

Convergence Dividend Growth Commentary

Q3-2018

The Convergence Dividend Growth strategy seeks to deliver superior risk-adjusted returns by focusing on long-term factors such as attractive relative valuations, strong cash flow generation, and robust earnings and sales growth. 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.

In addition, as seasoned investors know, dividends don't lie. The dividend component is the unemotional and stable portion of a company's total return. The payment of dividends is an action that is tangible, compared to predictions by analysts or management teams that may or may not come to pass. Mark Cuban once said, "I believe non-dividend stocks aren't much more than baseball cards. They are worth what you can convince someone to pay for it."

A few of the metrics that showcase the positive attributes of our meticulous process are shown in the table below. As our long-term investors are aware, the Convergence Dividend Growth strategy focuses on above-average yield, superior growth in dividends, and below average valuations. These pillars of our philosophy are revealed in a portfolio through a yield that has been consistently higher than the market averages and a growth rate on those dividends that is nearly double the market. Also, it is evident that we are not overpaying for that growth as demonstrated in the lower-than-market price-to-earnings ratio.

As of 09/30/2018	Current Yield	5 Year Div Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.22%	12.1%	14.7
Russell 1000 Value Index	2.49%	6.6%	20.2
Russell 1000 Index	1.83%	7.4%	25.0

The Convergence Dividend Growth generated a 5.77% net-of-fees return in the first nine months of 2018, compared to the Russell 1000 Value index that was up 3.92%. Over the twelve months ended 09/30/2018, the Convergence Dividend growth was up 13.72% versus the Russell 1000 Value index that was up 9.45%.

In the first three quarters of 2018, the industry groups which contributed the most to our performance were Software (+27.47%) and Capital Goods (+21.85%). Within these groups, companies such as HollyFrontier (Energy) and Microsoft (Software) contributed positively to the strategy's performance. The groups that detracted most from relative performance for the nine months were Diversified Financials (-28.63%) and Healthcare Equipment and Services (+5.68.) Invesco (Diversified Financials) and Medtronic (Healthcare) are two names that were among the stocks in these groups that held back

the Dividend Growth strategy. The following table summarizes attribution effects of the Dividend Growth strategy vs the Russell 1000 Value Index.

Convergence Dividend Growth: YTD Attribution 9/30/2018 (vs Russell 1000 Value)			
	Total Attribution (Alpha) (%)	Allocation Effect (%)	Selection Effect (%)
Automobiles & Components	0.06	0.08	-0.02
Banks	-0.05	-0.05	0.00
Capital Goods	0.96	-0.14	1.10
Consumer Durables & Apprl	0.24	0.01	0.23
Comm & Prof Services	0.02	0.03	-0.01
Diversified Financials	-1.25	0.21	-1.46
Energy	1.26	0.07	1.18
Food Beverage & Tobacco	0.01	-0.19	0.20
Food & Staples Retailing	0.06	0.00	0.06
Health Care Eqpt & Srvc	-0.83	-0.54	-0.29
Household & Prsnl Prods	0.21	0.15	0.07
Consumer Services	-0.36	-0.10	-0.26
Tech Hardware & Equipment	-0.30	-0.10	-0.20
Insurance	-0.24	0.09	-0.33
Materials	0.41	0.02	0.40
Media & Entertainment	-0.25	-0.11	-0.14
Pharmaceuticals & Biotech	0.08	0.07	0.01
Real Estate	0.39	0.03	0.37
Retailing	0.68	0.19	0.48
Software & Services	0.97	0.36	0.62
Semiconductors & Semi Eq	0.20	0.04	0.17
Telecomm Services	-0.30	-0.31	0.01
Transportation	0.32	0.03	0.29
Utilities	0.18	-0.02	0.20

Source: Convergence Investment Partners, LLC/Bloomberg

We remain steadfast to our process of focusing on companies with historical dividend-paying records, supported by strong financial health. Our research has shown that companies with shareholder-friendly dividend policies, solid business models, and strong cash flow generation can help deliver the strong, consistent returns that we seek for our investors.

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 only 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 09/30/2018. 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.

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: Bloomberg