Confluence INVESTMENT MANAGEMENT

SECOND QUARTER

2020

International Developed • International Equity Strategies

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.

Market & Strategy Commentary

In March, there was a significant and abrupt sell-off in global equities resulting from the coronavirus pandemic. We highlighted, in pursuit of optimism, that the forward 12-month return following Black Swan events, such as 9/11 and the financial crisis, has been much higher for international stocks. The second quarter of 2020 followed this blueprint, with the MSCI EAFE Index recording the strongest 90-day return in nearly a decade.

While many questions remain unanswered in terms of COVID-19, including the impact on forward earnings, politics, trade, and other market-influencing factors, there was a measurable return of optimism that outweighed the uncertainty. Investor angst has, at least for now, been partially satiated by unprecedented amounts of fiscal stimulus both domestically and abroad, with assurances of more support on the way. The result has been a meaningful improvement in measures of global consumer sentiment, retail sales, and corporate confidence. Global trade has also started to recover following the forced shutdown of the world's manufacturing capacity. The Baltic Dry Index (measure of the change in the cost to ship raw materials such as iron ore and steel) rose by 187% during the quarter. The prices of iron ore and copper have increased by 17% and 22%, respectively, a result of increased consumption, re-stocking, improving sentiment, and in advance of a potential increase in global infrastructure spending.

A significant headwind that abated during the second quarter was the Russia vs. Saudi Arabia oil conflict. OPEC and Russia were able to agree on a record output production cut, and this arrangement should remain in place until at least the end of July. The price of a barrel of West Texas Intermediate (WTI) oil plunged from over $63 in early January, down to $20.48 on March 31. Crude did rally by over 90% to close out June at $39.27 per barrel. Cheap oil is usually welcomed as a de facto economic stimulus; however, the sudden price drop coupled with a collapse in global demand caused damage within the energy sector, forcing shutdowns in production, lay-offs, dividend suspensions, and delays in capital expenditures. As global economic activity is recovering, the resulting increase in demand for and consumption of crude has also raised the per barrel price. Stability within the energy complex benefits investors both domestically and abroad, given the risks associated with large amounts of debt that oil and gas companies typically service. Additionally, oil plays an important role in those countries dependent upon energy exportation to fund domestic agendas, especially during this global pandemic.

Another topic that merits revisiting is the influence the U.S. dollar (USD) has on non-U.S. equities. Why is this important? Dating back to 1970, the year the MSCI EAFE Index was created, examining the U.S. Dollar Index (DXY), there have been three extended periods of USD strength and three extended periods of weakness. The three stretches of USD weakness have averaged 90 months in length, while the strong dollar averages a term of 104 months. Each of the three occurrences of dollar weakness has seen both developed market equities (outside of the U.S.) and emerging market stocks outperform versus the domestic indices. Likewise, when the USD is strong, the U.S. market outperforms, as seen by the current cycle of dollar strength, which began in 2008. However, as Confluence Chief Market Strategist Bill O'Grady has recently emphasized, the pre-conditions for a period of extended USD weakness are in place, and we are awaiting an event-driven catalyst to begin the long grind lower for the greenback. Bill's recent Weekly Geopolitical Report, **"The Geopolitics of the Eurobond" (6/29/2020)**, outlines how this process can unfold and identifies the type of event that could serve as a catalyst.

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Quarterly Trading Summary

Swiss pharmaceutical company Roche Holdings was added in late April. Roche has two operating segments: Pharmaceuticals and Diagnostics. From a pharmaceutical standpoint, Roche focuses on Multiple Sclerosis, oncology, and rare diseases. The company has also continued to grow via acquisitions and joint ventures, and has noted rising demand for its COVID-19 antibody tests. Roche has a promising pipeline with 11 recent drug approvals, eight new molecular entities, and 31 additional formulations and combinations all in Phase 3 testing, along with 28 Phase 2 and 60 Phase 1 trials currently ongoing. The purchase of Roche increased the portfolio's allocation to Health Care, a sector providing dual tailwinds in the form of rapidly aging populations in the developed world and rising wealth within the emerging world, creating demand for medical technology and treatment where it had previously been unaffordable.

Given the significant deterioration in the price of crude oil, the portfolio's exposure to energy was reduced during the quarter with the sale of British Petroleum in late April. Total S.A. and Royal Dutch Shell remain in the portfolio as we believe they offer better forward growth characteristics and more diversified portfolios than BP. Purchased in Q215, BP was one of the longest-tenured stocks within the portfolio.

