Small Cap Value

Value Equity Strategies

Fourth Quarter 2024

Small Cap Value is focused on companies that have small market capitalizations consistent with the Russell 2000 Index or the S&P SmallCap 600 Index 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

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.

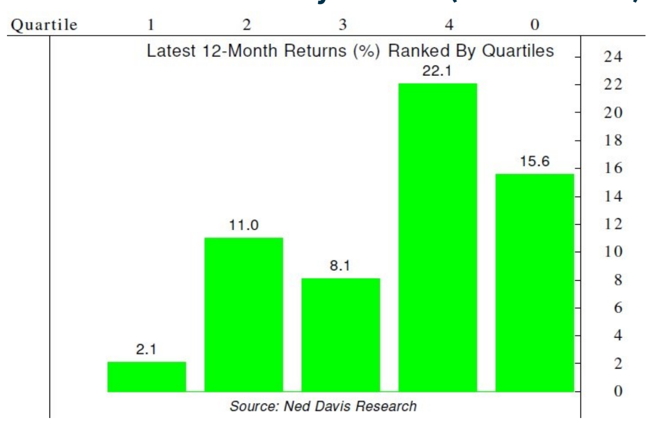
While these two years produced similar end results, they unfolded quite differently. Recall that 2023 followed a disastrous 2022, when the S&P 500 fell nearly 20% due to inflation concerns that led to aggressive rate hikes and recession fears. The Fed's last rate hike occurred in July 2023, and by October, 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)*

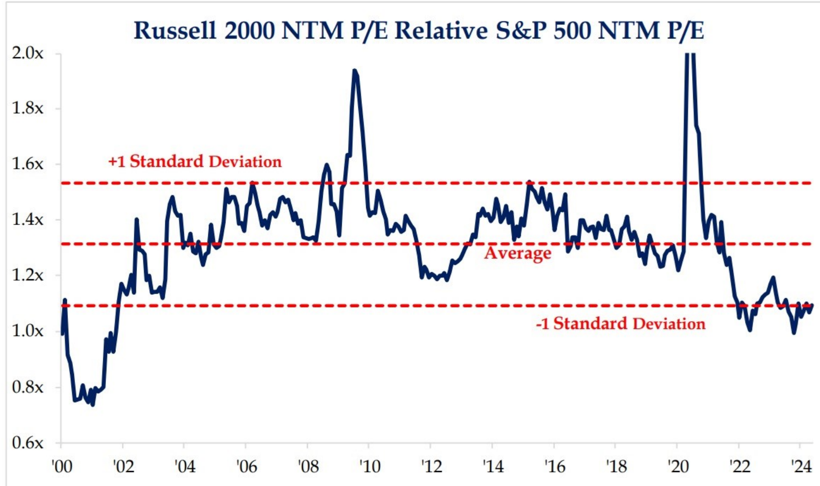
See GIPS Report on pages 7-8.

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*).

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 2



(Source: Strategas)

Figure 3 **– Returns by Sector**

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index	
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%	Weight
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%	
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	Return (%)
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)

