

Convergence Dividend Growth Commentary

Q1-2019

The Convergence Dividend Growth strategy delivered a very strong total return in the first quarter of 2019, up 10.75%. We are pleased with the strong returns generated this quarter during this sharp upward move in the markets, especially since dividend and value focused strategies tend to be lower risk in terms of beta and volatility. Most U.S. indexes ended the quarter up double digits, and growth focused indexes really shined. For the quarter, the Russell 1000 Growth Index outperformed the Russell 1000 Value index by over 410 basis points. Since inception and over each of the trailing 3-, 5- and 10- year periods our Dividend Growth strategy has outperformed the Russell 1000 Value index, net of fees (as of March 31, 2019). 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 sales and earnings growth

Since February 2005, our objectives of providing competitive, long-term returns while assuming below market level of volatility with above market level of dividends has remained true. Even when the markets present a challenging environment, as they do on occasion for short periods of time, we remain steadfast in our process.

Value and fundamentally focused investors faced headwinds in the first quarter of 2019. Our research has shown that over the long-term, paying less for fundamentally focused companies that employ shareholder-friendly policies, tends to be a recipe for success. A few of the metrics that demonstrate the positive attributes of our process are shown in the following table.

As of 3/31/2019	Dividend Yield	5 Year Dividend Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.46%	10.2%	16.0
Russell 1000 Value Index	2.63%	6.3%	18.9
Russell 1000 Index	1.95%	7.2%	21.6

Source: Wilshire Analytics

In terms of yield, the portfolio average dividend yield maintains a meaningful premium over the broader equity market, 3.46% for the portfolio versus 1.95% for the Russell 1000

market index. For the first quarter of 2019, the strategy benefited the most from stock selection within Diversified Financials, Tech Hardware, and Consumer Services 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 Pharmaceuticals, Energy, and Capital Goods. The following table summarizes attribution effects of the Dividend Growth strategy versus the Russell 1000 Value Index.

Convergence Dividend Growth: YTD Attribution 3/31/2019 (vs Russell 1000 Value)			
	Stock Selection Effect (%)	Allocation Effect (%)	Total Variance (%)
Automobiles & Components	-0.22	0.01	-0.21
Banks	-0.04	0.04	0.00
Capital Goods	-0.37	0.20	-0.17
Consumer Durables & Apprl	0.22	0.01	0.23
Comm & Prof Services	0.00	-0.03	-0.03
Diversified Financials	0.36	0.21	0.57
Energy	-0.45	-0.06	-0.51
Food Beverage & Tobacco	0.01	0.03	0.03
Food & Staples Retailing	-0.02	-0.19	-0.21
Health Care Eqpt & Srvcs	-0.29	0.18	-0.11
Household & Prsnl Prods	-0.05	0.00	-0.05
Consumer Services	0.25	0.00	0.24
Tech Hardware & Equipment	0.29	0.23	0.52
Insurance	-0.03	0.02	-0.02
Materials	-0.24	0.03	-0.21
Media & Entertainment	-0.09	0.01	-0.08
Pharmaceuticals & Biotech	-1.10	-0.05	-1.15
Real Estate	0.03	0.05	0.08
Retailing	-0.05	0.06	0.01
Software & Services	-0.04	0.20	0.16
Semiconductors & Semi Eq	-0.18	0.00	-0.17
Telecomm Services	0.06	-0.12	-0.06
Transportation	0.15	0.00	0.15
Utilities	0.11	0.01	0.12

Source: Wilshire Analytics

Looking at the current market environment we see slowing economic and corporate growth rates both here in the U.S. and around the world, while interest rates continue to be low or even negative in some countries. Given the backdrop of diminished growth and lower yield alternatives, we believe that the Convergence Dividend Growth strategy is an attractive core equity position for investors. Our guiding mission for the strategy is to seek out companies with strong and improving cash flows which are supportive of rewarding shareholders with growing dividend payments. If history is any guide, we believe companies with such 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 and groups 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 3/31/2019. Returns have been compared to the Russell 1000® Index and the Russell 1000® Value Index. The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. 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 chart data: Wilshire Analytics