Confluence Investment Management

Déjà vu for *Dividends?*

> *"The stock market is a device for transferring money from the impatient to the patient."*
> – Warren Buffett

Confluence Increasing Dividend Equity Account (IDEA) Portfolio

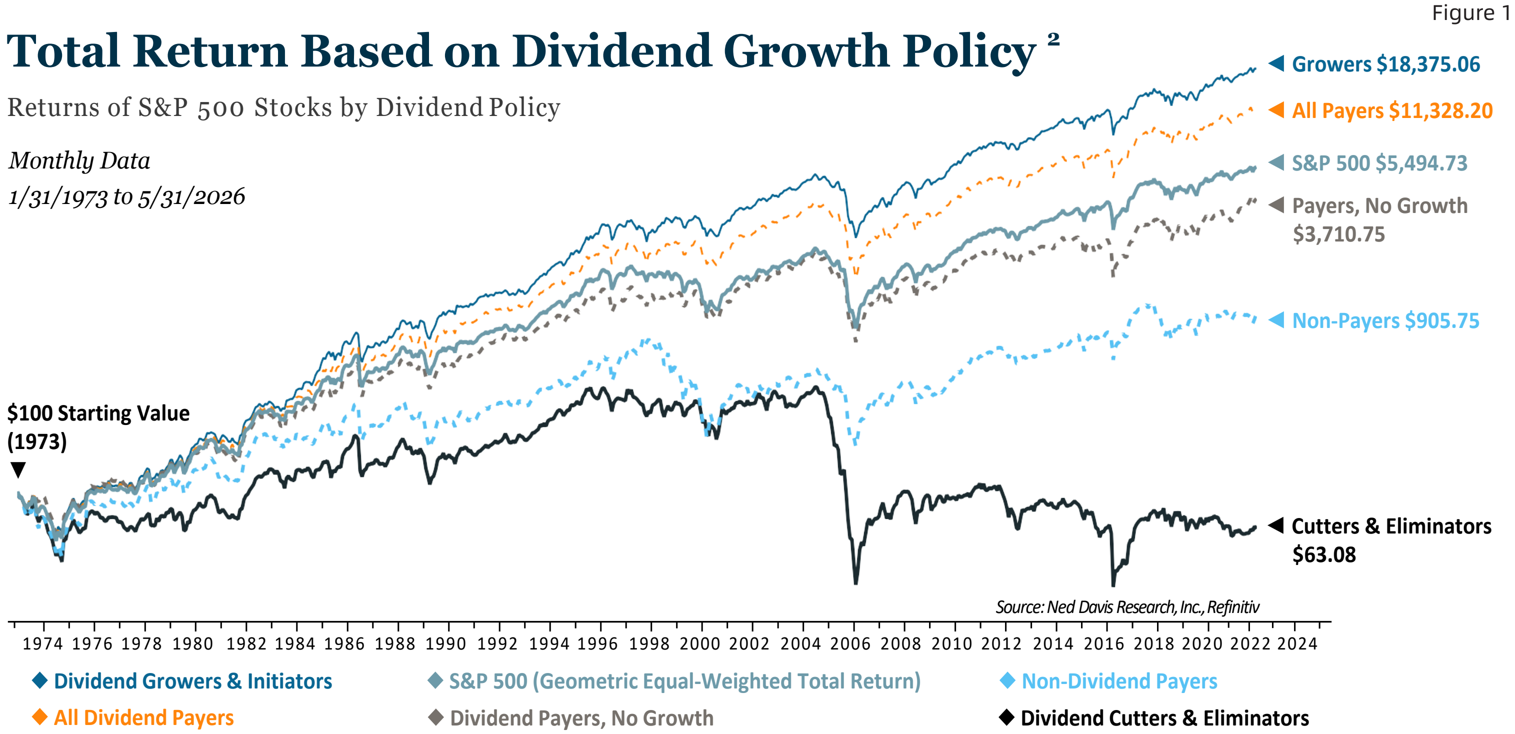
Durable Dividend Growth	***Meaningful*** Dividend Yield	***Diversified*** Equally Weighted Portfolio

THE OPPORTUNITY

Dividends have previously been overlooked

Dividends have historically been an integral component of equity returns, contributing roughly 40% of the S&P 500 total return since 1926,[1] and companies that consistently grow their dividends have led the market (as demonstrated by this chart from Ned Davis Research, Figure 1).

