Fourth Quarter
2020

Emerging Markets • International Equity Strategies

Confluence Emerging Markets invests in large cap, growth-oriented companies in the more mature emerging markets around the world. The strategy's management team employs both top-down and bottom-up fundamental analysis to identify attractive emerging market countries and economic sectors as well as high-quality companies worthy of a long-term investment allocation. The portfolio's primary objective is long-term capital appreciation.

Market Commentary

The emerging market (EM) rally, which started in March, accelerated during the fourth quarter of 2020 primarily due to COVID-19 vaccine breakthroughs and the U.S. election outcome. The MSCI Emerging Markets Index showed strength in the fourth quarter, rising 19.7% in U.S. dollar (USD) terms, exceeding the returns of developed international markets (MSCI EAFE Index, up 16.0%) and the U.S. markets (S&P 500 Index, up 12.1%). The fourth quarter performance for emerging markets was the best quarterly return since the end of 2009. On a year-to-date basis, the MSCI Emerging Markets Index was up 18.3%, far exceeding the performance of the developed international markets as the MSCI EAFE Index rose only 7.8%. Since the precipitous drop in global equity prices in the first quarter, the EM index has risen by more than 73%. The resurgence of the emerging EM economies following the global COVID-19 pandemic has jumpstarted an economic recovery; however, more recently, pockets of renewed infections have started to emerge globally. As long as these pockets remain isolated, we are confident that EM economies will reaccelerate and continue to drive global growth in 2021 and beyond.

Major events that drove strong returns during the final quarter of 2020 will provide a constructive backdrop for 2021. Successful distribution of COVID-19 vaccines is expected to pave the way for a return to growth in the EM economies. In November, two vaccine candidates showed efficacy rates of over 95% in Phase III trials. The widespread distribution of these vaccines across the developed markets sparked a rally in equity prices in anticipation of a global economic recovery in 2021. The vaccines are expected to be distributed to the developed markets during the first half of 2021 and to emerging markets in the back half of 2021 and 2022. Russia and China have developed their own vaccines, distributing them across their own countries and some other emerging markets. Several constraints that could delay vaccine distribution include transport/storage infrastructure and limited numbers of professionals trained to administer the vaccine. Nevertheless, we believe widespread vaccine distribution should result in higher global growth. EM equities continued to be driven by a global "risk-on" environment. The reopening of global economies and copious amounts of monetary and fiscal accommodation by the world's largest economies have created a sharp recovery from the depths of the global shutdown in many of these emerging economies. Emerging markets with large industrial and cyclical companies would likely benefit. Some commodity-rich economies should also prosper, especially those producing industrial metals and agricultural products.

The outcome of the U.S. elections brought welcome news to the global markets and contributed to the EM rally as Biden's win brings hope of more stability. The Biden administration may maintain pressure on China and reintroduce sanctions on Russia; however, we could see a more constructive tone. Biden may be more collaborative with allies and engage more with opponents, which should provide lower political risk premiums, and the USD resumed its weakening trend following the Biden victory. As a result of a weaker USD, EM currencies broadly strengthened against the dollar, which helped propel EM equity returns for the quarter ahead of those in the developed international markets. Since equity markets bottomed in March 2020, the USD has weakened by 11%. Under the new administration and, as we move into 2021, the dollar is expected to remain weak due to a low-interest-rate environment and expectations of sizable fiscal stimulus. Finally, the Biden administration has signaled it intends to approve a large infrastructure spending program. In addition to the benefits from higher U.S. growth and employment, these projects usually increase demand for resources and commodities from companies domiciled in the world's emerging markets.

As a region, Asia ex-Japan advanced in the fourth quarter, driven by the technology-heavy economies of South Korea and Taiwan, which saw robust demand for their technology exports. Equities in Thailand and Indonesia rose as the promise of economic "normalization" sent investors into countries that haven't rallied to the same extent as the region's stalwarts. Despite its size and growth rate, China was the region's laggard. Increased scrutiny of its internet industry and U.S. investment restrictions imposed by the Trump administration dampened market sentiment. In India, better than expected corporate results cushioned against sustained coronavirus spread in the highly populated country. As the mortality rate has been contained and with daily deaths significantly below peak levels, the Indian economy continues to reopen despite the surge in cases. Russian equities were higher, driven by sharply higher oil prices and an improved outlook for global oil demand.

