Confluence
INVESTMENT MANAGEMENT

SECOND QUARTER
2024

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

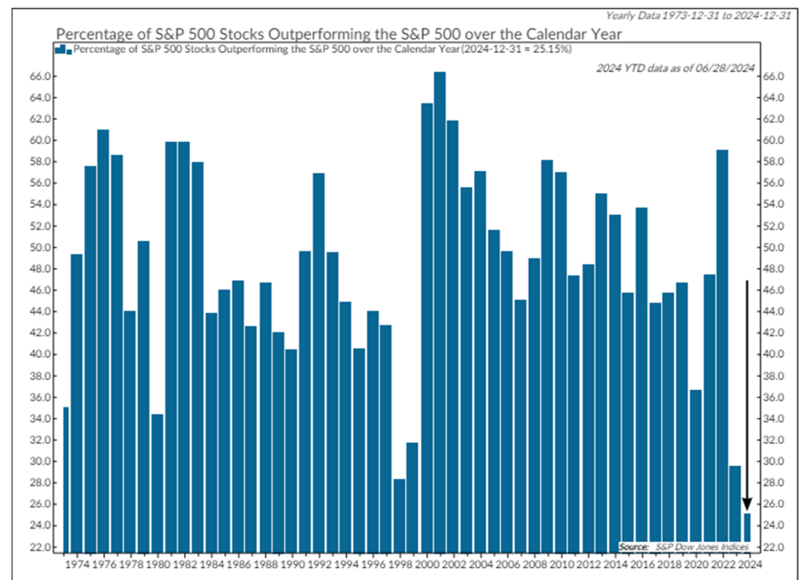
Investor sentiment was building as we entered the year on the prospects of interest rate cuts, a resilient economy, and an abundance of enthusiasm surrounding the latest technological advances. To date, the data has largely been supportive of that sentiment, with strong employment and rising corporate earnings, so much so that the Fed has delayed cutting interest rates. Thus, the probability for rate cuts this year has been reduced to only a couple, down from seven when the year began.

This backdrop helped fuel the broad equity market, which continued its upward path during the second quarter, posting new highs throughout the period. But much like a duck that looks to be gliding effortlessly across the water yet is paddling furiously under the water's surface, the broad equity markets have been elevated on the strength of only a few businesses. The market has narrowed to a level where less than 25% of the businesses in the S&P 500 have outperformed in 2024. This is below levels witnessed in the late 1990s during the later stages of the Tech-Media-Telecom (TMT) bubble, as illustrated by the chart from Ned Davis Research in *Figure 1*. And it's the mega cap, tech-oriented names — Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla, aka the Magnificent 7 (M7) — driving the market. In fact, the top 10 names contributed 77.2% of the S&P 500 returns in 2024 despite representing only 2% of the index, with one name, NVIDIA, contributing 31.6% of the gain. The M7 now hold the top six spots in market cap ranking, and the seventh, Tesla, resides in 10th place. This is the second highest concentration of returns, which, interestingly, bumped calendar-year 2023 to the third highest, per Strategas (*Figure 2*).

The narrow breadth has led to some wide dispersions across different segments of the equity market: market cap-weighted indexes are outperforming equally weighted indexes; large caps are outperforming small caps; businesses with lower dividend yields are outperforming higher dividend yields; growth styles are outperforming value; momentum factor is outperforming the value factor; and domestic equities are outperforming international.

See GIPS Report on pages 6-7

Figure 1 **Percentage of S&P 500 Stocks Outperforming the S&P 500 over the Calendar Year**



(Source: Ned Davis Research, Copyright 2024; YTD data as of 6/28/24)

Figure 2

Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years

Year	Top 10% as % of Total	S&P 500 % Perf.
2007	78.7%	3.5%
2024	**77.2%**	**14.5%**
2023	68.4%	24.2%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%
2003	23.6%	26.4%
1995	22.3%	34.1%
2014	22.2%	11.4%
2004	21.1%	9.0%
2005	20.5%	3.0%
2010	19.6%	12.8%
2012	19.2%	13.4%
1997	19.1%	31.0%
2013	17.6%	29.6%
2009	15.5%	23.5%
1992	14.9%	4.5%
1993	12.2%	7.1%

(Source: Strategas, Bloomberg; 7/1/24)

Market Commentary continued...

The accompanying tables (*Figure 3*) reflect the wide dispersion. For example, the S&P 500 Equal Weight Index is lagging the market cap-weighted S&P 500 Index year-to-date, 5.0% versus 15.3%, respectively. The Russell 1000 Value Index has a similar dispersion with the Russell 1000 Growth Index, 6.6% versus 20.7%, respectively. This has been primarily driven by the seven mega cap, tech-oriented stocks, which continue to garner investor flows and are propelling the broad equity markets.

