First Quarter 2024

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

In the first quarter of 2024, the equity markets saw a continuation of the Santa Claus rally that ended 2023, with the S&P 500 Index posting a rare back-to-back quarterly gain in the double-digits. The rally was sparked in late October 2023 when the Federal Reserve signaled the end of policy tightening as the downward trend in inflation (aka disinflation) was expected to continue toward the Fed's target of 2.0%. In short order, market participants were pricing in six interest rate cuts for 2024 (see *Figure 1*), which increased the probability of a soft landing. And although recent datapoints indicate that elevated levels of inflation may be sticky (see *Figure 2*), hence the reduction during the quarter in the number of expected rate cuts to three, the equity markets continued to rally.

Why would stocks remain strong when elevated inflation data is pointing to the possibility that the Fed will keep rates higher for a longer period? There are a handful of possible reasons, but we suspect it is the belief that the Fed is bluffing on its inflation target. More specifically, investors doubt the validity of the Fed maintaining its stated 2.0% inflation target, believing the Fed will instead settle for a higher inflation target and move forward with rate cuts despite inflation stalling at levels well above 2.0%. This would clearly benefit the economy near-term and support revenue and earnings growth. As a result, we are seeing a continued tailwind for stocks, with the S&P 500 up 10.6% in the first quarter and 28% from the low in late October 2023.

Figure 1 **U.S. Interest Rate (%)**

(Source: Financial Times, 3/19/2024)

Unlike much of the past several years, recent returns have been broader-based. Both large caps and small caps, as measured by the Russell 1000 and 2000 indexes, respectively, are up approximately 30% off the October low. Although growth has outperformed value, the gap was much narrower than the recent past as Apple (AAPL) was up only 2% and Tesla (TSLA) posted a loss of 15.2%, which helped narrow the gap to "only" 5.3%, with the Russell 1000 Growth up 31.4% versus the Russell 1000 Value up 26.1%.

Figure 2 **Consumer Price Index, Change From a Year Earlier**

(Source: Wall Street Journal, 4/10/2024)

See GIPS Report on pages 6-7

Market Commentary continued...

There are still pockets of excess speculation specifically around artificial intelligence (AI) and cryptocurrency, perhaps best evidenced by two "small cap" names, Super Micro Computer (SMCI) and MicroStrategy (MSTR), which are up +320% from the October low and now sport market capitalizations of $60 billion and $30 billion, respectively. And yet these two companies are still included in the Russell 2000 Index, a small cap index with a median market cap of approximately $956 million, and are impacting the index's returns. Both companies also have checkered histories as SMCI was delisted from the NASDAQ in 2019 for accounting irregularities, while MSTR leader Michael Saylor has used the company's balance sheet to acquire bitcoin (and, more recently, issued stock and convertible bonds to acquire even more bitcoin), all while actively selling his own shares. This revival of bitcoin and the recent Reddit IPO lends further credence to the sense that speculation still abounds.

On the other hand, fixed income markets were more sanguine in light of the recent inflation datapoints, giving back some of their recent gains. Recall that the 10-year Treasury yield fell from 4.98% in late October 2023 to 3.88% by year-end, providing a boost to financial assets and the Santa Claus rally. However, during the first quarter of 2024, the 10-year Treasury yield rose to 4.20% (see *Figure 3*). With inflation remaining at elevated levels, the backup in yields was rather muted and has some pundits pointing to the limited supply of longer-term notes as the Treasury Department shifted refunding to favor short-term bills. This shift helped suppress long-term yields which aided longer-duration bonds as well as stocks. At current levels, the 10-year Treasury is trading more in line with levels preceding the Great Financial Crisis in 2008-09 and provides a real rate of return that has been absent for much of the past 15 years and has benefited financial engineering over operating acumen.

Figure 3 **Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity**

(Source: Federal Reserve Economic Data, 3/31/2024)

Outlook

Thus far, the economy has avoided a recession in the face of a sharp rise in interest rates, while employment has remained strong and inflation levels have been trending downward. This environment has benefited the equity markets; however, the disinflation of the past year and a half appears to be stalling. Thus, the primary focus remains on inflation and how future datapoints will impact the timing and magnitude of Fed actions. While the broadening of the equity markets over the past few months is a positive sign, the strength has outpaced earnings growth which has pushed up valuations and leaves equities susceptible to a pullback. Given the spotlight on inflation, the geopolitical backdrop, with conflicts in Russia/Ukraine, the Middle East, and China/Taiwan, and elections occurring in 2024 for half of the world's population, we anticipate some added volatility which also means opportunities for long-term investors. Of course, we will continue to stay focused on our investment philosophy which has always been centered on business and valuation analysis.

