

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 Commentary

Developed market international equities recorded negative returns in the third quarter of 2023, thus ending a streak of three straight quarters of positive gains. Performance during the month of July was positive, but equities sold off during August and September. The month of September has recently been unkind to investors around the world as this is the fourth straight year that monthly returns have been negative in domestic, emerging, and developed ex-U.S. markets. Hopefully the final month of the third quarter in 2024 will treat investors in a kinder fashion!

On a more constructive note, while third quarter market performance underwhelmed, the year-to-date return of 7.1% for the MSCI EAFE Index has far exceeded the average January-September index return of 0.8% dating back to 1999. Moreover, the year-to-date performance is also above the average full-year return dating back 25 years of 5.1%. Despite the many headwinds buffering against international developed market equities, full-year index level performance (as of this writing) remains well on track for an above-average year.

Another factor supporting the strong year-to-date performance of foreign developed market stocks has been the broadening out in terms of the number of sectors outperforming the overall MSCI EAFE Index. The differences in market structure versus the domestic equity benchmarks (more Industrials, Financials, and Materials mixed with significantly less Information Technology) are contributing to the year-to-date trend. Through September 30, five of the 11 sectors have recorded better-than-benchmark returns; this group includes Consumer Discretionary, Energy, Financials, Information Technology, and Industrials. These five sectors have outperformed by an average of 4.8%. The six remaining sectors underperformed the benchmark by a somewhat narrow average of -5.5%. By comparison, the S&P 500 has only three sectors (Communication Services, Consumer Discretionary, and Information Technology) that have outperformed the broader benchmark so far this year, leaving eight that have underperformed. The average return of the three outperforming sectors within the S&P 500 is 33.9%, more than 21% above the benchmark return. The eight sectors that have fallen short of the benchmark have an average return of -17.2%, nearly 30% less than the S&P 500. Therefore, the stocks that have been working within the domestic market during the past nine months are much narrower, and the returns are far more divergent depending on sector selection. Moving forward, should tight monetary conditions persist (as expected) and the outlook for growth prove to be more tenuous, international developed market equities may provide prudent diversification via higher dividend yields and attractive valuations. The MSCI EAFE Index also ended the quarter with a dividend yield of 3.2% (twice that of the S&P 500) and a Price/Earnings ratio of 14.4, a measure that is 20% less than the 10-year trailing average versus a fully valued S&P 500.

Quarterly Trade Summary

Several changes were made to the Confluence International Developed portfolio during the third quarter.

In late August, both Novo Nordisk and LVMH were trimmed from overweight positions back to target weightings. Denmark-based pharmaceutical maker Novo Nordisk (NVO) saw its shares increase by sizeable double-digits, catalyzed by positive Phase 3 clinical trial results from obesity drug Wegovy® as well as bullish commentary surrounding GLP-1 class weight loss drugs, in general. Thus, we capitalized on the opportunity to reduce the position, even as Novo Nordisk remains one of our preferred Health Care holdings.

We have owned French luxury goods producer and purveyor LVMH Moët Hennessy Louis Vuitton (LVMUY) since December 2017. Following strong performance earlier this year, we felt that headwinds in the form of rising interest rates and a slowdown within China, one of LVMH's most important markets, provided the rationale for taking gains on this holding.

Quarterly Trade Summary continued...

Also in late August, Singapore-based United Overseas Bank was sold in favor of Japan-domiciled Mitsubishi UFJ Financial Group. United Overseas (UOVEY) was one of two Singapore-based banks held in the portfolio (DBS Group Holdings is the other), owned since February 2018. As financial conditions have improved in Japan since the constraints of yield curve control were loosened by Bank of Japan Governor Kazuo Ueda, we looked to add exposure to Japan but did not necessarily want to increase the portfolio's overall allocation to the Financials sector. As a result, we decided to sell United Overseas Bank, the smaller of the two Singapore banks, as shares had underperformed DBS Group, the MSCI EAFE Index, and the Financials sector on a year-to-date basis.

Mitsubishi UFJ Financial (MUFG), the largest Japanese bank within our investment universe (\$63.4 billion), operates five business units, including wholesale, retail, and global banking. Additionally, the bank has a 3.6% dividend yield and should continue to benefit from strong Japanese macroeconomic fundamentals, rising inflation, and the monetary policy shifts that improve MUFG's ability to increase earnings. The addition of MUFG also reduces the portfolio's underweight allocation to Japan.

In late September, we purchased Dutch Industrial AerCap Holdings N.V. (AER), the global leader in the leasing of commercial aircraft to airlines. The company also has a leading position in aircraft engine leasing and a large airframe and engine components business. Through a combination of organic growth and savvy acquisitions, AER has built its number-one position in the market and is roughly six times the size of the next largest competitor. AerCap owns nearly 3,500 commercial aircraft, which it leases to dozens of airlines globally. AerCap has been quite successful over its history in making acquisitions, with the most recent being the aircraft leasing business sold by General Electric (GECAS). GECAS was purchased during the COVID-19 era, demonstrating that management has great confidence in its market and business process. The business model produces considerable cash flow stemming from the pricing power the company generates from its diverse customer base, which we expect will benefit shareholders.

