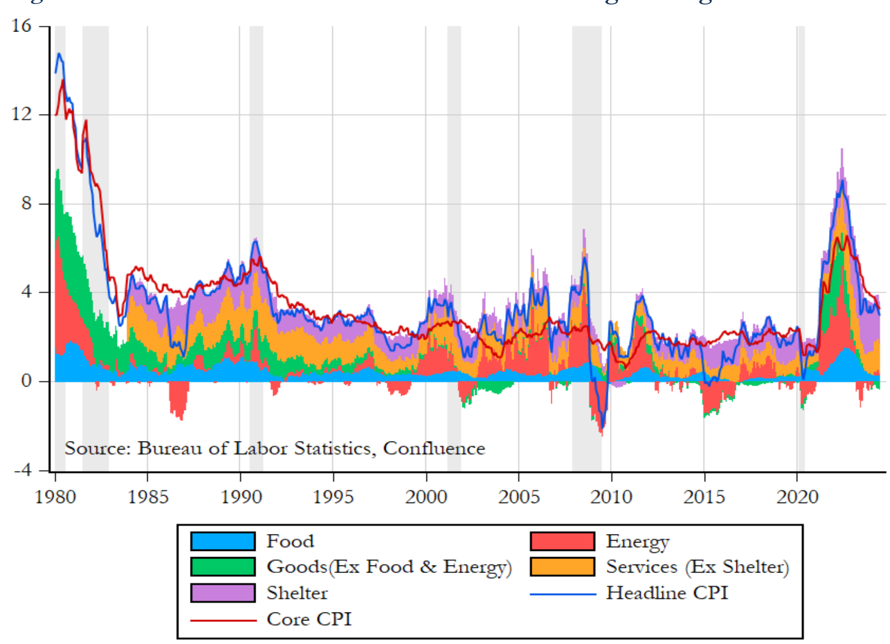
Figure 6



(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

As investor expectations for interest rate cuts in the back half of the year diminished and early signs of an economic slowdown emerged, small cap stocks, typically more sensitive to interest rate fluctuations and economic growth, faced downward pressure. The Russell 2000 and Russell 2000 Value Indexes both declined, ending the quarter down 3.3% and 3.6%, respectively. Within the Russell 2000 Index, the most significant detractors were the cyclical sectors, including Industrials and Consumer Discretionary. In contrast, defensive sectors fared better, with Consumer Staples as the only sector to make a positive contribution, while Utilities remained flat.

The Confluence Small Cap Value strategy, which had outperformed in the first quarter, gave back some gains in the second quarter, declining by 5.3% (gross of fees). This performance lagged both the Russell 2000 and the Russell 2000 Value by 2.0% and 1.7%, respectively. However, year-to-date, the strategy remains ahead of both benchmarks, up 3.5% (gross of fees) compared to a 1.7% increase for the Russell 2000 and a 0.9% decline for the Russell 2000 Value. [*The strategy's net-of-fees returns for the same periods were -6.0% QTD and 1.9% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Continuing a familiar trend, large cap stocks outperformed their smaller counterparts during the quarter. The Russell 1000 Index increased 3.6%, while the Russell 2000 Index fell 3.3%, and growth continues to outperform value year-to-date. The disparity has been driven by investors' continued enthusiasm for large cap technology stocks, particularly the Magnificent 7 and NVIDIA, the poster child for the artificial intelligence (AI) craze. Unfortunately, this speculative fervor has extended to other parts of the market, such as momentum stocks and bitcoin-related equities.

At Confluence, we don't chase trends or jump on the bandwagon simply because a stock or theme has momentum. Our investment strategy centers on identifying and investing in companies with competitive advantages that are priced below their intrinsic value. We focus on businesses that demonstrate the ability to generate free cash flow and deliver attractive returns on invested capital. Our approach is fundamentally risk-averse, viewing risk as the potential for permanent capital loss rather than mere deviation from the benchmark performance. We remain committed to our long-term time frame. That approach can be challenging, especially in an investment world obsessed with short-term results. Our goal is to achieve superior risk-adjusted returns over the long haul, recognizing that our results may fluctuate periodically.

A recent addition to our portfolio exemplifies the qualities we look for in our investments: CONMED Corporation (CNMD), a medical technology company that develops and manufactures surgical devices and related equipment. CNMD's largely recurring products provide a stable revenue and cash flow stream. We have monitored this company since 2014, when Curt Hartman, an ex-Stryker veteran, joined as CEO. Since then, Hartman has effectively transformed the company, shifting its product portfolio from a declining business to one with a mix of higher growth, higher margin products. This improvement was well-received by investors, driving the stock price up to $122/share a year ago.

