

Convergence Dividend Growth Commentary

Q2-2019

The Convergence Dividend Growth strategy delivered a very strong return in the first half of 2019, up 13.18%. As a value focused strategy with lower risk in terms of beta and volatility, we were pleased with the strong returns generated during the past six months given the powerful upward move in the broader markets. Almost all U.S. indexes are up double digits year to date, and growth focused indexes led the pack. For the first half of 2019, the Russell 1000 Growth Index outperformed the Russell 1000 Value index by over 715 basis points. Since inception, and over the trailing 3-, 5- and 10- year periods (as of June 30, 2019), our Dividend Growth strategy has outperformed the Russell 1000 Value index, net of fees. We strive to deliver superior risk adjusted returns for our clients. Through our process we focus on long-term factors such as attractive relative valuations, strong cash flow generation and robust earnings and sales growth.

Since the inception of the Convergence Dividend Growth strategy, our objectives have remained unchanged:

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

Periodically, markets present a challenging environment. However, we remain steadfast in our process. The first half of 2019 proved challenging for value and fundamentally focused investors. 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 6/30/2019	Dividend Yield	5 Year Dividend Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.45%	10.3%	16.5
Russell 1000 Value Index	2.59%	6.6%	18.8
Russell 1000 Index	1.90%	7.3%	22.7

Source: Wilshire Analytics

Looking at the dividend yield of the Convergence Dividend Growth strategy, we maintain a significant premium to the broader equity market, 3.45% for the portfolio versus 1.90% for the Russell 1000 market index. For the second quarter of 2019, the strategy benefited the most from stock selection within Banks, Semiconductors, and Energy groups. Blue chip names with strong cash flows provided strong relative returns within the portfolio. Groups that detracted most from relative performance for the quarter included Food/Beverage/Tobacco, Utilities and Capital Goods. The following table summarizes attribution effects of the Dividend Growth strategy versus the Russell 1000 Value Index for the quarter.

Convergence Dividend Growth: YTD Attribution 6/30/2019 (vs Russell 1000 Value)			
	Stock Selection Effect (%)	Allocation Effect (%)	Total Variance (%)
Automobiles & Components	0.003	0.009	0.012
Banks	0.189	-0.063	0.126
Capital Goods	-0.236	0.057	-0.179
Consumer Durables & Apprl	-0.072	0.000	-0.072
Comm & Prof Services	0.000	-0.034	-0.034
Diversified Financials	-0.100	-0.056	-0.156
Energy	0.161	0.119	0.280
Food Beverage & Tobacco	-0.587	0.004	-0.583
Food & Staples Retailing	-0.038	0.018	-0.021
Health Care Eqpt & Srvcs	0.011	0.035	0.047
Household & Prsnl Prods	0.047	-0.002	0.045
Consumer Services	-0.084	0.005	-0.079
Tech Hardware & Equipment	-0.114	-0.007	-0.121
Insurance	0.069	-0.100	-0.031
Materials	0.103	0.028	0.131
Media & Entertainment	-0.007	-0.069	-0.077
Pharmaceuticals & Biotech	-0.157	0.002	-0.155
Real Estate	-0.123	-0.010	-0.133
Retailing	0.023	-0.103	-0.080
Software & Services	0.051	0.061	0.112
Semiconductors & Semi Eq	0.172	-0.047	0.125
Telecomm Services	-0.028	-0.022	-0.050
Transportation	-0.090	0.008	-0.082
Utilities	-0.390	0.001	-0.389

Source: Wilshire Analytics

We see a “mixed” environment right now within equities. Most market participants seem confident that things are dire, and therefore, anticipate that the Federal Reserve will cut rates preemptively in July to avoid an economic contraction. There are several things ratcheting up anxiety including unclear international trade relations. Amid these worries, inflation remains below the Fed’s 2% target, unemployment is low at 3.7% and the S&P 500 Index was up 18.5% in the first half of 2019. The recessionary signals from the flattening yield curve can be mitigated with strong U.S. economic data, such as the unemployment rate and positive consumer data. Lastly, the Conference Board Leading Economic Indicators (LEI), which has dropped notably since Q3-2018, remains positive at 2.5%. Historically, the U.S. has not entered a recession without a negative LEI reading.

All these economic crosscurrents present a backdrop of diminished growth and lower yield alternatives. In such conditions, we believe that the Convergence Dividend Growth strategy offers an attractive core equity position for investors. Finding companies with strong and improving cash flows which are supportive of rewarding shareholders with growing dividend payments is the guiding mission of our Dividend Growth strategy. 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 deliver strong long-term risk-adjusted returns.

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 6/30/2019. 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

Source of market data: Bloomberg Finance LP