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

"Interest rates are to asset prices what gravity is to the apple. When there are low interest rates, there is a very low gravitational pull on asset prices."

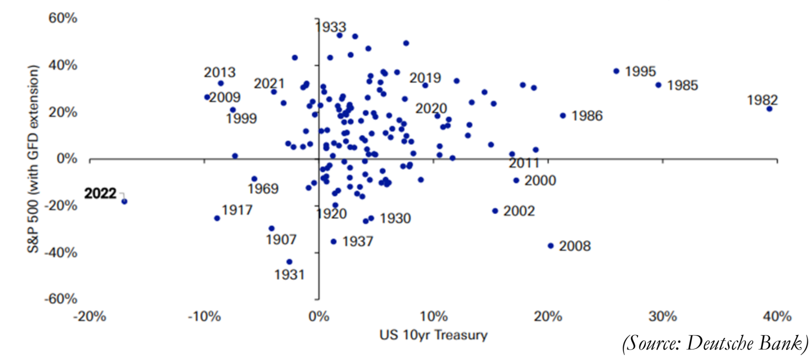
- Warren Buffett

2022 was a difficult year for financial assets as stocks and bonds experienced sharp declines, while commodities rallied. The primary culprit was the persistent rise in inflation that forced the Federal Reserve to shift monetary policy quickly and aggressively to a more restrictive stance. This shift occurred after an elongated period of accommodative policy following the Great Financial Crisis of 2008 that markedly benefited financial assets. The upward adjustment to inflation and inflation expectations as well as tightening Fed policy elevated the risk of a slowdown or recession, which explains the poor performance of financial assets this past year.

Putting the year into perspective, 2022 was the first year since 1872 that the S&P 500 and the 10-year Treasury lost more than 10% on a total return basis for a full calendar year, posting losses of 18.1% and 17.0%, respectively. This chart from Deutsche Bank (*Figure 1*) is a scatterplot of calendar year performance since 1872, demonstrating how 2022 was truly an outlier.

Figure 1

Annual Total Return Performance of the S&P 500 & 10-Year Treasury Since 1872

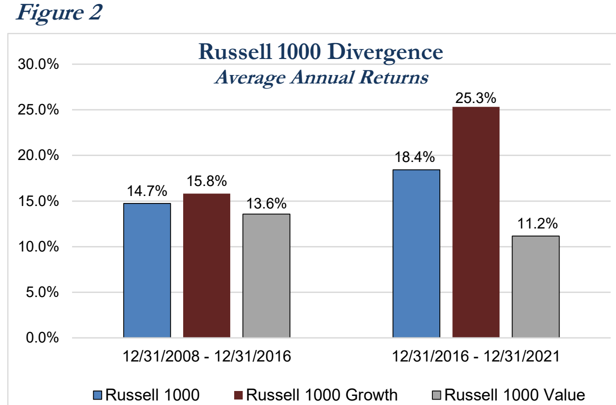


(Source: Deutsche Bank)

Delving deeper, the catalyst behind the headwinds was the sharp and sustained rise in inflation that prompted a dramatic shift in Fed policy. Inflation had been subdued over much of the past four decades as globalization, deregulation, and innovation led to a disinflationary environment which allowed for accommodative monetary policy. That all changed in 2022 as the FOMC increased the fed funds rate by a robust 4.25% over the course of the year and switched from quantitative easing to tapering via liquidating assets to reduce its balance sheet. Underlying these policy changes was a shift in the nature of inflationary pressures. These pressures were initially perceived as "transitory" (resulting from the economy reopening post-COVID and supply constraints) but now appear to stem from structural concerns emanating from geopolitical issues challenging globalization and a shift toward a more fractured, multipolar world.

The protracted length of time and magnitude of the accommodative monetary policies dating back to 2008 provided a strong tailwind that primarily benefited financial assets, specifically domestic equity markets, and fostered speculation which created pockets of excess exuberance. This preceding period should be viewed in context with the losses incurred in 2022. More specifically, from the end of 2008 through 2016, the returns in the domestic markets were broad-based and well above the historical average, which is approximately 10%, with the Russell 1000, Russell 1000 Growth, and Russell 1000 Value indexes generating average annual returns of 14.7%, 15.8%, and 13.6%, respectively. However, a frenzy began to emerge from the end of 2016 through 2021, with the Russell 1000 Index posting an average annual return of 18.4% and a wide divergence developing between growth and value. During this period, the Russell 1000 Growth Index dramatically outperformed the Russell 1000 Value Index at 25.3% versus 11.2%, respectively.