Continued on page 2...

About Confluence Investment Management LLC
Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's value-driven, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

20 Allen Ave., Ste. 300, St. Louis, MO 63119 • (314) 743-5090 www.ConfluenceInvestment.com

Market Commentary continued...

Signs of interference by the Chinese government continue to cloud the investment environment. In November, the Shanghai Stock Exchange halted a much-anticipated IPO for online payment processor Ant Group just hours before its scheduled debut. The Chinese government issued new regulations for internet lenders that negatively impacted Ant's business, valuation, and future IPO. These actions serve as a reminder that the Chinese government's meddling not only affects state-owned enterprises but private sector companies as well. Chinese regulators also recently opened an investigation into whether Alibaba (BABA), China's largest e-commerce company, engaged in monopolistic practices by restricting vendors on its platform from selling merchandise on its competitors' platforms. U.S.-China tensions have also created uncertainty for Chinese equities. In November, President Trump issued an executive order banning U.S. investors from transacting the securities of 31 (later increased to 35) Chinese companies that have been identified by the U.S. Department of Defense to have ties to the Chinese military. Several index providers have decided to remove these securities that are explicitly named in the executive order from their indices. While these securities may not be purchased by U.S. investors after January 11, 2021, investors currently holding these positions have until November 11, 2021, to divest these positions. President Biden has not indicated whether he will overturn the executive order, but he is required to reaffirm the order annually or it will expire. During the quarter, several Chinese companies withdrew from U.S. exchanges rather than meet the Trump administration's new requirement to provide audit paperwork to U.S. regulators. Finally, investors are watching the fate of Chinese companies prohibited from purchasing supplies from U.S. companies, such as Huawei.

Latin American emerging markets showed the strongest return during the fourth quarter as the rebound continued due to strong investor confidence and buoyant commodity prices. A rally in the Brazilian economy was anticipated. An economic rebound overshadowed worries around its fiscal deficit following stimulus that addressed the ramifications of the pandemic. Commodity-based economies rallied as increased demand for industrial metals, oil, and agricultural goods pushed prices and export demands higher. Mexican stocks rallied on improving economic activity and the prospect of better U.S.-Mexican relations under the Biden administration.

Despite the sharp rebound in emerging market equity performance in 2020 relative to the developed international markets and the U.S., we have found that high-quality growth stocks are trading at a sharp discount to their developed international and U.S. peers. The forward P/E ratio of the MSCI Emerging Markets Index is 15.4x versus 17.5x for the MSCI EAFE Index and 23.5x for the MSCI USA Index as of December 31, 2020.

Quarterly Trading Summary

During the fourth quarter, we sold two Chinese positions, modestly reducing our exposure to the Chinese economy. In November, we sold China Mobile (CHL), China's largest telecommunications company, as customer growth has slowed significantly since we purchased the name in December 2018. With 950 million mobile customers and 187 million wireline-broadband customers, the company's growth rate will be limited to low single-digits, at best. In an effort to level the playing field, the Chinese government provided two smaller players in the industry, China Unicom and China Telecom, with incentives to grow their customer bases at the expense of CHL, ensuring slow growth and margin pressures. CHL has also undertaken a large and expensive capex program to bring 5G to its nearly billion customers. These upgrades are very capital intensive since network equipment is expensive, and much more equipment is needed to get maximum network efficiency. The ability to recover these capital expenditures is unknown due to the competitive nature of the business, and average revenue per user has been falling for some time now.

In December, we sold CNOOC (China National Offshore Oil Company) Ltd. (CEO), the result of an overweight exposure to Energy. Energy demand in China was sharply lower as a result of the pandemic, and China, in its recent 14th Five-Year Plan, announced plans to reduce the consumption of fossil fuels in its economy. Electrification of China's transportation systems has made great strides, and the demand for fossil fuels in transportation will be somewhat muted moving forward. CEO does have a global footprint but some operations are in areas with significant lifting costs (Canadian oil sands, heavy sour crude, offshore fields), making these operations uneconomical in a low-cost energy environment. Finally, Trump was considering the addition of four companies, including CEO, to his order prohibiting U.S. citizens from purchasing and holding certain Chinese securities; thus, we exited the position.