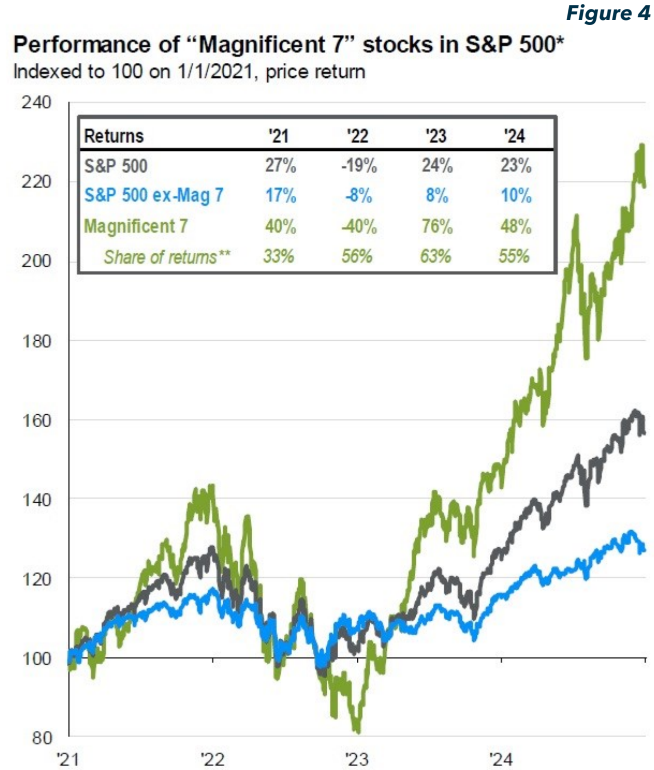
Perspective on Market Concentration

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

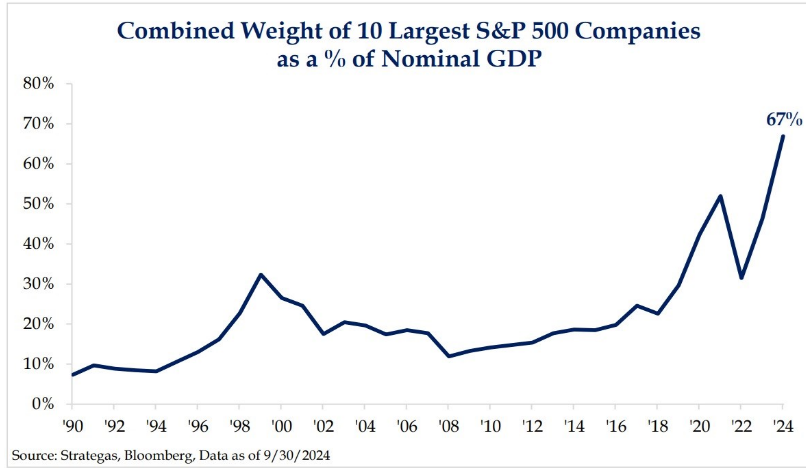


(Source: J.P. Morgan Asset Management; Guide to the Markets®, US 1Q 2025, as of December 31, 2024)

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



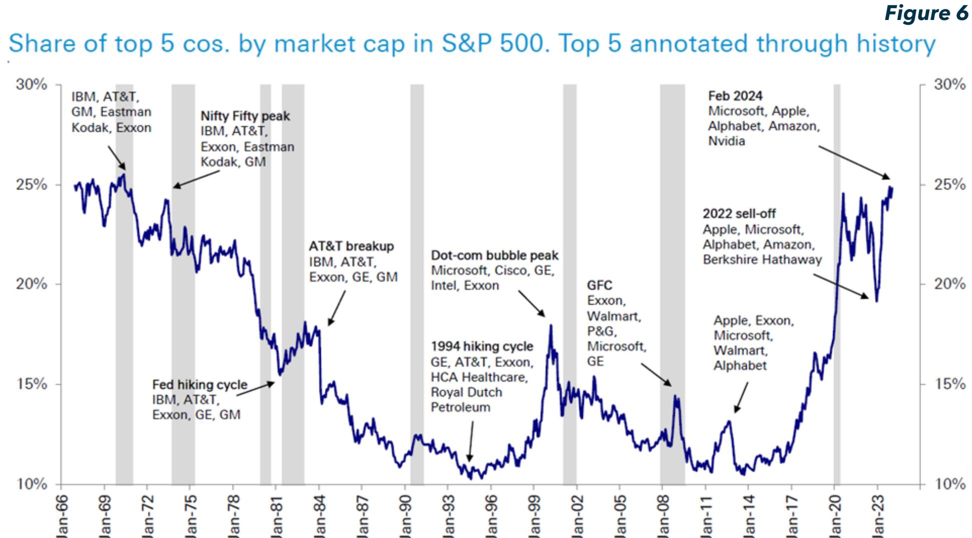
(Source: Strategas)

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.