Figure 2



(Sources: Bloomberg, Confluence)

Market Commentary continued...

If readers will recall, the Zero Interest Rate Policy (ZIRP) and Quantitative Easing (QE) policies began in late 2008 and lasted until December 2015 when the first rate increase of 25 bps transpired. The next rate increase did not occur until December 2016, with the Fed signaling additional increases throughout 2017. It was at this point that concerns arose of an economic slowdown or recession, prompting investors to lean toward businesses with higher-growth profiles, which were perceived to be more capable of weathering a slowdown. The rate hikes promptly ended in December 2018 as liquidity concerns surfaced, and the Fed was forced to cut rates from 2.25% to 1.5% in 2019. Of course, this was followed by the events of 2020 which infused mass liquidity (monetary and fiscal) and shifted investor attention to the few businesses that were benefiting from the lockdowns—the same growth-oriented tech names which then rallied through 2021. The Fed's aggressive actions in 2022, raising rates seven times to 4.25%-4.50% by year-end, deflated much of the excess exuberance of the mega-cap tech names as well as other speculative areas, such as the Wall Street Bets/Reddit names, electric vehicles, SPACs, and crypto. This first chart from Kailash Capital (*Figure 3*) reflects the concentration in the largest 30 names by comparing their market caps to GDP over the past 30+ years. The next chart from Kailash (*Figure 4*) demonstrates the speculation that formed in unprofitable businesses in the smaller cap arena.

Figure 3

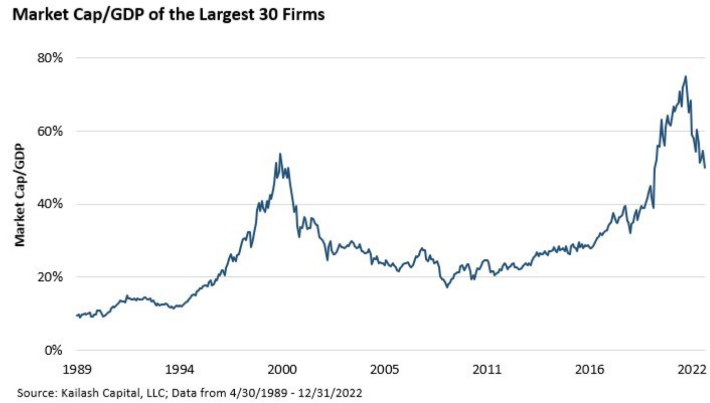


Figure 4

(Source: Kailash Capital)

The curtailment of accommodative monetary policies in 2022 marked the end of the tailwinds for long-duration assets (stocks and bonds), hence, the sharp losses in fixed income and equities, particularly in businesses with cash flow expected in the outer years, i.e., "growth" stocks. The markets also faced geopolitical challenges during the past year as Russia invaded Ukraine, which disrupted commodity markets and drove commodity and materials prices higher. These events led to a market rotation from mega-cap growth toward cyclical value as evidenced by the Russell 1000 Growth posting a loss of 29.1% relative to the Russell 1000 Value's loss of 7.6%. Delving into the sectors, Energy (+65.7%) and Utilities (+1.6%) were the only two sectors to post positive results, while Consumer Discretionary (-37.0%) and Communication Services (-39.9%) were the laggards. The varying sector weightings in the indexes explain the relative performance as the table below from J.P. Morgan Asset Management exhibits (*Figure 5*).