Figure 3

Index	Q2	YTD
Russell 1000 Growth	8.3%	20.7%
S&P 500	4.3%	15.3%
MSCI USA Momentum Factor ETF	4.1%	24.4%
MSCI World ex US	(0.6%)	5.0%
Russell 1000 Value	(2.2%)	6.6%
S&P 500 Equal Weight	(2.6%)	5.1%
Russell 2000	(3.3%)	1.7%
MSCI USA Value Factor ETF	(3.9%)	3.5%

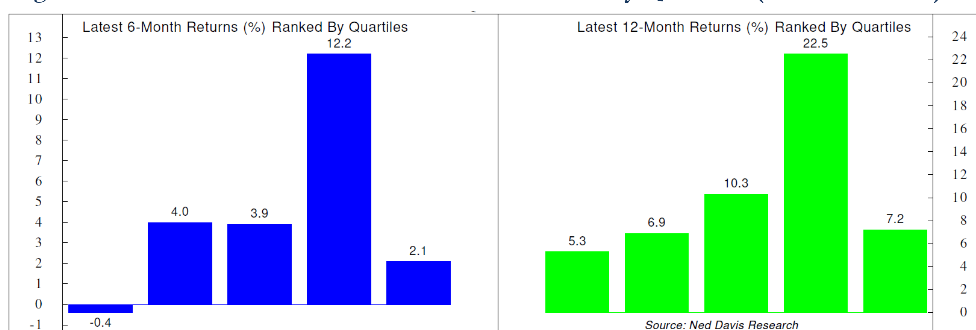
Name	Q2	YTD
NVIDIA	36.7%	149.5%
Apple	23.0%	9.7%
Alphabet	20.8%	30.5%
Tesla	12.6%	(20.4%)
Amazon.com	7.1%	27.2%
Microsoft	6.4%	19.3%
Meta	3.9%	42.7%

(Source: Confluence, FactSet, FTSE Russell, S&P Global)

Delving into the relative dividend yield performance also reflects a large dispersion between higher-yielding businesses and lower-yielding businesses as it appears investor flows are migrating to the M7 as well as higher-yielding money market accounts. While the Magnificent 7 are not known for their level of dividends, all but two (Tesla and Amazon) now pay a dividend, which is contributing to the relative strength of businesses in the lower-yield arena.

These charts from Ned Davis Research (*Figure 4*) reflect the S&P 500 performance by dividend yield, with the highest yields in Quartile 1, the lowest in Quartile 4, and non-payers represented by the last bar/Quartile 0. Over the past six and 12 months, the highest yielders in Quartile 1 have lagged the lower-yielding Quartiles 2-4. Higher interest rates and the ability to earn 5% in a money market account have been headwinds to the appeal of dividend-paying stocks, but this stance may be shortsighted.

