

## PORTFOLIO OBJECTIVE

The Increasing Dividend Equity Account (IDEA) portfolio is focused on companies that have paid or increased dividends over the last 10 years. Its primary objective is capital appreciation with dividend income as a secondary objective.

## INVESTMENT PHILOSOPHY

Our investment philosophy builds upon the required criteria established to create the investable universe. Stocks selected for the portfolio are diversified across a variety of sectors, avoiding excess concentrations in particular industries. Companies typically have well-positioned business models, ones that can grow during economic expansions and persevere through recessions and industry downturns.

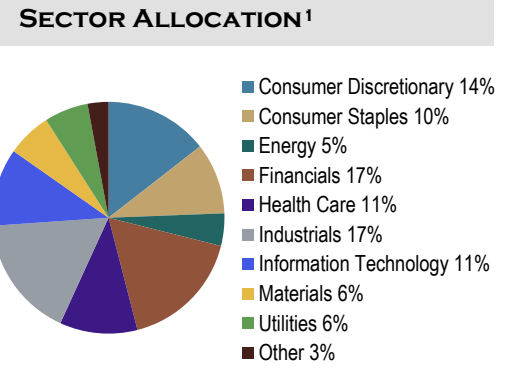
Valuations play an important role, as we believe avoiding excessive valuations is a key metric in managing risk. We also focus on companies where debt levels are manageable. The result is a diversified portfolio of high-quality companies operating stable businesses from which they can offer the prospect of rising dividends to shareholders.

## PORTFOLIO OVERVIEW

- ◆ Seek businesses with long track records of distributing earnings to shareholders through dividends—companies have paid or increased dividends over the last 10 years
- ◆ Market capitalizations greater than \$1 billion
- ◆ Approximately 2% position sizes
- ◆ Low turnover, typically 10%-20% annually
- ◆ Anticipated dividend growth rate of the aggregate portfolio is important since inflation can erode investment returns and lower purchasing power. However, because the targeted portfolio dividend growth rate is higher than inflation, real income to investors can grow over time

MARKET CAP <sup>1</sup>	PORTFOLIO	S&P500
Weighted Avg. Market Cap (\$B)	92.6	200.8
Largest Market Cap (\$B)	779.8	862.5
Median Market Cap (\$B)	51.6	20.3
Smallest Market Cap (\$B)	4.0	2.7
Large Cap (>\$10B)	76%	
Mid Cap (\$10B-\$2B)	21%	
Small Cap (<\$2B)	0%	

10 LARGEST HOLDINGS <sup>1</sup>	
Analog Devices, Inc.	2.4%
McDonald's Corporation	2.4%
Brown & Brown, Inc.	2.4%
Starbucks Corporation	2.3%
Stryker Corporation	2.3%
Becton, Dickinson and Company	2.3%
The Clorox Company	2.3%
The Home Depot, Inc.	2.3%
New Jersey Resources Corporation	2.3%
Medtronic plc	2.2%



CHARACTERISTICS <sup>1</sup>	PORTFOLIO	S&P500
Dividend Yield	2.5%	2.2%
Number of Securities	49	505
Annual Turnover	10-20%	

<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. 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 the stock's value may never be realized or that the price goes down. 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. Please contact Confluence for a complete list of holdings. Portfolio yield: composite, level weighted average yield, calculated based on annualized current dividends; source: FactSet. Benchmark yield source: Bloomberg.

## INVESTMENT PROCESS

### IDEA SECURITY SCREEN CRITERIA

#### Consistent, Growing Dividends:

- ◆ Consecutive dividends paid over the last 10 years
- ◆ No dividend reductions in the last 10 years
- ◆ Dividend raised in 7 of the last 10 years
- ◆ Dividend yield greater than 1%

#### IDEA Criteria Indicate:

- ◆ Stable and growing cash flow
- ◆ High-quality companies
- ◆ Moderate to low levels of debt

### IDEA PORTFOLIO CONSTRUCTION

- ◆ Approximately 180 companies meet the IDEA criteria:
  - ◆ Diversified across industries and market capitalizations
  - ◆ Narrowed universe is 50% large cap, 40% mid cap, 10% small cap
- ◆ Value-based approach utilizes Confluence's internal 11-member research team to evaluate the business and valuation
- ◆ Portfolio management team constructs a well-diversified portfolio consisting of 49 names that have the potential for continued dividend growth and trade at attractive valuations
- ◆ New accounts are fully invested at inception

