

## OBJECTIVE

Focused on companies that have paid or increased dividends over the last 10 years. Primary investment objective is capital appreciation with dividend income as a secondary objective.

## INVESTMENT PHILOSOPHY

Confluence's investment philosophy builds upon the required criteria established to create the initial IDEA investable universe. Stocks selected for the strategy 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.

## OVERVIEW

- ◆ Seeks 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
- ◆ New account fully invested at inception
- ◆ Low turnover
- ◆ 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

## CHARACTERISTICS<sup>1</sup>

	IDEA	S&P 500
Dividend Yield	2.5%	2.3%
Number of Positions	49	505
Annual Turnover (5-Year Rolling)	9%	

<sup>1</sup>This information is presented as supplemental information to the disclosures required by the GIPS® standards. 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. 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 strategy may differ, sometimes significantly, from these listings. 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. Annual turnover 5-year rolling calculated from sample accounts for periods ending 12/31/2019.

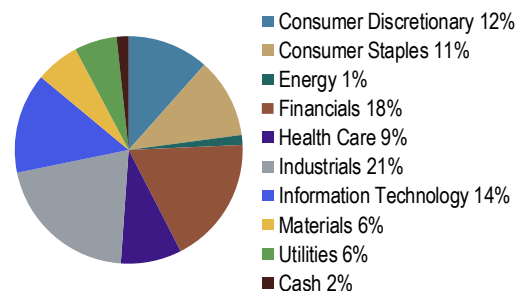
## MARKET CAP<sup>1</sup>

	IDEA	S&P 500
Weighted Avg. Market Cap (\$B)	107.1	284.0
Largest Market Cap (\$B)	1,199.5	1,203.1
Median Market Cap (\$B)	50.5	17.4
Smallest Market Cap (\$B)	3.0	1.5
Large Cap (>\$10B)	83%	
Mid Cap (\$10B-\$2B)	16%	
Small Cap (<\$2B)	0%	

## 10 LARGEST HOLDINGS<sup>1</sup>

Microsoft Corporation	3.0%
Brown & Brown, Inc.	2.7%
The Clorox Company	2.6%
Mastercard Inc.	2.4%
Graco Inc.	2.4%
American Water Works Company, Inc.	2.4%
Fidelity National Information Services	2.4%
Nestlé S.A.	2.4%
Air Products and Chemicals, Inc.	2.3%
The Southern Company	2.3%

## SECTOR ALLOCATION<sup>1</sup>



## INVESTMENT PROCESS

### IDEA SECURITY SCREEN CRITERIA

The initial security screen for the IDEA portfolio includes the following 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 initial 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
- ◆ Based on internal research, the portfolio management team can make special exceptions for companies that have growing dividends but do not pass all of the initial security screen criteria
- ◆ 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

### 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
- ◆ New accounts are fully invested at inception

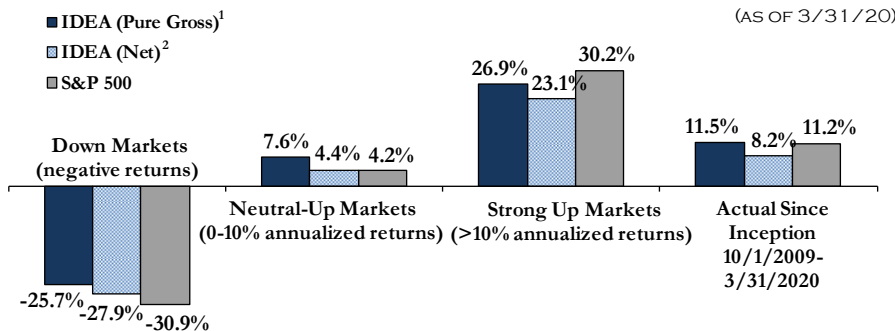
## ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

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.