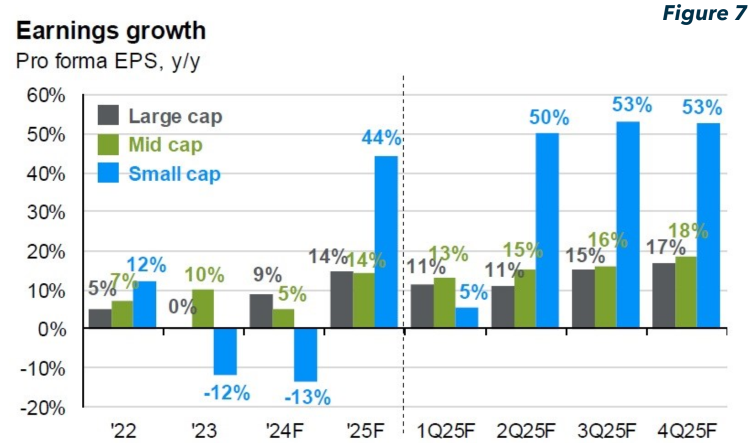
Strategy Commentary

Small cap stocks, which rallied strongly in November on investor optimism following the US presidential election, faced challenges in December. The Russell 2000 and Russell 2000 Value indexes both declined by 8.3% during the month as the rally lost steam. The decline was driven by rising bond yields and mixed economic inflation data, which dampened expectations for future rate cuts. Despite this environment, the two small cap indexes ended the fourth quarter with modest quarterly returns of +0.3% and -1.1%, respectively. Importantly, 2024 proved to be another solid year for small caps overall as the Russell 2000 Index delivered a solid gain of 11.5% for the year, while the Russell 2000 Value Index posted an 8.0% increase. Nearly every economic sector contributed positively to the year's performance, with Information Technology, Industrials, and Financials leading the way. The Energy sector was the sole detractor.

However, 2024 also underscored the continued dominance of large cap equities. The Russell 2000 suffered its steepest underperformance relative to the S&P 500 Index since 1998 and marked the eighth consecutive year of lagging behind the Russell 1000 Index. This prolonged leadership from large caps has driven valuation spreads between small and large caps to historically extreme levels (see *Figure 2* in Market Commentary). Although this trend has tested investor patience, history shows that market cycles eventually shift. We believe it is a matter of "when," not "if," small caps will regain leadership.

Encouraging signs of a potential turnaround began to surface in the second half of 2024, with growing investor interest in small cap stocks and a broadening of the market beyond just mega-cap technology stocks. Could 2025 be the turning point for small caps? Fundamentals will play a critical role in whether small caps are able to close the valuation gap. After a couple years of muted earnings growth, small cap earnings growth is forecast to outpace all other market cap segments in 2025 (see *Figure 7*). Moreover, sustained earnings growth could be supported by the reindustrialization of the US and the benefits of "America First" policies as small cap companies typically derive a larger portion of their revenues domestically. These improving fundamentals, combined with extreme valuation discrepancies, could set the stage for a pivotal shift in favor of small caps.

Figure 7



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

While small caps broadly stand to benefit from this potential rotation, we believe Confluence's Small Cap Value strategy continues to distinguish itself and is well-positioned to capitalize on this opportunity. Our detailed investment piece, "Magnificent…Small Caps? Why Now and Why Confluence," outlines the rationale for this conviction.

The Confluence Small Cap Value strategy delivered a -3.6% return (gross of fees) in the fourth quarter, lagging both the Russell 2000 and Russell 2000 Value which achieved returns of +0.3% and -1.1%, respectively. For the full year, our Small Cap Value strategy gained 5.9% (gross of fees), which also trailed the index returns of 11.5% and 8.0%, respectively. [*The strategy's net-of-fees returns for the same periods were -4.3% QTD and +2.8% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

The quarter's underperformance can largely be attributed to a few specific holdings, namely, Sapiens International (SPNS), Baldwin Insurance Group (BWIN), and MGP Ingredients (MGPI). While SPNS and BWIN faced temporary challenges that do not alter our investment theses, we observed issues at MPGI that prompted us to exit the position.

SPNS, a global software provider for the insurance industry, reported mixed quarterly results as it transitions to a SaaS-based business model. This shift, while creating short-term volatility, is expected to improve profitability and long-term growth. BWIN, an insurance broker, was among our top-performing stocks in the previous quarter but gave back some of its gains following softer-than-expected guidance. We remain confident in its potential as a high-quality, long-term compounder.

