

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

In our last update we spoke about the rewards of investing during periods of pronounced fear, such as the one experienced last fall. Much of that fear has dissipated, given improvements in consumer confidence, unemployment statistics, financing costs for stressed borrowers and Euro zone pressures. Consequently, the S&P 500 Index rose by 12.6% during the first quarter of 2012, marking its best Q1 performance in over a decade. Following a solid year of outperformance in 2011, the IDEA portfolio appreciated 7.0% (gross of fees) in the first quarter of 2012. (For detailed performance data and disclosures see:

www.confluenceinvestment.com/equity_strategies#prod_42)

The IDEA portfolio underperformed the S&P 500 as companies with steady dividend growth tended to trail the index. In fact, only three sectors in the S&P 500 outperformed the aggregate return for the index: financials, information technology and consumer discretionary. Many of the companies that drove the outperformance in the financials and information technology sectors do not meet the increasing dividend criteria for the IDEA portfolio.

In Q1 2012, the best performing stocks in the portfolio were Graco (industrial), Microsoft, Illinois Tool Works, American Express, and Eaton Vance (financial). The worst performing IDEA holdings were New Jersey Resources (utility), Piedmont Natural Gas (utility), Novartis (healthcare), Southern Co. (utility) and General Mills.

Portfolio Changes

In late January, we sold Target as we believed their increased focus on groceries will detract from their “cheap chic” brand over time, making their business drivers increasingly similar to Wal-Mart, a position we also own in the portfolio. Target was replaced by Nike, which has strong long-term global sales growth potential along with some short-term sales growth catalysts, such as the conversion of all NFL jerseys from Reebok to Nike and the 2012 Summer Olympics.

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%
2011	49	2.8%	46	3	0	10.3%	38	4	7	12.5%

*Excludes impacts of special dividends and spin-offs.

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

Company Name	Ticker	Weight	Company Sector	Yield
W.W. Grainger Inc	GWW	2.6%	Industrials	1.2%
Graco Inc	GGG	2.4%	Industrials	1.6%
International Business Machines Co	IBM	2.3%	Information Technology	1.4%
Nordstrom Inc	JWN	2.2%	Consumer Discretionary	1.6%
American Express Co.	AXP	2.2%	Financials	1.2%
T. Rowe Price Group Inc	TROW	2.2%	Financials	1.9%
Microsoft Corp.	MSFT	2.2%	Information Technology	2.2%
Brown-Forman Corp. Cl B	BF.B	2.2%	Consumer Staples	1.5%
McDonald's Corp.	MCD	2.1%	Consumer Discretionary	2.6%
Praxair Inc	PX	2.1%	Materials	1.7%

Portfolio Statistics

# of Holdings	49
Average Dividend Yield	2.7%
Average Price to Earnings	16.0
Average Price to Book	4.0

Sectors

Consumer Discretionary	6.4%
Consumer Staples	16.0%
Energy	10.2%
Financials	15.2%
Health Care	9.3%
Industrials	11.8%
Information Technology	11.9%
Materials	5.9%
Telecom Services	0.0%
Utilities	10.5%
Cash	2.8%

Market Capitalization

Large Cap	72%
Mid Cap	19%
Small Cap	6%
Weighted Average (\$ billions)	61.8
Largest	408.8
Median	25.4
Smallest	1.5

Portfolio Changes in 1Q 2012

Sold Target (TGT)
Bought Nike (NKE)

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.

This material is published solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or investment product. Opinions and estimates are as of a certain date and subject to change without notice. Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable.