

Equity Strategies • Increasing Dividend Equity Account (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 initial minimum criteria of paying and increasing dividends over the last 10 years. The portfolio typically has approximately 49 holdings and is expected to result in low to moderate turnover. The strategy is suitable for clients seeking total return from dividend income and capital appreciation.

Strategy Commentary

Equity markets had a rough first quarter with the S&P 500 and the Russell 3000 Value Indexes down 19.6% and 27.3%, respectively. By comparison, the Increasing Dividend Equity Account (IDEA) strategy declined 20.0% (gross of fees). *(The strategy was down 20.6% (net of fees). Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

A look at a few other indexes provides some additional insight into the market's undercurrents in the first quarter. The Russell 3000 Growth Index (down 14.9%) and Russell 3000 Value Index (down 27.3%) show that value stocks, which have underperformed growth stocks for the past several years, have been punished even more in this selloff (energy and banks, in particular). While growth stocks outperformed in the first quarter, they have primarily been supported by the FAANG+ stocks which include the five largest market caps in the S&P 500 (Microsoft, Apple, Amazon, Google, Facebook). These "top five" account for 19.5% of the entire index and had a Q1 weighted average return around -6%. This FAANG+ overweight appears to be the primary reason the headline S&P 500 Index has held up better than the general experience of individual stocks, which is more accurately represented by the S&P 500 equal-weighted index return of -26.7% (the combined weight of these five names is roughly 1% of this index). While those top five FAANG+ stocks are uniquely positioned (both in their business models and balance sheets) for the unforeseen impact of social distancing, we believe a diversified portfolio should not have such high concentration in a narrow subgroup. Additionally, only one company from this group meets the IDEA growing dividend criteria (Microsoft), and fortunately we own it in the portfolio.

There are not many financial market events that are truly unprecedented, but a pandemic-induced global economic shutdown does indeed qualify as unprecedented in modern

times. The unexpected spread of COVID-19 in the U.S. during February was soon followed by an oil price war initiated by Saudi Arabia on March 8 and a dramatic decline in interest rates, with the U.S. 10-year Treasury yield hitting an all-time low of 0.38% on March 9. These events greatly increased the odds of a recession and came on top of stock and debt markets that have had a strong tailwind from ZIRP over the past 10 years. All these factors combined to take the S&P 500 down 35% (from an all-time high on February 19) over the course of 23 trading days, breaking several records for daily changes and volatility along the way.

The U.S. stock market is often a leading indicator of the health of the economy, indicating bad or good things to come (like recessions or expansions) before they are readily apparent in everyday life. As a result, one benefit of this dramatic selloff is that it further prompted a massive response from public officials and Congress, both for healthcare mobilization and monetary and fiscal stimulus. This response should help minimize fatalities and, in the meantime, bridge the gap for the economy. Still the economic damage and recovery time will depend largely on the duration of the economic shutdown.

While the stock market is good at factoring in short-term events, it can overreact (panic) from a longer-term perspective. Fortunately, the intrinsic value of the high-quality businesses we own in the IDEA portfolio depend more on the companies' long-term fundamentals than the results posted over the next six months. With this in mind, we continue to stay focused on owning good companies with growing dividends at reasonable prices.

Continued on page 2...

ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

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

Equity Strategies • Increasing Dividend Equity Account (IDEA)

Strategy Commentary continued...

In mid-March, we purchased Rockwell Automation and sold Exxon as the company's dividend growth could be hindered by both oil demand and supply issues over the next few years. Milwaukee-based Rockwell Automation is a global leader in industrial automation power, control, and information solutions. Rockwell is a great company with a high return on capital and long-term growth potential, and the recent selloff provided an opportunity to purchase the stock at an attractive valuation. With a strong balance sheet and a dividend payout ratio around 50%, we believe the company should continue its long history of dividend growth.

The table below is updated for 2019 and shows that all 49 of the companies in the portfolio at 12/31/19 increased their dividends, resulting in overall portfolio dividend growth of 11.6%. Additionally, given the economic shutdown there is a possibility that some dividend-paying companies in the U.S. will temporarily suspend or decrease their dividends. For more on this topic, see our recent [IDEA Dividend Update](#) report, which is published on the Confluence website.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
The Clorox Company	2.26	0.22
Microsoft Corporation	3.10	0.03
Rockwell Automation, Inc.	0.31	(0.01)
Colgate-Palmolive Company	1.60	(0.07)
Nestlé S.A.	2.10	(0.10)
Bottom 5		
Commerce Bancshares, Inc.	2.63	(0.71)
Chevron Corporation	1.66	(0.71)
M&T Bank Corporation	1.80	(0.74)
PPG Industries, Inc.	1.88	(0.76)
Polaris Inc.	1.57	(0.99)

(Contribution data shown from a sample account)