Figure 4 **S&P 500 Stock Constituents* Ranked by Quartiles (Dividend Yield)**

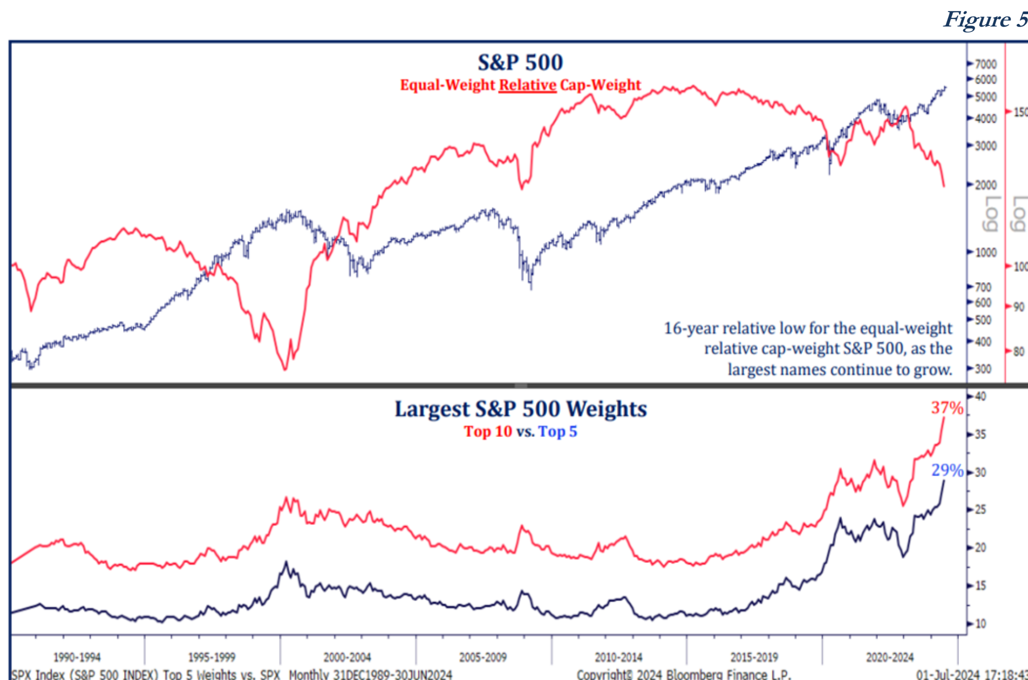


*Actual Historical Constituents. *Returns through 6/30/2024 (Source: Ned Davis Research, Copyright 2024)*

Quality businesses with growing net income have the ability to offset inflation and provide a growing dividend income stream along with capital appreciation, unlike income from a money market account that doesn't grow and is driven by short-term fed funds rates. For an in-depth look at this topic, see our *Value Equity Insights* report examining the advantages of dividend income over interest income.

We are keeping a close eye on the breadth of the market as a broadening would provide for a healthier and more durable environment for equity investors. While a broadening market does not necessarily require a selloff in the current leadership, it does infer a shift in sentiment and money flows toward the laggards. The rotation to the current leadership of mega cap, tech-oriented businesses began in late 2016/early 2017, with the largest five and 10 businesses by market cap now comprising an unprecedented 29% and 37% of the S&P 500, respectively, which is a peak figure post-WWII (*Figure 5* from Strategas). This includes the sharp correction in 2022 when the Magnificent 7 were down 46%, on average, and lost a combined $4.9 trillion (trillion is not a typo) in market cap.

Figure 5



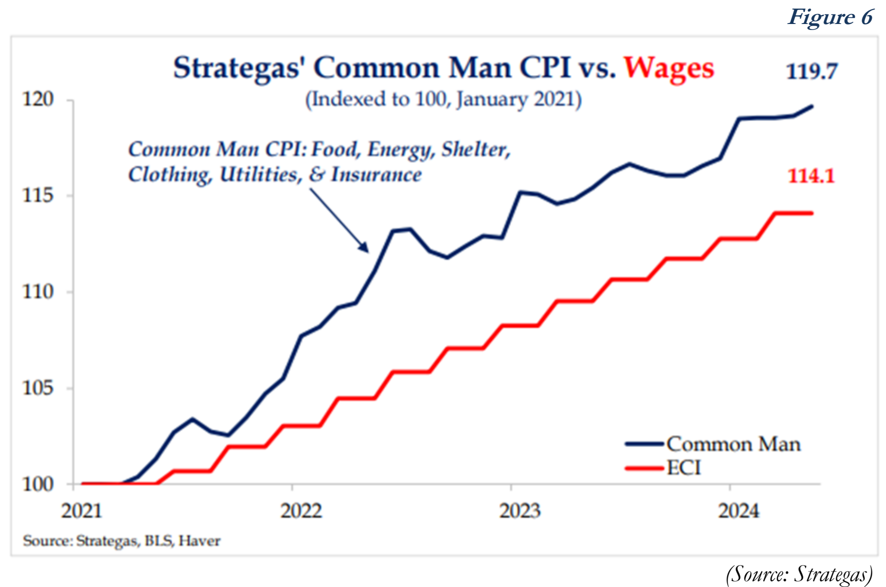
(Source: Strategas)

Today, the equally weighted S&P 500 is trading at a 16-year low relative to the market cap-weighted S&P 500. Ironically, the equally weighted S&P 500 outperformed for about 16 years following the burst of the TMT bubble in 2000.

Market Commentary continued...

While the lack of breadth in equities is very noteworthy, the elephant in the room remains inflation and, more specifically, its stickiness, as it persists well above the Fed's target of 2.0%. The next chart from Strategas (*Figure 6*) captures the dilemma of the Fed and the political incumbents, as the components of inflation impacting the average consumer the most continue to rise faster than wages. This surge is eroding their purchasing power and hinders confidence.