Strategy Commentary

The year-end 2023 stock market rally due to hopes of interest rate cuts and AI excitement continued through the first quarter of 2024. In fact, according to the *Wall Street Journal*, as of mid-February the S&P 500 had been up 14 of the previous 15 weeks — something that had not happened since March 1972, which coincidentally was another period of elevated inflation and concentrated market leadership. Furthermore, with the resurgence of bitcoin and the $10 billion IPO of Reddit (the birthplace of meme stocks), it appears that speculation is still alive and well.

Apart from this excitement, the companies held in the Confluence Increasing Dividend Equity Account (IDEA) portfolio continued to pay and grow their dividends. As shown in this table (*Figure 4*), 14 of the 49 companies in the current[1] portfolio raised their dividends in the first quarter, with an average announced growth rate of 6.5%.

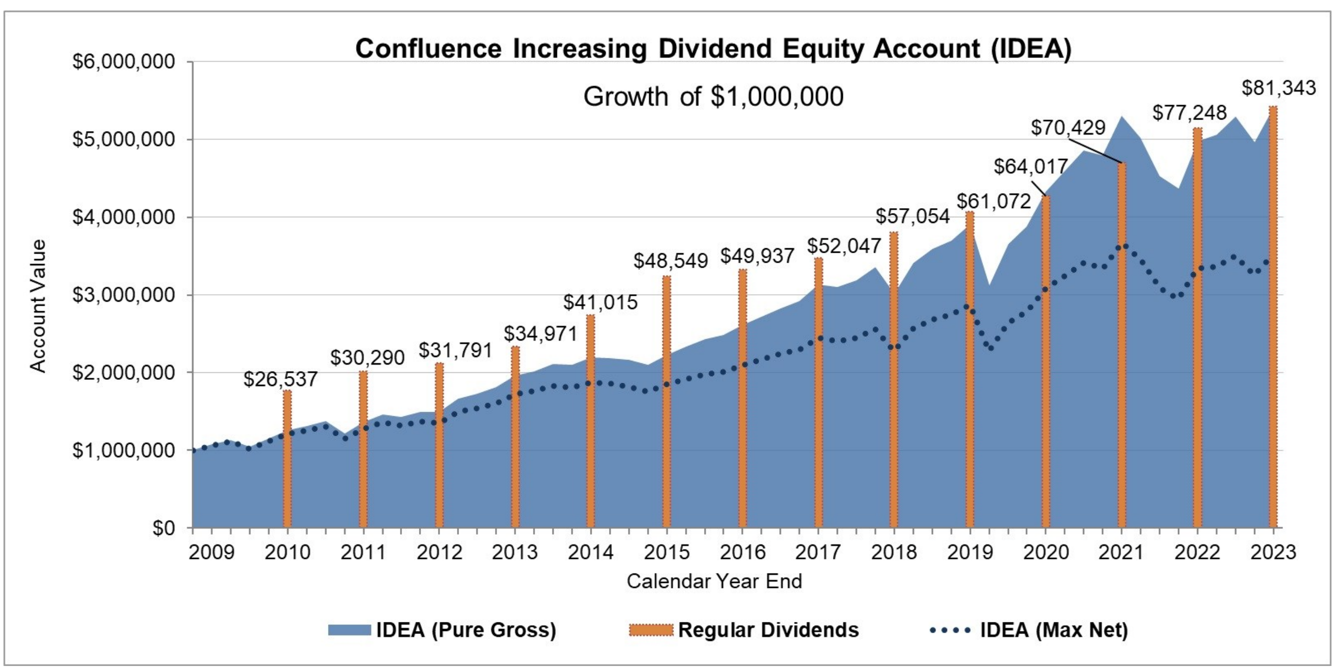
Figure 4 **Annual Dividend Statistics for IDEA Portfolio at 12/31** ***(Dividend Growth Using Announcement Date)*** [1]