AerCap was purchased with proceeds from the sale of agricultural equipment manufacturer CNH Industrial (CNHI). CNH was purchased in June 2021 on the premise that a streamlined and focused company, following its spinoff of European industrial truck and transportation manufacturer Iveco, would provide a catalyst for shares. In addition, we expected that a prolonged period of elevated commodity prices and the desire of farmers globally to update and modernize their farming equipment would provide additional tailwinds. Unfortunately, even with the positive backdrop, shares underperformed during our holding period. Therefore, we believed that AerCap presented a more attractive investment opportunity going forward.

Performance Review

During the third quarter, the MSCI EAFE Index recorded a loss of 4.1% compared to the Confluence International Developed strategy which was down 3.1% (gross of fees). The strategy also outperformed the benchmark year-to-date, returning 8.4% (gross of fees) versus the MSCI EAFE at 7.1%. *[The strategy's net-of-fees returns for the same periods were -3.8% QTD and 5.9% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

The MSCI EAFE Value Index again significantly outperformed the MSCI EAFE Growth Index at +0.6% versus -8.6%, respectively, during the third quarter. Historically, this level of outperformance of value over growth has been a significant headwind for our more growth-oriented strategies. However, quality stocks, as measured by the MSCI EAFE Quality Index, outpaced growth stocks by roughly 2% during the past quarter, suggesting that our focus on owning high-quality companies contributed significantly to our relative outperformance.

For the quarter, the two best-performing countries within our portfolio, on an absolute basis, were Singapore and Israel, while Germany and Japan recorded the worst returns. From a sector standpoint, Energy and Financials were the strongest sectors, while Consumer Discretionary and Consumer Staples were the weakest.

From a relative standpoint, the most accretive country allocation was the overweight to the Netherlands, followed by the underweight to Australia. An overweight allocation to Canada detracted the most from performance, while the overweight allocation to Irish stocks also proved unfavorable. From a sector perspective, our underweight allocations to Health Care and Consumer Discretionary added the most alpha during the quarter, while our overweight positioning to Industrials and Consumer Staples provided negative contributions to returns.

The top contributors and detractors for the portfolio in 2023 are shown in the accompanying table.¹

Security	Avg Weight (%)	Contribution (%)
Top 5		
Novo Nordisk A.S.	4.85	1.79
ICON plc	3.76	0.90
Safran S.A.	3.32	0.77
CyberArk Software Ltd.	3.07	0.72
Shopify Inc.	1.53	0.62
Bottom 5		
Agnico Eagle Mines Ltd.	1.70	(0.16)
Roche Holding A.G.	1.44	(0.17)
Willis Towers Watson plc	2.30	(0.34)
Diageo plc	2.13	(0.34)
CNH Industrial N.V.	Sold	(0.40)

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

What We Are Watching

Many of the factors politically, geopolitically, and economically that have captured investors' attention this year remain unshakeable and will likely contour sentiment over the coming months. Add in the complexity that is now surrounding both the Russia-Ukraine and Israel-Hamas wars, and there is plenty to keep our in-house macroeconomic/geopolitical team occupied. One of the most globally significant byproducts of these wars, in terms of investment implications, is how the price of oil adjusts to the oscillating conditions on the ground. The price of energy plays a large role toward the ramp-up or ramp-down of inflationary pressures and contributes significantly to consumer behavior. Confluence Chief Market Strategist Bill O'Grady recently penned a *Bi-Weekly Geopolitical Report* titled "[The Oil Weapon Returns](#)" where he provides his expertise on this subject.

Another globally significant macroeconomic risk remains the persistently high rates of inflation. While many developed market central banks may have reached terminal rates in this cycle, there is a mounting realization that a reversal in the currently employed tight monetary policy may linger for longer than desired. The reason is that by measure of the Consumer Price Index (CPI), current inflation, while well off COVID highs, remains above the average of the past 25 years. As of this writing, CPI in the U.S. stands at 3.7% versus an average of 2.1%. Conditions in the eurozone are much "hotter" with CPI currently more than two times higher than the 25-year average of 2.1%. The exception, in terms of the deployment of restrictive policies, is Japan where CPI currently stands at 4%, more than 13 times above the two-and-a-half-decade average of 0.3%. What continues to be a sticking point for developed market central bankers is that today's more restrictive cost of capital has yet to diminish the strength being experienced in labor markets. The unemployment rate domestically stands at 3.5% versus the past 25-year average of 5.7%. Using the same time frame, unemployment is historically low in both Europe and Japan. In fact, only 2.2% of the working-age Japanese population remains without a job (versus the 25-year average of 3.9%). As a result, we continue to navigate the differing applications of monetary policy within our investment universe to position client portfolios to take advantage of divergences and consumer strength.