We initially added MGPI in 2021, recognizing its position as the leading producer and supplier of distilled spirits that enable other distillers to create their own labeled offerings. From the onset, the company surpassed our expectations for earnings growth, even continuing to do so for over a year after the industry was in an oversupply situation. However, during the quarter, the company issued a warning for a potential downturn in 2025, followed by a grimmer forecast. Considering these developments, we decided to sell the stock. Notably, after doing so, MPGI announced the departure of its CEO, further signaling potential instability within the company.

Strategy Commentary continued...

On a brighter note, American Outdoor Brands (AOUT), a portfolio owner of outdoor and hunting-related brands, saw its stock surge by solid double-digits during the quarter. After a period of subdued sales following a post-COVID normalization, the company experienced a rally fueled by strong quarterly results and management's optimism for the coming year, which was supported by early order commitments and expanded shelf-space at retailers.

For the year, our stock selection was a standout in the Financials and Health Care sectors. The Financials sector contributed positively to our overall performance as all seven holdings delivered positive returns, with five achieving low double-digit gains for the year. Leading the pack was Brown & Brown (BRO), an insurance broker that continues to excel. The company posted solid organic growth supported by favorable pricing dynamics, strong client retention, and new business wins.

Although the Health Care sector was an underperformer within the benchmark, our Health Care holdings significantly outpaced the index for the year and also contributed positively to overall performance. A notable highlight was UFP Technologies (UFPT), which specializes in custom-engineered components and packaging for the medical industry. The company continues to benefit from a semi-exclusive, four-year supply agreement with its largest customer, Intuitive Surgical, the clear leader in robotic surgery. This agreement positions UFPT for sustained growth in the coming years.

Another top contributor to our performance was Gates Industrial (GTES), a manufacturer of highly engineered power transmission and fluid power solutions. Despite a challenging economic environment, GTES management effectively cut costs, improved productivity, and gained market share. However, Blackstone, who took GTES public and retained a significant ownership stake, created an overhang on the stock. Over the course of the year, Blackstone fully exited its position, enabling the stock's valuation to re-rate to a more reasonable level. This revaluation better reflects the quality of the business, in our estimation, although we believe the company's earnings power remains underappreciated.

Despite these solid contributions, some losses did offset our gains. Notable detractors for the year included MGP Ingredients (MPGI), which was discussed above, TripAdvisor (TRIP), and Ecovyst (EVCT).

TRIP experienced a volatile year, marked by significant ups and downs. Early in the year, speculation about a potential takeover deal caused the stock to surge, but the announcement that the deal was off the table led to a sharp decline in its share price. Compounding these challenges, TRIP faced uncertainty due to Liberty Media's controlling interest and a broader slowdown in the travel industry. During the fourth quarter, TRIP announced a merger agreement with Liberty TripAdvisor Holdings to repurchase 18% of its outstanding shares from Liberty. We view this as a positive development. The move not only simplifies the ownership structure but also allows management to fully focus on driving the business forward, while the buyback increases the company's intrinsic value as the shares were repurchased at a discount. We believe TRIP remains one of our most attractively valued stocks.

Lastly, Ecovyst (ECVT), a provider of specialty chemicals, has underperformed our expectations as management revised its financial guidance downward three times within the first 13 months of our holding period, largely due to weak demand and struggles to gain traction in certain underdeveloped markets. As a result, we lost confidence in the company's ability to improve its revenue and profitability and decided to sell our shares.

The investment team has been active this quarter, focusing on uncovering new opportunities to replace the ones that were sold and improve the overall quality of our portfolio. During the quarter, we initiated three new investments: Altus Group (ASGTF), Enovis (ENOV), and another position that is still in the process of being fully established. At the same time, we sold six holdings, including: Kadant (KAI), which reached our estimate of intrinsic value; MGP Ingredients (MGPI) and Ecovyst (ECVT), both discussed above; Allient (ALNT), which was replaced with a more attractive opportunity; and Perficient (PRFT), which was acquired.

