as of 9/30/19

Increasing Dividend Equity Account (IDEA) Plus
Covered Call Strategy

Objective: The portfolio's primary investment objective is to generate cash flow with less volatility than the broader equity market, with a secondary objective of capital appreciation.

Overview

Increasing Dividend Equity Account (IDEA) Plus is a dividend-based equity strategy combined with a covered call option strategy on the S&P 500 Index. Approximately 75% of the portfolio is composed of the IDEA portfolio which invests in high-quality companies that have paid and/or increased dividends over the last 10 years. The remaining 25% consists of an ETF position in the S&P 500 Index with a corresponding covered call position, although this allocation can range, at times, from 15% to 40% of the portfolio. The portfolio receives cash flow generated from the sale of covered calls and cash dividends paid by the underlying stocks in the IDEA portfolio and the S&P 500 Index ETF.

Reduce Volatility and Enhance Cash Flow

The covered call strategy is used to reduce volatility and enhance cash flow to the IDEA portfolio. The strategy targets a 25% position in an S&P 500 Index ETF, but can range from 15% to 40%, with covered calls sold on the S&P 500 Index ETF shares. The covered calls generate additional cash flow (premium) to the portfolio, cushioning declines in the portfolio in down markets. Covered calls will be sold only on the S&P 500 Index ETF position, intentionally preserving the capital appreciation potential of the IDEA portfolio and only limiting the upside potential of the S&P 500 Index ETF. IDEA Plus will likely outperform IDEA in flat to down markets and underperform IDEA in rising markets.

Covered Call Strategy

IDEA Plus will sell (write) call option contracts on the S&P 500 Index ETF shares in the portfolio, giving an option buyer the right, but not the obligation, to buy the shares at a set price (strike price) until the option expires. IDEA Plus, as the covered call writer, receives cash flow (on shares it already owns) in the form of the premium paid by the option buyer.

IDEA Plus will utilize near term at the money index options to take advantage of term structure and strike considerations. If the S&P 500 Index ETF remains below the strike price, the option contract will expire worthless and the IDEA Plus portfolio will keep the premium from the covered call contract and its position in the S&P 500 Index ETF, and can now repeat the process. If the price of the S&P 500 Index ETF is above the strike price at expiration, the portfolio will sell the stock at the strike price (a discount to the current price) but will keep the appreciation between the purchase price and strike price, plus the original option premium. The option contracts can be rolled prior to expiration to limit the probability of assignment. Call premium cash flow will fluctuate depending on the price volatility of the S&P 500 Index ETF and the strike price relative to the prevailing S&P 500 Index ETF price.

Key Points

- IDEA Plus combines a diversified, stable and increasing dividend equity strategy with a covered call strategy to generate additional cash flow and reduce volatility.
- Calls are typically sold on 25% of the portfolio invested in the S&P 500 Index ETF (target is 25% but can range from 15% to 40%), generating extra cash flow while not limiting the upside of the IDEA portion of the portfolio.
- Current yield of IDEA equity strategy is 2.1%.
- The gross call premium cash flow goal is 4% - 6% per year on top of the dividends received.
- Covered call positions are actively managed to maximize strike and term considerations.
- Minimum account size requirement is $150,000

Portfolio Characteristics

Wtd. Avg. Market Cap. ($B)	160.3
Median Market Cap. ($B)	66.1
Dividend Yield*	2.0%
Number of Securities	51
Estimated Annual Turnover	10-20%

**Includes dividends from common stock holdings and SPY but does not include premiums received from writing covered calls. Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet*

Firm Overview

- $9.4 Billion in assets under management & advisement* as of September 30, 2019
- Equity, Balanced, Asset Allocation, International and Alternative Investments
- Employee-Owned

**Assets under management = $6.6 billion; Assets under advisement = $2.8 billion*

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About Confluence Investment Management

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.

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Increasing Dividend Equity Account (IDEA) Plus
Covered Call Strategy

Overview of IDEA Strategy – (Typically Represents 75% of the IDEA Plus Portfolio)

The equity strategy employed in the IDEA Plus strategy is Confluence's Increasing Dividend Equity Account (IDEA). IDEA is focused on companies that have paid or increased dividends over the last 10 years and have market capitalizations greater than $1 billion. These companies tend to be established companies that generate free cash flow and have management teams committed to growing their dividends. The positions are selected from a universe of stocks meeting minimum criteria of paying and increasing dividends over the last 10 years. Also of importance is the anticipated dividend growth rate of the aggregate portfolio, 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.

Investment Process

Confluence's investment philosophy builds upon the required criteria established to create the initial 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. 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.

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.