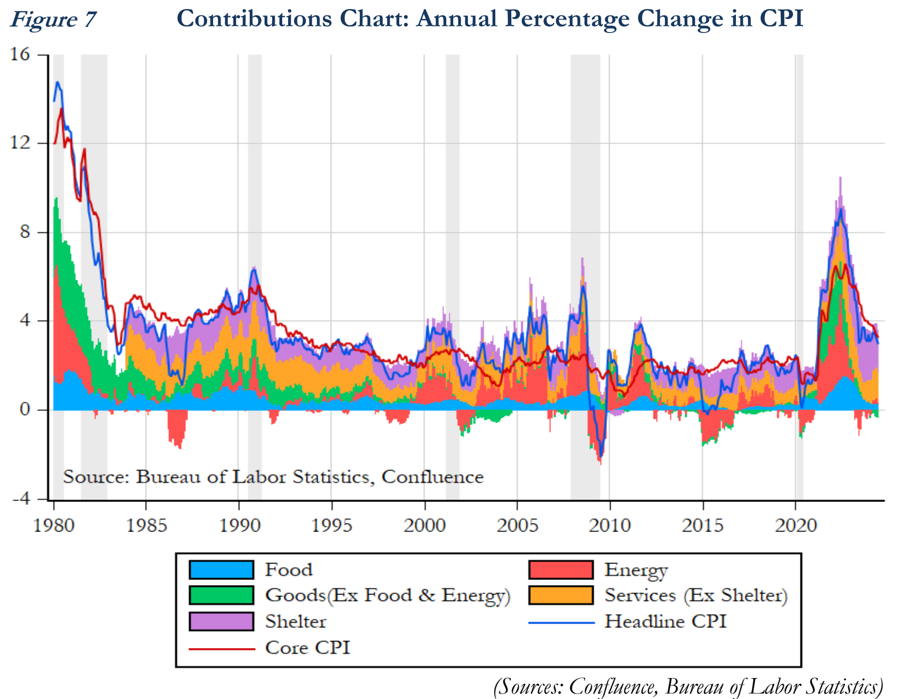
Figure 6



(Source: Strategas)

Furthermore, the final chart in this section is one on inflation from the Confluence macroeconomic team (*Figure 7*). This chart shows how the inflation stickiness is primarily occurring in services and shelter, which are areas difficult to break without there also being consequences to employment. This puts the Fed in a tough position and explains why policymakers have kept rates higher for longer. The Fed is walking on a tightrope as it attempts to bring down inflation without tipping the economy into a recession and pushing up unemployment. The economy has remained in positive territory thus far, but it is currently being aided by the large fiscal deficits that are running at a record peacetime and non-pandemic level of 7% of GDP. It is the highest level relative to unemployment, which compares to a more typical deficit in the 3-5% range. This has produced some volatility in the 10-year Treasury as rates have oscillated between 3.9% and 4.7% in 2024 but not enough to disrupt the broader markets.

Figure 7 **Contributions Chart: Annual Percentage Change in CPI**



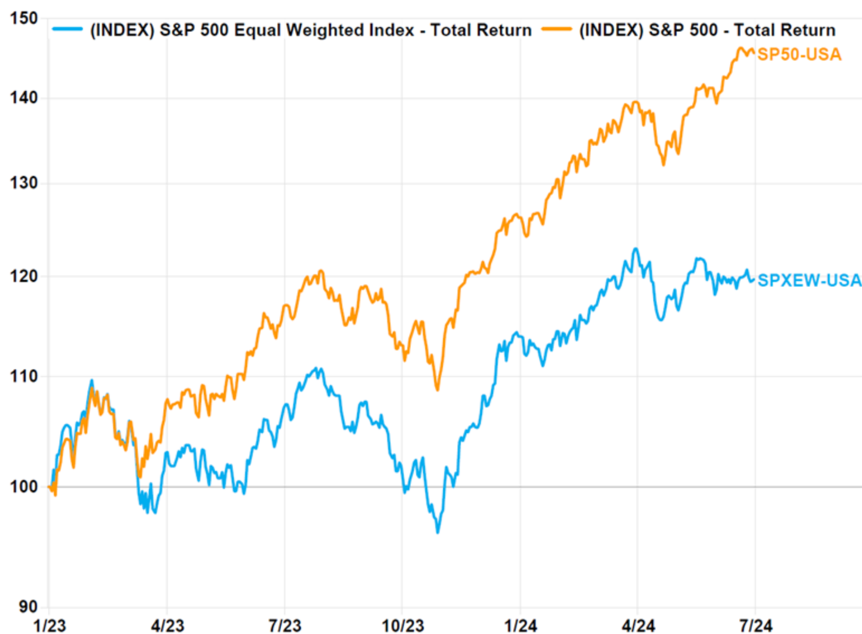
(Sources: Confluence, Bureau of Labor Statistics)