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.	Indexed	# of companies with			Avg. 10 yr
			Increase	Flat	Decrease	Growth	Growth ⁺⁺	10 years	9 years	< 9 years	Growth
2009	49	2.8%	45	4	0	8.1%	\$3,242	38	6	5	13.3%
2010	49	2.8%	45	4	0	8.0%	\$3,501	38	3	8	12.6%
2011	49	2.8%	46	3	0	9.6%	\$3,837	38	4	7	12.5%
2012	48	3.1%	46	2	0	9.1%	\$4,186	39	5	4	12.8%
2013	49	2.3%	48	1	0	10.0%	\$4,604	41	3	5	13.1%
2014	49	2.4%	48	1	0	10.3%	\$5,078	39	3	7	12.7%
2015	49	2.8%	47	2	0	9.7%	\$5,572	40	3	6	11.9%
2016	50	2.3%	46	4	0	7.2%	\$5,974	39	1	10	11.4%
2017	48	2.1%	45	3	0	7.5%	\$6,422	37	1	10	10.5%
2018	49	2.4%	47	2	0	9.6%	\$7,036	39	3	7	9.9%
2019	49	2.0%	49	0	0	11.6%	\$7,855	41	2	6	10.8%

* 'Dividend Change' and 'Annual Dividend Increases' sections exclude impact of special dividends and spin-offs.

+ Average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividends plus any special dividends paid during the year.

++ 'Indexed Growth' column is an estimate of cumulative dividend growth on a \$100,000 account beginning on 12/31/2008. It does not represent actual results.

(Yield data source: FactSet)

Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy can be obtained by contacting Confluence. Material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Holdings identified do not represent all of the securities purchased, sold or recommended. Information is presented as supplemental information to the disclosures required by GIPS® standards. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. Past performance is no guarantee of future results. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses. **Indices:** The S&P 500 Index and Russell 3000 Value Index are shown as additional information. These indices 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.

Equity Strategies • Increasing Dividend Equity Account (IDEA)

10 Largest Holdings (as of 3/31/20)

Company Name	Ticker	Weight	Company Sector	Yield
Microsoft Corporation	MSFT	3.0%	Information Technology	1.3%
Brown & Brown, Inc.	BRO	2.7%	Financials	0.9%
The Clorox Company	CLX	2.6%	Consumer Staples	2.4%
Mastercard Inc.	MA	2.4%	Information Technology	0.5%
Graco Inc.	GGG	2.4%	Industrials	1.4%
American Water Works Company, Inc.	AWK	2.4%	Utilities	1.7%
Fidelity National Information Services	FIS	2.4%	Information Technology	1.2%
Nestlé S.A.	NSRGY	2.4%	Consumer Staples	2.3%
Air Products and Chemicals, Inc.	APD	2.3%	Materials	2.7%
The Southern Company	SO	2.3%	Utilities	4.6%

Sectors	
Consumer Discretionary	11.5%
Consumer Staples	11.3%
Energy	1.4%
Financials	18.1%
Health Care	8.6%
Industrials	20.6%
Information Technology	14.2%
Materials	6.3%
Real Estate	0.0%
Communication Services	0.0%
Utilities	6.5%

Portfolio Statistics

# of Holdings	49
Average Dividend Yield	2.5%
Average Price-to-Earnings-LTM	18.7
Average Price-to-Book	4.6

Market Capitalization

Large Cap	83%
Mid Cap	16%
Small Cap	0%
Weighted Average (\$ billions)	107.1
Largest	1,199.5
Median	50.5
Smallest	3.0

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. 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. Composite level weighted average dividend yield, 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.

Portfolio Changes in Q1 2020

Bought: Rockwell Automation, Inc. (ROK)

Sold: Exxon Mobil Corporation (XOM)

Performance Composite Returns For Periods Ending 3/31/20

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value	Difference (Gross-S&P500)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	S&P 500 3yr Std Dev	R3000V 3yr Std Dev	Composite Dispersion
Since Inception**	11.5%	8.2%	11.2%	8.2%	2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	\$7,190	\$533,832	N/A	N/A	N/A	N/A
10-Year*	10.7%	7.4%	10.5%	7.5%	2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	\$33,407	\$751,909	N/A	N/A	N/A	0.4%
5-Year*	7.4%	4.2%	6.7%	1.6%	2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
3-Year*	4.8%	1.6%	5.1%	(2.7%)	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%
1-Year	(8.3%)	(11.1%)	(7.0%)	(18.0%)	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%
YTD	(20.0%)	(20.6%)	(19.6%)	(27.3%)	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%
QTD	(20.0%)	(20.6%)	(19.6%)	(27.3%)	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%
					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%
					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%
					2018	(3.8%)	(6.6%)	(4.4%)	(8.6%)	0.6%	2,539	\$699,689	\$5,486,737	9.8%	10.8%	11.1%	0.3%
					2019	29.9%	26.0%	31.5%	26.2%	(1.6%)	3,193	\$1,079,861	\$7,044,708	10.9%	11.9%	12.0%	0.4%

*Average annualized returns

**Inception is 10/1/2009

Portfolio Benchmarks

S&P 500 Index – A capitalization-weighted index of 500 stocks. The Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Russell 3000® Value Index – 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.

(Source: Bloomberg)

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 12/31/2018. 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.

¹Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

²Net-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. **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.