However, today the stock price has recently been halved due to missed consensus expectations and slower growth attributed to competitive issues, which we believe is overblown. Despite the company's much stronger position today, its valuation has reverted to levels last seen when Hartman first began his overhaul. We remain confident in CNMD's long-term prospects as they continue to focus on faster growth, higher margin products, ensuring sustained growth in the future. Trading at 15 times this year's earnings, the stock is attractively priced both on an absolute and relative basis, and it trades at a discount to our estimate of intrinsic value.

Regarding the strategy's second quarter performance, TripAdvisor (TRIP) and Winnebago Industries (WGO) were the top two detractors. TRIP, an online travel agent, was one of our best performers last quarter, but it turned out to be our biggest detractor this quarter. The previous quarter saw TRIP's stock surge due to speculation of a potential takeover. However, an announcement that the potential deal was off the table caused the stock to drop significantly. Our investment thesis remains intact as TripAdvisor is a unique asset, and Viator, the market leader in the burgeoning online market for attractions, is a hidden gem. Based on our sum-of-the-parts valuation, TRIP trades at a significant discount to our intrinsic value estimate. [*See contribution tables on page 6.*]

Winnebago Industries (WGO), a leading US manufacturer of recreational vehicles (RV), was our second largest detractor. WGO had benefited from a surge in consumer spending on outdoor activities during the pandemic period but is now experiencing a normalization of demand as dealers work down their inventory levels. Despite this, WGO's highly variable cost structure has allowed it to cut costs quickly, remain profitable, and generate cash flow during the downturn, positioning the company well for the upturn in the RV market.

On the positive side, Perficient (PRFT) and J&J Snack Foods (JJSF) were our top contributors. PFRT, an IT consulting firm, entered an agreement to be acquired by private equity in an all-cash deal valued at $3 billion or $76/share, which is expected to close by the end of 2024. We will look to exit our position. JJSF, a producer of niche snack foods, outpaced the market as the company posted solid second quarter earnings results with better-than-expected organic growth across its business segments.

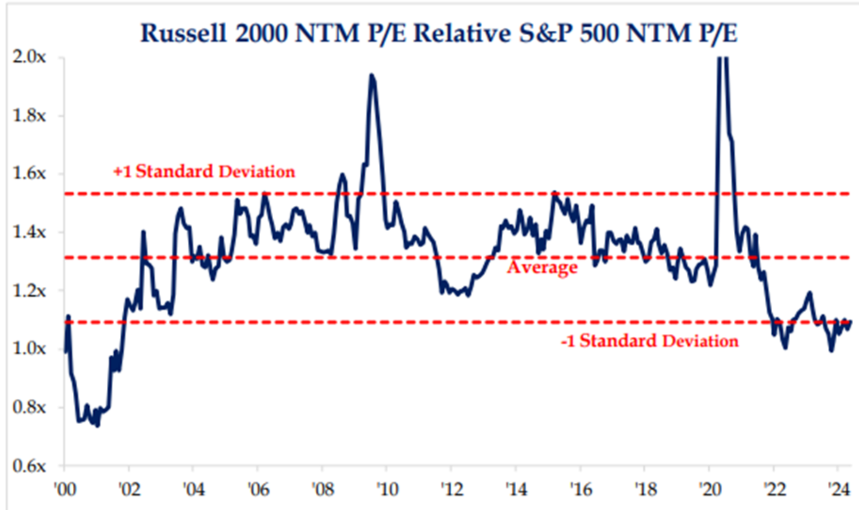
From a portfolio transaction perspective, we added CONMED and there were no sales from the portfolio in the quarter.

Outlook

Despite the current investor enthusiasm surrounding mega technology and AI stocks, we believe that this narrow focus introduces risks for those chasing trends and creates opportunities in neglected areas in the market today. In our opinion, small cap stocks represent one of the most under-owned and undervalued areas in the market.

As discussed in prior commentaries, there is a substantial valuation disparity between small cap and large cap stocks that has persisted for some time. Currently, small cap relative valuations are below historical averages, nearing levels that are one standard deviation below historical norms (see *Figure 8*). We believe the recent underperformance of small cap stocks is due more to general neglect rather than fundamental issues. When comparing earnings expectations for small caps (IWM, Russell 2000 ETF) and large caps (IWB, Russell 1000 ETF), both show similar growth rates this year. However, small caps are expected to grow earnings faster next year, 35% compared to 13% for large caps. If these projections hold true, coupled with the historical low relative valuation for small caps, the set-up appears favorable for outperformance.