Figure 5 **Returns and Valuations by Sector**

	Energy	Materials	Financials	Industrials	Cons. Disc.	Tech.	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
S&P weight	**5.2%**	**2.7%**	**11.7%**	**8.7%**	**9.8%**	**25.7%**	**7.3%**	**2.7%**	**15.8%**	**7.2%**	**3.2%**	**100.0%**
Russell Growth weight	1.7%	1.5%	3.3%	8.1%	14.2%	43.2%	6.8%	1.6%	13.5%	6.1%	0.1%	100.0%
Russell Value weight	8.4%	4.3%	20.1%	10.5%	6.0%	8.3%	7.3%	4.5%	17.4%	7.4%	5.8%	100.0%
Russell 2000 weight	6.8%	4.3%	17.2%	15.6%	10.4%	12.7%	2.6%	6.4%	16.9%	3.6%	3.5%	100.0%
4Q22	22.8	15.0	13.6	19.2	-10.2	4.7	-1.4	3.8	12.8	12.7	8.6	7.6
2022	65.7	-12.3	-10.5	-5.5	-37.0	-28.2	-39.9	-26.1	-2.0	-0.6	1.6	-18.1

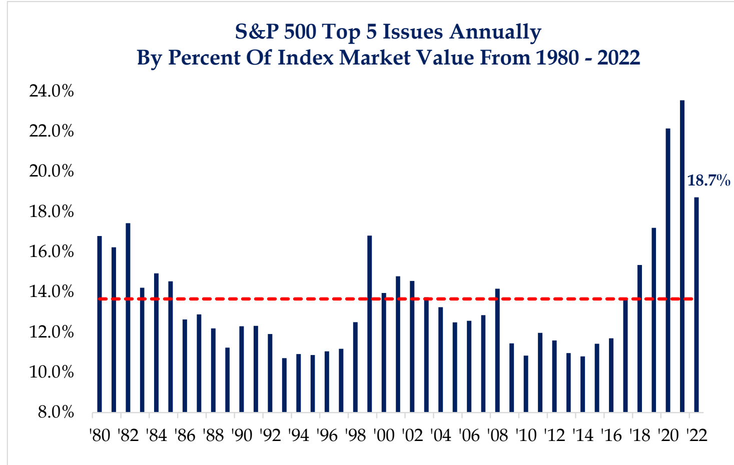
(Source: J.P. Morgan Asset Management; Guide to the Markets®, U.S. 1Q 2023, as of December 31, 2022)

As we move into 2023, there is an elevated probability of a recession sometime this year (see our *Current Perspectives* report, "The 2023 Outlook: A Recession Year") as the Fed remains in tightening mode as policymakers seek to contain inflation and maintain credibility. No one knows the exact level of rates needed to tame inflation or inflation expectations, despite the constant fodder amongst economists, but equity markets have historically been a leading indicator for the economy. The sharp drop in equity markets in 2022 may have already marked the coming recession. More importantly, with monetary policy normalizing, the value of fundamental analysis and investing with a margin of safety will likely regain focus, which should benefit good active management. Meanwhile, the pullback is presenting more attractive valuations for high-quality companies. Of course, we will continue to stay focused on our investment philosophy, which has always been centered on business and valuation analysis.

Strategy Commentary

It appears that the irrational exuberance of 2020 finally deflated in 2022. Like most speculative frenzies throughout history, this one was fueled gradually by the Fed's zero interest rate policy (ZIRP) for over a decade, which supported highly valued, high-growth technology companies (e.g., FAANG+). We have often discussed how the speculative party really got going in 2017 and led to a blowout in 2020, propelled by trillions of dollars in pandemic stimulus (see *Figures 3-4* in the previous section). As the work from Strategas reflects in this chart (*Figure 6*), the top five names in the S&P 500 increased their weighting from low double-digits (11% in the early days of ZIRP in 2010) to over 22% in 2021 and retreated to 18.7% in 2022.

Figure 6



(Source: Strategas; 12/31/2022)

While high inflation and dramatic rate increases from the Fed brought this party to an end in 2022, the good news is that the companies held in the Increasing Dividend Equity Account (IDEA) strategy watched the craziness from the sidelines and continued to grow their dividends. As shown in the table below (*Figure 7*), 47 of the 49 companies in the current portfolio raised their dividends in 2022, with an average dividend growth rate of 9.5% for the total portfolio.

