

Convergence Dividend Growth Commentary

Q1-2024

The Convergence Dividend Growth strategy had a strong start to the year, with a total return of 11.24% net of fees in the first quarter, which outperformed the Russell 1000 Value Index return of 8.99%. The Convergence Dividend Growth strategy is built on the disciplined principle of investing in companies with strong and improving fundamentals. Over the past decade, the strategy has outperformed the Russell 1000 Value Index by 122 basis points annually, net of fees.

Pillars of Convergence Dividend Growth

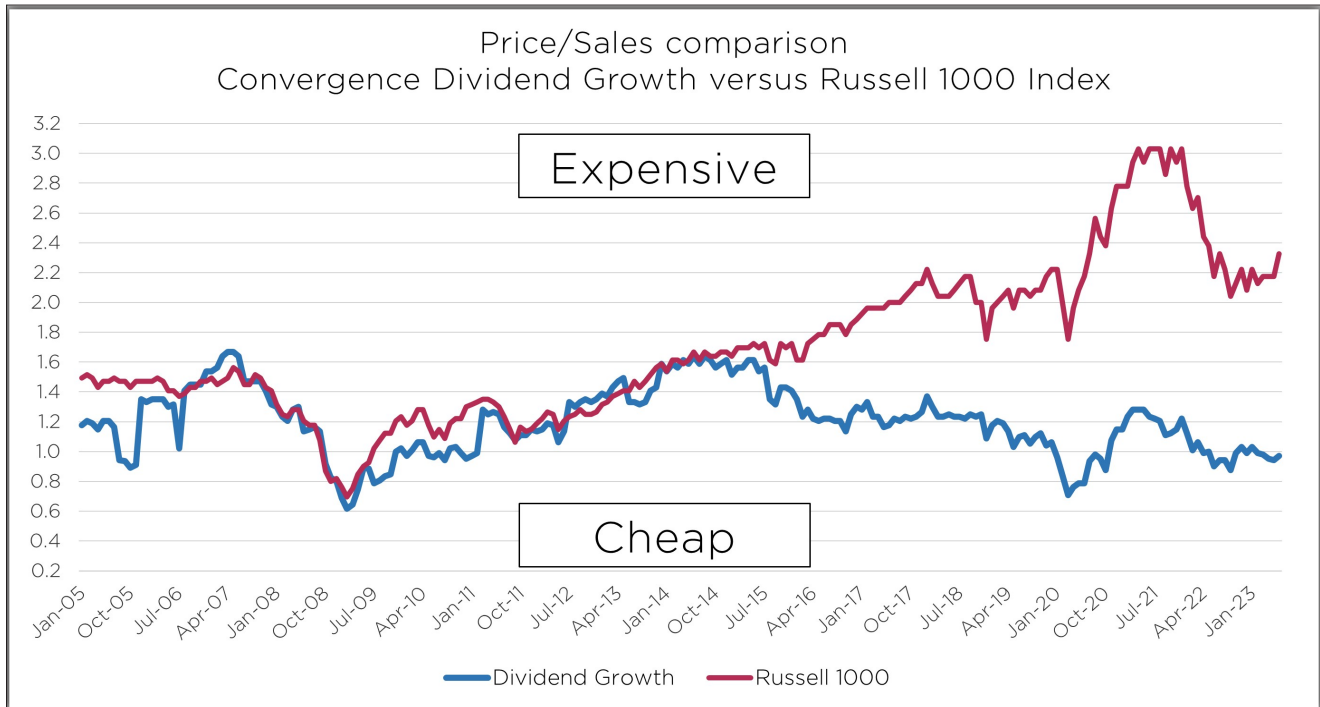
The investment pillars within the strategy are built on the foundation of investing in companies with strong and improving cash flow, revenue, and earnings that can support robust and growing dividends. Companies found within the Dividend Growth strategy tend to have defensible and wide business moats that gives them the ability to sustain and grow the dividends they pay out to shareholders over time. The result of our investment process is a portfolio of companies with powerful fundamentals and favorable valuations.



Why focus on Dividend Growers?

- Quality – Growth in dividend payments signals financial strength and capital discipline within the company. Consistently paying dividends indicates that the company generates sufficient profits and management’s confidence in its future prospects.
- Buffer against Market Volatility – Dividends can help cushion losses when stock prices decline, providing a reliable source of income even when the market is turbulent. Stocks with robust and growing dividends will tend to have below market volatility due to the composition of total return.
- Lessens potential risks from rising rates – Companies that are not simply a “yield play” exhibit strong growth measures making them better able to increase payouts to shareholders over time.

An interesting phenomenon that has developed in recent years is the reality of how inexpensive these quality dividend growers are valued in comparison to the overall equity market. The next chart highlights how dramatic this relative bargain has become. Therefore, current investors are able to own the Convergence Dividend Growth portfolio at historically low levels of relative valuation.



