Confluence INVESTMENT MANAGEMENT

FIRST QUARTER 2020

International Equity Strategies • International Developed

International Developed invests primarily in large cap, growth-oriented companies in developed markets (excluding U.S.). The strategy's management team employs both top-down and bottom-up fundamental analysis to identify attractive 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.

Strategy Commentary

Never has there been such a singular, simultaneous, and globally encompassing event that could change the very framework of most of our lives. Rich or poor, advanced or emerging, free or controlled, most everyone on earth has had to abruptly change the way they live, work, and care for those they hold close. While we could fill this document with a multitude of economic data points to illustrate the unprecedented global calamity that the COVID-19 virus has produced, the focus of this piece will take a different path. What has lately become certain is the increase in uncertainty. Following a recent investment meeting, Confluence Chief Market Strategist Bill O'Grady wrote:

> *In the nearly two decades of being involved in such procedures, the current environment is perhaps the most unique for all members of the committee. Simply put, we are in an area of substantial uncertainty. The term "uncertainty" is not used lightly; we view the word in the sense analyzed by Frank Knight in his seminal work,* Risk, Uncertainty and Profit. *Risk is where known probabilities can be assigned; games of chance such as roulette fall into the category. Uncertainty occurs when probabilities cannot be accurately assigned. That is the world in which most portfolio management decisions are made.*

Despite the uncertainty, we at Confluence continue to adhere to our process and discipline that focuses on ownership of high-quality, growth-oriented international equities. Although our portfolios were certainly not immune to the unmitigated downturn, we were able to protect more capital through active management than the passive benchmark was able to achieve. One advantage of this recent dislocation within global equity markets is that stocks recently deemed too pricey are now potential portfolio additions. The Price/Earnings ratio of the MSCI EAFE Index fell to 14.8 on March 31, 2020, 23.3% less than the Index P/E on December 31, 2019.

A growing number of public companies, as a result of the coronavirus pandemic, have withdrawn guidance, ceased the repurchase of their own stock and canceled dividends. We expect this trend to continue for as long as the global economy remains on lockdown. These changes to corporate policy and commensurate reductions in shareholder value further lessen the clarity and increase risk. While a limited number of our current holdings have removed guidance and we expect others to amend their capital plans, several of our current holdings have made capital investments since the pandemic began.

While we do not know how the virus-related uncertainty will end, we can take solace in some historical references illustrating the future opportunity in owning international stocks. Following the period of June 2008 through March 2009 of the financial crisis where the MSCI EAFE Index recorded a loss of 45.3%, the index gained 54.4% by March 2010. During the quarter ending September 2011, the index tumbled by 19.0% only to rebound by nearly 14.0% in the following 12 months. Although much may be unknown today, we are optimistic for a brighter future and will continue to look for opportunities to participate when the recovery occurs. We do so by remaining focused on our investment philosophy of owning well-run, highly capitalized, quality companies.

Quarterly Trading Summary

We were not pressed to make any portfolio changes as a result of market conditions. Instead, we focused on targeted upgrades within the Health Care and Information Technology sectors. During the quarter, we made three changes to the portfolio holdings, including the purchase of Novo-Nordisk, the purchase of STMicroelectronics, and the sale of Health Care sector holding Fresenius Medical Care.

Continued on page 2...

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Quarterly Trading Summary continued...

In mid-January, we purchased a 2.5% stake in Denmark-based Novo-Nordisk, a pharmaceutical company focusing on diabetes, obesity, and biopharmaceuticals. The company's primary business is working to control the blood sugar of diabetics and pre-diabetics via the use of modern insulin. The long-term growth prospects, in terms of blood sugar control for Novo, are based on the development and usage of a new class of drugs called GLP-1. Novo's GLP-1 franchise has developed from Victoza, which is a daily injection, to Ozempic, a weekly injection, to Rybelsus, a daily oral insulin delivery method which was approved by the FDA in September 2019. Rybelsus is game-changing in terms of eliminating the need for patient injection and is potentially a $5 billion/year "blockbuster" formulation. Novo-Nordisk has also recently been granted FDA approval for Saxenda, an obesity drug. This drug has received prior approval outside the United States and is also on a trajectory to obtain "blockbuster" status (sales of greater than $1 billion annually) in 2020/2021. Novo has a robust drug pipeline and offered a dividend yield of 2.6% as of the purchase date.

Shares of Germany-based Fresenius were sold to fund the purchase of Novo-Nordisk. We believe Fresenius will continue to be challenged as the company's primary business, dialysis services (80% of sales), has slowed to less than 2% trailing three-year growth. Further, healthcare providers have forcibly reduced the "moat" for companies such as Fresenius by making them price-takers rather than price-makers as their once leading-edge technology has become more commoditized.

