

Equity Strategies • IDEA

Increasing Dividend Equity Account (IDEA) is focused on high quality companies with long track records of distributing earnings to shareholders through dividends. These companies tend to be established companies that generate free cash flow and have management teams committed to growing the dividend. The portfolio is selected from a universe of stocks meeting minimum criteria of paying and increasing dividends over the last 10 years. The portfolio typically is comprised of approximately 50 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Commentary

The Increasing Dividend Equity Account (IDEA) strategy was down 0.8% (gross of fees) in the first quarter, in line with the S&P 500 return of -0.8%.

Portfolio outperformance in the Financials sector was offset by underperformance in the Technology sector (now almost 25% of the S&P 500) and Consumer Discretionary sector, where upside in the index is almost all driven by Amazon* and Netflix*. The top contributors to IDEA Q1 performance were Mastercard, Microsoft and three banks—Cullen Frost, M&T and Commerce. The weakest performers (Procter & Gamble, Paychex, Clorox, Pepsico, Johnson & Johnson) were primarily Consumer Staple “Blue Chips,” where historically high valuations are being impacted by rising interest rates and weak sales growth.

In our year-end commentary we noted the total absence of fear and volatility in 2017, which makes it tougher to find attractively valued investment opportunities. This euphoria continued into 2018, resulting in an S&P 500 high of 2,872 (up 7.4% YTD) on January 26. Then, normal volatility returned to the markets after a 15-month hiatus. Since that time, markets have experienced two pullbacks that have taken them down 10% from the highs.

The most recent pullback in late March is driven by three factors, the most pronounced being fears of a trade war with China. These actions have many pitfalls, but could yield some

**Not owned in the current portfolio. Past performance is no guarantee of future results.*

positive results for the U.S. as a net importer. Second, the Fed continues to increase interest rates and could actually get more aggressive. If higher rates are sustainable across the yield curve, then this will weigh on valuations for virtually all asset classes. Finally, ongoing issues at Facebook* related to the manipulation of content and the collection of personal data for targeted advertising are, for the first time, challenging the unbridled power of “big data” with serious talk of regulation. Currently this poses probably the biggest threat to the S&P 500 Index as the five largest stocks (Apple*, Google*, Microsoft, Amazon* and Facebook*, aka “FAANG”) make up about 15% of the index and have driven a lot of the index performance over the past few years. Even if the FAANG stocks are just flat for a couple of years while regulation sets in, this could be a real headwind for the S&P 500.

As the market reconciles these factors with historically high valuations we will continue to stay focused on owning good companies with growing dividends at reasonable prices, all the while looking for attractive buying opportunities.

There were no changes to the IDEA portfolio in Q1 2018. The table below has been updated for 2017 dividend growth.

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Annual Dividend Statistics for IDEA Portfolio at 12/31

Year	Holdings	Avg. Yield	Dividend Change from Prior Year*					Annual Dividend Increases Over Past 10 Years*			
			# of companies with			Avg. Growth	Indexed Growth**	# of companies with			Avg. 10 yr Growth
			Increase	Flat	Decrease			10 years	9 years	< 9 years	
2009	49	2.8%	45	4	0	8.1%	\$3,026	38	6	5	13.3%
2010	49	2.8%	45	4	0	8.0%	\$3,267	38	3	8	12.6%
2011	49	2.8%	46	3	0	9.6%	\$3,581	38	4	7	12.5%
2012	48	3.1%	46	2	0	9.1%	\$3,907	39	5	4	12.8%
2013	49	2.3%	48	1	0	10.0%	\$4,297	41	3	5	13.1%
2014	49	2.4%	48	1	0	10.3%	\$4,739	39	3	7	12.7%
2015	49	2.8%	47	2	0	9.7%	\$5,201	40	3	6	11.9%
2016	50	2.3%	46	4	0	7.2%	\$5,575	39	1	10	11.4%
2017	48	2.1%	45	3	0	7.5%	\$5,994	37	1	10	10.5%

*Excludes impacts of special dividends and spin-offs.

**Indexed Growth column is an estimate of annual dividends based on the cumulative growth of an account initially funded with \$100,000 on 12/31/2008; does not represent actual results.

