

## Increasing Dividend Equity Account (IDEA) • Value Equity Strategies

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 appropriate for clients seeking total return from dividend income and capital appreciation.

### Market Commentary

The stock market had a solid start to the year, with the S&P 500 Index up 6.2%, as COVID-19 cases declined, vaccinations increased, and expectations for strong economic growth continued to improve, furthered by another large stimulus package. As a result, in mid-February, the “Top 6” FAANG+ stocks (Apple, Microsoft, Amazon, Google, Facebook, Tesla) that have powered the markets over the past two years (as we have previously highlighted) began to underperform. Since then, the market has shifted away from “pandemic-proof” growth stocks and has refocused on businesses that are driven by economic growth. These “economically sensitive” stocks are the vast majority in the stock market, and many are considered value stocks (Financials, Industrials, Energy, Materials, etc.). This is all reflected in the year-to-date returns of the equal-weighted S&P 500 (+11.5%) and the Russell 3000 Value (+11.9%).

Despite the overhang from a year-long pandemic, economic expectations are high and this is being reflected in the stock market. Zero interest rates and fiscal stimulus continue to support asset inflation, but this has not translated into higher consumer inflation (a headscratcher for students of history). At the same time, the economy is poised for a “postwar boom” as consumers are flush with cash and eager to get out and celebrate post-pandemic. As a result, long-term interest rates have risen off the floor and there continue to be characteristics indicative of a speculative environment (examples include GameStop, SPACs, day trading, etc.).

Even with strong economic growth, this optimistic market still carries much risk and uncertainty, so it is important to have a solid investment philosophy that resists the siren song of speculation. As always, we continue to stay focused on owning quality companies with growing dividends at reasonable prices.

### Strategy Commentary

The Confluence Increasing Dividend Equity Account (IDEA) strategy was up 6.1% (gross of fees) in the first quarter, similar to the S&P 500 return of 6.2%. *[The net-of-fees return for the same period was +5.3% QTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.]*

While the IDEA portfolio performed in line with the S&P 500, the underlying performance reflected the shift from growth to value. Particularly, the portfolio benefited from owning Financials (banks, Charles Schwab), Consumer Discretionary (Polaris, Home Depot), and reasonably priced Technology stocks, while some of the more defensive Consumer Staple holdings (Colgate, Nestlé) underperformed.

There were no changes to the portfolio during the first quarter. Given the huge rebound in the market over the past year we have tended to sit tight with the high-quality companies that we know well. As the post-pandemic economy comes into focus we will likely look to replace holdings that are increasingly priced for perfection.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
<b>Top 5</b>		
Polaris Inc.	1.97	0.65
Snap-on Incorporated	1.84	0.59
The Charles Schwab Corporation	2.32	0.49
The Home Depot, Inc.	2.92	0.44
Commerce Bancshares, Inc.	2.72	0.43
<b>Bottom 5</b>		
Brown & Brown, Inc.	2.29	(0.08)
Novartis AG	1.34	(0.11)
Nestlé S.A.	1.87	(0.11)
Colgate-Palmolive Company	1.52	(0.13)
NIKE, Inc. (Class B)	2.77	(0.18)

*(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)*

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### 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.

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**ANNUAL DIVIDEND STATISTICS**  
 FOR IDEA PORTFOLIO AT 12/31

The Annual Dividend Statistics table has been updated for 2020 and shows that 46 companies in the portfolio at 12/31/20 increased their dividends, resulting in overall portfolio dividend growth of 7.4%. Furthermore, as shown in the “Indexed Growth” column, a \$100,000 portfolio invested at the end of 2008 would now yield over \$8,400 in dividend income annually. Finally, for the 49 companies in the portfolio at year-end, the average 10-year annual dividend growth was 10.9% and 42 of the companies have increased their dividend every year for the past 10 years.

Year	Holdings	Avg. Yield <sup>+</sup>	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 <sup>++</sup>	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%
2020 <sup>1</sup>	49	2.0%	46	3	0	7.4%	\$8,437	42	4	3	10.9%

\* 'Dividend Change' and 'Annual Dividend Increases' sections exclude impact of special dividends and spin-offs. <sup>1</sup> Excludes impact of temporary dividend suspensions during the pandemic of 2020.

+ 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)

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## 10 Largest Holdings (as of 3/31/21)

Company	Market Capitalization (\$ billions)	Portfolio Weight
Analog Devices, Inc.	57.2	2.5%
The Home Depot, Inc.	328.8	2.5%
Linde plc	146.5	2.5%
T. Rowe Price Group, Inc.	39.1	2.4%
The Charles Schwab Corporation	122.7	2.4%
Accenture plc	183.7	2.4%
Mastercard Inc.	353.7	2.4%
Snap-on Incorporated	12.6	2.4%
Graco Inc.	12.1	2.4%
NIKE, Inc. (Class B)	209.5	2.3%

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.

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.

## Performance Composite Returns (For Periods Ending March 31, 2021)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500	R3000 Value	Calendar Year	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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**	14.2%	10.8%	14.5%	11.9%	2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	\$7,190	\$533,832	N/A	N/A	N/A	N/A
					2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	\$33,407	\$751,909	N/A	N/A	N/A	0.4%
10-Year*	13.3%	10.0%	13.9%	10.9%	2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
					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%
5-Year*	14.5%	11.1%	16.3%	11.8%	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%
					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%
3-Year*	14.0%	10.6%	16.8%	11.0%	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%
1-Year	46.9%	42.5%	56.3%	58.3%	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%
YTD	6.1%	5.3%	6.2%	11.9%	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%
QTD	6.1%	5.3%	6.2%	11.9%	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%
					2020	10.7%	7.4%	18.4%	2.9%	(7.7%)	3,269	\$1,159,219	\$6,889,798	16.5%	18.5%	20.0%	0.8%

\*Average annualized returns

\*\*Inception is 10/1/2009

### Portfolio Benchmarks

**S&P 500® Index** – 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.

**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 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, 2019. 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) 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.

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

<sup>2</sup> 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.

**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. Top 5 contributors/detractors reflects the strategy's best and worst performers, 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. 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.**