In mid-February, we purchased shares of Switzerland-based STMicroelectronics (STM), a semiconductor manufacturer that stands to benefit from the imminent buildout, adoption, and consumption of 5G wireless technology. STM estimates the Internet of Things (IoT), or connected devices, will grow to more than 75 billion by 2025, a five-fold increase from today. With a diverse customer base of more than 100,000 companies, STM makes semiconductors that are utilized within the construction of wireless handsets and has a suite of microchips, sensors, and microcontrollers that will become essential as the evolution of the automobile industry moves toward fully autonomous driving.

Performance Review

During the first quarter, the MSCI EAFE Index posted a return of -22.8% compared to -22.0% for Confluence International Developed (gross of fees). During the past year, the International Developed strategy recorded a return of -12.5% (gross of fees) versus -14.4% for the MSCI EAFE Index. (*The strategy's QTD and 1-year returns were -22.6% and -15.1% (net of fees), respectively. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. 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 Denmark (-13.1%) and Canada (-16.7%), while the weakest returns were recorded by Singapore (-32.0%) and the Netherlands (-31.1%). Communication Services (-3.3) and Information Technology (-15.7%) were the strongest sectors during the quarter, while Energy (-35.5%) and Consumer Discretionary (-27.1%) were the worst-performing sectors.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
Shopify Inc.	3.98	0.14
Fresenius Medical Care AG & Co. KGaA	0.28	0.03
Nintendo Co., Ltd.	1.90	0.01
Novo Nordisk A/S	2.30	(0.05)
Franco-Nevada Corporation	3.20	(0.14)
Bottom 5		
CyberArk Software Ltd.	3.26	(0.79)
DBS Group Holdings Ltd.	2.41	(0.86)
Icon plc	4.42	(1.01)
Aptiv plc	2.23	(1.24)
CAE Inc.	2.42	(1.41)

(Contribution data shown from a sample account)

What We Are Watching

The relentlessly furious pace of dramatic and unprecedented pandemic-related news flow makes focusing on the proverbial forest rather than being fascinated by each singular new tree a genuine challenge. Therefore, it remains incumbent upon us to carefully monitor the events beyond COVID-19 that could provide risk or benefit to our portfolio construction methodology.

Continued on page 3...

International Equity Strategies • International Developed

What We Are Watching continued...

One area we would like to highlight is the current state of negotiations pertaining to Brexit. While the year-end deadline for final post-Brexit trade discussions has not been yet been extended, we remain acutely aware of the potential risks facing the U.K. economy. Recently, our team has begun to explore the concept that the negotiation process between the United Kingdom and the European Union may be significantly altered considering the growing disquiet among the remaining members of the European Union. Not only have EU member states closed borders to one another, but there have been multiple reports of competition with one another over the supplies required to confront the virus and protect those directly affected.

The most recent flashpoint within the EU comes from the apparent inability of the membership to quickly agree on the terms necessary to establish a €500 billion European Stability Mechanism (ESM) to support the bloc's economies impacted by the coronavirus. According to a Reuters report, the European Central Bank issued a warning that the EU may need up to €1.5 trillion in economic support to help offset the negative impact of the COVID-19 pandemic. Italian Prime Minister Giuseppe Conte, in an interview with the BBC on April 9, warned, "If we do not seize the opportunity to put new life into the European project, the risk of failure is real." So, while the leaders of the European Union haggle with one another over the terms of backstopping their own cratering economies, questions regarding the ongoing viability of the trade union are festering. This awkward state of EU affairs is likely to complicate the time-sensitive negotiations with the U.K.

Confluence Market Strategist Patrick Fearon-Hernandez recently authored the following two-part Weekly *Geopolitical Report* series: "Could the Coronavirus Pandemic Break Up the EU?" **Part I** (March 30, 2020) and **Part II** (April 6, 2020). These reports discuss the possibility of the EU collapse in light of the current virus pandemic. For the time being, and until more certainty is reached, our large relative underweight allocation to Europe is likely to remain.

Confluence International Equities Investment Committee

Mark Keller, CFA	Patrick Fearon-Hernandez, CFA
William O'Grady	Matthew Sinkovitz
Tore Stole	Kaisa Stucke, CFA
Blair Brumley, CFA	Gregory Tropf, CFA

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(as of 3/31/20)

10 Largest Holdings	Weight
Franco-Nevada Corporation	4.3%
AIA Group Ltd.	4.3%
Novo Nordisk A/S	4.0%
Novartis AG	3.9%
SAP AG	3.7%
Diageo plc	3.5%
Willis Towers Watson Public Ltd. Co.	3.4%
Nintendo Co., Ltd.	3.2%
Unilever plc	3.2%
Canadian National Railway Co.	3.2%