We continue to identify countries and regions that have better adapted to the pandemic and implemented fiscal and monetary policies effective in minimizing the negative consequences, while preparing their economies for the subsequent rebound. We are exploring EM-based Information Technology companies that have developed innovative systems and products and were able to quickly adjust to the changing needs created by COVID-19. These companies tend to provide e-commerce, digital transformations, remote work/learning, and fintech solutions, providing some level of normalcy during the global pandemic. Even when the world returns to "normal," these opportunities should remain and continue to grow. The pandemic pulled forward the adoption of these trends, and people will likely not revert to their former operating environments as new technologies provide greater efficiencies and lower costs. We believe these industries will continue to thrive and the opportunities are just getting started.

Emerging Markets • International Equity Strategies

Performance Review

During the fourth quarter, Confluence Emerging Markets posted a return of 22.3% (gross of fees) compared to 19.7% for the MSCI Emerging Markets Index. On a year-to-date basis, Confluence Emerging Markets recorded a return of 22.9% (gross of fees) versus 18.3% for the benchmark. [*Net-of-fees returns were +21.3% QTD and +19.2% YTD. See disclosures on p.4 for fee description; actual investment advisory fees may vary.*]

The two best-performing countries within the portfolio on an absolute basis were Argentina (+54.8%) and Brazil (+36.9%), and the worst-performing countries were South Africa (-14.7%) and Russia (+12.9%). Utilities (+35.2%) and Financials (+34.7%) were the strongest sectors during the quarter, while Materials (+3.8%) and Industrials (+8.5%) were the weakest.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
Vipshop Holdings Limited	3.63	2.28
WuXi Biologics (Cayman) Inc.	3.93	2.08
MercadoLibre, Inc.	4.09	1.91
Taiwan Semiconductor Manufacturing	3.94	1.31
PagSeguro Digital Ltd.	2.65	1.23
Bottom 5		
Dr. Reddy's Laboratories Limited	2.84	0.05
China Mobile Limited	Sold	0.04
ZTO Express (Cayman) Inc.	3.64	(0.09)
Gold Fields Limited	2.36	(0.73)
Alibaba Group Holding Ltd.	4.85	(1.14)

(Contribution data shown from a sample account, based on individual stock performance and portfolio weighting)

What We Are Watching

The worst appears to be over for the world's emerging markets. The availability and broad distribution of effective vaccines for COVID-19, the U.S. presidential election outcome, low interest rates, copious amounts of monetary and fiscal policy, and a weak USD are all combining to provide a favorable growth environment for emerging markets. EM financial strength, corporate balance sheets, and profitability have been a source of resilience throughout the COVID-19 pandemic, especially in the Asian markets. We expect that social and financial healing is underway, paving the way for world-leading growth dynamics.

We anticipate outcomes to continue to vary by country. Governments have already spent enormous sums of money to minimize the impact of the recent shutdowns. Our focus on owning high-quality companies attempts to minimize the impact of adverse events on the long-term durability of our equity holdings.

Looking ahead, growth in the emerging markets is expected to accelerate. With the exception of China, no major EM central banks have shown interest in raising rates. Low rates combined with low inflation in the emerging markets would suggest higher growth. Top-down macro factors, bottom-up fundamentals, and favorable valuations are all positively aligned to support the case for strong equity returns across the world's emerging markets. In its latest forecast, the IMF has projected 6% growth for the world's emerging markets compared to 3% growth in the developed markets in 2021. This growth gap is expected to widen in 2022 and beyond.

Risks to the positive outlook include:

- Escalation in trade tensions between the U.S. and China;
- Slowdown in global economic activity caused by COVID-19-related lockdowns and/or declining fiscal stimulus;
- Excessive bottlenecks in COVID-19 vaccine distribution;
- Stronger currencies combined with stronger economic growth make emerging market assets more attractive; and
- U.S./China relations have been deteriorating, introducing excessive market volatility. We also expect the ongoing U.S. trade/technology conflict to place continued pressure on supply chains, potentially resulting in less globalization and reshoring.

