

# Convergence Dividend Growth Commentary

## Q4-2018

The Convergence Dividend Growth Strategy rewarded investors in 2018 by outperforming the Russell 1000 Value Index by 1.01% net of expenses. We are pleased that our disciplined process has been able to generate returns higher than our benchmark for five consecutive calendar years. Moreover, our disciplined process has allowed us to outpace the Russell 1000 Value Index in the past 1-, 3-, 5-, and 10-year periods and since inception, net of fees. We believe that our process helps to provide a competitive edge for delivering superior risk adjusted returns by focusing on long-term factors such as:

- Attractive relative valuations
- Strong cash flow generation
- Robust earnings and sales growth

Period as of 12/31/2018	1 Year	3 Year	5 Year	10 Year	Since Inception
Convergence Dividend Growth	-7.26%	8.79%	7.54%	12.12%	7.07%
Russell 1000 Value	-8.27%	6.95%	5.95%	11.18%	6.57%
Outperformance	+1.01%	+1.84%	+1.59%	+0.94%	+0.50%

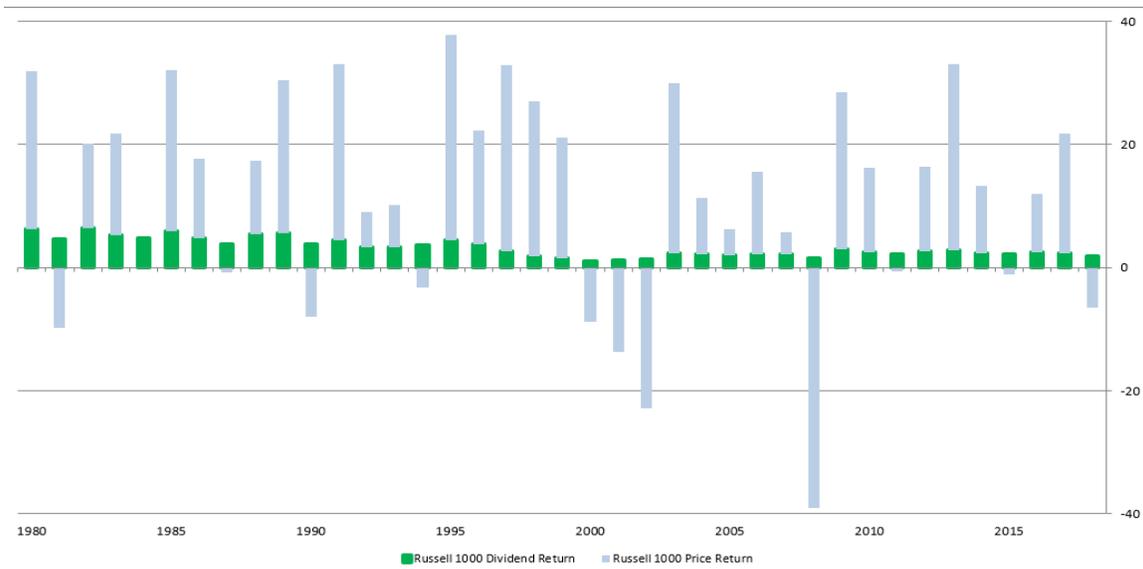
Convergence Dividend Growth performance provided net of fees.

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. We believe it is extremely imperative to remain unwavering in one's process, provided the process is grounded in solid research and sound logic.

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, our lower-than-market price-to-earnings ratio demonstrates that we are not overpaying for the growth component of our strategy. A few of the metrics that demonstrate the positive attributes of our process are shown in the following table.

As of 12/31/2018	Current Yield	5 Year Div Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.87%	11.5%	12.5
Russell 1000 Value Index	2.87%	6.4%	17
Russell 1000 Index	2.17%	7.4%	20

In the words of the well-known business magnate John D. Rockefeller, “Do you know the only thing that gives me pleasure? It’s to see my dividends coming in.” As investors witnessed this past year, dividends were most definitely the “pleasure” in the total return of portfolios. One chart that we regularly update provides a visual on the breakdown on the price versus dividend component of total return. Like the fable of the “Tortoise and the Hare,” the bars representing dividends on the following chart look a lot like the tortoise, while the bars representing the price return looks like the highly unpredictable hare.



Source: Convergence Investment Partners, Wilshire Analytics

The Convergence Dividend Growth was down -7.26% calendar year 2018, compared to the Russell 1000 Value index that was down -8.27%. In terms of yield, the portfolio average dividend yield maintains a meaningful premium over the broader equity market, 3.87% for the portfolio versus 2.17% for the Russell 1000 market index.

For the year of 2018, the strategy benefited the most from stock selections within Energy, Capital Goods, and Software groups. Blue chip names with strong cash flows provided strong relative returns within the portfolio. Groups that detracted most from relative performance for the year included Diversified Financials and Healthcare Equipment. The following table summarizes attribution effects of the Dividend Growth strategy vs the Russell 1000 Value Index.

Convergence Dividend Growth: YTD Attribution 12/31/2018 (vs Russell 1000 Value)			
	Total Attribution (Alpha) (%)	Allocation Effect (%)	Selection Effect (%)
Automobiles & Components	0.02	0.10	0.12
Banks	0.06	0.06	0.12
Capital Goods	1.19	-0.32	0.86
Comm & Professional Svcs	-0.01	0.04	0.04
Consumer Durables & Apprl	0.35	-0.01	0.34
Consumer Services	-0.37	-0.09	-0.46
Diversified Financials	-1.49	0.14	-1.35
Energy	0.97	0.30	1.27
Food & Staples Retailing	0.03	0.16	0.20
Food Beverage & Tobacco	-0.19	-0.13	-0.32
Health Care Eqpt & Srvc	-0.50	-0.57	-1.07
Household & Prsnl Prods	0.08	0.14	0.22
Insurance	-0.42	0.06	-0.36
Materials	0.22	0.02	0.24
Media & Entertainment	0.01	-0.21	-0.20
Pharmaceuticals & Biotech	0.14	0.11	0.25
Real Estate	-0.09	0.07	-0.02
Retailing	0.35	0.09	0.44
Semiconductors & Semi Eq	0.11	0.06	0.17
Software & Services	0.49	0.22	0.71
Tech Hardware & Equipment	-0.17	-0.11	-0.28
Telecom Services	0.11	-0.09	0.02
Transportation	0.28	0.02	0.30
Utilities	0.35	-0.10	0.25

Source: Convergence Investment Partners, LLC/Bloomberg

As we close the book on 2018 and look forward to 2019, the heightened levels of pessimism and risk aversion among investors could end up being supportive for equity prices. We believe most of the signs on overall economic activity, labor market conditions, and general business outlook continue to look reasonably supportive for equities. While earnings growth rates are expected to slow from the incredibly strong growth exhibited this past year, we do not expect profits to completely disappear in the coming year. Conversely, with rising debt levels in certain segments of the corporate sector, it is wise to be prudent in separating company balance sheets and other fundamental characteristics as we strive to do within the Convergence Investment process. These uncertainties 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 what we believe to be strong financial health. We believe that companies with shareholder-friendly dividend policies built from solid business models, 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.**

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 12/31/2018. 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