Convergence Investment Partners

Convergence Dividend Growth Commentary

Q2-2018

The Convergence Dividend Growth strategy focuses on long-term factors that we believe drive superior risk-adjusted returns. The strategy aims to invest in high quality companies with attractive relative valuations, combined with strong cash flow, earnings, and sales. We place a high emphasis on companies with these characteristics, as well as other fundamental catalysts, which are supportive of a disciplined investment process of sustainable and growing dividends.

The following table displays a few metrics that highlight these positive attributes of the strategy's above-average yield, superior growth in dividends, and below average valuations.

	Current Yield	5 YearDiv Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.3%	12.6%	14.1
Russell 1000 Value Index	2.5%	6.6%	20.3
Russell 1000 Index	1.9%	7.4%	24.7

The Convergence Dividend Growth generated a -0.89% return in the first half of 2018 while it's benchmark, the Russell 1000 Value Index, was down -1.69%. Over the twelve months ended 06/30/2018, the Convergence Dividend Growth was up 12.31% versus the Russell 1000 Value Index which was up 6.77%. In the first half of 2018, the industry groups that contributed most to our outperformance were Energy (+15.90%) and Retailing (+17.67%). Within these groups, companies such as Valero (Energy) and Kohls (Retailing) contributed positively to the strategy's performance. These names have ranked well within their respective industry groups given their strong profit margins and attractive valuations, which have supported the returns to shareholders both in terms of dividends and price behavior. The groups that detracted from performance for the half year were Diversified Financials (-22.47%) and Healthcare Equipment and Services (-10.36%). Federated Investors (Diversified Financials) and Cardinal Heath (Healthcare) are two names that were among the stocks in these groups that hindered results within these groups.

Convergence Dividend Growth: Attribution Summary (vs Russell 1000 Value Index)			
Year-to-Date	Total Attribution (Alpha) (%)	Allocation Effect (%)	Selection Effect (%)
Consumer Discretionary	0.61	0.06	0.56
Consumer Staples	-0.11	-0.12	0.01
Energy	0.80	0.03	0.77
Financials	-1.09	0.22	-1.31
Health Care	-0.36	-0.12	-0.24
Industrials	0.62	-0.12	0.74
Information Technology	0.43	0.19	0.24
Materials	0.12	-0.02	0.13
Real Estate	0.28	0.05	0.23
Telecommunication Services	-0.29	-0.33	0.04
Utilities	0.14	-0.03	0.17

Source: Convergence Investment Partners, LLC/Bloomberg

As we look to the second half of 2018, earnings growth is strong, and positive company guidance on future earnings is record breaking. Recent fiscal stimulus ignited corporate profits, which were already growing nicely. Simultaneously, valuations in the overall market are above long-term averages. There are also a few stocks that we believe investors have bid up to unsustainable levels based on high levels of hype and speculation. These dichotomies can create opportunities for shrewd and discerning market participants who invest in fundamentally sound companies with strong growth characteristics.

As always, our guiding mission will be to 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.

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.

Strategy returns are presented after actual standard management fees and all trading expenses. The inception date is 2/2005 and period ended 06/30/2018. 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