

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 markets continued to recover in the third quarter of 2020, with the S&P 500 Index up 8.9%, bringing its year-to-date return to 5.6%. From a value perspective, the Russell 3000 Value Index increased 5.4% in the third quarter but remains down 12.2% for the year.

During the third quarter, it was officially reported that second quarter GDP contracted at a record pace, and subsequently the stock market surged to record highs in August with large cap tech stocks leading the way. The forward-looking stock market consensus seems to be that government stimulus and low interest rates have filled the pandemic-induced economic hole and will help drive the “postwar” rebound.

Still, despite the new high for the S&P 500, not all stocks have rebounded equally from the March lows. In this slow-growth economy feeling the impact of the pandemic, investors have gravitated toward companies that continue to grow or have even benefited from the pandemic. This bifurcation between growth and value has become extreme as the Russell 3000 Growth Index is up 23.0% year-to-date, while the Russell 3000 Value Index is down 12.2%, a difference of 35.2%!

At the heart of the bifurcation between growth and value are the top five FAANG+ stocks we have highlighted previously. Year-to-date, these five stocks (Microsoft, Apple, Amazon, Facebook, Alphabet) are up on average 40% and now represent over 22% of the S&P 500 Index. The growth, size, and strength attributes of these companies have made their stocks a must-own for most investors—similar to the “Nifty Fifty” stocks in the 1970s. The rush into tech stocks in August was further fueled by a new crop of homebound day-trading retail investors, massive stock option purchases by SoftBank, and a resurgence in SPAC listings, all of which are common vehicles for *speculating*, not investing.

The remaining three months of 2020 are sure to bring continued uncertainty given a hotly contested U.S. presidential election that could result in meaningful policy changes, the ongoing evolution of COVID-19 through winter, and the continued accumulation of temporary economic damage becoming more permanent through layoffs and bankruptcies. Despite this uncertainty, we will continue to stay focused on *investing* in good companies with growing dividends at reasonable prices.

Strategy Commentary

The Increasing Dividend Equity Account (IDEA) strategy was up 6.3% in the third quarter and is roughly flat year-to-date at -0.7% (both gross of fees). [*Net-of-fees returns for the same periods were +5.5% QTD and -3.0% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.*]

With the continued year-to-date outperformance of the top five FAANG+ stocks, IDEA trailed the S&P 500 Index primarily due to being underweight and underperforming the Technology sector. Additionally, our Consumer Discretionary holdings have performed well year-to-date, but the strategy has underperformed relative to the S&P 500 since we do not own Amazon, which now accounts for over 40% of the sector in that index. Amazon, along with most of the FAANG+ stocks, does not meet our rising dividend criteria.

In recent quarters we have highlighted the possibility that some dividend-paying companies in the U.S. could temporarily suspend or decrease their dividends due to the pandemic. 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...

There were no changes to the IDEA portfolio in the third quarter. The best-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
NIKE, Inc. (Class B)	2.39	0.64
Graco Inc.	2.28	0.58
Air Products and Chemicals, Inc.	2.48	0.53
McDonald's Corporation	2.16	0.40
The Procter & Gamble Company	2.29	0.36
Bottom 5		
M&T Bank Corporation	1.22	(0.13)
Cullen/Frost Bankers, Inc.	0.93	(0.14)
SEI Investments Company	1.84	(0.15)
New Jersey Resources Corporation	1.20	(0.21)
Chevron Corporation	1.37	(0.27)

(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 9/30/20)

Company	Market Capitalization <i>(\$ billions)</i>	Portfolio Weight
Air Products and Chemicals, Inc.	65.8	2.8%
NIKE, Inc. (Class B)	195.8	2.7%
Mastercard Inc.	338.5	2.7%
The Home Depot, Inc.	298.9	2.7%
Nordson Corporation	11.1	2.5%
Linde plc	125.1	2.5%
Brown & Brown, Inc.	12.8	2.5%
Graco Inc.	10.2	2.5%
Accenture plc	143.5	2.4%
Illinois Tool Works Inc.	61.1	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 9/30/20

	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**	13.1%	9.8%	13.4%	9.7%	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*	12.9%	9.5%	13.7%	9.8%	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*	13.0%	9.7%	14.1%	7.4%	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*	9.9%	6.7%	12.3%	2.1%	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	4.9%	1.8%	15.1%	(5.7%)	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	(0.7%)	(3.0%)	5.6%	(12.2%)	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	6.3%	5.5%	8.9%	5.4%	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 12/31/2019. 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.