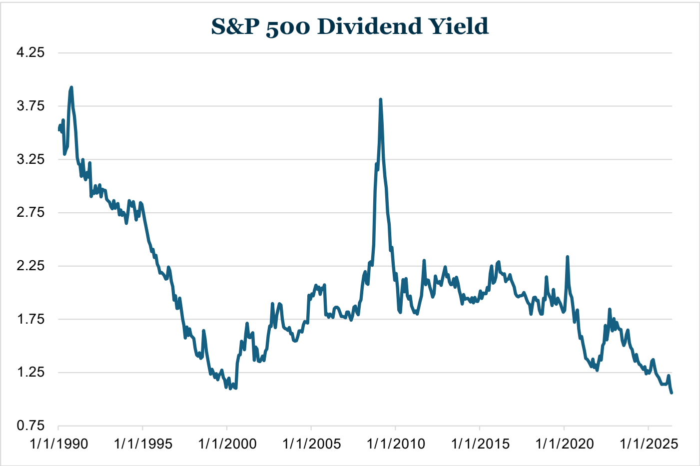
Figure 1



Despite their solid history, dividend payers have at times been overlooked in favor of rapidly growing businesses that need to retain their cash flow, particularly during momentum-driven markets. We are currently in one such environment, which commenced a few years ago as attention turned toward artificial intelligence (AI) and its enablers.

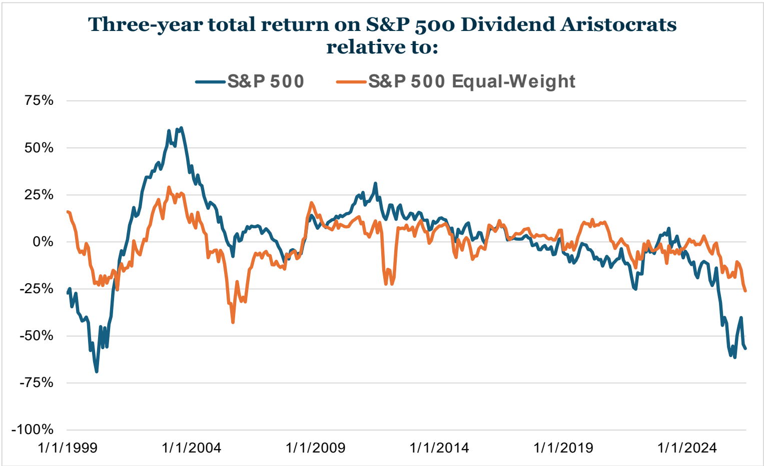
Today, the yield on the S&P 500 is at trough levels last witnessed during the dotcom bubble of the late 1990s (Figure 2). Another indicator is the relative performance of the S&P 500 Dividend Aristocrats – businesses that have consistently grown their dividend for the past 25 years – which has lagged the past few years despite a history of outperformance (Figure 3). If history is a guide, we can expect that the euphoria surrounding AI will pass and the attributes of businesses capable, and willing, to pay and grow their dividends will be appreciated once again.

Figure 2



(Sources: Bloomberg, Confluence)

Figure 3



(Sources: Bloomberg, Confluence)

While late 2025 and early 2026 showed signs of a rotation back toward quality, the start of the Iranian conflict in late February has elevated economic and geopolitical uncertainty, especially around energy prices and inflation, pulling investor focus back to the AI enablers. Against this backdrop, investors may rightfully be asking themselves when the market will broaden and how to protect their capital, maintain their purchasing power, and position their portfolio to grow over time despite nearer-term uncertainty. The Confluence Increasing Dividend Equity Account (IDEA) strategy was designed to answer these very questions.

THE CONFLUENCE DIFFERENCE

For the past three decades,[3] our investment professionals have deployed an investment philosophy focused on risk management parameters that produce differentiated characteristics and attractive outcomes for our clients – delivering income growth and capital appreciation within the framework of reducing the risk of permanent loss of capital. Consistently applying these criteria across market cycles and throughout different risk environments is a key component of what sets the Confluence IDEA strategy apart.

The investment philosophy is focused on identifying businesses with a ***meaningful and durable dividend growth track record throughout the economic cycle.***

Confluence employs an initial screening process to narrow down the pool of potential investments to only those stocks which will help us achieve our primary goal: above-average dividend growth that outpaces inflation and maintains or expands purchasing power over time. Among these initial criteria, we screen for:

- **10 years of continuous dividend payments** with dividend increases in 7 of 10 years
- **No dividend decreases** in the past 10 years
- **Minimum 1% dividend** at the time of purchase

Durable Dividend Growth

These criteria serve multiple purposes as we narrow down our potential investment universe. A demonstrated history of dividend payments often reflects a dedicated commitment by company management to prioritize capital returns to shareholders. ***Requiring a minimum of 10 years of consistent dividend payments helps screen for companies that have historically been able to grow their dividend throughout a full economic cycle.*** By insisting on seven years of dividend growth during that time, we seek to identify companies that have proven their ability to grow earnings and cash flow in a way that is supportive of continued dividend growth in the future. That future ability is then further confirmed with fundamental analysis performed by our 12-member equity research team.