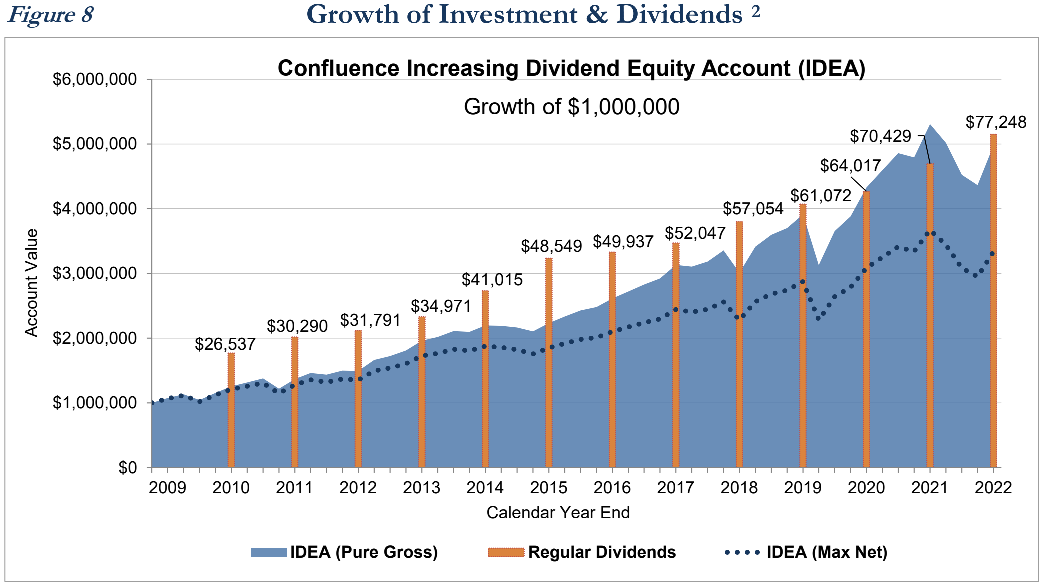
Figure 7 **Annual Dividend Statistics for IDEA Portfolio at 12/31** ***(Dividend Growth Using Announcement Date)*** [1]

Year	Holdings	Avg. Yield+	Dividend Change from Prior Year** — # of companies with: Increase	Flat	Decrease	Avg. Growth
2009	49	2.9%	39	10	0	5.6%
2010	49	2.9%	45	4	0	9.3%
2011	49	2.9%	46	3	0	9.6%
2012	48	3.3%	46	2	0	9.3%
2013	49	2.4%	47	2	0	10.6%
2014	49	2.5%	47	2	0	9.3%
2015	49	2.8%	46	3	0	8.9%
2016	50	2.4%	46	4	0	6.9%
2017	48	2.1%	44	4	0	7.4%
2018	49	2.5%	47	2	0	11.2%
2019	49	2.1%	48	1	0	9.4%
2020*	49	2.1%	42	7	0	6.4%
2021	49	1.9%	46	3	0	8.3%
2022	49	2.1%	47	2	0	9.5%
Average-14 yrs		2.5%	45	4	0	8.7%

* '2020' excludes impact of temporary dividend suspensions during the pandemic of 2020. ** 'Dividend Change from Prior Year' excludes impact of special dividends and spin-offs.
+ 'Avg. Yield' is the average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividend plus any special dividend paid during the year.

Figure 8 **Growth of Investment & Dividends** [2]