While the U.S. dollar (USD) remains more than 5% weaker than a year ago, the U.S. Dollar Index rose by 3.2% during the past three months and is now up 2.6% for the year. The turn upwards in the USD Index is notable because this usually equates to a headwind for foreign stocks relative to domestic equities. We have adjusted our forecast for the USD from what we had expected to be a prolonged period of weakening into what could be an extended period of rangebound trading.

We are closely monitoring the economic conditions within the eurozone. The International Monetary Fund (IMF) recently cut its forecast growth rate for the region for the year to 0.7%, down from 0.9%, and only sees regional growth improving to 1.2% next year. The German economy is struggling the most within the region, and the IMF recently downgraded its growth projection to -0.5% for this year. Client portfolios are positioned with an underweight allocation to Germany as it is the country most impacted by the loss of the cheap energy supply previously provided by Russia prior to the invasion of Ukraine. The German economy is also toiling from the slowdown in the Chinese economy.

Germany's energy situation may not soon improve, especially if the winter months are colder than average, but the Chinese economy, one of Germany's largest trading partners, may have already bottomed. Although U.S.-China relations remain mired in tension, the most recent economic news has brightened. First, the latest reading of Manufacturing PMI improved from 49.7 in August to a reading of 50.2 in September. This is the first reading above 50 (signifying economic expansion) since the first quarter of this year. Second, Chinese retail auto sales rose by 5% versus the month-over-month and year-over-year comparisons, signifying that consumers may have more confidence. Third, in data provided by Alpine Macro, recent Chinese National Day (Golden Week) holiday travel rebounded significantly compared to last year with estimates of 826 million domestic trips being taken (+71%) and tourism revenue of 753 billion CNY (+130%). While the total number of trips remained below optimistic expectations, both sets of numbers were all-time highs for spending during the holiday period. Fourth, Bloomberg recently reported that Chinese leadership may be considering new stimulus and a higher budget deficit to stimulate growth. If implemented, this could further restore confidence in the Chinese economy and be a significant benefit to global markets.

Mexico has been and stands to be one of the biggest regional beneficiaries of deglobalization as near/friend-shoring continues to gain favor. However, Mexican President Andrés Manuel López Obrador (AMLO) has very recently roiled the local stock market by challenging the merits of Mexican contract law in a feud with Mexican airport operators over fees. We expect corporations worldwide to closely monitor these developments and potentially to slow investment in the country until there is more clarity. AMLO's term as president is scheduled to end when elections take place next June. The Mexican constitution prevents Obrador from seeking another term, but we are closely following for any developments.

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Portfolio Characteristics² (as of 9/30/2023)

10 Largest Holdings	Weight	Sector Allocation	Weight	10 Largest Countries	Weight
Safran S.A.	3.6%	Consumer Discretionary	6.1%	France	14.2%
DBS Group Holdings Ltd.	3.5%	Consumer Staples	10.1%	Switzerland	13.9%
Chubb Ltd.	3.3%	Energy	8.2%	Canada	12.0%
DSV A.S.	3.2%	Financials	21.4%	Ireland	10.7%
Novartis A.G.	3.1%	Health Care	12.2%	United Kingdom	10.7%
ICON plc	3.1%	Industrials	18.0%	Japan	10.5%
Accenture plc	3.0%	Information Technology	11.4%	Denmark	6.1%
Shell plc	3.0%	Materials	6.3%	Netherlands	4.9%
Novo Nordisk A.S.	2.9%	Communication Services	2.2%	Germany	4.7%
L'Oréal S.A.	2.9%	Cash	4.1%	Singapore	3.5%

Performance Composite Returns³ (For Periods Ending September 30, 2023)

	Since 10/1/99	20-year*	15-year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
International Developed									
Pure Gross-of-Fees ⁴	5.3%	7.5%	6.0%	5.7%	6.7%	8.3%	27.6%	8.4%	(3.1%)
Max Net-of-Fees ⁵	2.2%	4.3%	2.8%	2.6%	3.5%	5.1%	23.8%	5.9%	(3.8%)
MSCI EAFE (Net)	3.8%	5.9%	4.7%	3.8%	3.2%	5.8%	25.6%	7.1%	(4.1%)

Calendar Year	Pure Gross-of-Fees ⁴	Max Net-of-Fees ⁵	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
2020	15.9%	12.4%	7.8%	8.0%	1	\$241	\$6,889,798	19.3%	17.9%	N/A
2021	18.2%	14.7%	11.3%	6.9%	1	\$280	\$7,761,687	18.3%	16.9%	N/A
2022	(13.5%)	(16.1%)	(14.5%)	0.9%	1	\$238	\$6,931,635	21.7%	20.0%	N/A

*Average annualized returns

**Since 10/1/1999

See performance disclosures on last page.

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.)

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Disclosures

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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.

¹ Contribution—Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings.

² Portfolio Characteristics—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.

³ Performance Composite Returns—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, 2022. 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.

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The International Developed Strategy was inceptioned 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 custodial 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.

⁴ Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

⁵ 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: 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. 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 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.