At IDEA's inception in 2009, our investment criteria identified 130 companies that had grown their dividend at least seven times without any cuts during the 1999-2009 period – a decade that included both the tech bubble and recession of 2000 as well as the Great Financial Crisis of 2008, two full economic cycles over 10 years! Now in 2026, the previous 15 years have been smooth sailing economically (thanks to monetary policy), outside of a few months during the 2020 pandemic. Despite this extended tranquility, we believe our 10-year standards remain valid and relevant as we navigate the next decade. With a more normalized economic cycle potentially on the horizon, history shows that these periods are precisely when long-term dividend growers tend to shine!

Meaningful Dividend Yield

Our insistence on a 1% minimum dividend yield at time of purchase is in place to ensure company management is committed to meaningful cash returns to shareholders, in contrast to those companies that maintain token dividends with near-zero yields yet often pass less rigorous screening protocols.

*Nvidia has paid a trivial, growing dividend over the past 10 years that was $0.01 per quarter as of 3/31/26, amounting to an annual dividend yield of just 0.02%. While this is technically a growing dividend, it does not meet the core objective of the IDEA portfolio to pay a **meaningful dividend yield**. Furthermore, Alphabet (Google) and Meta (Facebook) started paying dividends in 2024 and will likely grow them over the next 10 years, but their current dividend yields of only 0.25% and 0.35%, respectively, are insufficient for IDEA's growing dividend income objective.*

Overall, the Confluence IDEA portfolio currently yields 2.2% and is materially higher than the S&P 500's 1.1% yield and the Russell 3000 Value's 1.7% yield (as of 5/31/26). ***Coupling this higher dividend yield with a demonstrated history of above-average dividend growth over time creates a considerable compounding effect.***

Diversified Equally Weighted Portfolio

We initiate positions at 2% for a total of 49 stocks in the IDEA portfolio (plus a 2% cash position), emphasizing the importance of diversification across the portfolio. We trim position sizes around a 4% weighting to prevent any single stock from dominating the portfolio's overall return or risk profile.

Five companies in the Magnificent 7 pay a dividend and together compose 28% of the S&P 500 Index as of 5/31/26, with individual weights as follows: Nvidia, 8.3%; Apple, 7.1%; Alphabet (Google), 5.8%; Microsoft, 5.0%; and Meta (Facebook), 2.0%. Of this group, only Microsoft meets our IDEA criteria and is held in the portfolio at a 2% position. Even if all of these companies met the IDEA criteria, we would only hold each at 2% for a total weight of 10% as opposed to roughly 28% in the S&P 500. Fundamentally, we are not comfortable with that level of concentration risk. As a result, IDEA will continue to be a diversified, equally weighted portfolio of 49 stocks, regardless of the weightings in the widely tracked S&P 500.

DISCIPLINE OVER TEMPTATION

Consistency throughout market cycles

Among the universe of dividend growth-focused strategies, portfolio construction standards can vary widely. Some managers may maintain much less rigor in their screening process, requiring shorter periods of demonstrated dividend history, less stringent requirements on realized dividend growth, and/or lower minimum yield requirements. Many allow considerably higher maximum position sizes or do not implement a position size cap at all, a practice that reduces diversification and increases concentration risk over time.

During periods such as this when a narrow range of stocks are dominating returns, it can be tempting to alter or relax investment criteria for fear of missing out. Our experience has shown us that consistent adherence to our philosophy and methodology offers our clients the opportunity to maximize long-term outcomes and ensure sustainable dividend income growth throughout market cycles.

TAKING THE LONG VIEW

We remain focused on consistently applying our investment philosophy and criteria methodology to accomplish the goals we originally set out to achieve over 25 years ago when the foundation for IDEA was first established[3] at a predecessor firm: ***steadily growing our clients' investments, maintaining and increasing their investment income over time, and protecting against permanent loss of capital.*** The chart below (Figure 4) shows that IDEA has accomplished these goals throughout its history.

