

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 S&P 500 Index increased 12.1% in the fourth quarter of 2020 for a full-year return of 18.4%. Value stocks also had a strong finish to the year, with the Russell 3000 Value Index up 17.2% in the fourth quarter, bringing its full-year return to 2.9% in 2020.

Much like the Kansas City Chiefs' come-from-behind road to the Super Bowl, the final score for the S&P 500 in 2020 tells you nothing about the ups and downs that transpired. For both the Chiefs and the stock market, if you had stopped watching after the ugly first quarter you would have been shocked when you saw the final score.

This epic comeback in the markets was supported by government stimulus and an effective vaccine emerging in early November, but the real stars were the "Top Five" FAANG+ stocks. In 2020, the Top Five (Apple, Microsoft, Amazon, Google, Facebook) were up on average 53% and represented 21.7% of the S&P 500 Index at year-end. These high-quality businesses thrived during the pandemic and have become must-own stocks for most investors—much like the "Nifty Fifty" stocks in the 1970s. Due to the heavy weighting of the Top Five, the S&P 500 Index returned 18.4% in 2020 versus the 12.8% return for the S&P 500 Equal-Weight Index, which is a better indicator of how stocks performed on average in 2020. This bifurcation between the top growth stocks and everything else is even more evident in the Russell 3000 Growth Index, which returned 38.3% in 2020 and outperformed the Russell 3000 Value by 35.4%!

As the market continues to mark new highs, there are some indications that we are in a speculative environment. There seems to be a gravitational pull from Tesla's stock increasing 14-fold in a matter of 15 months to become the sixth largest stock in the S&P 500 when it was added to the index on 12/21/20 with a market cap of \$650 billion. As a result, the now "Top Six" FAANG+ stocks had a year-end market cap of \$8.2 trillion! This magnitude of wealth creation changes investor behavior and has correlated with a proliferation of SPACs (many focused on electric vehicles), a hot IPO market,

increased option trading, and stories of individual investors day trading and gambling online during the pandemic.

Bull markets tend to surge higher and last longer than anyone would expect, but then just seem to stop one day. As the dust settles from the pandemic, markets will continue to evaluate the "normalized" economic environment (along with any headwinds from collateral damage and higher debt levels). Will the U.S. return to sluggish 2% GDP growth or will a "postwar" boom jumpstart higher growth? Longer term, rising asset values and valuation multiples will likely continue until sentiment changes around "ZIRP and low inflation forever."

Despite the stock market's final score, living through the ups and downs of 2020 reminds us again of just how unpredictable the future can be and how important it is to have a solid investment philosophy that avoids speculation. As a result, we will continue to stay focused on owning good companies with growing dividends at reasonable prices.

Strategy Commentary

The Confluence Increasing Dividend Equity Account (IDEA) strategy had a strong fourth quarter return of 11.5%, bringing its full-year return to 10.7% in 2020 (both gross of fees). *[Net-of-fees returns for the same periods were +10.7% QTD and +7.4% YTD. See disclosures on p.3 for fee description; actual investment advisory fees may vary.]*

IDEA had a solid return in a tumultuous year but ultimately trailed the S&P 500 Index. Almost all of this underperformance can be attributed to being underweight and underperforming the Technology sector. Our Consumer Discretionary holdings also had a strong year but underperformed relative to the index since we do not own Amazon. The S&P 500 added Tesla to the Consumer Discretionary sector in late 2020, so at year-end Tesla and Amazon now account for 47.8% of that sector. While the FAANG+ stocks had tremendous returns in 2020, only Microsoft meets our rising dividend criteria (and fortunately we own it in the strategy).

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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 fourth quarter. During the quarter, TJX Companies reinstated its dividend and increased it 13%. TJX is a great company and we were rewarded for being patient as management took the prudent action of suspending the dividend while stores were closed due to the pandemic. Our process and plan for navigating dividend suspensions was discussed in our [IDEA Dividend Update](#) from March 2020.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
The Charles Schwab Corporation	1.82	0.73
Analog Devices, Inc.	2.53	0.64
Commerce Bancshares, Inc.	2.40	0.52
Chubb Limited	1.61	0.48
T. Rowe Price Group, Inc.	2.66	0.46
Bottom 5		
The Clorox Company	1.79	(0.06)
Fidelity National Information Services, Inc.	2.33	(0.11)
The Home Depot, Inc.	3.06	(0.12)
Lockheed Martin Corporation	1.87	(0.14)
Air Products and Chemicals, Inc.	2.27	(0.19)

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

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.

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10 Largest Holdings (as of 12/31/20)

Company	Market Capitalization (<i>\$ billions</i>)	Portfolio Weight
NIKE, Inc. (Class B)	222.1	2.7%
Analog Devices, Inc.	54.6	2.6%
Graco Inc.	12.1	2.6%
Mastercard Inc.	355.8	2.6%
Linde plc	138.3	2.5%
Accenture plc	172.7	2.5%
Nordson Corporation	11.7	2.4%
Stryker Corporation	92.1	2.4%
Brown & Brown, Inc.	13.5	2.3%
T. Rowe Price Group, Inc.	34.3	2.3%

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.

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 12/31/20

	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**	13.9%	10.5%	14.2%	11.0%	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*	13.2%	9.8%	13.9%	10.4%	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%
5-Year*	14.2%	10.8%	15.2%	9.7%	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%
					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%
3-Year*	11.4%	8.1%	14.2%	5.9%	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%
1-Year	10.7%	7.4%	18.4%	2.9%	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%
YTD	10.7%	7.4%	18.4%	2.9%	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%
QTD	11.5%	10.7%	12.1%	17.2%	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%

*Average annualized returns

**Inception is 10/1/2009

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 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, 2019. 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) 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. 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.

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. Top 5 contributors/detractors reflects the strategy's best and worst performers, 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. 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.