Market Outlook

The economy has been able to withstand a sharp rise in short-term rates without hindering employment levels, while bringing down inflation from post pandemic highs. The economic backdrop and the advancements in technology surrounding artificial intelligence and large language models have sparked investor enthusiasm in a narrow segment of the market. This has benefited the passive index investor as the narrow breadth of market returns has been heavily skewed toward market cap-weighted and momentum traders/investors over the past 6-18 months following the release of ChatGPT in November 2022. The excitement will ultimately need to be met with the expected results, i.e., returns on investment for businesses outlaying the capital, which are not yet evident. Meanwhile, the Fed remains data-dependent on its course toward "normalizing" rates and we expect the economic data to be choppy. Given escalating geopolitical conflicts, not to mention elections in a wide swath of the world, we would expect heightened volatility from the low levels recently experienced. More importantly, we will continue to remain focused on our investment philosophy, which is focused on competitively advantaged businesses trading at attractive valuations.

Strategy Commentary

Figure 8



(Source: FactSet)

Stock market performance in the first half of 2024 can be best described as déjà vu from the first half of 2023, with AI exuberance continuing to propel the largest five tech stocks, while the average return of the other 495 stocks in the S&P 500 is more or less flat. More specifically, year-to-date the S&P 500 Index is up 15.3%, while the S&P 500 Equal Weight Index is up 5.1%. At this point last year, those returns were 16.9% and 7.0%, respectively.

As shown in this accompanying chart (*Figure 8*), since 12/31/2022, when the AI frenzy really got started, the S&P 500 is up 45%, dramatically outperforming the S&P Equal Weight at 20%. This is contrary to history and logic. Historically, the S&P 500 Equal Weight has outperformed the market cap-weighted S&P 500 as size tends to be an anchor and thus nimble, smaller companies usually have more opportunities to grow faster than large companies.

The economist Herb Stein once observed, "If something cannot go on forever, it will stop." We believe this also applies to the outperformance of everything AI-related and the top five tech stocks, which now account for a record-high 29% of the S&P 500. When this eventually occurs, the quality businesses with growing dividends that we own in the IDEA portfolio should outperform as they have historically.

While the stock market is fixated on AI, the companies held in the Increasing Dividend Equity Account (IDEA) strategy continued to pay and grow their dividends. As shown in the table below (*Figure 9*), 25 of the 49 companies in the current portfolio raised their dividend year-to-date, with an average announced growth rate of 6.5%.

Figure 9 **Annual Dividend Statistics for IDEA Portfolio at 12/31 *(Dividend Growth Using Announcement Date)*** [1]

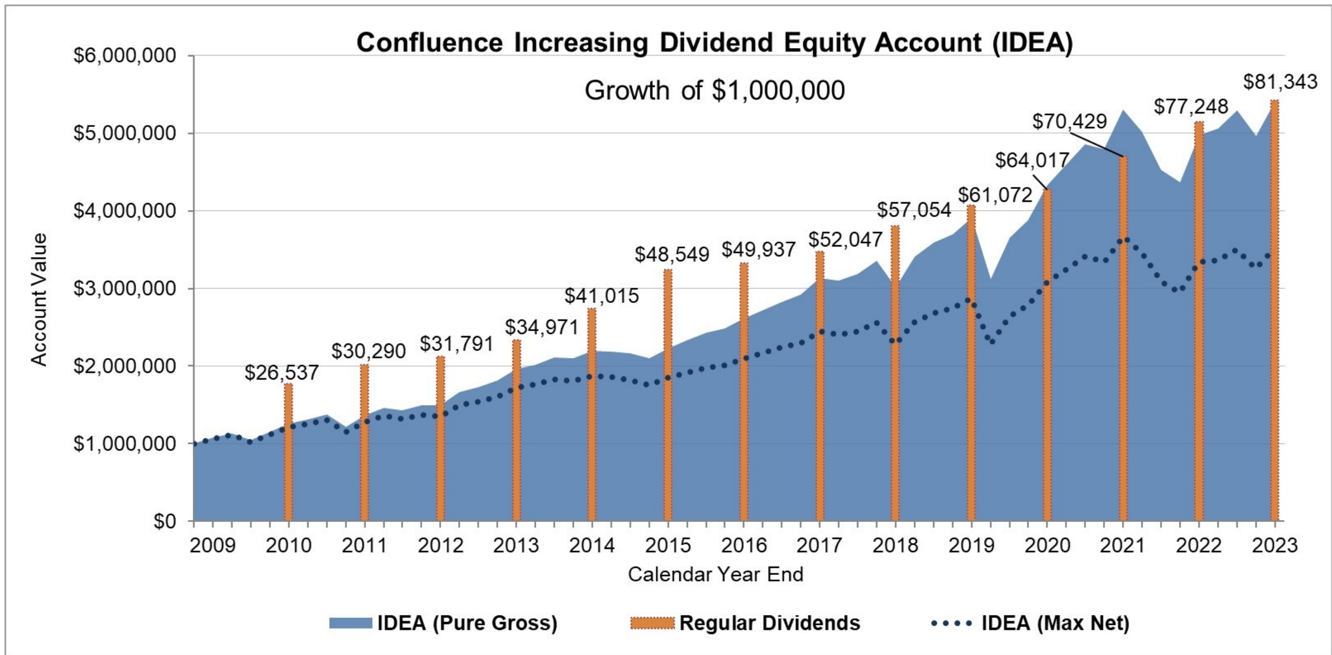
			Dividend Change from Prior Year**			
			# of companies with			
Year	**Holdings**	**Avg. Yield**+	Increase	Flat	Decrease	Avg. Growth***
2009	49	2.9%	39	10	0	5.6%
2010	49	2.9%	45	4	0	9.3%
2011	49	2.9%	46	3	0	9.6%
2012	48	3.3%	46	2	0	9.3%
2013	49	2.4%	47	2	0	10.6%
2014	49	2.5%	47	2	0	9.3%
2015	49	2.8%	46	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%
2023	48	2.2%	47	1	0	7.4%
Average-15 yrs		2.5%	46	3	0	8.6%
YTD (6/30/24)	49	2.0%	25	-	0	6.5%

