

# Convergence Dividend Growth Commentary

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## Q4-2019

The Convergence Dividend Growth strategy delivered strong results in 2019 by generating a total return of 25.53% for the year, net of fees. Companies with strong fundamental characteristics rewarded investors given the marked appreciation of those stocks within the equity markets. In addition, we are pleased that our disciplined investment process has allowed us to outpace the Russell 1000 Value Index in the past 3-, 5-, 10-year periods and since inception, net of fees. As our long-term investors are aware, our three core tenants have remained steadfast since the strategy's inception.

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

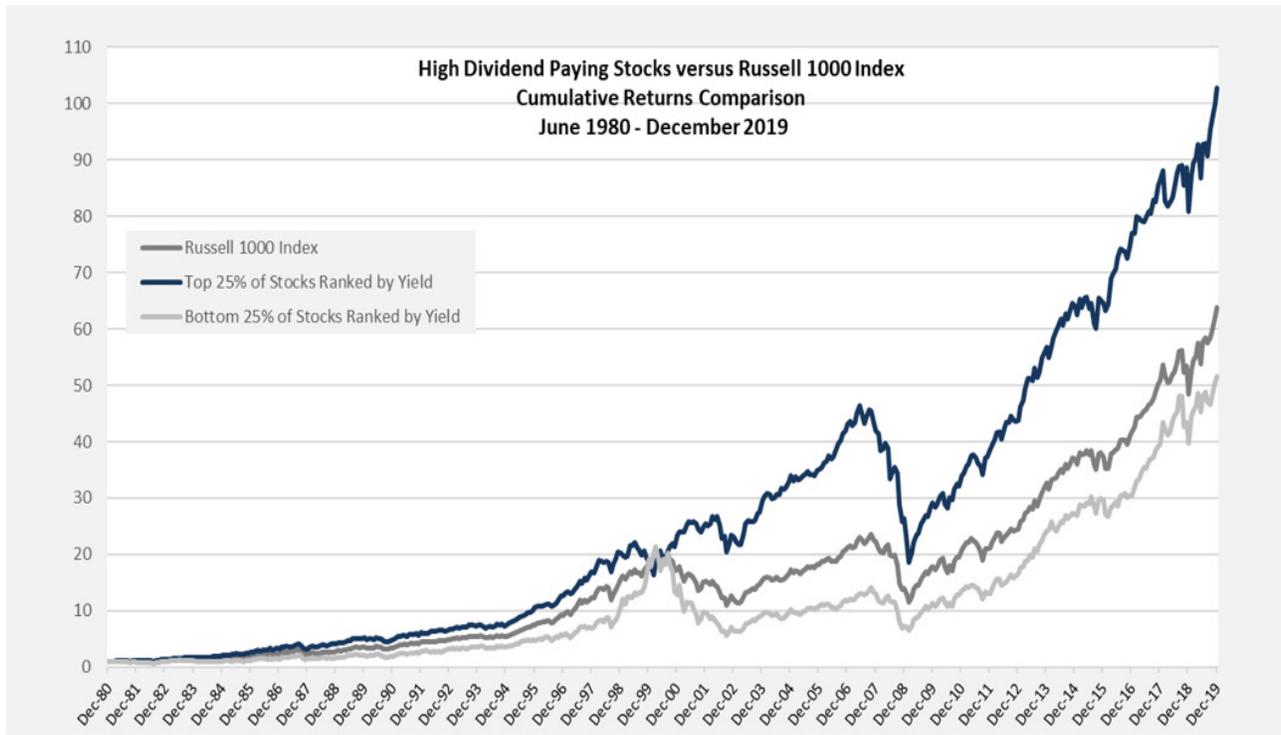
As part of the process, we place a high emphasis on corporate fundamental catalysts that are supportive in identifying companies with sustainable and growing dividends. Our process uses a rigorous method to source companies with strong cash flow, earnings, and sales combined with other key fundamental metrics.