In early May, the position in Canadian-based e-commerce company Shopify was reduced from nearly 5% down to 3% to lock in gains as shares advanced by more than 73% on a quarter-to-date basis.

Midway through the second quarter, two purchases (L'Oréal, Nestlé) and two sales (Shiseido, Unilever) were completed within the Consumer Staples sector. L'Oréal is a global leader in beauty and cosmetics products, available in 150 different countries and dominant in the U.S. and China. It has an asset-light business model, with non-company-owned bricks and mortar, and more importantly a robust online cosmetics business expected to generate nearly 25% of sales this year. This online business provides a structural competitive advantage within the context of the shop-from-home environment incited by the global coronavirus pandemic. We believe the combination of a market-leading position within the world's largest cosmetics markets, premium brands, and robust online sales technology will allow L'Oréal to outperform its peers well into the future.

Swiss-based packaged food, pet, and health science company Nestlé has undergone significant changes over the past few years. The company entered into agreements to sell Starbucks-branded packaged coffees and teas globally, while fortifying its position in health and nutrition via the 2018 acquisition of Atrium Innovations. Additionally, Nestlé sold its North American ice cream unit and its confection business, feeling no longer competitive. With these changes completed, and the likely divestiture of its U.S. mass-market bottled water business serving as a future catalyst, we believe Nestlé provides stronger company fundamentals and potential for higher-quality growth than Unilever.

As mentioned, Japan-based Shiseido and U.K.-domiciled Unilever were sold from the portfolio as both are experiencing measurable slowdowns in growth while trying to navigate corporate restructurings. Unilever's management began to guide growth downward in late 2019 as headwinds in end markets began to mount. Additionally, Unilever announced separate strategic reviews of its global tea and health businesses during Q120. Cosmetics and personal care manufacturer/retailer Shiseido is currently working through the integration of its 2019 purchase of U.S. cosmetics brand Drunk Elephant. This effort combined with Shiseido's heavy reliance on travel and tourism-related cosmetic sales within Japan (currently 55% of sales), and underdeveloped digital sales network, have lessened its competitive advantages.

In late April, Mitsubishi UFJ Financial Group's (MUFG) management announced that a ¥65 billion impairment needed to be taken on a subsidiary, Bank of Ayudhya Public Company Limited. Additionally, MUFG reported a 40% drop in net profits and highlighted the negative impact the coronavirus had taken on its near-term profit outlook. These events, combined with our negative macroeconomic view on Japan, resulted in the sale of MUFG at the end of May.

Canada-domiciled Brookfield Asset Management was purchased in late May, utilizing the proceeds from the sale of MUFG, in an effort to move away from the rate-sensitive banks in favor of diversified financials. Brookfield has seven core business segments, including Real Estate, Infrastructure, Renewable Power, and Private Equity. In 2019, Brookfield purchased the majority of Oaktree Capital Management to create scale as an alternative asset manager. We expect Oaktree's past success and deep experience buying distressed assets could become a catalyst as the COVID-19 pandemic creates havoc in global financial markets. Brookfield has historically invested in high-quality companies with high barriers to entry, which is a core tenet of the Confluence investment process.

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Performance Review

During the second quarter, Confluence International Developed recorded a return of 21.7% (gross of fees) compared to 14.9% for the MSCI EAFE Index. On a year-to-date basis, the return for International Developed was -5.0% (gross of fees) versus -11.3% for the benchmark. (*Net-of-fees returns for the same periods were +20.8% and -6.5%, respectively. 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 during the quarter were Canada (+47.0%) and the Netherlands (+28.4%), whereas the weakest returns were recorded by Switzerland (+5.6%) and Hong Kong (+8.8%). From a sector standpoint, Information Technology (+51.4%) and Materials (+36.2%) were the strongest-performing sectors during the quarter, while Energy (-3.0%) and Consumer Staples (+9.7%) 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.	3.97	4.14
Franco-Nevada Corporation	4.05	1.47
Icon plc	4.49	1.08
DSV Panalpina A/S	3.28	1.07
Accenture plc	3.26	1.00
Bottom 5		
Total S.A.	0.72	0.03
Shiseido Company, Ltd.	0.54	0.02
Roche Holding AG	1.79	(0.07)
Royal Dutch Shell plc (Class A)	1.33	(0.07)
BP plc	0.38	(0.07)

(Contribution data shown from a sample account)