Figure 8

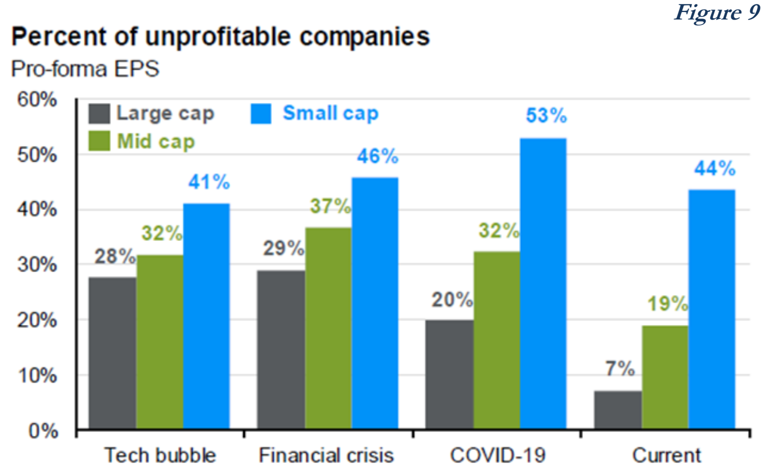


(Source: Strategas)

We remain optimistic about the future of our Small Cap Value strategy. It consists of a collection of well-managed, profitable businesses, which contrasts with its benchmark where 44% of the constituents are unprofitable or "zombie companies" (refer to *Figure 9*). Notably, the current percentage of unprofitable companies has surpassed the levels seen during the technology bubble and previous recessions (such as the 2007-2008 financial crisis and 2020 COVID-19 pandemic). While it is not entirely surprising to see a high share of unprofitable companies during those recessionary times, today's elevated levels are occurring during a period of positive economic conditions.

Our investment philosophy has been consistently and successfully implemented over the past 30 years, and we remain steadfast in our commitment to this approach. We appreciate the continued trust and confidence placed in our team.

Figure 9



(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 3Q 2024, as of June 30, 2024)

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		
Perficient Inc.	2.72	0.77
J & J Snack Foods Corp.	3.36	0.40
Core Laboratories N.V.	2.14	0.37
Hagerty Inc.	2.79	0.37
BRP Group Inc.	1.24	0.31
Bottom 5		
Hayward Holdings Inc.	2.82	(0.59)
Azek Co. Inc.	3.62	(0.65)
Allient Inc.	2.18	(0.76)
Winnebago Industries Inc.	3.14	(0.94)
TripAdvisor Inc.	3.63	(1.62)

(YTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
UFP Technologies Inc.	3.53	1.50
Brown & Brown Inc.	3.59	0.83
Hagerty Inc.	2.67	0.81
BRP Group Inc.	1.78	0.77
Gates Industrial Corp. plc	3.48	0.62
Bottom 5		
RBC Bearings Inc.	5.05	(0.48)
SJW Group	2.87	(0.53)
TripAdvisor Inc.	3.88	(0.59)
MGP Ingredients Inc.	2.49	(0.74)
Winnebago Industries Inc.	3.34	(0.94)

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
Small Cap Value *Pure Gross-of-Fees[3]*	10.7%	9.6%	8.8%	10.5%	7.0%	3.6%	(1.7%)	3.7%	3.5%	(5.3%)
Max Net-of-Fees[4]	7.5%	6.5%	5.7%	7.2%	3.8%	0.6%	(4.6%)	0.7%	1.9%	(6.0%)
Russell 2000	8.7%	7.6%	7.8%	11.2%	7.0%	6.9%	(2.6%)	10.0%	1.7%	(3.3%)
Russell 2000 Value	9.3%	8.3%	7.2%	10.6%	6.2%	7.0%	(0.6%)	10.9%	(0.9%)	(3.6%)