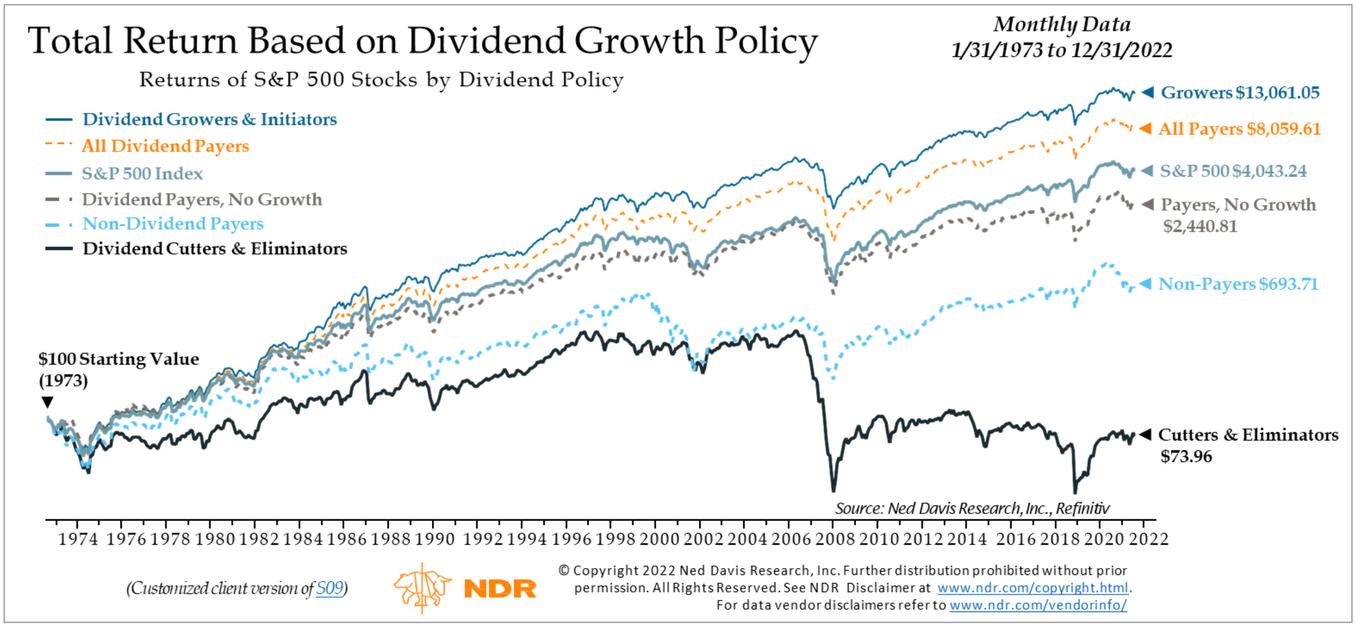
Furthermore, the IDEA strategy has produced consistent dividend growth over the past 14 years, resulting in its annual dividend income nearly tripling since the strategy's inception, in addition to strong capital appreciation (see *Figure 8*).



Strategy Commentary continued...

Historically, dividend growers (like the companies owned in IDEA) have substantially outperformed companies whose dividends remained flat, companies that have cut their dividends, and companies that do not pay dividends. As shown in this chart from Ned Davis Research (*Figure 9*), $100 invested in dividend growers in 1973 is now worth $13,061, while $100 invested in dividend cutters is only worth $74 today.