			Dividend Change from Prior Year**			
			# of companies with			
Year	**Holdings**	**Avg. Yield+**	Increase	Flat	Decrease	Avg. Growth***
2009	49	2.9%	39	10	0	5.6%
2010	49	2.9%	45	4	0	9.3%
2011	49	2.9%	46	3	0	9.6%
2012	48	3.3%	46	2	0	9.3%
2013	49	2.4%	47	2	0	10.6%
2014	49	2.5%	47	2	0	9.3%
2015	49	2.8%	46	3	0	8.9%
2016	50	2.4%	46	4	0	6.9%
2017	48	2.1%	44	4	0	7.4%
2018	49	2.5%	47	2	0	11.2%
2019	49	2.1%	48	1	0	9.4%
2020*	49	2.1%	42	7	0	6.4%
2021	49	1.9%	46	3	0	8.3%
2022	49	2.1%	47	2	0	9.5%
2023	48	2.2%	47	1	0	7.4%
Average-15 yrs		2.5%	46	3	0	8.6%
YTD (3/31/24)	49	1.9%	14	-	0	6.5%

** 2020 excludes impact of temporary dividend suspensions during the pandemic of 2020. ** Dividend Change from Prior Year excludes impact of special dividends and spin-offs.*
**** For YTD statistics, the average growth rate is calculated using only those holdings for which an increase or decrease in the indicated annual dividend amount has been announced. Full-year statistics are calculated as the average of all holdings, including those which did not announce a change to their indicated annual dividend during the year.*
+ Avg. Yield column is the equal-weighted average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividends plus any special dividends paid during the year.

Furthermore, as depicted in the following chart (*Figure 5*), the IDEA strategy has produced consistent dividend growth over the past 15 years, resulting in annual dividend income more than tripling since the strategy's inception, in addition to delivering strong capital appreciation.

Figure 5 **Growth of Investment & Dividends** [2]