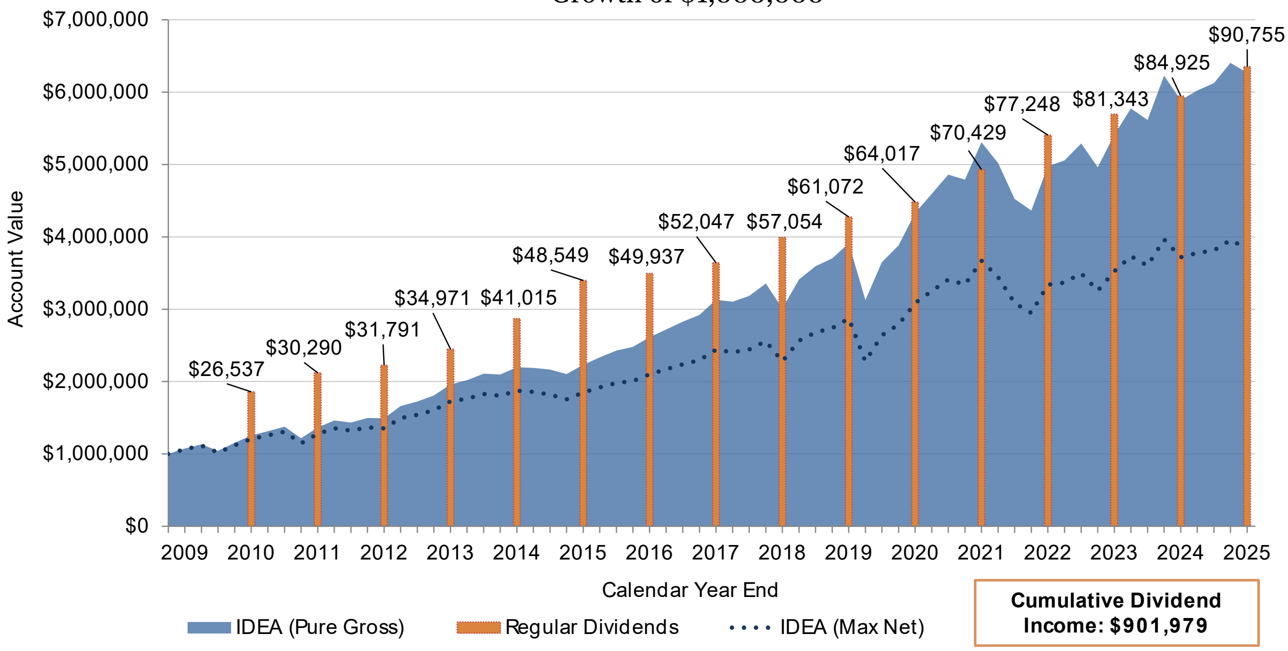
As a result, we are confident that durable dividends, meaningful yields, and a diversified portfolio will continue to deliver on these objectives for the next 25 years.

Figure 4

Growth of Investment & Dividends [4]

Confluence Increasing Dividend Equity Account (IDEA)

Growth of $1,000,000



(Annual data as of 12/31/2025)

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See Territory Map on the Confluence website for sales coverage

PERFORMANCE

Composite Returns (for periods ending March 31, 2026) [5]

	Since Inception**	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
IDEA *Pure Gross-Of-Fees[6]*	11.9%	11.1%	10.6%	6.8%	8.1%	6.2%	2.0%	2.0%
Max Net-Of Fees[7]	8.6%	7.8%	7.3%	3.7%	4.9%	3.0%	1.3%	1.3%
Russell 3000 Value	11.0%	10.3%	10.5%	9.2%	14.2%	16.3%	2.2%	2.2%
S&P 500	13.8%	13.3%	14.1%	12.0%	18.3%	17.8%	(4.4%)	(4.4%)