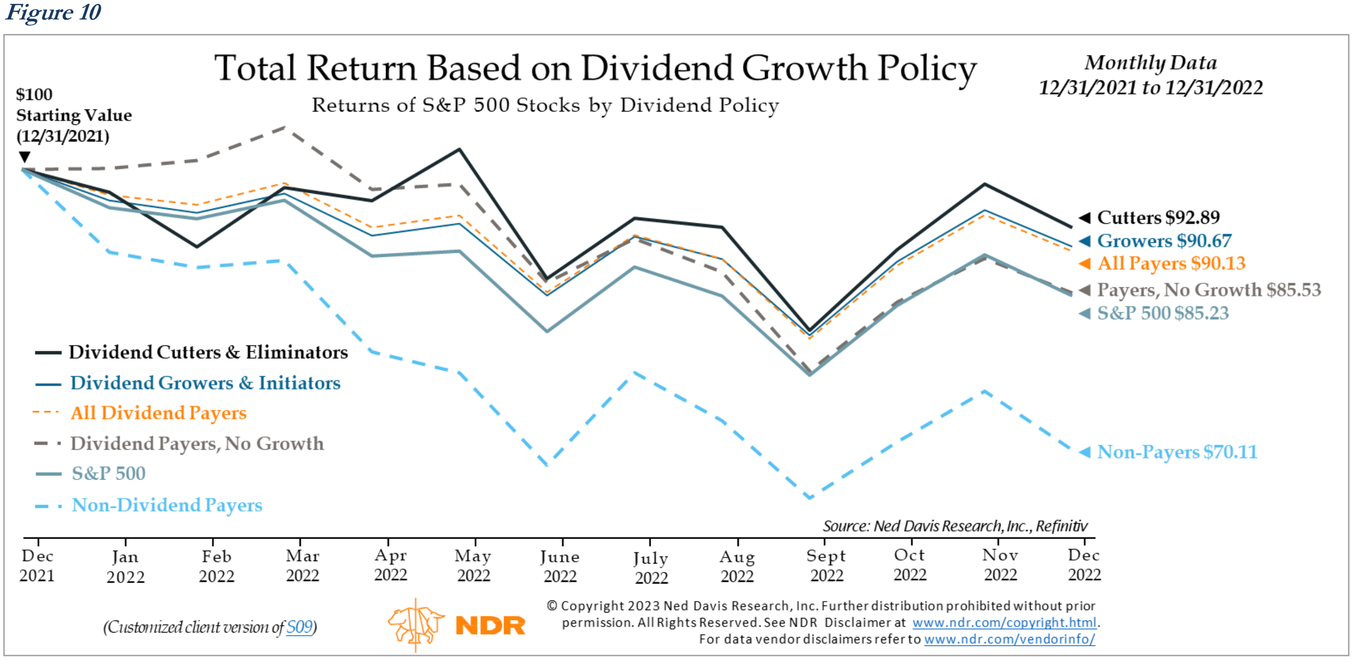
Figure 9



In 2022, investors moved toward quality companies with attractive valuations, strong cash flow, low leverage, and dividends, and away from expensive high-growth stocks and speculation, which tend not to pay dividends. This is reflected in the chart below (*Figure 10*), with non-dividend-paying stocks down 29.9% in 2022, while dividend-paying stocks were down only 9.9%.

In comparison, the IDEA strategy was down 6.2% in 2022 following a 14.0% increase in the fourth quarter (both gross of fees), outperforming the S&P 500 Index which was down 18.1% for the year after a 7.5% gain in Q4. [*Net-of-fees returns for the same periods were -9.0% YTD and 13.2% QTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Figure 10



While a negative return for the year is never desired, IDEA avoided the speculation that led to permanent losses in the sell-off, and, as a result, we believe the quality, growing businesses in the portfolio should more quickly rebound and continue compounding for the long term. Put another way, our dividend growth-focused investment philosophy aims to own stocks that bounce like tennis balls coming out of a down market, not like tomatoes that go splat at the bottom.

Strategy Commentary continued...

For the full year, IDEA's outperformance relative to the S&P 500 was broad-based across sectors, with the strongest relative contribution coming from the Consumer Discretionary and Information Technology sectors. In particular, a few of our Consumer Discretionary holdings were up single-digits for the year, while the index's largest holdings in that sector, Amazon and Tesla (with market caps of $1.7 trillion and $1.1 trillion to begin 2022!), were down 50% and 65%, respectively, in 2022. Outperformance in the Information Technology sector was led by a few holdings that were down only single-digits, while the overall sector declined 28%. Furthermore, the portfolio benefited from having more exposure to high-quality Industrials with growing dividends, along with less exposure to Communications Services and Information Technology companies, many of which do not pay dividends.

From a stock-specific perspective, the strongest contributors in 2022 were more defensive companies (Chevron, Lockheed Martin, Hershey, Chubb, and New Jersey Resources). Conversely, the weakest contributors were businesses that tend to be hurt by rising interest rates and their impact on housing (Fortune Brands and PPG Industries), company valuations (Fidelity National Information Services and Microsoft), and the stock market (T. Rowe Price). [*See contribution data on the next page.*]

With the market hitting new lows in October, we were able to opportunistically buy Amphenol, Sherwin-Williams, and Masco, replacing Novartis, PPG Industries, and Fortune Brands Home & Security, respectively.

In mid-October, we completed our purchase of Amphenol (APH), which replaced Novartis (NVS), a European pharmaceutical company that has posted weak dividend growth over the past five years. Amphenol is a global manufacturer of connectors for electronics used in a variety of end markets: industrial, automotive, mobile devices and networks, data communications, and defense. Amphenol has a strong culture that fosters an entrepreneurial mindset and attracts talented operators. These independent general managers are focused on highly technical, critical niche markets which have driven double-digit revenue and earnings growth over the past 10 years. Additionally, this culture and operating structure has built a track record of successful bolt-on acquisitions, with about a third of long-term growth derived from these acquisitions. A strong balance sheet and disciplined management have led to significant free cash flow generation and a 25% return on equity. Weakness in the market during the quarter gave us an opportunity to buy this long-term compounder, with excellent operating performance and strong dividend growth, at an attractive price.

