

Convergence Dividend Growth Commentary

Q1-2018

The Convergence Dividend growth strategy outperformed its benchmark by 0.65% in the first quarter of 2018, net of fees. After a very strong January, the Russell 1000 Value Index retreated in the next two months ending the quarter down -2.83%. As a value strategy focused on companies that are growing their dividends, our goal is to provide competitive returns with a lower level of risk than the market. With the first quarter's outperformance, the Convergence Dividend Growth strategy is now ahead of its benchmark over the trailing 1-year, 3-year, 5-year, 10-year and Inception to date periods, net of fees.

The team at Convergence has been successfully managing the Dividend Growth Strategy since early 2005, and David Abitz, the lead PM, has managed a dividend-focused equity strategy for 20+ years. As our long time investors know, we are quite fond of dividends, especially from companies that are growing their business and dividend payouts. One of our favorite research providers, Nick Colas of DataTrek Research, recently penned some salient points about dividend investing that we thought our investors would find interesting:

- *Dividends signal management confidence in the business much more effectively than buybacks.*
- *Regular payouts could expand the ownership base of the group, rather than leaving it largely in the hands of momentum driven investors.*
- *Dividends reduce the effective duration of what are essentially zero coupon equities, and therefore should reduce price volatility.*
- *A steady and/or increasing payout would reduce the need of employees/founders to sell stock outright. (could entice some individuals to hold on rather than sell)*
- *Dividends make managements more accountable. Big Cap Tech likes to think about moon shots, but recent events remind us (and hopefully them) that you also have to make sure your backyard is free from weeds.*

We completely agree with Nick's above points and are more than willing to help our clients digest his in-depth thoughts. Please don't hesitate to reach out for further explanation. Although Big Tech might view paying a dividend as a sign of stagnation, we consider it more of a sign of prudence. As a disciplined investor, Convergence finds companies that are generous towards shareholders quite desirable.

In the first quarter, the Convergence Dividend Growth Strategy was down -2.18% (net of fees), while the Russell 1000 Value index was down -2.83%. Energy and Capital Goods were two of the industry groups which contributed favorably to this quarter's outperformance. They returned -0.5% and +1.1%, respectively. At the stock level, Boeing (Capital Goods) and Microsoft (Software) were two strong contributors to the portfolio. The groups which detracted from performance in the past three months were Diversified Financials (-8.5%) and Telecommunication Services (-7.8%)

In conclusion, we will continue to stay focused on companies with proven dividend-paying records, supported by strong financial health. If history is any guide, companies with shareholder-friendly dividend policies built from solid business models that are generating strong cash flow, should continue to perform well.

Regards,

The Convergence Portfolio Team

Past performance does not guarantee 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 inception date is 2/2005 and period ended 12/31/2017. 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.

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Source of market data: Bloomberg

Source of bullet points: Nick Colas, Co-Founder & Strategist at DATATREK, April 9, 2018