Calendar Year	Pure Gross-of-Fees[3]	Max Net-of-Fees[4]	R2000	R2000 Value	Difference (Gross-R2000)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R2000 3yr Std Dev	R2000V 3yr Std Dev	Composite Dispersion
1994**	(3.3%)	(3.9%)	(1.9%)	(3.0%)	(1.4%)	389	$41,690		N/A	N/A	N/A	N/A
1995	24.2%	20.8%	28.4%	25.8%	(4.3%)	267	$34,667		N/A	N/A	N/A	0.8%
1996	20.7%	17.4%	16.5%	21.4%	4.2%	249	$39,188		N/A	N/A	N/A	1.0%
1997	46.5%	42.5%	22.4%	31.8%	24.1%	353	$63,832		N/A	N/A	N/A	1.1%
1998	(4.2%)	(6.8%)	(2.5%)	(6.5%)	(1.6%)	1,080	$111,513		N/A	N/A	N/A	1.7%
1999	(7.1%)	(9.6%)	21.3%	(1.5%)	(28.4%)	745	$69,869		N/A	N/A	N/A	1.2%
2000	34.4%	30.7%	(3.0%)	22.8%	37.4%	374	$47,699		N/A	N/A	N/A	1.7%
2001	12.6%	9.6%	2.5%	14.0%	10.1%	395	$56,254		N/A	N/A	N/A	0.7%
2002	(11.4%)	(13.8%)	(20.5%)	(11.4%)	9.1%	434	$48,944		N/A	N/A	N/A	0.7%
2003	36.2%	32.5%	47.3%	46.0%	(11.1%)	464	$71,199		15.4%	21.6%	18.4%	0.9%
2004	23.2%	19.9%	18.3%	22.2%	4.9%	572	$101,835		12.7%	19.0%	17.5%	1.4%
2005	8.2%	5.3%	4.6%	4.7%	3.6%	722	$111,469		9.0%	15.1%	14.1%	1.6%
2006	19.1%	15.9%	18.4%	23.5%	0.8%	694	$117,282		7.1%	13.8%	12.3%	1.1%
2007	(1.7%)	(4.4%)	(1.6%)	(9.8%)	(0.1%)	543	$84,018		7.5%	13.2%	12.6%	1.1%
2008	(21.8%)	(24.0%)	(33.8%)	(28.9%)	12.0%	61	$8,568	$291,644	14.0%	19.8%	19.1%	N/A
2009	29.6%	25.8%	27.2%	20.6%	2.4%	54	$9,823	$533,832	20.9%	24.8%	25.6%	2.3%
2010	24.6%	20.9%	26.9%	24.5%	(2.3%)	83	$19,208	$751,909	23.3%	27.7%	28.4%	1.5%
2011	(0.9%)	(3.8%)	(4.2%)	(5.5%)	3.3%	85	$18,032	$937,487	21.8%	25.0%	26.0%	1.2%
2012	16.0%	12.6%	16.3%	18.1%	(0.4%)	105	$26,346	$1,272,265	15.6%	20.2%	19.9%	0.3%
2013	27.4%	23.6%	38.8%	34.5%	(11.5%)	113	$31,217	$1,955,915	12.2%	16.4%	15.8%	0.5%
2014	9.3%	6.1%	4.9%	4.2%	4.4%	140	$34,077	$2,589,024	8.6%	13.1%	12.8%	0.6%
2015	(1.7%)	(4.7%)	(4.4%)	(7.5%)	2.7%	158	$34,928	$3,175,419	10.3%	14.0%	13.5%	0.4%
2016	23.7%	20.0%	21.3%	31.7%	2.4%	198	$56,608	$4,413,659	11.6%	15.8%	15.5%	1.2%
2017	19.5%	16.0%	14.6%	7.8%	4.9%	354	$103,862	$5,944,479	10.8%	13.9%	14.0%	0.9%
2018	(8.6%)	(11.3%)	(11.0%)	(12.9%)	2.5%	400	$88,885	$5,486,737	13.1%	15.8%	15.8%	0.8%
2019	27.0%	23.2%	25.5%	22.4%	1.5%	449	$124,071	$7,044,708	14.5%	15.7%	15.7%	0.8%
2020	4.5%	1.4%	19.9%	4.6%	(15.4%)	400	$122,151	$6,889,798	21.6%	25.3%	26.1%	1.5%
2021	16.9%	13.4%	14.8%	28.2%	2.1%	378	$124,263	$7,761,687	20.2%	23.3%	25.0%	1.3%
2022	(16.3%)	(18.8%)	(20.5%)	(14.5%)	4.1%	361	$98,842	$6,931,635	21.6%	26.0%	27.3%	0.5%
2023	5.7%	2.6%	16.9%	14.6%	(11.1%)	277	$75,681	$7,200,019	18.2%	21.1%	21.8%	0.9%

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

Portfolio Benchmarks

Russell 2000® Index – A capitalization-weighted index measuring performance of approximately 2,000 companies in the Russell 3000® Index.

Russell 2000® Value Index – A capitalization-weighted index designed to measure performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. *(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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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 Russell 2000 and Russell 2000 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 Small Cap Value Strategy was incepted on October 1, 1994, and the current Small 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: 1.00% on the first $500,000; 0.90% on the next $500,000; and 0.75% 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 Small Cap Value Composite contains fully discretionary Small Cap Value wrap accounts. Small Cap Value is a value-based, bottom-up portfolio that utilizes stocks with market capitalizations typically less than $3 billion. *Smaller capitalization companies, due to their size, are generally more vulnerable to adverse general market or economic developments than larger, more established companies.*

**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.