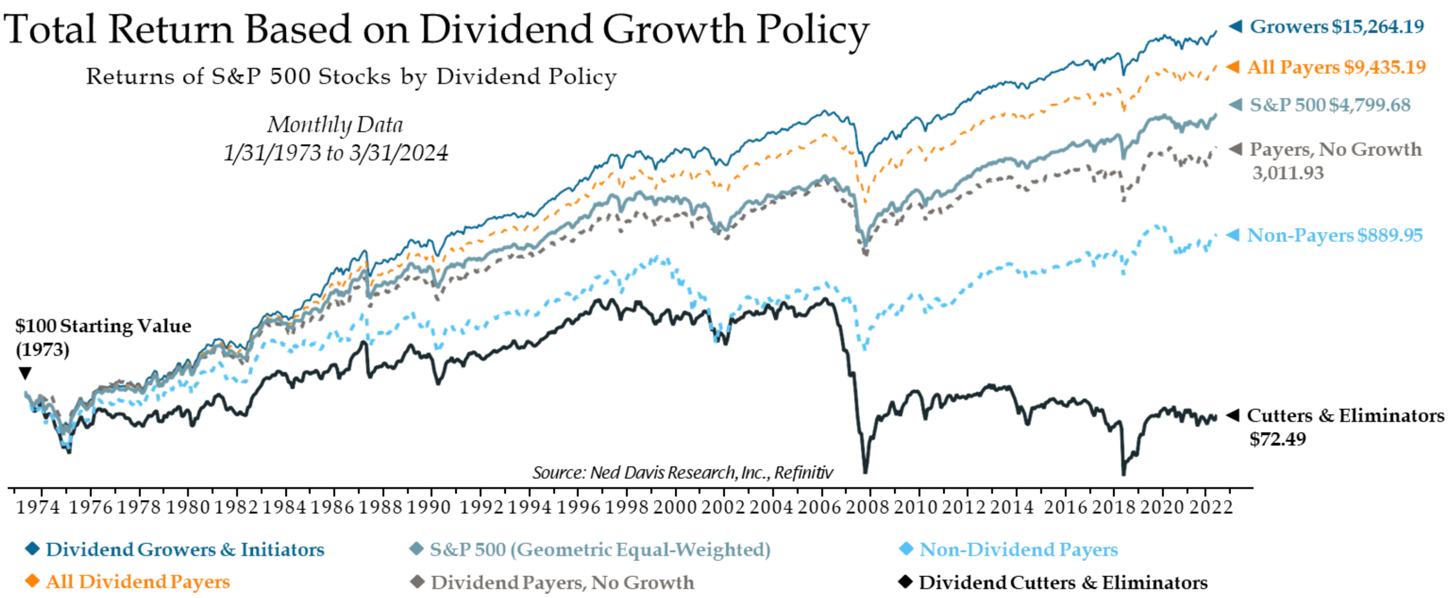


(Annual data as of 12/31/2023)

Strategy Commentary continued...

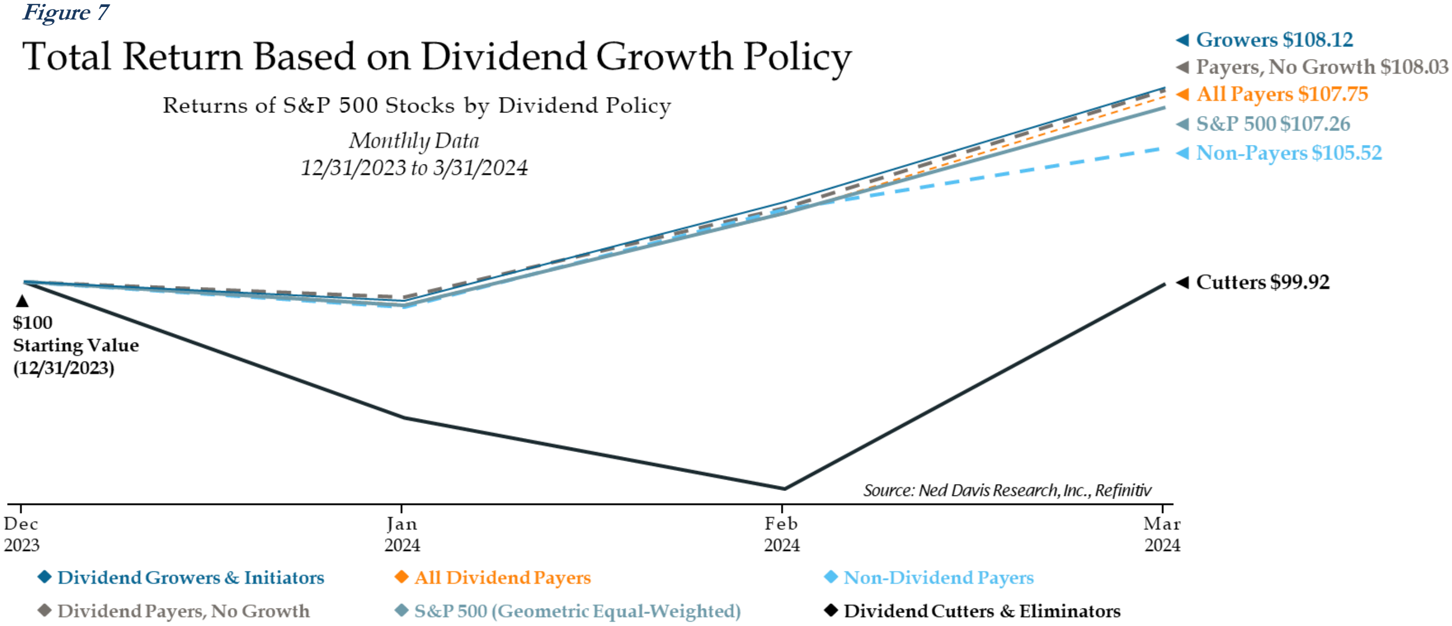
Historically, dividend growers (like the companies owned in the IDEA portfolio) have substantially outperformed companies whose dividends remained flat, companies that have cut their dividends, and companies that do not pay dividends. As shown in this chart from Ned Davis Research (*Figure 6*), $100 invested in dividend growers in 1973 has now grown to $15,264, while $100 invested in non-dividend payers would now be worth $890 and $100 invested in dividend cutters would only be worth $72 today.