Finally, we have written intently about the impact that a weak dollar has on foreign equity markets. The USD weakness has played out as we have anticipated thus far, and the macroeconomic environment supports this thesis moving forward. History suggests these trends tend to last for extended periods of time (seven to 10 years), and this recent spate of dollar weakness has just begun. It is important to remember that emerging market equities have consistently outperformed developed international equities and U.S. equities during periods of USD weakness.

Confluence Market Strategist Patrick Fearon-Hernandez has recently published the first two reports in what will be a five-part *Weekly Geopolitical Report* series titled **"The U.S.-China Balance of Power."** This set of reports will detail the complicated relationship between the two countries and offer readers an opportunity to understand their complex intricacies.

(as of 12/31/20)

10 Largest Holdings	Weight
Yandex N.V.	4.5%
MercadoLibre, Inc.	4.4%
Tencent Holdings Ltd.	4.4%
WuXi Biologics (Cayman) Inc.	4.3%
Vipshop Holdings Limited	4.0%
Taiwan Semiconductor Manufacturing	4.0%
Alibaba Group Holding Ltd.	3.9%
PagSeguro Digital Ltd.	3.7%
Huazhu Group Ltd.	3.3%
HDFC Bank Limited	3.1%

Sector Allocation	Weight
Consumer Discretionary	22.5%
Financials	14.7%
Communication Services	14.2%
Information Technology	12.3%
Industrials	7.8%
Health Care	6.9%
Materials	5.7%
Consumer Staples	5.6%
Cash	4.2%
Energy	3.3%
Utilities	2.8%

10 Largest Countries	Weight
China	41.6%
India	10.6%
Brazil	8.0%
Russia	6.4%
Mexico	6.4%
Argentina	4.4%
South Korea	4.0%
Taiwan	4.0%
Hong Kong	3.9%
South Africa	2.8%

The listing of "10 Largest Holdings" is not a complete list of all stocks in the portfolio or which Confluence may be currently recommending. Application of the investment strategy as of a later date will likely result in changes to the listing. Listings of countries and holdings do not represent all of the countries/stocks currently or previously owned in the portfolio or which Confluence may be currently recommending. Sector/country weightings and holdings of individual client portfolios in the program may differ, sometimes significantly, from these listings. Contact Confluence for a complete list of holdings.

All investments carry a certain degree of risk, including possible loss of principal. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. Equity securities are subject to market risk and may decline in value due to adverse company, industry or general economic conditions.

Performance Composite Returns For Periods Ending 12/31/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI EM
Since Inception**	6.7%	3.5%	5.6%
10-Year*	5.2%	2.1%	3.6%
5-Year*	10.7%	7.4%	12.8%
3-Year*	5.0%	1.9%	6.2%
1-Year	22.9%	19.2%	18.3%
YTD	22.9%	19.2%	18.3%
QTD	22.3%	21.3%	19.7%

**Average annualized returns*
***Inception is 10/1/2009*

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI EM	Difference (Gross-MSCI EM)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI EM 3yr Std Dev	Composite Dispersion
2009**	10.3%	9.5%	8.5%	1.8%	5	$1,030	-	N/A	N/A	N/A
2010	13.1%	9.8%	18.9%	(5.7%)	5	$1,462	-	N/A	N/A	0.1%
2011	(15.7%)	(18.2%)	(18.4%)	2.7%	7	$2,430	-	N/A	N/A	0.0%
2012	11.4%	8.1%	18.2%	(6.8%)	4	$2,346	-	18.3%	21.5%	0.8%
2013	13.5%	10.2%	(2.6%)	16.1%	1	$220	-	16.0%	19.0%	N/A
2014	(3.6%)	(6.5%)	(2.2%)	(1.4%)	4	$1,636	-	13.9%	15.0%	N/A
2015	(2.7%)	(5.6%)	(14.9%)	12.2%	6	$3,218	-	14.7%	14.1%	0.5%
2016	0.7%	(2.3%)	11.2%	(10.5%)	17	$6,265	-	15.5%	16.1%	0.2%
2017	42.7%	38.5%	37.3%	5.4%	16	$9,288	-	15.0%	15.4%	0.8%
2018	(19.7%)	(22.1%)	(14.6%)	(5.1%)	15	$8,643	$5,486,737	14.8%	14.6%	0.6%
2019	17.3%	13.9%	18.4%	(1.1%)	13	$9,604	$7,044,708	16.0%	14.2%	0.6%
2020	22.9%	19.2%	18.3%	4.6%	14	$11,350	$6,889,798	21.3%	19.6%	1.9%