Calendar Year	Pure Gross-Of-Fees[6]	Max Net-Of-Fees[7]	R3000 Value	S&P 500	Difference (Gross-R3000V)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	R3000V 3yr Std Dev	S&P 500 3yr Std Dev	Composite Dispersion
2009**	7.5%	6.7%	4.2%	6.0%	3.3%	40	$7,190	$533,832	N/A	N/A	N/A	N/A
2010	16.8%	13.4%	16.3%	15.1%	0.6%	138	$33,407	$751,909	N/A	N/A	N/A	0.4%
2011	8.9%	5.7%	(0.1%)	2.1%	8.9%	325	$68,562	$937,487	N/A	N/A	N/A	0.5%
2012	9.2%	6.0%	17.6%	16.0%	(8.4%)	414	$91,822	$1,272,265	12.7%	15.8%	15.1%	0.3%
2013	31.4%	27.5%	32.7%	32.4%	(1.3%)	536	$153,123	$1,955,915	10.3%	12.9%	11.9%	0.4%
2014	12.0%	8.7%	12.7%	13.7%	(0.7%)	942	$257,782	$2,589,024	8.1%	9.4%	9.0%	0.2%
2015	1.6%	(1.4%)	(4.1%)	1.4%	5.8%	1,265	$311,651	$3,175,419	9.5%	10.7%	10.5%	0.3%
2016	17.0%	13.5%	18.4%	12.0%	(1.4%)	1,714	$470,340	$4,413,659	9.2%	11.0%	10.6%	0.3%
2017	19.8%	16.3%	13.2%	21.8%	6.6%	2,254	$698,440	$5,944,479	8.5%	10.3%	9.9%	0.4%
2018	(3.8%)	(6.6%)	(8.6%)	(4.4%)	4.8%	2,539	$699,689	$5,486,737	9.8%	11.1%	10.8%	0.3%
2019	29.9%	26.0%	26.2%	31.5%	3.6%	3,193	$1,079,861	$7,044,708	10.9%	12.0%	11.9%	0.4%
2020	10.7%	7.4%	2.9%	18.4%	7.8%	3,269	$1,159,219	$6,889,798	16.5%	20.0%	18.5%	0.8%
2021	22.6%	19.0%	25.3%	28.7%	(2.7%)	2,083	$891,288	$7,761,687	16.0%	19.3%	17.2%	0.5%
2022	(6.2%)	(9.0%)	(8.0%)	(18.1%)	1.8%	2,105	$810,480	$6,931,635	18.7%	21.5%	20.9%	0.8%
2023	8.7%	5.5%	11.6%	26.3%	(2.9%)	2,158	$855,063	$7,200,019	16.0%	16.7%	17.3%	0.5%
2024	8.8%	5.6%	14.0%	25.0%	(5.2%)	2,134	$912,848	$7,280,773	15.9%	16.9%	17.2%	0.3%
2025	6.4%	3.3%	15.7%	17.9%	(9.2%)	1,823	$783,513	$6,769,052	11.9%	12.7%	11.8%	0.4%

**Average annualized returns* ***Inception is 10/1/2009* *See performance disclosures on last page.*

DISCLOSURES

[1] Data sources: Ibbotson, Bloomberg, Confluence. Based on average annualized returns since 1926.

[2] **Figure 1—Total Return Based on Dividend Growth Policy:** Source: Ned Davis Research, Inc.; © Copyright 2026. Chart shows the S&P 500 Index split by each constituents' dividend policy. Returns are based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly. Dividends are assumed to be reinvested. Dividend rates are not guaranteed payments, nor can they guarantee a rate of return. Dividend Paying and Non-Paying stocks are defined by each stock's dividend policy determined on a rolling 12-month basis. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid. Dividend Growers/Initiators is a subset of dividend-paying stocks and include stocks that increased their dividend any time in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. For illustrative purposes only and not representative of any specific investment.

[3] Confluence Investment Management LLC is an independent Registered Investment Advisor that was founded in 2008. The investment team developed a rising dividend strategy at their predecessor firm and initiated the Increasing Dividend Equity Account (IDEA) strategy in 2009 at Confluence as a continuation of the predecessor strategy. References to investment history prior to 2008 occurred while the investment 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.

[4] **Figure 4—Growth of Investment & Dividends:** Account value based on $1,000,000 invested in IDEA strategy on 10/1/2009 with dividends reinvested. Annual dividend income is annualized estimate based on representative, fee-paying accounts & includes regular dividends. In Dec. 2012, 10 portfolio holdings pulled forward their 2013 regular dividend payments into 2012 for tax purposes; those Dec. 2012 dividends are allocated to 2013 in this illustration to reflect the companies' regular dividend payment schedules. Additional information is available upon request.

Benchmarks / Indexes—The Russell 3000® Value Index is a capitalization-weighted index designed to measure performance of those Russell 3000® Index companies with lower price-to-book ratios and lower forecasted growth values. The S&P 500® Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. (*Source: Bloomberg*) The Russell 3000 Value and S&P 500 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. Effective September 1, 2025, the benchmark indexes for this composite were retroactively reassigned: the primary index was changed from the S&P 500 Index to the Russell 3000 Value Index, and the secondary index was changed from the Russell 3000 Value Index to the S&P 500 Index.

[5] **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, 2024. 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 Increasing Dividend Equity Account (IDEA) strategy was incepted on October 1, 2009, and the current Increasing Dividend Equity Account (IDEA) Composite was created on October 1, 2009. 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.

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

[7] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. 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 IDEA Composite contains fully discretionary IDEA wrap accounts. The IDEA portfolio is selected from a universe of stocks, from all market capitalizations, meeting minimum criteria of paying & increasing dividends over the last 10 years.

**Results shown for the year 2009 represent partial period performance from October 1, 2009, through December 31, 2009. 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.