Figure 6



As we discussed last quarter (and as the valuation chart on the next page does a good job of demonstrating, *Figure 8*), the top tech growth stocks (the gray line) lifted off in 2017, peaked in 2021, rolled over in 2022, and have now rebounded to near-peak valuations and all-time-high stock prices. In the first quarter of 2024, this continued to be reflected in the growth versus value imbalance, with the S&P 500 up 10.6% and the Russell 3000 Growth up 11.2%, while dividend growers were up 8.1% (per Ned Davis Research, see *Figure 7*) and the Russell 3000 Value was up 8.6%. By comparison, IDEA was up 6.7% in the first quarter (gross of fees). [*The strategy's net-of-fees return for the same period was 5.9% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Figure 7

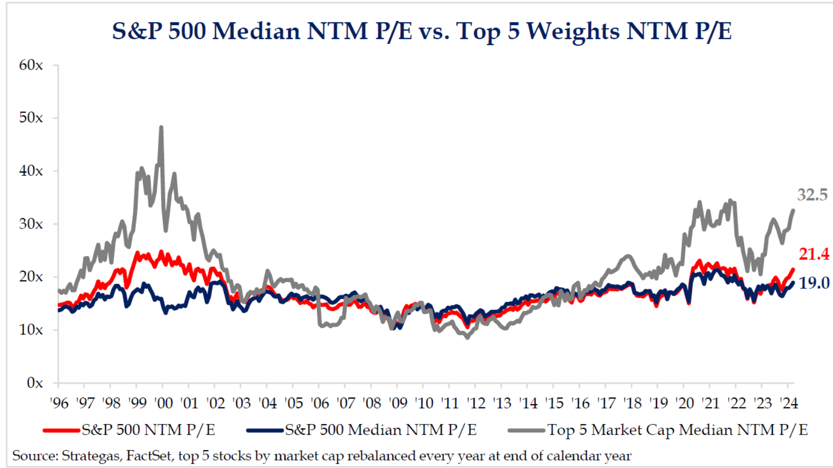


(Sources, Figures 6 and 7: Ned Davis Research, Copyright 2024)

Strategy Commentary continued...

Year-to-date, the IDEA strategy has trailed the S&P 500 primarily within the Industrials sector as economically sensitive, cyclical companies in the sector have outperformed high-quality, steadier growing industrial companies thus far. Additionally, portfolio holdings in the more defensive sectors underperformed as Utilities and Consumer Staples are currently out of favor in this bull market. Despite this relative underperformance, we expect these companies will benefit from economic growth throughout the cycle, which should in turn drive continued long-term growth in earnings and dividends.
[*See contribution table on next page.*]

Figure 8



(Source: Strategas, 4/1/2024)

In late February, ResMed Inc. (RMD) was added to the portfolio. ResMed designs and manufactures cloud-connected medical devices to treat sleep apnea, COPD, and other chronic diseases. Our focus is on ResMed's core OSA (obstructive sleep apnea) business, where the company has historically held a duopoly position alongside Philips Respironics. We have long appreciated the OSA treatment market given its large untapped customer base that grows year-over-year due to an aging and overweight population. In addition, OSA is a chronic disease that often needs treatment for life unless the patient undertakes drastic life changes. A growing population impacted by a chronic disease often leads to sustainable cash generation and growing returns on capital. This is particularly the case when you operate within a duopoly of innovators. ResMed and Philips Respironics were the innovators of CPAP and BiPAP machines, which remain the gold standard for the treatment of OSA. That initial capital and know-how continue to serve this growing market of patients 40 years later. As mentioned, we have long admired these businesses, but they have historically been out of reach due to excessive valuations. As we often say, patience is a virtue, and recent developments in the market have created an attractive entry point for us. We feel these developments will have a limited impact on the long-term growth of ResMed's core business.

The biggest concern impacting ResMed's share price is the marketing of GLP-1s for weight loss. Being overweight is one of the primary contributors of OSA and the market is concerned that this could ultimately reduce the population of OSA patients. We believe the market is misguided in this view and that the use of GLP-1s will have a limited impact and potentially could increase the number of CPAP users. Our reasoning behind this is our view that long-term use of GLP-1s is prohibitive due to costs and side effects. Studies have shown that up to 50% of patients stop using GLP-1s after 12 months and up to 70% stop using them before 24 months. Unfortunately for those users, the weight is expected to return unless they undergo some more permanent life changes while on the GLP-1. While this may cause a short-term lull in demand during the hype of the GLP-1 market, we feel that any lull will be offset by patients becoming more aware of their health along with recent developments from Respironics, which recently pulled its CPAP devices from the US market due to FDA concerns. It is our understanding that the fixes demanded by the FDA could take years to correct, leaving ResMed with an almost monopolistic position in the growing OSA market.