## HISTORICAL PERFORMANCE<sup>3</sup>

## ANNUALIZED RETURNS

## STATISTICAL ANALYSIS<sup>4</sup>



Portfolio at Quarter End	vs. S&P 500	
Active Share (as of 3/31/20)	84.43%	
Since Inception**	Pure Gross-of-Fees <sup>1</sup>	S&P 500
Downside Capture Ratio	83.27	100.00
Alpha	1.73	0.00
Beta	0.85	1.00
Annualized Standard Deviation	12.56%	14.25%
R-Squared	0.93	1.00
Sharpe Ratio	0.87	0.74

\*\*Inception is 10/1/2009

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

(Yield data source: FactSet)

\* 'Dividend Change' and 'Annual Dividend Increases' sections exclude impact of special dividends and spin-offs.

+ 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.

Year	Holdings	Avg. Yield <sup>+</sup>	Dividend Change from Prior Year*					Annual Dividend Increases Over Past 10 Years*			
			# of companies with			Avg. Indexed Growth <sup>++</sup>	# of companies with			Avg. 10 yr Growth	
			Increase	Flat	Decrease	Growth	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%
2019	49	2.0%	49	0	0	11.6%	\$7,855	41	2	6	10.8%

## PERFORMANCE COMPOSITE RETURNS (FOR PERIODS ENDING MARCH 31, 2020)

	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**	11.5%	8.2%	11.2%	8.2%	2009**	7.5%	6.7%	6.0%	4.2%	1.4%	40	\$7,190	\$533,832	N/A	N/A	N/A	N/A
10-Year*	10.7%	7.4%	10.5%	7.5%	2010	16.8%	13.3%	15.1%	16.3%	1.7%	138	\$33,407	\$751,909	N/A	N/A	N/A	0.4%
5-Year*	7.4%	4.2%	6.7%	1.6%	2011	8.9%	5.7%	2.1%	(0.1%)	6.8%	325	\$68,562	\$937,487	N/A	N/A	N/A	0.5%
3-Year*	4.8%	1.6%	5.1%	(2.7%)	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%
1-Year	(8.3%)	(11.1%)	(7.0%)	(18.0%)	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%
YTD	(20.0%)	(20.6%)	(19.6%)	(27.3%)	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%
QTD	(20.0%)	(20.6%)	(19.6%)	(27.3%)	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%
					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.

<sup>3</sup> Historical Performance Chart—Annualized returns 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, Q1 '20; Neutral-Up Markets: Q2 '11, Q1 '14, Q3 '14, Q1 '15-Q2 '15, Q1 '16, Q3 '19; 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, Q1 '19-Q2 '19, Q4 '19

<sup>4</sup> Statistical Analysis—Active Share: Measures percentage of portfolio holdings that differ from the benchmark index; calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio and the weight of each holding in the benchmark index, as of the date shown, and dividing by two. (Calculated by Confluence. Index holdings/weights sourced from exchange-traded fund: iShares S&P 500 Core [IVV].)

Downside Capture Ratio: Measures performance in down markets relative to index (down market: any quarter where the market return is less than zero); lower Downside Capture Ratio indicates the manager protected capital better during a market decline. Alpha: Measures nonsystematic return or return that cannot be attributed to the market, i.e., how the manager performed if the market had no gain or loss. Beta: Measures portfolio volatility (systematic risk) compared to an appropriate benchmark index; e.g. Beta of 1.1 indicates the investment has approx. 10% more volatility in returns than benchmark index. Standard Deviation: Measures price variability (risk) over a period of time; higher Standard Deviation indicates more variability in returns. R-Squared: Indicates whether comparison index is an appropriate benchmark based on correlation; generally, R-Squared above 0.70 is desirable. Sharpe Ratio: Quantifies risk-adjusted performance by measuring excess return per unit of risk; higher Sharpe Ratio suggests better risk-adjusted performance. (Data source: Zephyr's PSN SMA Database)

### Confluence Value Equities Investment Committee

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