Convergence Dividend Growth Commentary

Q1-2020

In the first quarter of 2020, the Convergence Dividend Growth strategy succeeded in marginally outperforming the Russell 1000 Value, net of fees, during the tumultuous Coronavirus environment. The characteristics the Convergence process favors helped us to maintain a portfolio of companies that proved additive to our results, particularly in February and March. As economic fears from the effects of the Coronavirus set in, corporate fundamentals provided a positive differentiator between winners and losers. Therefore, while the strategy trailed the Russell 1000 Value index in January, it more than made up that ground with outperformance in the volatile months of February and March. This is the type of behavior we would expect from a disciplined strategy focused on companies with sustainable and growing dividend payouts to shareholders.

As we ended 2019 many stocks appreciated to levels that appeared excessive relative to underlying fundamentals. The names selected for inclusion within the Convergence Dividend Growth strategy will, by definition, tend to have what Warren Buffet refers to as "wide moats." When screening and combing through the multitude of dividend paying companies, we seek to identify companies that have strong cash flow, earnings, and sales. We also target companies with strong fundamental metrics such as good capital discipline and quality. Our portfolio construction process is built on the principle that companies with strong and growing dividends tend to outperform over the long haul. Therefore, baked into our selection criteria is the premise that a given company's profits should be sustainable enough to weather economic slowdowns. This becomes evident when analyzing the past performance of companies with moderate payout ratios, strong cash flow and sustained dividend growth. Historically, these companies have fared better in times of economic turmoil[1].

As our long-term investors are aware, our three core tenets have remained steadfast since the strategy's inception.

- Competitive, long-term returns
- Below market volatility
- Above market level dividend yield

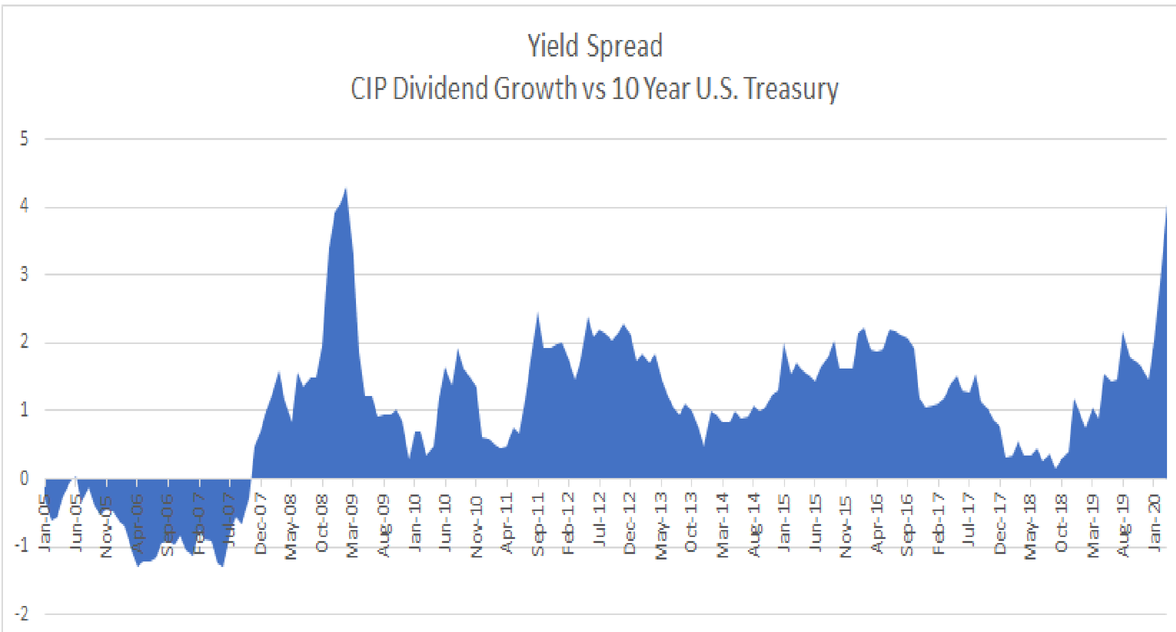
The strategy's construction discipline is reflected in our portfolio statistics through both a yield that has been consistently higher than the market averages since inception and a growth rate on those dividends that is nearly double that of the market. Also, the strategy's lower-than-market price-to-earnings ratio demonstrates that we are not overpaying for the growth component of our strategy

	Current Yield	5 Year Div. Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	4.73%	11.2%	13.8
Russell 1000 Value Index	3.44%	6.6%	15.6
Russell 1000 Index	2.27%	7.4%	20.1

As of 3/31/2020

[1] Past performance is not indicative of future results.