ResMed is the market share leader that generates recurring and sustainable cash flow, which should support solid long-term dividend growth. The recent pullback provided an attractive entry point, by our estimation, for long-term investors.

Outlook

In 2024, markets will most likely be focused on interest rate cuts (or lack thereof) relative to current expectations and follow-through on very high hopes for everything AI-related. With a resilient economy, if rates do stay "higher for longer," then this could pressure leveraged companies and commercial real estate loans as both are counting on lower rates to help rollover loans that are coming due in 2024 and 2025. At Confluence, we continue to stay focused on owning conservatively financed companies with proven business models, which we view as great businesses with good management teams purchased at a discount to intrinsic value.

While large/growth/tech stocks continue to outperform, this creates an imbalance that we expect to even out over the long term, as it has historically. In the meantime, we continue to patiently own a portfolio of quality, dividend-growing businesses at reasonable prices, which we believe should minimize the risk of permanent loss and maximize total return over the long term.

Contribution[3]

(YTD as of 3/31/2024)

The top contributors and detractors for the portfolio in 2024 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
W. R. Berkley Corp.	2.50	0.57
Stryker Corp.	2.59	0.51
Masco Corp.	2.71	0.47
Brown & Brown Inc.	2.19	0.47
Chubb Ltd.	2.93	0.42
Bottom 5		
Expeditors International of Washington In	2.78	(0.13)
American Water Works Co. Inc.	1.74	(0.14)
Nestle S.A.	1.64	(0.14)
NIKE Inc.	1.23	(0.18)
Air Products and Chemicals Inc.	1.49	(0.19)

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

Performance Composite Returns[4] (For Periods Ending March 31, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
IDEA *Pure Gross-of-Fees[5]*	12.9%	11.1%	11.1%	7.9%	14.2%	6.7%	6.7%
Max Net-of-Fees[6]	9.5%	7.8%	7.8%	4.7%	10.9%	5.9%	5.9%
S&P 500	13.9%	12.9%	15.0%	11.5%	29.9%	10.6%	10.6%
Russell 3000 Value	11.0%	8.8%	10.1%	7.7%	20.2%	8.6%	8.6%

Calendar Year	Pure Gross-of-Fees[5]	Max Net-of-Fees[6]	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
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%
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%
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%
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%
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%
2021	22.6%	19.0%	28.7%	25.3%	(6.1%)	2,083	$891,288	$7,761,687	16.0%	17.2%	19.3%	0.5%
2022	(6.2%)	(9.0%)	(18.1%)	(8.0%)	11.9%	2,105	$810,480	$6,931,635	18.7%	20.9%	21.5%	0.8%
2023	8.7%	5.5%	26.3%	11.6%	(17.5%)	2,158	$855,063	$7,200,019	16.0%	17.3%	16.7%	0.5%

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

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 Value Equities Investment Committee

Mark Keller, CFA	Tom Dugan, CFA	John Wobbe	Dustin Hausladen	Brett Mawhiney, CFA
Daniel Winter, CFA	Tore Stole	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA

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See Territory Map on the Confluence website for sales coverage.

Disclosures

Market & Strategy Commentary—*Figures 6 and 7:* Charts from Ned Davis Research show 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 & not representative of any specific investment.

Individual holding performance and contribution methodology 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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance & liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk & may decline in value due to adverse company, industry or general economic conditions. There can be no assurance that any investment objective will be achieved.

Indexes: The S&P 500 and Russell 3000 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] **Annual Dividend Statistics—***Figure 4:* Annual dividend income history is available upon request. Current portfolio statistics exclude companies that have been sold and include companies that have been purchased year-to-date.

[2] **Growth of Investment/Dividends—***Figure 5:* 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.

[3] **Contribution—**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.

[4] **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, 2022. 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 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.

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

[6] 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.