** 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.*
**** For YTD statistics, the average growth rate is calculated using only those holdings for which an increase or decrease in the indicated annual dividend amount has been announced.*
Full-year statistics are calculated as the average of all holdings, including those which did not announce a change to their indicated annual dividend during the year.
+ Avg. Yield column is the equal-weighted average dividend yield of portfolio holdings at 12/31, calculated based on annualized current dividends plus any special dividends paid during the year.

Furthermore, as depicted in the chart on the following page (*Figure 10*), the IDEA strategy has produced consistent dividend growth over the past 15 years, resulting in annual dividend income more than tripling since the strategy's inception, in addition to delivering strong capital appreciation.

Strategy Commentary continued...

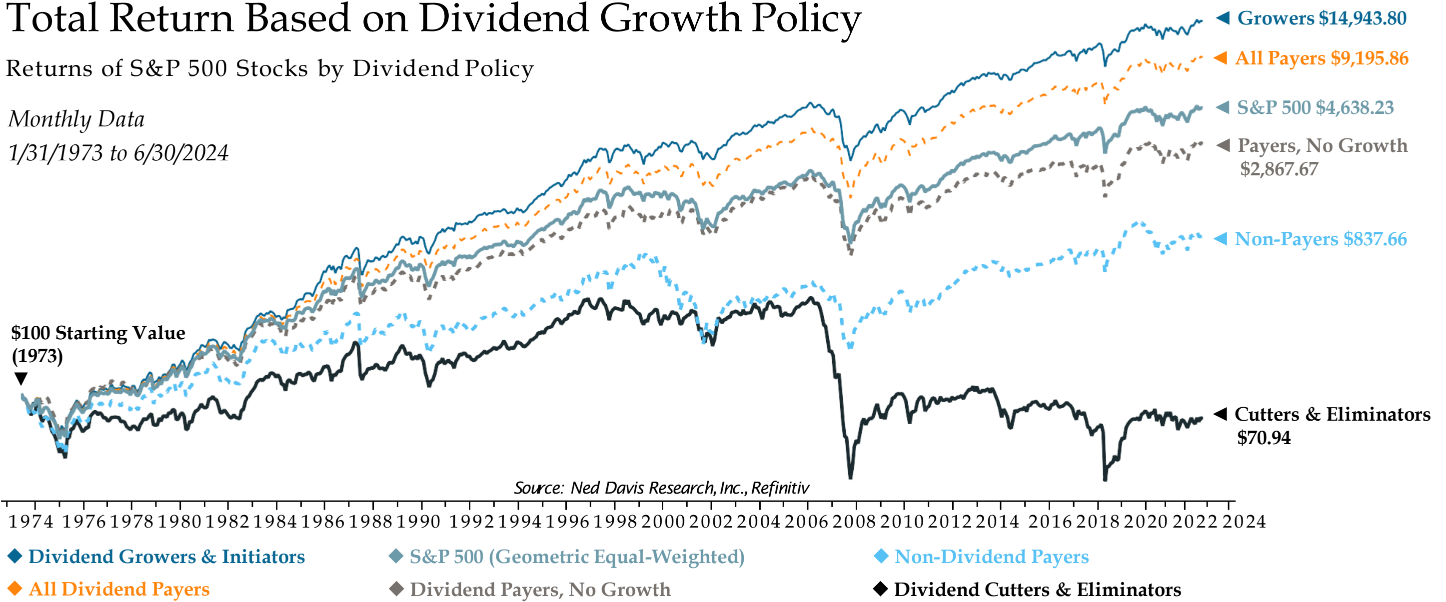
Figure 10 Growth of Investment & Dividends [2]



