First Quarter
2012

Equity Strategies • Equity Income

The Equity Income portfolio is focused on businesses across a broad range of market capitalizations that collectively generate an above-average stream of dividend income, while also providing for capital appreciation potential. The businesses are selected using a bottom-up, fundamental research process that seeks to identify individual businesses that have the ability to either pay a high level of dividend income or grow the dividend stream over time. The portfolio typically is comprised of 30-35 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 Commentary

In our last update we spoke about the rewards of investing during periods of pronounced fear, such as the one experienced last fall. Fear and angst served to keep valuations low and provide bottom-up investors, such as ourselves, opportunities to build positions in familiar companies. Being attuned to a company's unique competitive advantages, financial characteristics and opportunities for future growth allows one to better gauge the risk/reward profile of that specific company, and opportunistically capitalize on broad downdrafts in the market. Such downdrafts can be driven by a multitude of influences that are not always germane to a particular company's underlying fundamentals. What is generally unknown during these periods is how long it will take for stock prices to reflect underlying fundamentals. We can cope with uncertain timing when valuations justify action. With stocks having rebounded over 24% in six months, in this case, timing was ephemeral.

Much of the fear investors had in the fall has dissipated given improvements in consumer confidence, unemployment statistics, financing costs for stressed borrowers and Euro zone ring fencing, to name a few. Consequently, the S&P 500 Index rose 12.6% during the first quarter of 2012, marking its best Q1 performance in over a decade. The Confluence Equity Income portfolio trailed the S&P 500 over this period, gaining 9.0% (gross of fees). *(For detailed performance data and disclosures see: www.confluenceim.com/equity_strategies#prod_137)*

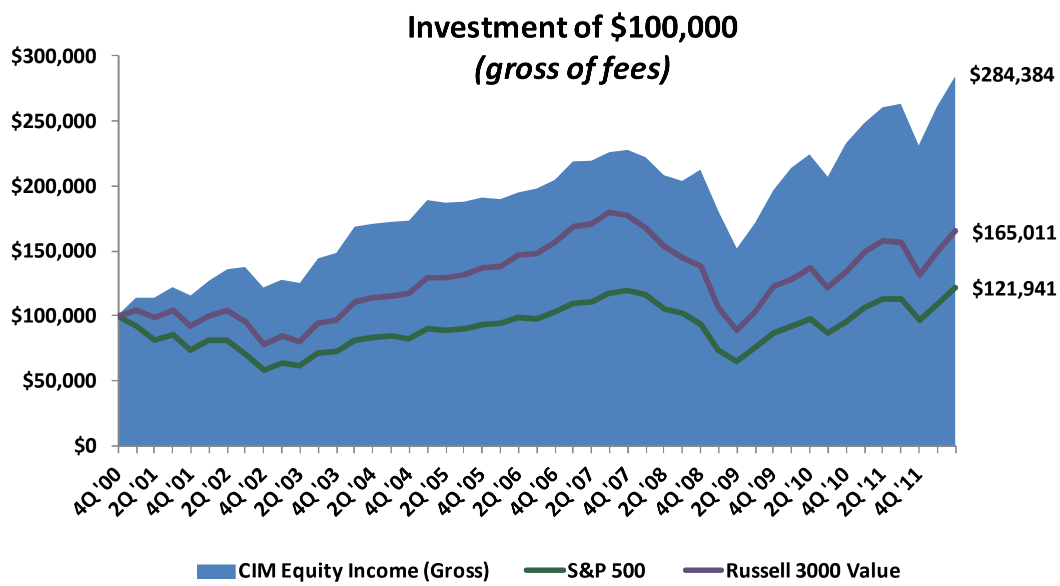
As we enter the second quarter, corporate profits remain strong as do balance sheets. Nevertheless, impediments to growth remain. Some of these, such as Euro zone economic and debt concerns and slower growth out of China have been with us for some time, whereas others are more emergent. We view a continued escalation in the price of gasoline as the most likely catalyst for a near-term disruption in domestic growth. This could potentially take some wind out of consumers' sails, which have been the primary driver of economic growth in recent months.

Bottom line, the economy, while not bad, isn't robust either. We would not be surprised to see a short-term pull back in the market prior to the next move higher. At the moment, several of the portfolio names are not buyable as they trade slightly above our targeted entry points. Our expectation is that most of these positions would fall into a buyable range upon a mid-single digit correction in the broader market.

The best performing holdings during the quarter included shares of Graco, a maker of fluid control devices, software developer Microsoft and protective coatings leader Sherwin Williams. The worst performing holdings during the quarter were insurance broker Willis Group and both of our utility holdings, The Southern Company and Vectren Corp.

Top 10 Portfolio Holdings (as of 3/31/12)

Company	Market Capitalization *($ billions)*	Portfolio Weight
Home Depot Inc.	76.6	3.6%
McGraw-Hill Cos.	13.5	3.3%
Diageo (Adr 1:4)	60.3	3.3%
Graco Inc.	3.2	3.3%
HNI Corp.	1.3	3.2%
Microsoft Corp.	270.6	3.2%
Lockheed Martin Corp.	29.2	3.2%
Chevron Corp.	212.0	3.1%
Pfizer Inc.	170.7	3.1%
E.I. DuPont de Nemours & Co.	49.5	3.0%



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.