### HOW IS IDEA DIFFERENT?

- ◆ IDEA can buy small cap and mid-cap stocks
- ◆ Fundamental research in addition to the IDEA criteria
- ◆ Not just about dividends and yield, but about growing dividends
- ◆ A separately managed account—you know what you own
- ◆ A proven approach—no new twists

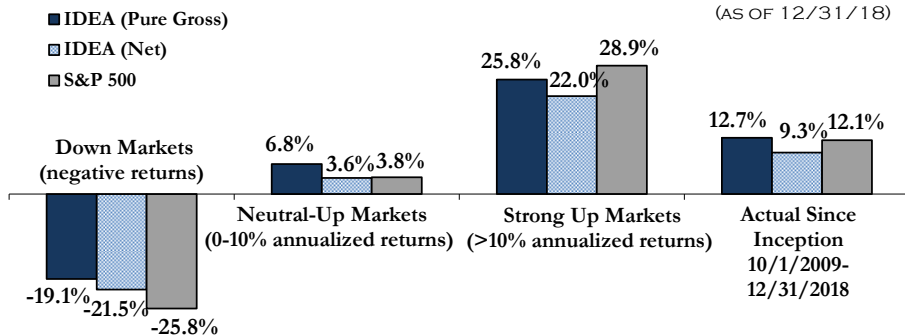
### ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

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.

## HISTORICAL PERFORMANCE<sup>1</sup>

## ANNUALIZED RETURNS

(AS OF 12/31/18)



Returns are annualized using calendar quarter performance data. **Down Markets** - annualized negative benchmark return; **Neutral-Up Markets** - annualized positive benchmark return is less than 10%; **Strong Up Markets** - annualized benchmark return is greater than 10%. The Standard & Poor's 500 Index (S&P 500®) is an unmanaged market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

**Down Markets:** Q2 '10, Q3 '11, Q2 '12, Q4 '12, Q3 '15, Q1 '18, Q4 '18; **Neutral-Up Markets:** Q2 '11, Q1 '14, Q3 '14, Q1 '15-Q2 '15, Q1 '16; **Strong Up Markets:** Q4 '09-Q1 '10, Q3 '10-Q1 '11, Q4 '11-Q1 '12, Q3 '12, Q1 '13-Q4 '13, Q2 '14, Q4 '14, Q4 '15, Q2 '16-Q4 '17, Q2 '18-Q3 '18

## STATISTICAL ANALYSIS<sup>1</sup> SINCE INCEPTION\*

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	S&P 500
Annualized Standard Deviation	10.4%	10.4%	12.6%
Sharpe Ratio	1.18	0.87	0.94
Beta	0.79	0.78	1.00
R-Squared	91.38	91.41	100.00

\*Inception is 10/1/2009

**Standard Deviation** - A measure of price variability (risk) over a period of time. A higher Standard Deviation indicates more variability in returns from month to month.

**Sharpe Ratio** - Quantifies risk-adjusted performance by measuring the excess return per unit of risk. A higher Sharpe Ratio suggests better risk-adjusted performance.

**Beta** - A measure of a stock or portfolio's volatility (systematic risk) compared to an appropriate benchmark index. A Beta of 1.1 indicates the investment has approximately 10% more volatility in returns than the benchmark index.

**R-Squared** - Indicates whether the comparison index is an appropriate benchmark based on correlation. Generally an R-Squared above 70 is desirable.

## ANNUAL DIVIDEND STATISTICS FOR IDEA PORTFOLIO ON 12/31

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

Year	Holdings	Avg. Yield	Dividend Change from Prior Year*					Indexed Growth**	Annual Dividend Increases Over Past 10 Years*			
			# of companies with			Avg. Growth			# 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%	\$3,026	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.

## PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING DECEMBER 31, 2018)

	Pure Gross-of-Fees <sup>1</sup>	Net-of-Fees <sup>2</sup>	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.

<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 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 <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
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.

### Confluence Equity Investment Team

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Tore Stole	Brett Mawhiney, CFA
John Wobbe	

### The Confluence Mission

Our mission is to provide our clients with superior investment solutions and exceptional client service with the highest standards of ethics and integrity. Our team of investment professionals is committed to delivering innovative products and sound, practical advice to enable investors to achieve their investment objectives.

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