Sector Allocation	Weight
Financials	17.5%
Health Care	17.5%
Industrials	16.8%
Information Technology	12.3%
Materials	9.5%
Consumer Discretionary	8.5%
Consumer Staples	8.1%
Energy	5.3%
Communication Services	3.2%
Cash & Other	1.2%

10 Largest Countries	Weight
United Kingdom	18.5%
Canada	17.4%
Japan	13.1%
Ireland	12.9%
Denmark	6.6%
Switzerland	6.6%
Singapore	5.2%
Hong Kong	5.2%
Israel	4.7%
France	3.7%

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 3/31/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI EAFE
Since 10/1/99	3.7%	0.6%	2.7%
15-Year*	4.4%	1.3%	3.1%
10-Year*	3.5%	0.5%	2.7%
5-Year*	(1.6%)	(4.5%)	(0.6%)
3-Year*	(0.3%)	(3.3%)	(1.8%)
1-Year	(12.5%)	(15.1%)	(14.4%)
YTD	(22.0%)	(22.6%)	(22.8%)
QTD	(22.0%)	(22.6%)	(22.8%)

**Average annualized returns*

Calendar Year	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI EAFE	Difference (Gross-MSCI EAFE)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI EAFE 3yr Std Dev	Composite Dispersion
1999**	26.0%	25.0%	17.0%	9.0%	506	$204,990	-	N/A	N/A	N/A
2000	(12.7%)	(15.3%)	(14.2%)	1.5%	339	$94,891	-	N/A	N/A	3.1%
2001	(20.2%)	(22.5%)	(21.4%)	1.3%	216	$52,064	-	N/A	N/A	2.0%
2002	(20.0%)	(22.4%)	(15.9%)	(4.1%)	181	$39,739	-	16.9%	16.0%	1.1%
2003	37.2%	33.1%	38.6%	(1.4%)	168	$35,515	-	17.9%	17.8%	1.1%
2004	15.9%	12.4%	20.2%	(4.4%)	191	$42,465	-	15.5%	15.4%	0.9%
2005	16.7%	13.2%	13.5%	3.2%	176	$37,524	-	11.4%	11.4%	0.8%
2006	23.9%	20.2%	26.3%	(2.4%)	243	$62,300	-	10.5%	9.3%	0.8%
2007	19.1%	15.6%	11.2%	8.0%	269	$75,983	-	10.5%	9.4%	1.4%
2008	(38.2%)	(40.0%)	(43.4%)	5.2%	256	$43,507	-	18.9%	19.2%	1.2%
2009	22.5%	18.8%	31.8%	(9.3%)	235	$47,380	-	21.7%	23.6%	1.7%
2010	15.3%	11.8%	7.8%	7.5%	206	$47,360	-	23.4%	26.2%	0.8%
2011	(9.7%)	(12.3%)	(12.1%)	2.5%	164	$31,229	-	20.0%	22.4%	0.7%
2012	16.5%	13.0%	17.3%	(0.8%)	154	$34,823	-	17.3%	19.4%	0.6%
2013	20.9%	17.4%	22.8%	(1.8%)	174	$47,418	-	14.5%	16.3%	0.5%
2014	(0.4%)	(3.4%)	(4.9%)	4.5%	116	$34,435	-	11.0%	13.0%	0.7%
2015	(2.3%)	(5.2%)	(0.8%)	(1.5%)	53	$19,412	-	11.3%	12.5%	0.3%
2016	(5.1%)	(8.0%)	1.0%	(6.1%)	30	$7,163	-	11.8%	12.5%	0.4%
2017	23.4%	19.7%	25.0%	(1.7%)	25	$6,957	-	11.0%	11.8%	0.3%
2018	(14.4%)	(17.0%)	(13.8%)	(0.6%)	2	$352	$5,486,737	11.7%	11.2%	0.1%
2019	29.6%	25.7%	22.0%	7.6%	1	$261	$7,044,708	12.4%	10.8%	N/A

Portfolio Benchmarks

MSCI EAFE (Net) Index – Free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. Performance results presented net of estimated foreign withholding taxes on dividends, interest and capital gains. *(Source: Bloomberg)*

(Prior to March 31, 2020, the S&P/BNY Developed 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 claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 12/31/2018. A copy of the verification report is available upon request. Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The International Developed Strategy was incepted on April 1, 1992, and the current International Developed 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: 0.60% on the first $500,000; 0.55% on the next $500,000; and 0.50% 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. 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.

A complete list of composite descriptions is available upon request. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. 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. Beginning with year-end 2018, an equal-weighted standard deviation calculated for accounts in the composite for the entire year. The International Developed Composite contains fully discretionary International Developed wrap accounts. The International Developed portfolio invests in U.S.-listed shares of large capitalization, non-U.S. companies from developed markets.

**Results shown for the year 1999 represent partial period performance from October 1, 1999, through December 31, 1999. 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.