Also in October, we had an opportunity to purchase Sherwin-Williams (SHW) in place of PPG Industries (PPG). Both are global manufacturers of paints and coatings, but PPG is primarily focused on paint for automobiles, aerospace, marine, and industrial applications, with only 34% of sales in architectural paint for residential and commercial buildings. Conversely, through its nationwide footprint of retail stores that cater to professional painters, Sherwin gets over 65% of sales from architectural paint. When hiring a professional painter, the majority of the cost is labor, not materials, so Sherwin enjoys solid pricing power as long as it can make a professional painter's life easier, from ease of application to in-store service and convenience. Accordingly, manufacturing and distributing architectural paint is the superior business and this is clearly reflected in Sherwin's results over the past 10 years as the company has grown earnings and its dividend twice as fast as PPG. As a result, Sherwin's stock has usually traded at a high valuation, but with concerns in October about a housing downturn due to rising mortgage rates we had an opportunity to upgrade to a great company at an attractive valuation with a yield above 1%. Over the next 10 years, we expect Sherwin will continue to grow earnings and its dividend and compound value over the long term.

Lastly, in late November, we swapped Fortune Brands Home & Security (FBHS) for Masco Corporation (MAS), which allowed us to maintain exposure to the home repair/remodel (R&R) market, while avoiding the December spinoff of the Fortune Brands cabinet business, which is a less attractive business. When performing our due diligence on the R&R market, we looked at the entire industry and came away impressed with the management teams as well as the business fundamentals of both Fortune Brands and Masco. We felt that both companies benefited from having multiple leading building product brands (Fortune Brands: Moen, Therma Tru Doors, Master Lock / Masco: Behr, Delta, Peerless) and high exposure to the less cyclical R&R market. This market leadership provides the two companies with relative power in their channels and results in above-market growth and attractive cash returns on capital. Both management teams have proven to be solid capital allocators, with Fortune Brands following in the footsteps of Masco by spinning off its less desirable and more cyclical cabinets business. While the spinoff of the cabinets business should ultimately benefit shareholders, we felt that reducing the complexity of our position while taking advantage of tax-loss selling was a prudent action given the opportunity to replace the position with Masco. In the end, Masco and Fortune Brands are very similar businesses, and we believe both companies will benefit from the underlying long-term trends in the housing and R&R markets.

Outlook

The speculative craze in 2020 has many similarities to the tech bubble of 2000, one being that it could take a few years to wash out the die-hard speculators, many of whom are relatively new to investing. From an economic perspective, two key differences from 2000 versus today are the currently high inflation and rising interest rates, but these will likely moderate in 2023, with or without a mild recession like the one the U.S. experienced in 2001.

As markets work off the excess speculation, long-term investors are again attracted to our type of investing—owning great companies with growing dividends, high returns on capital, strong free cash flow, and solid balance sheets that are selling at reasonable valuations. We have not waivered from our focus on these types of businesses. Furthermore, the market sell-off has provided opportunities to buy more of these high-quality businesses at attractive prices, which should drive continued outperformance over the long term.

Contribution[3]

(YTD as of 12/31/2022)

The top contributors and detractors for the portfolio in 2022 are shown in this table:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Chevron Corp.	2.11	0.84
Lockheed Martin Corp.	2.65	0.82
Hershey Co.	2.42	0.44
Chubb Ltd.	2.60	0.37
New Jersey Resources Corp.	1.69	0.36
Bottom 5		
Microsoft Corp.	2.23	(0.72)
Fortune Brands Home & Security	*Sold*	(0.73)
PPG Industries Inc.	*Sold*	(0.77)
Fidelity National Information Services Inc.	1.77	(0.79)
T. Rowe Price Group Inc.	1.47	(0.87)

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

Performance Composite Returns[4] (For Periods Ending December 31, 2022)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
IDEA *Pure Gross-of-Fees[5]*	12.9%	12.8%	9.7%	8.4%	(6.2%)	(6.2%)	14.0%
Max Net-of-Fees[6]	9.5%	9.4%	6.5%	5.1%	(9.0%)	(9.0%)	13.2%
S&P 500	12.4%	12.6%	9.4%	7.6%	(18.1%)	(18.1%)	7.5%
Russell 3000 Value	10.5%	10.1%	6.5%	5.8%	(8.0%)	(8.0%)	12.2%