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Top 10 Portfolio Holdings (as of 3/31/18)

Company Name	Ticker	Weight	Company Sector	Yield	Sectors	
Microsoft Corporation	MSFT	2.7%	Information Technology	1.8%	Consumer Discretionary	13.7%
Mastercard Incorporated Class A	MA	2.6%	Information Technology	0.5%	Consumer Staples	8.7%
Analog Devices, Inc.	ADI	2.6%	Information Technology	2.1%	Energy	5.1%
SEI Investments Company	SEIC	2.5%	Financials	0.8%	Financials	19.5%
Stryker Corporation	SYK	2.4%	Health Care	1.2%	Health Care	10.0%
Home Depot, Inc.	HD	2.3%	Consumer Discretionary	2.3%	Industrials	16.4%
T. Rowe Price Group	TROW	2.3%	Financials	2.6%	Information Technology	13.8%
Graco Inc.	GGG	2.3%	Industrials	1.2%	Materials	3.9%
Illinois Tool Works Inc.	ITW	2.3%	Industrials	2.0%	Real Estate	0.0%
Lockheed Martin Corporation	LMT	2.2%	Industrials	2.4%	Telecom Services	0.0%
					Utilities	5.9%

Portfolio Statistics

# of Holdings	48
Average Dividend Yield	2.2%
Average Price to Earnings-LTM	22.7
Average Price to Book	5.6

Market Capitalization

Large Cap	77%
Mid Cap	18%
Small Cap	2%
Weighted Average (\$ billions)	93.4
Largest	702.8
Median	58.9
Smallest	0.9

The listing of "Ten Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, application of the investment strategy as of a later date will likely result in changes to the listing. Sector weightings and holdings of individual client portfolios in the program may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

Yield data source: FactSet. Weighted average dividend yield of holdings in the portfolio, calculated based on annualized current dividends.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk and may decline in value due to adverse company, industry or general economic conditions.

Composite Returns For Periods Ending 3/31/18

	Pure-Gross-of-Fees	Net-of-Fees*	S&P 500	R3000 Value	Difference (Gross-S&P500)	No. of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000 Value 3yr Std Dev	Composite Dispersion
QTD	(0.8%)	(1.6%)	(0.8%)	(2.8%)								
YTD	(0.8%)	(1.6%)	(0.8%)	(2.8%)								
1-Year	14.1%	10.7%	14.0%	6.8%								
3-Year Annualized	12.3%	9.0%	10.8%	7.9%								
5-Year Annualized	13.3%	10.0%	13.3%	10.7%								
Since Inception Annualized	14.3%	10.9%	13.7%	12.2%								
2017	19.8%	16.2%	21.8%	13.2%	(2.0%)	2,254	\$698,440	\$5,944,479	8.5%	9.9%	10.3%	0.4%
2016	17.0%	13.5%	12.0%	18.4%	5.1%	1,714	\$470,340	\$4,413,659	9.2%	10.6%	11.0%	0.3%
2015	1.6%	(1.4%)	1.4%	(4.1%)	0.3%	1,265	\$311,651	\$3,175,419	9.5%	10.5%	10.7%	0.3%
2014	12.0%	8.7%	13.7%	12.7%	(1.7%)	942	\$257,782	\$2,589,024	8.1%	9.0%	9.4%	0.2%
2013	31.4%	27.5%	32.4%	32.7%	(1.0%)	536	\$153,123	\$1,955,915	10.3%	11.9%	12.9%	0.4%
2012	9.2%	6.0%	16.0%	17.6%	(6.8%)	414	\$91,822	\$1,272,265	12.7%	15.1%	15.8%	0.2%
2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	\$33,407	\$751,909	N/A	N/A	N/A	0.4%
2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	\$7,190	\$533,832	N/A	N/A	N/A	N/A

Confluence claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 6/30/2017. A copy of the verification report is available upon request. Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The 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 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. Gross returns are shown as supplemental information.

*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. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. The annual composite dispersion is an equal weighted standard deviation calculated for accounts in the composite for the entire year. 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 and increasing dividends over the last 10 years. The primary benchmark is the S&P 500 Index and the Russell 3000 Value Index is shown as additional information.

**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.

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri founded in 2007. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. Confluence's portfolio management philosophy begins by assessing risk, and follows through by positioning clients to achieve their income and growth objectives. The Confluence team has more than 400 years of combined financial experience and 200 years of portfolio management experience.