Building on this momentum, we have taken steps to strengthen our investment strategy by adjusting our market capitalization tiers and raising the market cap threshold for our buyable universe from $3 billion to $7 billion. This adjustment aligns with the upper limit of the small cap category as defined by FTSE Russell and S&P. With this change, we will aim to maintain our portfolio's weighted average market capitalization around $3.0 billion. Expanding the market cap range enhances our flexibility to target higher-quality companies within the small capitalization space. This change has already yielded results, enabling us to identify a promising investment, the details of which we will share once the purchase is finalized.

Outlook

After a couple strong years, the market could take a breather in 2025, particularly for large cap technology leaders. Valuations have risen, and the Fed has signaled a more cautious approach to interest rates in 2025. This environment may cap valuation multiples.

That said, earnings forecasts suggest decent growth, especially for small caps, as noted above. If valuation multiples remain stable, the market could continue to make steady progress alongside earnings growth. There is also the potential for a shift in market leadership, with opportunities emerging in the neglected sectors such as small caps that have been out of favor for some time.

On the other hand, if economic conditions weaken, we find comfort in our investment approach that emphasizes risk management, defined as the probability of a permanent loss of capital. This disciplined focus has consistently delivered solid downside protection and reduced volatility for our portfolio.

While predicting short-term market movements is challenging, our commitment remains firmly on the long-term horizon and factors within our control. This includes diligently scouring the investment landscape for attractive opportunities and adhering to a disciplined investment process rooted in fundamental analysis. We prioritize investments in high-quality, competitively advantaged businesses trading at attractive valuations, with a long-term perspective.

We remain optimistic about the future of the Confluence Small Cap Value portfolio, and we thank you for your continued trust and confidence in our team.

Contribution[1]

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		
American Outdoor Brands Inc.	2.30	1.23
JBT Marel Corp.	2.91	0.72
Gates Industrial Corp. plc	3.72	0.55
Enovis Corp.	2.47	0.30
i3 Verticals Inc.	2.73	0.20
Bottom 5		
Spectrum Brands Holdings Inc.	4.67	(0.53)
UFP Technologies Inc.	2.91	(0.68)
Baldwin Insurance Group Inc.	3.87	(0.91)
Sapiens International Corp. N.V.	3.17	(0.99)
MGP Ingredients Inc.	*Sold*	(1.05)

(YTD as of 12/31/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Gates Industrial Corp. plc	3.47	1.53
American Outdoor Brands Inc.	2.02	1.46
UFP Technologies Inc.	3.30	1.46
Brown & Brown Inc.	3.89	1.38
Cavco Industries Inc.	3.90	1.03
Bottom 5		
Ecovyst Inc.	*Sold*	(0.91)
Movado Group Inc.	2.49	(0.94)
TripAdvisor Inc.	3.25	(0.99)
Winnebago Industries Inc.	3.06	(1.26)
MGP Ingredients Inc.	*Sold*	(1.59)

Performance Composite Returns[2] (For Periods Ending December 31, 2024)

	Since Inception**	30-Year*	25-Year*	20-Year*	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Small Cap Value *Pure Gross-of-Fees[3]*	10.6%	10.8%	10.1%	8.3%	9.4%	6.8%	2.7%	-2.1%	5.9%	5.9%	(3.6%)
Max Net-of-Fees[4]	7.4%	7.7%	6.9%	5.2%	6.2%	3.6%	-0.3%	-5.0%	2.8%	2.8%	(4.3%)
Russell 2000	8.9%	9.0%	7.5%	7.8%	10.3%	7.8%	7.4%	1.2%	11.5%	11.5%	0.3%
Russell 2000 Value	9.5%	9.7%	9.0%	7.0%	9.4%	7.1%	7.3%	1.9%	8.0%	8.0%	(1.1%)

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
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%
2024	5.9%	2.8%	11.5%	8.0%	(5.6%)	195	$56,489	$7,280,773	20.5%	23.3%	23.4%	0.6%

**Average annualized returns   **Inception is 10/1/1994. Additional years of performance available on our website.   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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Disclosures

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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 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.

[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.