What We Are Watching

The path and persistence of the COVID-19 pandemic and the resulting market implications are unknown. We are carefully monitoring the situation domestically and in countries within our investment universe, including India, Brazil, and Mexico, where conditions appear to be worsening in terms of the virus. One takeaway from the global work/stay/shop-from-home economy has been that many companies across both sector and geography have publicly discussed how the virus has advanced online adoption by as much as two to three years. This trend toward a more digital economy will continue to benefit many of the companies within our investment strategies. Aside from the investment implications for companies and investors alike, we continue to assess the global economic backdrop through a wide lens to mitigate the probability of overemphasizing one or two polarizing events in terms of portfolio construct. Two noteworthy topics we will discuss in concise detail are an update on Brexit and some initial thoughts surrounding the re-emergence of mounting U.S.-China tensions.

U.K. Prime Minister Boris Johnson held steadfast his desire to bring resolution to Brexit by the end of this year, even with the coronavirus adding another significant obstacle. Negotiations with European Union officials have been ongoing, albeit with chief EU negotiator Michel Barnier stating that "significant divergences" remain. If no agreement is made, the U.K. will crash out of the EU without a trade or customs arrangement. While we expect the game of brinksmanship to continue up until the final minutes, we remain hopeful an agreement will be reached. Furthermore, should negotiations between the two parties prove fruitful, we believe both the British pound and the euro could strengthen absent the Brexit overhang. This outcome would then reinforce a weakening USD, as previously mentioned.

When discussing the current state of relations between the U.S. and China, there is, unfortunately, the need to concentrate on numerous subplots, rather than focus on the single notion of whether the Chinese are adhering to the agreed-upon terms of the Phase One trade deal. China has become the centerpiece of much global displeasure thus far in 2020. Topics include how quickly information was disseminated in terms of COVID-19, the ratcheting upward of military activity in the South China Sea, and the recent passing and implementation of a new and strict Hong Kong security law, and the U.S. government is preparing retaliation for these trespasses on multiple fronts. What is most eye-catching though, in terms of our portfolios, is the recent groundswell concerning the potential that Chinese companies will not be able to list on U.S. exchanges or raise capital domestically, or, in a worst-case scenario, that they might be forcibly delisted. President Trump, the U.S. Senate, the SEC, and the stock exchanges have all very publicly pronounced that increased scrutiny is imminent for all foreign companies, but especially for Chinese companies. We will welcome additional disclosure and access to information for any company within our investment purview; however, we also do not want the United States to fall out of favor for foreign direct investment. Already this year, large Chinese companies, including Alibaba, Netease, JD.com, to name a few, have created secondary listings in Hong Kong, apart from their primary U.S. listings. Although we have not made any changes due to the increased tensions between China and the U.S., we will continue to carefully monitor the situation and adapt our investment thesis accordingly.

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(as of 6/30/20)

10 Largest Holdings	Weight
Franco-Nevada Corporation	5.0%
SAP AG	3.9%
Shopify Inc.	3.8%
AIA Group Ltd.	3.7%
Novo Nordisk A/S	3.6%
Novartis AG	3.4%
Willis Towers Watson Public Ltd. Co.	3.3%
Nintendo Co., Ltd.	3.1%
Diageo plc	3.0%
Canadian National Railway Co.	3.0%

Sector Allocation	Weight
Health Care	18.7%
Industrials	17.0%
Financials	16.7%
Information Technology	13.4%
Materials	10.6%
Consumer Discretionary	9.0%
Consumer Staples	8.3%
Communication Services	3.1%
Energy	2.5%
Cash	0.8%

10 Largest Countries	Weight
Canada	21.5%
Ireland	13.5%
United Kingdom	12.2%
Switzerland	10.5%
Japan	9.8%
Denmark	6.5%
France	6.4%
Singapore	4.8%
Hong Kong	4.6%
Israel	4.3%

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 6/30/20

	Pure Gross-of-Fees[1]	Net-of-Fees[2]	MSCI EAFE
Since 10/1/99	4.6%	1.5%	3.4%
15-Year*	5.9%	2.7%	4.1%
10-Year*	6.8%	3.6%	5.7%
5-Year*	2.1%	(0.9%)	2.1%
3-Year*	4.4%	1.3%	0.8%
1-Year	(1.6%)	(4.5%)	(5.1%)
YTD	(5.0%)	(6.5%)	(11.3%)
QTD	21.7%	20.8%	14.9%

**Average annualized returns*

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)*

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

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. *(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.)* **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.

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. 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 EAFE 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.*