

Convergence Dividend Growth Commentary

Q3-2020

The Convergence Dividend Growth strategy generated a positive 2.50%, net of fees, in the 3rd quarter. The strategy has slightly outperformed the Russell 1000 Value Index by 0.24% year-to-date, as above-average dividend paying companies have basically matched the returns of the value index, which includes both dividend paying and non-paying companies. Over the past twelve months the strategy has outpaced the Russell 1000 Value Index by 0.95%, net of fees, returning -4.08% versus -5.03% for the value index. Finally, over the past 5 years, the strategy has returned on average 8.82% annually, net of fees, outperforming the Russell 1000 Value Index's 7.66% average annual return by 1.16%, net of fees.

The strategy performed well in the first half of 2020, outperforming the Russell 1000 Value, net of fees, while trailing somewhat in the third quarter, as dividend payers gained less than their non-dividend peers. It is worth noting that within the Russell 1000 Value Index, over 25% of companies in that universe do not even pay dividends. Therefore, while this benchmark is a good comparison for a dividend-focused discipline, there are periods of time where dividend payers can outperform or underperform in the short run. However, as discussed in previous commentaries, our research has shown that high quality companies, with solid growth metrics and a history of growing their dividend payments, have rewarded investors with favorable relative performance. We remain confident that as investors search for yield in today's landscape (which is devoid of income opportunities), companies with solid dividend yields will continue to shine.

Let's look back at the past year and see if dividend growth really mattered. We will look at how those who increased their dividends performed relative to those that cut or eliminated their dividends. As of quarter end, the Russell 1000 Value had 850 names. Of those names, 119 or 14% cut their dividend. There were 440 or 52% that increased their dividends during the 12 months. Finally, there is a smaller group, 78 companies or 9% that left their dividends unchanged. The table summarizes how these groups performed over the twelve months ended 09/30/2020. The return calculation is a simple average of each stock's return for the year.

	Negative Dividend Growth	Positive Dividend Growth	No Dividend Growth
Average Return	-24.76	-3.05	-3.43
Count of Stocks	119	440	78
% of Russell 1000 Value Index	14%	52%	9%

Source: Bloomberg

The above table clearly shows that attention must be paid to stocks that are growing their dividends. One can easily observe that the companies who raised their dividends held up significantly better than the companies who cut their dividends.

Our long-term investors know that our process creates a diversified portfolio of fairly-valued companies with high, growing, and sustainable dividends. Our portfolio has delivered strong relative returns since its inception. The strategy has outperformed in the trailing **1-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, and 10-**year periods, all with a dividend yield significantly higher than its Russell 1000 Value benchmark. There are very few strategies like ours that offer a 4% yield, while also maintaining strong growth characteristics. In addition, the strategy offers below market predicted Beta. (Beta is a measure of volatility relative to the market).

Our portfolio construction process is built on the principle that companies with strong and growing dividends tend to outperform. The idea that company profits should be sustainable enough to weather economic slowdowns is core to our philosophy. We seek to identify companies with moderate payout ratios, strong cash flow and sustained dividend growth. Historically, these companies have fared better in times of economic turmoil.

The pillars of our philosophy are reflected in our portfolio statistics. Our portfolio yield has been consistently higher than the market averages since inception, and the portfolio dividend growth rate is nearly double that of the market.

	Current Yield	5 Year Div. Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.99%	10.83%	24.0
Russell 1000 Value Index	2.47%	7.72%	26.2
Russell 1000 Index	1.61%	7.41%	33.2

Third-Quarter Performance Summary

The Convergence Dividend Growth delivered a 2.50% return, net of fees in the third quarter of 2020. The Russell 1000 Value Index was up 5.59% in the same three months. For the third quarter, Dividend Growth was hampered equally by stock selection and industry group allocation. In terms of stock selection, the strategy performance was helped the most by stock selection within the Semiconductor and Retailing industry groups. Conversely, the stock selection within Pharmaceuticals and Diversified Financials detracted the most from performance. When looking at the allocations effects, our most significant positive contributions were from the Retailing and Food & Staples industry groups. Our biggest detractors for the quarter were the Energy and Tech Hardware industry groups. 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 9/30/2020 (vs Russell 1000 Value)

Convergence Dividend Growth: 3 Month Attribution as of 9/30/2020 (vs Russell 1000 Value)			
	Stock Selection Effect (%)	Allocation Effect (%)	Total Variance (%)
Automobiles & Components	0.00	-0.04	-0.04
Banks	0.03	-0.03	0.01
Capital Goods	0.18	-0.06	0.12
Consumer Durables & Apprl	0.23	0.06	0.28
Comm & Prof Services	0.00	-0.01	-0.01
Diversified Financials	-0.61	-0.10	-0.71
Energy	-0.25	-0.56	-0.81
Food Beverage & Tobacco	-0.17	-0.01	-0.18
Food & Staples Retailing	-0.19	0.06	-0.12
Health Care Eqpt & Srvcs	-0.59	-0.06	-0.64
Household & Prsnl Prods	-0.02	0.06	0.04
Consumer Services	-0.04	-0.06	-0.10
Tech Hardware & Equipment	0.25	-0.31	-0.07
Insurance	0.03	0.01	0.03
Materials	0.11	-0.10	0.01
Media & Entertainment	-0.21	-0.23	-0.45
Pharmaceuticals & Biotech	-1.32	0.00	-1.32
Real Estate	0.11	0.00	0.10
Retailing	0.29	0.13	0.42
Software & Services	-0.05	0.00	-0.06
Semiconductors & Semi Eq	0.65	-0.02	0.64
Telecomm Services	-0.08	-0.05	-0.12
Transportation	0.01	-0.09	-0.08
Utilities	0.16	0.00	0.16

Source: Wilshire Analytics

Data as of September 30, 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 09/30/2020. 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: Wilshire Analytics and Bloomberg LLC