Calendar Year	Pure Gross-of-Fees[5]	Max Net-of-Fees[6]	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
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%
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%
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%
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%
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%
2021	22.6%	19.0%	28.7%	25.3%	(6.1%)	2,083	$891,288	$7,761,687	16.0%	17.2%	19.3%	0.5%
2022	(6.2%)	(9.0%)	(18.1%)	(8.0%)	11.9%	2,105	$810,480	$6,931,635	18.7%	20.9%	21.5%	0.8%

**Average annualized returns* *See performance disclosures on last page.*

***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 Value Equities Investment Committee

Mark Keller, CFA	Tom Dugan, CFA	John Wobbe	Dustin Hausladen	Blair Brumley, CFA
Daniel Winter, CFA	Tore Stole	Joe Hanzlik	Kaisa Stucke, CFA	Brett Mawhiney, CFA

For more information contact a member of our sales team:

Ron Pond, CFA | *Northwest*
Director of Sales
(314) 526-0759
rpond@confluenceim.com

Jason Gantt | *East*
Sr. Regional Sales Director
(314) 526-0364
jgantt@confluenceim.com

Jim Taylor | *Mid-South*
Regional Sales Director
(314) 526-0469
jtaylor@confluenceim.com

Denis O'Grady | *East & Mid-South*
Regional Sales Associate (Internal)
(314) 743-5294
dogrady@confluenceim.com

Wayne Knowles | *ID, MT, WY*
Advisory Director
(314) 526-0914
wknowles@confluenceim.com

Steve Mikez | *Southwest*
Sr. Regional Sales Director
(314) 526-0776
smikez@confluenceim.com

Michael Kelnosky | *North-Central*
Regional Sales Director
(314) 526-0622
mkelnosky@confluenceim.com

Matt Winter | *Southwest & North-Central*
Regional Sales Associate (Internal)
(314) 526-0522
mwinter@confluenceim.com

Disclosures

Market & Strategy Commentary—*Figures 9 and 10:* Charts from Ned Davis Research show the S&P 500 Index split by each constituents' dividend policy. Returns are based on monthly equal-weighted geometric average of total returns of S&P 500 component stocks, with components reconstituted monthly. Dividends are assumed to be reinvested. Dividend rates are not guaranteed payments, nor can they guarantee a rate of return. *Dividend Paying* and *Non-Paying* stocks are defined by each stock's dividend policy determined on a rolling 12-month basis. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid. *Dividend Growers/ Initiators* is a subset of dividend-paying stocks and include stocks that increased their dividend any time in the last 12 months. Once an increase occurs, it remains classified as a grower for 12 months or until another change in dividend policy. For illustrative purposes only & not representative of any specific investment.

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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including possible loss of principal, that investors should be prepared to bear. Equity securities are subject to market risk and may decline in value due to adverse company, industry, or general economic conditions. 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.

[1] **Annual Dividend Statistics—***Figure 7:* As of 12/31/2021, the methodology has been changed to show dividend growth based on when the increase was announced versus the previous methodology which used dividend pay dates. Using the announced date should be more timely and could impact which year a dividend increase falls within, but should not change a company's overall history of increasing dividends. Annual dividend income history is available upon request.

[2] **Growth of Investment/Dividends—***Figure 8:* Account value based on $1,000,000 invested in IDEA strategy on 10/1/2009. Annual dividend income is annualized estimate based on representative, fee-paying accounts & includes regular dividends. In Dec. 2012, 10 portfolio holdings pulled forward their 2013 regular dividend payments into 2012 for tax purposes; those Dec. 2012 dividends are allocated to 2013 in this illustration to reflect the companies' regular dividend payment schedules. Additional information is available upon request.

[3] **Contribution—**Table showing the 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. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

[4] **Performance Composite Returns—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, 2021. 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.
GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
The Increasing Dividend Equity Account (IDEA) strategy was incepted on October 1, 2009, and 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.
[5] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.
[6] 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. 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.