Portfolio Benchmarks

MSCI Emerging Markets (Net) Index **–** Free float-adjusted market capitalization index designed to measure the equity market performance of emerging markets. Performance results are presented net of estimated foreign withholding taxes on dividends, interest and capital gains. *(Source: Bloomberg)*

(Prior to March 31, 2020, the S&P/BNY Emerging Market ADR Index was shown as a secondary benchmark. This index was removed to simplify the presentation, being less widely recognized and relevant than the primary benchmark. An index is unmanaged and does not incur management fees, transaction costs or other expenses associated with separately managed accounts. It is not possible to invest directly in the index.)

Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2019. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.The Emerging Markets Strategy was incepted on October 1, 2009, and the current Emerging Markets Composite was created on May 1, 2018. Performance presented prior to May 1, 2018, occurred while the Portfolio Management Team was affiliated with a prior firm and was independently verified for the periods of 10/1/1999 through 12/31/2017. The Portfolio Management Team members were the primary individuals responsible for selecting securities to buy and sell. Composite performance is typically net of foreign withholding taxes on dividends, interest income and capital gains with some exceptions based on custodian treatment. Confluence Investment Management LLC is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of all fees and include the reinvestment of all income.

[1] Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

[2] Net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. This fee includes brokerage commissions, portfolio management, consulting services and custodial services. The Confluence fee schedule for this composite is as follows: 1.00% on the first $500,000; 0.90% on the next $500,000; and 0.75% over $1,000,000.There are no incentive fees. Clients pay an all-inclusive fee based on a percentage of assets under management. The collection of fees produces a compounding effect on the total rate of return net of fees. Subsequent to February 1, 2013, bundled fee accounts make up 100% of the composite for all periods. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.

Performance prior to February 1, 2013, is based on the Emerging Markets–Direct Composite which was initially created on October 1, 2009. The Emerging Markets–Direct Composite includes accounts that pursue the Emerging Markets strategy, but do not have bundled fees. Gross returns from the Emerging Markets–Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly. A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. The annual composite dispersion is an equal-weighted standard deviation, using gross-of-fee returns, calculated for the accounts in the composite for the entire year. Prior to year-end 2018, the annual composite dispersion was an asset-weighted standard deviation calculated for accounts in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The Emerging Markets Composite contains fully discretionary Emerging Markets wrap accounts. The Emerging Markets portfolio invests in U.S.-listed shares of companies from emerging markets. **Results shown for the year 2009 represent partial period performance from October 1, 2009, through December 31, 2009. N/A-Composite Dispersion: Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. N/A-3yr Std Dev: Composite does not have 3 years of monthly performance history.

Individual holding performance and contribution methodology as well as a list of every holding's contribution to the strategy can be obtained by contacting Confluence. *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. Top 5 contributors/detractors reflects the strategy's best and worst performers, based on each holding's contribution to the sample account for the period stated. Holdings identified do not represent all of the securities purchased, sold or recommended. Sector and country allocations along with securities mentioned represent a portion currently or previously held in a representative (model) portfolio invested in accordance with the stated investment strategy. Information is presented as supplemental information to the disclosures required by GIPS® standards. 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. Past performance is no guarantee of future results. Investing in securities involves the risk of loss of the amount invested that investors should be prepared to bear. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses.* ***Indices:*** *The MSCI Emerging Markets Index is shown as additional information. This index is unmanaged. An investor cannot invest directly in an index. It is shown for illustrative purposes only & does not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.*