

Equity Strategies • IDEA

The Increasing Dividend Equity Account (IDEA) portfolio is focused on high quality companies with long track records of distributing earnings to shareholders through dividends. These companies tend to be established companies that generate free cashflow and have management teams committed to growing the dividend. The portfolio is selected from a universe of stocks meeting minimum criteria of paying and increasing dividends over the last 10 years. The portfolio typically is comprised of approximately 50 holdings and is expected to result in low to moderate turnover. The portfolio is suitable for clients seeking total return from dividend income and capital appreciation.

Portfolio Performance

Equity returns were solid during the first quarter of 2011 with the S&P 500 rising 5.9%. The Confluence IDEA portfolio gained 4.8% (gross of fees) over the same period.

(For detailed performance data and disclosures see:
www.confluenceinvestment.com/equity_strategies#prod_42)

The strength of the equity markets has been driven by the steady progress in economic growth which is just beginning to be reflected in the employment figures. This strength has led to improved sentiment in the market as evidenced by investors' willingness to look past near-term issues such as turmoil in the Middle East and the devastating effects of the events in Japan to focus on the improving economy. We expect the economy to continue to show improvements albeit with some near-term bumps along the way.

Reviewing the S&P 500 for the quarter, the strength of the markets was broad with all 10 sectors posting positive results. The Industrial and Energy sectors led the markets with returns of 8.1% and 16.3%, respectively. Both sectors are the beneficiaries of stronger economic growth; however, Energy gained additional strength due to the uncertainties emanating from the Middle East uprisings.

Portfolio Changes

In the first quarter one change was made to the IDEA portfolio. With the strong run in Energy we took the opportunity to sell Energen, a gas utility that has evolved into an oil and gas exploration and production company, as its dividend yield fell below our 1% threshold. Energen was replaced with Southern Company, an electric utility serving primarily Georgia and Alabama. Southern Company has solid financials, a long history of increasing dividends, and a current yield of 4.8%.

Best Performing Holdings- 1Q 2011

Marathon Oil - Energy
Energen - Energy/Utility
Chevron - Energy
Conoco Phillips - Energy
Graco Industries - Fluid Handling Systems

Worst Performing Holdings- 1Q 2011

Target - Retailer
Microsoft - Software
AFLAC - Insurance
Becton Dickinson- Medical Supplies
Novartis – Pharmaceuticals

Annual Dividend Statistics for IDEA Portfolio at 12/31

Year	Holdings	Avg. Yield	Dividend Change from Prior Year				Annual Dividend Increases Over Past 10 Years			
			# of companies with			Avg. Growth	# of companies with			Avg. 10 yr Growth
			Increase	Flat	Decrease	Growth	10 years	9 years	< 9 years	Growth
2009	49	2.8%	45	4	0	8.1%	38	6	5	13.3%
2010	49	2.8%	45	4	0	8.0%	38	3	8	12.6%

Top 10 Portfolio Holdings (as of 3/31/11)

Name	Ticker	Weight	Sector	Yield
Marathon Oil Corp.	MRO	2.6%	Consumer Discretionary	1.8%
Polaris Industries Inc.	PII	2.6%	Energy	1.9%
Graco Inc.	GGG	2.5%	Industrials	1.9%
ConocoPhillips	COP	2.4%	Energy	2.7%
Chevron Corp.	CVX	2.3%	Energy	2.7%
W.W. Grainger Inc.	GWG	2.3%	Industrials	1.5%
Analog Devices Inc.	ADI	2.2%	Energy	2.1%
Exxon Mobil Corp.	XOM	2.2%	Information Technology	2.3%
International Business Machines	IBM	2.2%	Information Technology	1.5%
Occidental Petroleum Corp.	OXY	2.1%	Energy	1.5%

Portfolio Statistics

# of Holdings	49
Average Dividend Yield	2.7%
Average Price to Earnings	17.4
Average Price to Book	4.0

Sectors

Consumer Discretionary	8%
Consumer Staples	15%
Energy	12%
Financials	13%
Health Care	9%
Industrials	13%
Information Technology	12%
Materials	6%
Telecom Services	0%
Utilities	9%
Cash	3%

Market Capitalization

Large Cap	69%
Mid Cap	25%
Small Cap	4%
Weighted Average (\$ billions)	57.3
Largest	417.2
Median	24.8
Smallest	1.2

Portfolio Changes in 1Q 2011

Sold Energen (EGN)
Bought Southern Co. (SO)

Confluence Investment Management LLC

Confluence Investment Management LLC is an independent, SEC Registered Investment Advisor located in St. Louis, Missouri. The firm provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates the firm's evaluation of market cycles, macroeconomics and geopolitical analysis with a value-driven, fundamental company-specific approach. The firm's portfolio management philosophy begins by assessing risk, and follows through by positioning client portfolios to achieve stated income and growth objectives. The Confluence team is comprised of experienced investment professionals who are dedicated to an exceptional level of client service and communication.

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