

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 second quarter of 2020 recorded an impressive rebound from the pandemic-induced lows earlier this year. The S&P 500 Index increased 20.5% in the second quarter, bringing the year-to-date return to -3.1%. Value stocks continue to struggle, with the Russell 3000 Value Index down 16.8% year-to-date despite being up 14.6% in the second quarter.

As discussed in our first quarter commentary, market returns in 2020 have bifurcated between the “top five” FAANG+ stocks and the remaining stocks in the S&P 500. This split widened further in the second quarter with the top five (Microsoft, Apple, Amazon, Google, Facebook) now representing approximately 22% of the S&P 500, compared to 17% at year-end 2019, with a year-to-date weighted average return of 25.4%. By contrast, the S&P 500 equal-weighted index has returned -10.8% year-to-date, while the S&P 500 market cap-weighted index falls in the middle at -3.1%. In these unusual times, it is important to understand this divergence because chasing the overweight top positions in the S&P 500 has not historically been a recipe for outperformance over the long term.

The first two quarters of 2020 were historic. There is still a lot of uncertainty surrounding the pandemic, the government response and stimulus, and how the financial markets are factoring in all the potential outcomes. Needless to say, it will be interesting to see what the final two quarters of 2020 bring. In the meantime, we continue to stay focused on owning high-quality companies with growing dividends at reasonable prices.

Strategy Commentary

IDEA was up 16.8% in the second quarter, resulting in a year-to-date return of -6.6% (both gross of fees). *(Net-of-fees returns for the same periods were +15.9% and -8.0%. See disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

With the strong outperformance of the FAANG+ stocks year-to-date, IDEA trailed the S&P 500 almost entirely from being underweight and underperforming in the Technology sector. As previously discussed, most of the FAANG+ stocks do not meet our rising dividend criteria.

In mid-April, we purchased Oracle and sold American Express given potential ongoing headwinds to travel spending and consumer credit. Oracle is a global technology leader in enterprise resource planning systems. The company has a strong core franchise that is actively transitioning to a cloud-based SaaS (software as a service) model. These transitions take time and resources, but ultimately should strengthen Oracle’s competitive advantages and drive long-term earnings and dividend growth.

Finally, last quarter we highlighted the possibility that some dividend-paying companies in the U.S. could temporarily suspend or decrease dividends. In late May, TJX Companies (TJX) did formally decide to temporarily suspend its dividend for two quarters. Additionally, in late June, the Federal Reserve’s annual Comprehensive Capital Analysis and Review (CCAR) results instructed all banks to hold dividends flat until the economic outlook improves. We currently believe these high-quality businesses should continue to pay and grow their dividends once this storm passes. For more on this topic, see our [IDEA Dividend Update](#) report.

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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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Strategy Commentary continued...

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

| Security | Avg Weight | Contribution |
|----------------------------------|------------|--------------|
| Top 5 | | |
| Microsoft Corporation | 3.61 | 1.00 |
| Polaris Inc. | 1.52 | 1.00 |
| Nordson Corporation | 2.73 | 0.98 |
| The Home Depot, Inc. | 3.00 | 0.95 |
| Analog Devices, Inc. | 2.47 | 0.84 |
| Bottom 5 | | |
| Carrier Global Corporation | 0.03 | (0.01) |
| New Jersey Resources Corporation | 1.44 | (0.05) |
| Graco Inc. | 2.13 | (0.05) |
| The Southern Company | 2.01 | (0.06) |
| United Technologies Corporation | 0.03 | (0.13) |

(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. (Yield data source: FactSet)

+ 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.

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.

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10 Largest Holdings (as of 6/30/20)

| Company | Market Capitalization <i>(\$ billions)</i> | Portfolio Weight |
|----------------------------------|---|------------------|
| Microsoft Corporation | 1,543.3 | 3.3% |
| Nordson Corporation | 10.9 | 2.7% |
| Analog Devices, Inc. | 45.2 | 2.6% |
| The Home Depot, Inc. | 269.4 | 2.6% |
| Mastercard Inc. | 296.9 | 2.5% |
| The Clorox Company | 27.4 | 2.5% |
| Accenture plc | 136.6 | 2.4% |
| Brown & Brown, Inc. | 11.6 | 2.4% |
| Air Products and Chemicals, Inc. | 53.3 | 2.4% |
| Linde plc | 111.4 | 2.4% |

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 6/30/20

| | 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** | 12.8% | 9.5% | 12.8% | 9.4% | 2009** | 7.5% | 6.7% | 6.0% | 4.2% | 1.4% | 40 | \$7,190 | \$533,832 | N/A | N/A | N/A | N/A |
| 10-Year* | 13.3% | 10.0% | 14.0% | 10.2% | 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* | 11.0% | 7.7% | 10.7% | 4.4% | 2011 | 8.9% | 5.7% | 2.1% | (0.1%) | 6.8% | 325 | \$68,562 | \$937,487 | N/A | N/A | N/A | 0.5% |
| 3-Year* | 8.9% | 5.7% | 10.7% | 1.4% | 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% |
| 1-Year | 1.6% | (1.4%) | 7.5% | (9.4%) | 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 | (6.6%) | (8.0%) | (3.1%) | (16.8%) | 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 | 16.8% | 15.9% | 20.5% | 14.6% | 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.