

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

### Strategy Commentary

The Increasing Dividend Equity Account (IDEA) strategy returned 29.9% in 2019 following a fourth-quarter return of 5.7% (both gross of fees), while the S&P 500 increased 9.1% in the fourth quarter for a full-year return of 31.5%. The full-year returns for the strategy and the index were outstanding and unexpected given relatively flat earnings growth for the S&P 500 in 2019. In fact, the IDEA strategy posted its second-best annual return in its 10-year history (2013 returned 31.4%, gross of fees). *(The strategy was up 4.9% QTD and 26.0% YTD (net of fees). 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.)*

The strategy had outperformed the S&P 500 prior to the index's strong rally in the fourth quarter, driven primarily by strong returns in the Tech and Health Care sectors (biotech, in particular), which include many companies that do not fit the IDEA dividend criteria. For the full year, IDEA outperformed in the Health Care sector, so the underperformance relative to the index came from our Technology sector exposure which performed in line but had a smaller weighting due to our dividend criteria.

The stock market rallied in the fourth quarter after a "trade truce" was announced in early October prior to the next round of tariff increases. Rising investor sentiment was further aided by accommodative monetary policy that helped unwind the inverted yield curve as well as continued strong employment and wages. The upcoming year is sure to bring more ups and downs with a contentious U.S. presidential election, ongoing trade negotiations with China and a lot of capital searching for returns in a low interest rate environment. 2019 was yet another reminder that the economic cycle and markets are nearly impossible to predict and time, so in the meantime we continue to stay focused on owning good companies with growing dividends at reasonable prices.

During the fourth quarter, Nordstrom was sold as dividend growth has reflected the realities of an extremely competitive retail environment, despite the company navigating the challenges relatively well. Nordstrom was replaced by Snap-on, a manufacturer and direct distributor of tools, primarily to auto repair shops. Snap-on earns strong margins and returns on capital that should support long-term dividend growth. Following a solid run of organic growth, sales have been relatively flat for the past few years, which provided an opportunity to purchase a high-quality business at an attractive valuation.

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

Security	Avg Weight	Contribution
<b>Top 5</b>		
Commerce Bancshares, Inc.	2.48	0.43
Microsoft Corporation	2.67	0.36
Illinois Tool Works Inc.	2.30	0.34
Northern Trust Corporation	2.24	0.31
Polaris Inc.	1.79	0.28
<b>Bottom 5</b>		
Chubb Limited	1.90	(0.07)
Stryker Corporation	2.49	(0.08)
Colgate-Palmolive Company	1.49	(0.10)
The Home Depot, Inc.	2.71	(0.15)
McDonald's Corporation	2.10	(0.18)

*(Contribution data shown from a sample account)*

### 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

Year	Holdings	Avg. Yield <sup>+</sup>	Dividend Change from Prior Year*					Annual Dividend Increases Over Past 10 Years*			
			# of companies with			Avg. Growth	Indexed Growth <sup>++</sup>	# of companies with			Avg. 10 yr Growth
			Increase	Flat	Decrease			10 years	9 years	< 9 years	
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%

\* 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 12/31/19)

Company Name	Ticker	Weight	Company Sector	Yield
Microsoft Corporation	MSFT	2.5%	Information Technology	1.3%
Mastercard Inc.	MA	2.5%	Information Technology	0.4%
Brown & Brown, Inc.	BRO	2.4%	Financials	0.9%
Analog Devices, Inc.	ADI	2.4%	Information Technology	1.8%
Accenture plc	ACN	2.3%	Information Technology	1.5%
Stryker Corporation	SYK	2.3%	Health Care	1.1%
Linde plc	LIN	2.3%	Materials	1.6%
Air Products and Chemicals, Inc.	APD	2.2%	Materials	2.0%
The Southern Company	SO	2.2%	Utilities	3.9%
Fidelity National Information Services	FIS	2.2%	Information Technology	1.0%

Sectors	
Consumer Discretionary	12.0%
Consumer Staples	9.5%
Energy	3.1%
Financials	19.8%
Health Care	8.3%
Industrials	19.3%
Information Technology	13.9%
Materials	6.6%
Real Estate	0.0%
Communication Services	0.0%
Utilities	6.0%

#### Portfolio Statistics

# of Holdings	49
Average Dividend Yield	2.0%
Average Price to Earnings-LTM	23.4
Average Price to Book	5.8

#### Market Capitalization

Large Cap	81%
Mid Cap	17%
Small Cap	0%
Weighted Average (\$ billions)	118.7
Largest	1,203.1
Median	66.8
Smallest	4.3

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. 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 investing 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 2019

Bought: Snap-on Incorporated (SNA)  
Sold: Nordstrom, Inc. (JWN)

### Performance Composite Returns For Periods Ending 12/31/19

	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%	13.9%	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*	13.8%	10.4%	13.6%	11.7%	2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
5-Year*	12.2%	8.9%	11.7%	8.2%	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%
3-Year*	14.4%	11.0%	15.3%	9.3%	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%
1-Year	29.9%	26.0%	31.5%	26.2%	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%
YTD	29.9%	26.0%	31.5%	26.2%	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%
QTD	5.7%	4.9%	9.1%	7.5%	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.

<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. 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.