(Annual data as of 12/31/2023)

Historically, dividend growers (like the companies owned in the IDEA portfolio) have substantially outperformed companies whose dividends remained flat, companies that have cut their dividends, and companies that do not pay dividends. As shown in the following chart from Ned Davis Research (*Figure 11*), $100 invested in dividend growers in 1973 has now grown to $14,943, while $100 invested in non-dividend payers is now worth $837 and $100 invested in dividend cutters is only worth $71 today.

Figure 11



(Source: Ned Davis Research, Copyright 2024)

Year-to-date, the IDEA strategy is up 3.7% (gross of fees), which trails the tech-driven S&P 500 Index return of 15.3% but is more in line with dividend growers (per Ned Davis Research, see *Figure 12* on the next page), the Russell 3000 Value Index, and the S&P Equal Weight Index, up 5.8%, 6.2%, and 5.1%, respectively. [*The strategy's net-of-fees return for the same period was 2.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*] As discussed above, IDEA has trailed the S&P 500 primarily due to the concentrated outperformance of large cap, AI-focused tech stocks. Additionally, the portfolio underperformed the S&P 500 (and the Russell 3000 Value) in the Industrials sector as cyclical industrials outperformed the steady dividend growers that we look to own in the IDEA strategy.

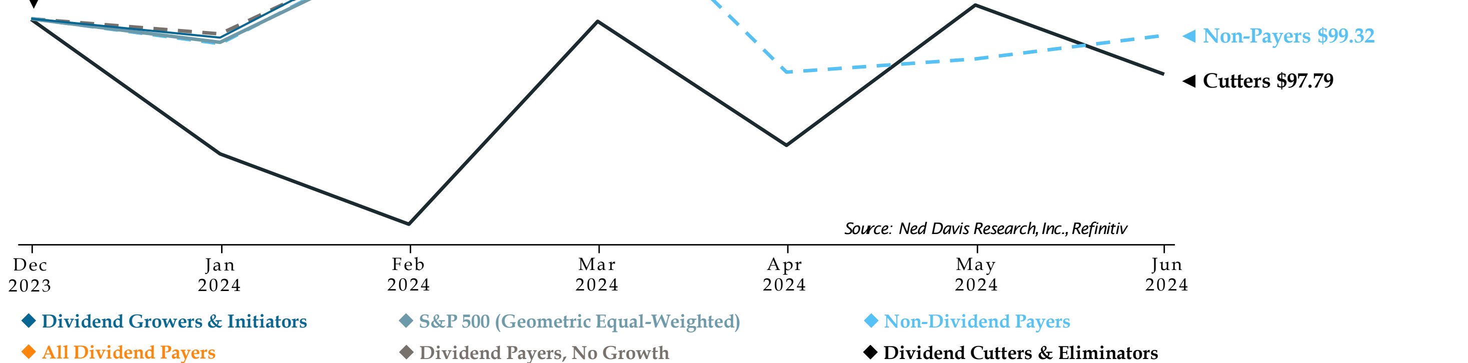
Strategy Commentary continued...

The chart below also reveals that non-dividend payers are down 0.7% this year, which is surprising since this segment usually tracks closely with tech stocks, but the tech sector is up 28% year-to-date. This can be partially explained by the fact that five companies of the Magnificent 7 now pay a (small) dividend, with Google and Meta both initiating dividends this year. Additionally, AI superstar NVIDIA has paid a dividend since 2012 but yields only 0.03%; the company grew its dividend this year for the first time since 2018, so while it is technically classified as a dividend grower in the chart below, it does not meet the long-held dividend criteria for inclusion in our IDEA portfolio. Those criteria include paying a dividend for 10 years, raising the dividend at least seven of the past 10 years with no decreases, and a dividend yield above 1.0%.