Drastic steps have been taken by the Federal Reserve and with the resulting plunge in bond yields across the curve, the attractiveness of high-quality dividend companies has soared to historic levels. With average portfolio yield on the Convergence Dividend Growth strategy of 4.73% versus the 10 Year U.S. Treasury yield of 0.67%, as of March 31, we are now at a level comparable to the financial crisis in terms of “yield spread.” We think this dynamic makes ownership of this asset class favorable, particularly with a basket of high-quality companies with strong balance sheets and cash flow, which are supportive of that dividend payment. These company characteristics are part of the overall Convergence process.



Source: Wilshire Analytics

As we have discussed in previous updates, dividends can increase over time for strong companies with successful business models. For patient investors, dividends paid by a portfolio of quality companies tend to grow over time, unlike bonds that generally pay a fixed coupon to bondholders.

The Convergence Dividend Growth was down -25.90% in the first quarter, compared to the Russell 1000 Value index that was down - 26.73%. For the quarter, the strategy benefited from an eclectic mix of stock selections from the Software, Pharmaceutical, Tech Hardware, and Healthcare groups. Blue chip names with solid growth metrics provided strong relative returns within the portfolio. Groups that detracted most from relative performance for the quarter included Consumer Services, Diversified Financials, and REITS. The following table summarizes attribution effects of the Dividend Growth strategy vs the Russell 1000 Value Index.

Convergence Dividend Growth: 3 Month Attribution as of 3/31/2020 (vs Russell 1000 Value)			
	Stock Selection Effect (%)	Allocation Effect (%)	Total Variance (%)
Automobiles & Components	0.036	0.015	0.051
Banks	-0.245	0.335	0.09
Capital Goods	0.539	-0.019	0.521
Consumer Durables & Apprl	0.006	-0.027	-0.022
Comm & Prof Services	0	-0.009	-0.009
Diversified Financials	-0.416	0.002	-0.413
Energy	0.15	-0.123	0.027
Food Beverage & Tobacco	0.007	-0.092	-0.085
Food & Staples Retailing	-0.071	0.242	0.171
Health Care Eqpt & Srvcs	0.476	-0.262	0.214
Household & Prsnl Prods	0.03	-0.002	0.028
Consumer Services	-0.531	-0.025	-0.556
Tech Hardware & Equipment	0.451	-0.039	0.412
Insurance	-0.388	0.076	-0.312
Materials	-0.405	0	-0.405
Media & Entertainment	-0.07	0.012	-0.058
Pharmaceuticals & Biotech	0.197	0.354	0.552
Real Estate	-0.413	0.033	-0.381
Retailing	0.148	0.001	0.149
Software & Services	0.489	0.321	0.81
Semiconductors & Semi Eq	-0.118	0.054	-0.064
Telecomm Services	-0.007	0.254	0.247
Transportation	-0.103	-0.017	-0.121
Utilities	-0.014	-0.175	-0.189

Source: Wilshire Analytics

As we look forward to the remainder of the year, in the words of Michael Goldstein from Empirical Research, "nobody knows nuttin'." Trying to predict the direction of the markets, will be a fruitless exercise even for the most seasoned market strategists. However, there are sound investing principles that astute investors can lean on. Periods of economic uncertainty, can create opportunities for shrewd and discerning market participants who invest in fundamentally sound companies with strong growth characteristics. In the words of Michael Wilson, the senior equity strategist at Morgan Stanley, the upcoming earnings reports will show a lot of stock specific dispersion, which can create some terrific stock selection opportunities for active managers. As always, our guiding mission will be to continue to focus 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.

Data as of March 31, 2020

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 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 03/31/2020. Returns have been compared to the Russell 1000® Value Index and the Russell 1000 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 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. This communication is limited to the dissemination of general information pertaining to Convergence Investment Partners, LLC's

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Source of market data: Wilshire Analytics