Source: Wilshire Analytics as of 03/31/2024
 Chart measures the price-to-earnings ratio of the Convergence Dividend Growth strategy relative to the Russell 1000 Index

Our research has shown that companies who consistently grow their dividend tend to exhibit preferable traits in terms of growth, profitability, and quality metrics. The pillars of our philosophy are reflected in our portfolio statistics. Notably, the portfolio has consistently delivered a premium yield combined with below average valuation levels relative to the overall market.

	Current Yield	5 Year Div. Growth	FCF Yield (%) FCF/P	Trailing P/E Ratio
Convergence Dividend Growth strategy	3.2	6.4	7.0	17.6
Russell 1000 Value Index	2.1	5.9	4.4	22.4
Russell 1000 Index	1.4	6.5	3.6	28.4

Performance Summary

As previously mentioned, the Convergence Dividend Growth strategy was up 11.24% net of fees in the first quarter compared to the Russell 1000 Value Index return of 8.99%. For the quarter, strategy benefited from strong contributions within Utilities, Energy, and Semiconductors. The groups that detracted from relative performance in the quarter included Capital Goods and Financial Services. The following table summarizes the attribution of the Dividend Growth strategy versus the Russell 1000 Value Index.

Convergence Dividend Growth: 3 Month Attribution as of 03/31/2024 (vs Russell 1000 Value)

Convergence Dividend Growth: 3 Month Attribution			
	Stock Selection (%)	Allocation (%)	Total Variance (%)
Real Estate Management & Development	0.000	0.039	0.039
Banks	0.236	0.052	0.288
Capital Goods	-0.488	-0.148	-0.636
Consumer Durables & Apprl	0.345	-0.002	0.343
Comm & Prof Services	-0.075	0.026	-0.049
Diversified Financials	-0.283	-0.090	-0.373
Energy	0.565	0.087	0.652
Food Beverage & Tobacco	0.172	-0.047	0.125
Food & Staples Retailing	0.052	-0.001	0.051
Health Care Eqpt & Srvc	0.108	0.057	0.164
Household & Prsnl Prods	-0.052	-0.003	-0.056
Consumer Services	-0.022	-0.030	-0.052
Tech Hardware & Equipment	0.168	-0.063	0.105
Insurance	0.017	-0.074	-0.057
Materials	0.368	0.015	0.383
Media & Entertainment	-0.089	0.020	-0.069
Pharmaceuticals & Biotech	-0.035	-0.070	-0.105
Real Estate	0.045	-0.158	-0.114
Retailing	-0.114	0.073	-0.041
Software & Services	0.214	-0.006	0.207
Semiconductors & Semi Eq	0.816	-0.051	0.765
Telecomm Services	0.074	-0.016	0.058
Transportation	0.077	0.031	0.108
Utilities	0.792	0.007	0.799
Real Estate Management & Development	0.000	0.026	0.026

Source: Wilshire Analytics as of 03/31/2024. Green shading associated with positive values

Convergence has been successfully managing the Dividend Growth strategy for nearly 20 years. Our core tenants of providing competitive, long-term returns, while assuming below market level of volatility and above market level of dividends remain steadfast. Investing in companies that have sustainable and growing dividends tends to provide exposure to high-quality stocks and greater income over time, which can help buffer against market risks and volatility. Given current economic conditions, we believe that the Convergence Dividend Growth offers an attractive core equity position for investors. Investing in companies with strong and improving cash flows, which are supportive of growing dividend payments, is the guiding mission of our Dividend Growth strategy. With history as our guide, companies with these types of characteristics should help to deliver favorable long-term risk-adjusted returns.

Annualized Performance Summary (net of fees) through 03/31/2024

	QTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Dividend Growth strategy (Net)	11.24%	23.88%	10.07%	11.30%	10.23%	8.64%
Russell 1000 Value	8.99%	20.27%	8.11%	10.31%	9.01%	8.08%

Inception Date 02/01/2005

Data as of March 31, 2024

Past performance is not indicative of future results. Dividends represent past performance. There is no assurance they will continue to be paid in the future. Holdings are subject to change and should not be considered a recommendation to buy or sell any security.

The results portrayed relate to the adviser’s clients invested in the portfolio that meet the criteria for inclusion in composite performance. Strategy returns are presented after actual standard management fees and all trading expenses. The inception date is 2/2005 and period ended 03/31/2024. Returns have been compared to the Russell 1000® Value Index. The Russell 1000® Value Index measures the performance of the large cap value segment of the U.S. equity universe with lower price-to-book ratios and lower expected growth values. You cannot invest directly in an index. Comparison is for illustrative purposes only and the volatility of the benchmarks may be materially different from the volatility of the Composite due to varying degrees of diversification and / or other factors. This communication is limited to the dissemination of general information pertaining to Convergence Investment Partners, LLC’s (Convergence) services and general economic market conditions. The information contained herein is not intended to be personal legal or investment advice or a solicitation to buy or sell any security or engage in a particular investment strategy.

Source of market data: Wilshire Analytics and Bloomberg LLC

No graph, chart, or formula should in and of itself be used to determine which securities to buy or sell.