The pillars of our investment philosophy are exhibited by a yield that has been consistently higher than the market averages since inception, and by a growth rate on those dividends that is nearly double that of 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 meticulous process are shown in the following table.

	Current Yield	5 Year Div. Growth	Trailing P/E Ratio
Convergence Dividend Growth Strategy	3.39%	11.0%	17.6
Russell 1000 Value Index	2.50%	6.6%	20.5
Russell 1000 Index	1.81%	7.4%	24.9

As of 12/31/2019

Over time, the market tends to reward companies that implement shareholder-friendly policies (i.e. companies with above average dividend payouts). As the chart below shows, the stocks in the top 25% of dividend payers have meaningfully outperformed their stingier counterparts. As we learned in the fable of the "Tortoise and the Hare," the racy non-dividend payers might have price appreciation potential, but it's the "sure and steady" that has potential to win the race.



Source: Wilshire Analytics

As discussed in previous updates, the dividend from a well-diversified portfolio is tangible as opposed to the price return that depends upon expectations and hope. It is believed that Albert Einstein once said, “Compound interest is the eighth wonder of the world.” If that’s the eighth, then we would like to propose the ninth wonder of the world are dividends, because unlike bonds that generally pay a fixed coupon to bondholders, dividends paid out by corporations grow over time.

The Convergence Dividend Growth was up 25.53% in 2019, compared to the Russell 1000 Value index that was up 26.5%. In terms of yield, the portfolio average dividend yield maintains a meaningful premium over the broader equity market, 3.4% for the portfolio versus 1.8% for the Russell 1000 market index.

For the quarter, the strategy benefited from an eclectic mix of stock selections from the Utilities, Energy, Tech Hardware, and Food Beverage & Tobacco groups. Blue chip names with solid growth in earnings provided strong relative returns within the portfolio. Groups that detracted most from relative performance for the year included Healthcare Equipment and Software. For Healthcare, the biggest impediment was not stock selection, but a lack of companies that pay a suitable dividend. 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 12/31/2019 (vs Russell 1000 Value)			
	Stock Selection Effect (%)	Allocation Effect (%)	Total Variance (%)
Automobiles & Components	0	0.024	0.024
Banks	-0.043	-0.148	-0.191
Capital Goods	-0.018	-0.011	-0.028
Consumer Durables & Apprl	0.097	-0.002	0.095
Comm & Prof Services	0	0.002	0.002
Diversified Financials	0.17	-0.053	0.117
Energy	0.268	0.013	0.282
Food Beverage & Tobacco	0.249	0.01	0.259
Food & Staples Retailing	-0.006	-0.073	-0.079
Health Care Eqpt & Srvcs	-0.229	-0.089	-0.318
Household & Prsnl Prods	-0.002	0.026	0.024
Consumer Services	-0.006	-0.019	-0.024
Tech Hardware & Equipment	0.277	-0.033	0.243
Insurance	0.136	0.105	0.241
Materials	0.105	-0.002	0.103
Media & Entertainment	-0.09	-0.045	-0.135
Pharmaceuticals & Biotech	0.092	0.074	0.165
Real Estate	0.204	-0.077	0.127
Retailing	0.154	-0.034	0.12
Software & Services	-0.231	-0.089	-0.319
Semiconductors & Semi Eq	-0.086	0.102	0.016
Telecomm Services	-0.004	-0.103	-0.106
Transportation	0.049	0	0.049
Utilities	0.281	0.146	0.427

Source: Wilshire Analytics

As we look forward to 2020, overall economic activity, labor market conditions, and general business outlook continue to look reasonably supportive for equities. However, the persistently upward trending market seems to be leading to higher levels of investor complacency due to last year's low levels of volatility as well as heightened levels of valuation. Also, earnings growth rates are expected to be positive (ever so slightly) in the coming year. These factors may result in investors seeking the stability of companies with strong and growing dividends. With rising debt levels in certain corporate sectors, it is prudent to differentiate among corporate 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 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 December 31, 2019

**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 12/31/2019. 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.

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Source of market data: Wilshire Analytics