

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 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 portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Commentary

The IDEA portfolio was down 3.8% for the year 2018 following a fourth quarter decline of 10.3% (both gross of fees). The portfolio slightly outperformed the S&P 500, which was down 4.4% for the year following a fourth quarter decline of 13.5%. *(The portfolio was down 6.6% and 10.9% (net of fees), respectively, over the same time periods. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See performance disclosures on p.3 for fee description; actual investment advisory fees may vary.)*

Going into the quarter, IDEA's performance was trailing that of the S&P 500, but the fourth quarter market downturn more than reversed this underperformance as headwinds from not owning growth stocks in the Information Technology and Consumer Discretionary sectors (primarily Amazon and Netflix) shifted to tailwinds.

The total absence of fear and volatility that we wrote about one year ago returned to normal (and then some) in the fourth quarter as earnings growth from the 2017 tax cut faded and rising interest rates and trade war concerns began to take hold. Furthermore, automated selling from index-following funds, ETFs and high frequency traders seemed to fuel the sell-off and volatility in December.

As value investors looking to put money to work, we are more comfortable in this type of environment as it provides opportunities to buy good companies with growing dividends at attractive prices. The cheery consensus that drove growth stocks and the S&P 500 to all-time highs in January and August does not make

for an attractive investing environment, despite how good it can feel.

At this juncture, the sustainability of U.S. economic growth is the main question that will drive the stock market in 2019. With stocks near a bear market for the first time since 2008 we are actively evaluating several attractive buying opportunities.

In late October we purchased Nordson Corporation and decided to sell MTS Systems as a large acquisition has slowed its dividend growth potential. Nordson is a global leader in precision dispensing equipment for applying industrial coatings, adhesives and sealants. A large installed base in relatively fragmented markets along with a strong corporate culture has built a long history of sales, earnings and dividend growth.

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

Security	Avg Weight	Contribution
Top 5		
Starbucks Corporation	2.00	0.24
The Procter & Gamble Company	1.72	0.17
McDonald's Corporation	2.08	0.12
The Clorox Company	2.27	0.06
Praxair, Inc.	0.79	0.05
Bottom 5		
Polaris Industries Inc.	1.83	(0.45)
Lockheed Martin Corporation	1.82	(0.48)
Donaldson Company, Inc.	1.84	(0.49)
SEI Investments Co.	2.03	(0.54)
Schlumberger Ltd.	1.25	(0.59)

(Contribution data shown from a sample account)

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. This 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. There can be no assurance that a purchase of the stocks in this portfolio will be profitable, either individually or in the aggregate, or that such purchase will be more profitable than alternative investments, including the risk that our estimate of intrinsic value may never be realized by the market or that the price goes down. **Indices:** The S&P 500 is shown as additional information. 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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ANNUAL DIVIDEND STATISTICS
FOR IDEA PORTFOLIO ON 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%	\$3,026	38	6	5	13.3%
2010	49	2.8%	45	4	0	8.0%	\$3,267	38	3	8	12.6%
2011	49	2.8%	46	3	0	9.6%	\$3,581	38	4	7	12.5%
2012	48	3.1%	46	2	0	9.1%	\$3,907	39	5	4	12.8%
2013	49	2.3%	48	1	0	10.0%	\$4,297	41	3	5	13.1%
2014	49	2.4%	48	1	0	10.3%	\$4,739	39	3	7	12.7%
2015	49	2.8%	47	2	0	9.7%	\$5,201	40	3	6	11.9%
2016	50	2.3%	46	4	0	7.2%	\$5,575	39	1	10	11.4%
2017	48	2.1%	45	3	0	7.5%	\$5,994	37	1	10	10.5%

*Excludes impacts of special dividends and spin-offs.

**The Indexed Growth column is an estimate of annual dividends based on the cumulative growth of an account initially funded with \$100,000 on 12/31/2008. It does not represent actual results.

Source: FactSet. Composite level weighted average dividend yield of holdings in the portfolio, calculated based on annualized current dividends.

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10 Largest Portfolio Holdings (as of 12/31/18)

Company Name	Ticker	Weight	Company Sector	Yield	Sectors	
Analog Devices, Inc.	ADI	2.4%	Information Technology	2.2%	Consumer Discretionary	14.4%
McDonald's Corporation	MCD	2.4%	Consumer Discretionary	2.6%	Consumer Staples	9.9%
Brown & Brown, Inc.	BRO	2.4%	Financials	1.2%	Energy	4.5%
Starbucks Corporation	SBUX	2.3%	Consumer Discretionary	2.2%	Financials	17.5%
Stryker Corporation	SYK	2.3%	Health Care	1.3%	Health Care	10.8%
Becton, Dickinson and Company	BDX	2.3%	Health Care	1.4%	Industrials	17.0%
The Clorox Company	CLX	2.3%	Consumer Staples	2.5%	Information Technology	10.8%
The Home Depot, Inc.	HD	2.3%	Consumer Discretionary	2.4%	Materials	6.2%
New Jersey Resources Corporation	NJR	2.3%	Utilities	2.6%	Real Estate	0.0%
Medtronic plc	MDT	2.2%	Health Care	2.2%	Communication Services	0.0%
					Utilities	6.1%

Portfolio Statistics

# of Holdings	49
Average Dividend Yield	2.5%
Average Price to Earnings-LTM	19.5
Average Price to Book	5.1

Market Capitalization

Large Cap	76%
Mid Cap	21%
Small Cap	0%
Weighted Average (\$ billions)	92.6
Largest	779.8
Median	51.6
Smallest	4.0

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Furthermore, 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 Q4 2018

Bought: Nordson (NDSN)
Sold: MTS Systems (MTSC)

Performance Composite Returns For Periods Ending 12/31/18

	Pure Gross-of-Fees ¹	Net-of-Fees ²	S&P 500	R3000 Value
QTD	(10.3%)	(10.9%)	(13.5%)	(12.2%)
YTD	(3.8%)	(6.6%)	(4.4%)	(8.6%)
1-Year	(3.8%)	(6.6%)	(4.4%)	(8.6%)
3-Year*	10.5%	7.2%	9.2%	7.0%
5-Year*	8.9%	5.7%	8.5%	5.8%
Since Inception**	12.7%	9.3%	12.1%	10.4%

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

The Increasing Dividend Equity Account (IDEA) Composite was created on October 1, 2009. 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.

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

² 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 and/or fully compliant GIPS® presentations are available upon request. Additional information regarding policies for calculating and reporting performance 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.

*Average annualized returns
**Inception is 10/1/2009

	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
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%
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%
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%
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%
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%
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%
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%
2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	\$33,407	\$751,909	N/A	N/A	N/A	0.4%
2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	\$7,190	\$533,832	N/A	N/A	N/A	N/A

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.

ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management LLC is an independent Registered Investment Advisor located in St. Louis, Missouri that was founded in 2007. Confluence provides professional portfolio management and advisory services to institutional and individual clients. The firm'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, fundamental company-specific approach. Confluence's portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives. The Confluence team has more than 500 years of combined financial experience and 300 years of portfolio management experience.