Figure 12

Total Return Based on Dividend Growth Policy

Returns of S&P 500 Stocks by Dividend Policy



(Source: Ned Davis Research, Copyright 2024)

In late April, we sold Rockwell Automation and bought A.O. Smith. Rockwell is a good, cyclical business that delivered a solid return, nearly doubling since we initially added it to the portfolio in March 2020. A.O. Smith (AOS) manufactures and markets residential and commercial gas and electric water heaters, boilers, tanks, and water treatment products in North America, China, Europe, and India. The company's strong brand loyalty among installers commands leading market share in its core markets, with about 40% share in the North American residential water heater market and 50% share in the North American commercial market.

Demand for water heaters has proven steady over time with a gradual increase in the installed base as home ownership grows. The market is about 90% replacement, with 10% coming from new construction. Of that 90% replacement share, 80% of the time customers are typically replacing a broken unit. The replacement cycle is driven by the finite life of a water heater from the constant cycling of the product and minerals contained in the water supply. What makes this a great business is the demand for hot water. In most developed nations, hot water is less of a luxury and more of a necessity. When the hot water heater goes out in a household, the priority is getting it replaced quickly by a trusted plumber; there isn't much motivation to shop around or question their recommendation.

The recurring nature of AOS's business model along with strong brand loyalty results in steady growth and consistently high levels of free cash flow. M&A is limited due to its leading market share, so the company's focus is on returning cash to shareholders through a growing dividend and share repurchases. As a result, AOS should continue to grow earnings and the dividend over the long term.

Outlook

Investors continue to expect the Fed to begin cutting interest rates in 2024 despite low unemployment, large government deficits, and the stock market at all-time highs. While the Fed might comply with investors' wishes, the bigger risk is if AI mania turns into AI disappointment as it could take a while for a "killer app" to emerge that shows a good return on the huge investment in AI infrastructure currently underway. In the meantime, we will continue to patiently own a diversified portfolio of quality businesses with growing dividends, purchased at reasonable valuations.

Contribution[3]

The top contributors and detractors for the portfolio in Q2 2024 and year-to-date are shown in the following tables:

(QTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Amphenol Corp.	2.34	0.36
Analog Devices Inc.	2.25	0.32
Oracle Corp.	1.99	0.25
TJX Cos. Inc.	2.68	0.24
Southern Co.	2.13	0.19
Bottom 5		
Sherwin-Williams Co.	2.25	(0.34)
Polaris Inc.	1.52	(0.37)
Nordson Corp.	2.52	(0.41)
Masco Corp.	2.63	(0.43)
Graco Inc.	3.10	(0.51)

(YTD as of 6/30/2024)

Security	Avg Weight (%)	Contribution (%)
Top 5		
Amphenol Corp.	2.45	0.78
Oracle Corp.	1.92	0.59
Brown & Brown Inc.	2.27	0.52
TJX Cos. Inc.	2.64	0.46
Ecolab Inc.	2.39	0.45
Bottom 5		
Polaris Inc.	1.60	(0.28)
Nordson Corp.	2.58	(0.31)
McDonald's Corp.	2.24	(0.31)
Starbucks Corp.	1.85	(0.37)
NIKE Inc.	1.17	(0.40)

Performance Composite Returns[4] (For Periods Ending June 30, 2024)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
IDEA *Pure Gross-of-Fees[5]*	12.4%	10.3%	9.3%	4.9%	6.1%	3.7%	(2.8%)
Max Net-of-Fees[6]	9.1%	7.0%	6.1%	1.8%	3.0%	2.2%	(3.5%)
S&P 500	13.9%	12.8%	15.0%	10.0%	24.5%	15.3%	4.3%
Russell 3000 Value	10.6%	8.1%	8.9%	5.1%	12.9%	6.2%	(2.3%)

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%
2023	8.7%	5.5%	26.3%	11.6%	(17.5%)	2,158	$855,063	$7,200,019	16.0%	17.3%	16.7%	0.5%

**Average annualized returns* ***Inception is 10/1/2009* *See performance disclosures on last page.*

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	Brett Mawhiney, CFA
Daniel Winter, CFA	Tore Stole	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA

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See Territory Map on the Confluence website for sales coverage.

Disclosures

Market & Strategy Commentary—*Figures 11 and 12:* 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 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. It is important to review your investment objectives, risk tolerance & liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk & 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.

Indexes: The S&P 500 and Russell 3000 Value 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 9:* Annual dividend income history is available upon request. Current portfolio statistics exclude companies that have been sold and include companies that have been purchased year-to-date.

[2] **Growth of Investment/Dividends—***Figure 10:* Account value based on $1,000,000 invested in IDEA strategy on 10/1/2009 with dividends reinvested. 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—**Contribution data shown from a sample account, based on individual stock performance and portfolio weighting. Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), 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.

[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, 2023. 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) 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.