Security Selection – Rules-Based with a Value Approach

The initial security screen for the IDEA portfolio includes the following criteria:

- Common stocks traded on U.S. exchanges
- Dividend yield greater than one percent
- Market capitalization greater than $1 billion
- Dividend paid for the last 10 years
- No dividend reductions in the last 10 years
- Dividend raised in seven of the last 10 years
- Stable and growing cash flow
- Attractive valuations
- High-quality companies - moderate to low levels of debt

Sell Discipline

To help preserve capital, positions are continually reviewed. A company's stock may be sold if:

- The stock no longer meets the appropriate increasing dividend criteria
- The share price reaches our estimate of full valuation
- The company's fundamentals deteriorate
- More attractive opportunities are identified

Annual Dividend Statistics for IDEA Portfolio at 12/31

			Dividend Change from Prior Year*					Annual Dividend Increases Over Past 10 Years*			
		Avg.	*# of companies with*			Avg.	Indexed	*# of companies with*			Avg. 10 yr
Year	Holdings	Yield+	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%

** Divided 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.

as of 9/30/19

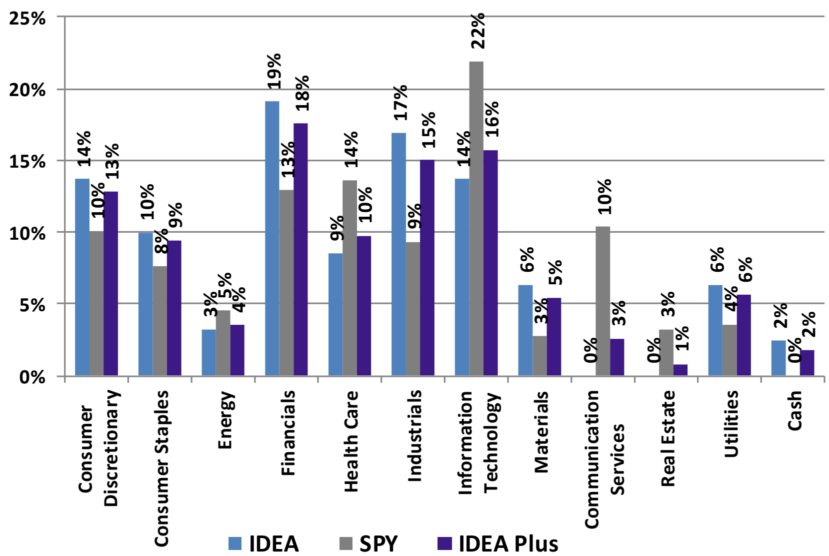
Increasing Dividend Equity Account (IDEA) Plus
Covered Call Strategy

Portfolio Characteristics

	IDEA (no covered call)	S&P 500 Index ETF (SPY)**	IDEA Plus (covered call)
Wtd. Avg. Market Cap. ($B)	113.2	249.7	160.3
Dividend Yield	2.1%	1.9%	2.0%*
Number of Securities	49	1	51
Estimated Annual Turnover	10-20%	NA	10-20%

* *Includes dividends from common stock holdings and SPY but does not include premiums received from writing covered calls*
Portfolio yield: composite level weighted average yield, calculated based on annualized current dividends; source: FactSet.
** *The SPDR S&P 500 ETF (NYSE: SPY) is a fund that generally corresponds to the price and yield performance of the S&P 500 Index*

Sector Allocation



	IDEA	SPY	IDEA Plus
Consumer Discretionary	14%	10%	13%
Consumer Staples	10%	8%	9%
Energy	3%	5%	4%
Financials	19%	13%	18%
Health Care	9%	14%	10%
Industrials	17%	9%	15%
Information Technology	14%	22%	16%
Materials	6%	3%	5%
Communication Services	0%	10%	3%
Real Estate	0%	3%	1%
Utilities	6%	4%	6%
Cash	2%	0%	2%

10 Largest Holdings

IDEA	SPY	IDEA Plus
Stryker Corporation	Microsoft Corporation	S&P 500 Index Fund - SPDR SPY
Brown & Brown, Inc.	Apple Inc.	Stryker Corporation
The Home Depot, Inc.	Amazon.com Inc.	Brown & Brown, Inc.
Mastercard Inc.	Facebook Inc.	The Home Depot, Inc.
Analog Devices, Inc.	Berkshire Hathaway Inc. (Class B)	Mastercard Inc.
Microsoft Corporation	JPMorgan Chase & Co.	Analog Devices, Inc.
The Southern Company	Alphabet Inc. (Class C)	Microsoft Corporation
McDonald's Corp.	Alphabet Inc. (Class A)	The Southern Company
Air Products and Chemicals, Inc.	Johnson & Johnson	McDonald's Corp.
Fidelity National Information Services, Inc.	Procter & Gamble Company	Air Products and Chemicals, Inc.

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. 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. Contact Confluence for a complete list of holdings.

Increasing Dividend Equity Account (IDEA) Plus
Covered Call Strategy

Composite Returns
For Periods Ending 9/30/19

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	75S&P500/25BXM
Since Inception** Annualized	12.1%	8.8%	12.4%
5-Year*	10.1%	6.8%	9.6%
3-Year*	11.7%	8.4%	11.8%
1-Year	6.8%	3.7%	2.9%
YTD	19.2%	16.5%	18.1%
QTD	2.9%	2.1%	1.4%

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	75S&P500/25BXM
2011**	2.0%	1.8%	1.6%
2012	9.2%	6.0%	13.2%
2013	26.5%	22.7%	27.4%
2014	10.4%	7.1%	11.7%
2015	3.0%	(0.1)%	2.4%
2016	14.5%	11.1%	10.8%
2017	17.5%	14.0%	19.6%
2018	(4.8%)	(7.7%)	(4.5%)

*Average annualized returns
**Inception is 12/1/11; Results for 2011 represent partial period performance from 12/1/11 thru 12/31/11*

Portfolio Benchmark:
Benchmark calculated monthly, consists of blend of 75% S&P 500, 25% CBOE S&P 500 BuyWrite Index (BXM) (Source: Bloomberg).

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.

CBOE S&P 500 BuyWrite Index (BXM) – A passive total return index based on buying an S&P 500 stock index portfolio, then writing the near-term S&P 500 Index covered call option every month with an exercise price just above the prevailing index level.

Confluence claims compliance with the Global Investment Performance Standards (GIPS®).

[1]This information is presented as supplemental information to the disclosures required by the GIPS® standards.

The Increasing Dividend Equity Account (IDEA) Plus Strategy was incepted on December 1, 2011 and the current IDEA Plus Composite was created on February 1, 2012. 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-of-fees and net-of-fees and include the reinvestment of all income. Pure gross-of-fees returns are shown as supplemental information.

[2] Net-of-fees 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: 1.00% on the first $500,000; 0.90% on the next $500,000; and 0.75% 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. Subsequent to February 1, 2012, bundled fee accounts make up 100% of the composite. 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.

Performance prior to February 1, 2012 is based on the IDEA Plus Direct Composite which was created on December 1, 2011. This composite includes accounts that pursue the IDEA Plus strategy, but have a different fee structure.

A complete list of composite descriptions and/or fully compliant GIPS® presentations are available upon request. The IDEA Plus Composite contains fully discretionary IDEA Plus wrap accounts. IDEA Plus is a dividend-based equity strategy combined with a covered call option strategy on the S&P 500 Index. Approximately 75% of the portfolio consists of the IDEA portfolio which invests in high quality companies that have paid and increased dividends over the last 10 years. The remaining 25% consists of an ETF position in the S&P 500 Index with a corresponding covered call position, although this allocation can range, at times, from 15% to 40% of the portfolio.

IDEA Plus – Frequently Asked Questions

Who should consider using IDEA Plus?
- Investors looking for high current cash flow
- Investors looking for risk-adjusted equity returns with enhanced cash flow
- Investors who are willing to limit upside potential in exchange for some downside protection.

What happens after the IDEA Plus portfolio writes (sells) a covered call on the S&P 500 Index ETF?
When the IDEA Plus portfolio sells a covered call on the S&P 500 Index ETF, the portfolio receives a call premium cash flow. The stock price of the S&P 500 Index ETF is monitored until the expiration date of the call option. If the stock price of the S&P 500 Index ETF rises above the strike price at expiration, the stock may be assigned or "called away," and the portfolio is obligated to sell its S&P 500 Index ETF shares at the strike price. If the stock price of the S&P 500 Index ETF is below the strike price on the expiration date, the option expires unexercised and the portfolio keeps the position. In addition, the options can be rolled prior to expiration to limit the probability of assignment.

What variables affect the cash flow from the options?
The primary variable is volatility. The more volatile the S&P 500 is, the more valuable an option becomes. Thus, during periods of higher volatility, cash flow should rise; inversely, less volatile periods will produce less cash flow. The other variable that affects cash flow is time remaining on the option; the longer the time, the higher the value of the option. We focus on writing short-dated call options because they lose their time premium faster.

How are the options handled for tax purposes?
The tax treatment of the transactions related to the covered call options will vary. If the portfolio sells covered call options and repurchases them, the difference between the price obtained from selling the options and the cost to repurchase them is a taxable gain or a loss. Gains and losses are short-term when held less than one year. Conventional call options start trading less than nine months prior to expiration. Therefore, the capital gain or loss from selling and buying back covered call options will be short-term. If a covered call option expires—having never been exercised—the seller has a capital gain. Since the covered call option was not bought back, there is a zero cost for purchase. The gain is the entire amount received from selling the covered call option. With conventional covered call options, the gain is short-term. When the buyer of a covered call option exercises the call feature, the seller of the option must surrender the underlying stock. The amount received from selling covered call options is added to the amount received from the forced selling of the underlying stock, comprising the proceeds from the transaction. The cost is the amount originally paid to buy the stock. The gain or loss is the proceeds minus the cost. Please consult a tax advisor to discuss your client's specific tax situation.

For more information contact one of our sales team members:

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