Fourth 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 Commentary

2020 was an unprecedented year in many significant ways, leaving an indelible mark on all of us individually and collectively. Remarkably, amidst the chaotic backdrop of the past 12 months, international equity markets were able to record the two strongest quarters (Q2 and Q4) since the third quarter of 2010. Arguably, the second quarter of 2020 could be characterized as a bounce-back from the deeply oversold conditions stemming from initial fears created by COVID-19. However, the strong performance registered during the final three months was encouraging as market leadership broadened significantly. This broadening is beneficial to non-U.S. markets as they are more diversified, or, more specifically, less dependent on technology than the domestic market (28% for the S&P 500 versus 9% for the MSCI EAFE).

Additionally, for the past year, we have stressed how the strong U.S. dollar (USD) has acted as a headwind to foreign stocks. The most recent period of dollar strength has lasted for nearly a decade, and non-U.S. equities have largely underperformed the domestic market during this time frame. However, we have also expressed that when the USD begins to weaken versus foreign currencies, not only will this process benefit the asset class of international stocks, but the cycle of weakness is likely, based on historical precedent, to last from five to seven years. This is notable as in each experience of USD strength dating back to 1970, U.S. stocks have outperformed. Within each period of USD weakness, international equities, led by emerging markets, have performed stronger than their U.S. counterparts. During the past 12 months, the U.S. Dollar Index weakened by 6.7%, and by 4.2% during the fourth quarter alone. Unsurprisingly to us, and within the context of a weakening dollar environment, the MSCI Emerging Markets Index recorded the strongest return (+19.7%) during the quarter, followed by the MSCI EAFE Index (+16.0%) and the S&P 500 Index (+12.0%). If the USD continues to weaken, as we expect, non-U.S. equities should enjoy a period of relative outperformance and warrant an increased allocation within equity portfolios.

Quarterly Trading Summary

In November, Sweden-based Ericsson, one of the world's leading providers of information and communication technology equipment, was added to the portfolio. Today's highly complex 5G wireless networks and the ever-evolving industrial applications within the Internet of Things (IoT) requires the support of this type of equipment. Ericsson has three divisions: Networks (70% of sales), Digital Services (18% of sales), and Managed Services (12% of sales). Ericsson has a broad and global customer base, with North America (32% of sales) as the largest region. The company has a strong balance sheet, generates significant free cash flow, and is reasonably priced. The current CEO and president has been with Ericsson since 2017, engineering a corporate transformation that has resulted in steadily improving margins and returns. We believe the continuous innovation in the Technology sector, demand for faster network connections, and the push toward autonomous driving all serve as tailwinds/catalysts for Ericsson to become a long-term portfolio holding.

To raise proceeds for the purchase of Ericsson, we sold Israeli defense company Elbit Systems, a holding in the portfolio since 2016. Elbit's exposure to the commercial aerospace industry, combined with less geopolitical tension in the Middle East, contributed to steady declines in earnings and margins. Shares of Elbit also underperformed the country and sector benchmarks by a wide margin in 2020.

We also added Sweden-based Swedbank in early December. From a top-down perspective, we believe global equity market performance will begin to broaden out rather than be led by a narrow group of stocks, such as technology, as global economic conditions gradually improve. This improvement should continue to build momentum as increasing numbers of people are vaccinated and pent-up consumer demand is unleashed. We believe one of the primary beneficiaries of rising demand will be banks as consumers and business owners regain confidence and increase spending. We prefer banks domiciled in a country with its own independent central bank, such as Sweden (Riksbank), because monetary policy can be tailored to benefit the economic conditions within that singular sovereignty. From a bottom-up perspective, Swedbank is both reasonably priced and well managed. The bank generates an efficiency ratio, a measure of how well a bank uses its assets and liabilities internally, of below 50, which is considered optimal. Swedbank operates primarily in Sweden and the Baltic states of Latvia, Lithuania, and Estonia, providing a unique geographic mix. Catalysts include the return of dividend payments in 2021, along with the Swedish krona being relatively cheap compared to other major global currencies.

Continued on page 2...

International Developed • International Equity Strategies

Performance Review

Despite enormous uncertainties, international equities ended the year on a bullish note. The MSCI EAFE Index posted a return of 16.0% during the fourth quarter, while Confluence International Developed was up 14.7% (gross of fees) over the same period. The "value" component of the MSCI EAFE Index substantially outperformed the "growth" stocks within the index (+19.2% versus +13.1%), accounting for the quarterly underperformance of our growth-oriented strategy. For the full year, Confluence International Developed was up 15.9% (gross of fees) versus 7.8% for the MSCI EAFE Index. [*Net-of-fees returns for the same periods were +13.8% QTD and +12.4% YTD. See disclosures on p.4 for fee description; actual investment advisory fees may vary.*]

During the quarter, the two best-performing countries in the portfolio on an absolute basis were Israel (+52.7%) and Singapore (+28.7%), while the worst returns were recorded by Germany (-16.3%) and Sweden (-1.5%). From a sector standpoint, Energy (+34.1%) and Consumer Discretionary (+33.2%) were the strongest during the quarter, whereas Materials (+0.5%) and Health Care (+6.3%) were the weakest.

The top contributors and detractors during the quarter:

Security	Avg Weight (%)	Contribution (%)
Top 5		
CyberArk Software Ltd.	2.84	1.45
Sony Corporation	4.47	1.37
CAE Inc.	1.76	1.17
LVMH Moët Hennessy Louis Vuitton	3.72	1.14
Aptiv PLC	2.71	1.02
Bottom 5		
Elbit Systems Ltd.	Sold	(0.05)
Swedbank AB	0.59	(0.16)
Franco-Nevada Corporation	3.45	(0.37)
Kirkland Lake Gold Ltd.	2.19	(0.39)
SAP SE	2.31	(0.54)

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

What We Are Watching

As we begin a new year, there are numerous events we are tracking that could impact international equities. While a trade agreement was finally made between the United Kingdom and the European Union on Christmas Eve, preventing a so-called "hard Brexit," there remain many obstacles surrounding the implementation of the new trading arrangement. Almost immediately, there were reports of supply chain issues, unforeseen red-tape, and significant disruption within areas of retail, industrial exports, and fishing. Although there is certainly motivation to rectify these issues in a timely manner, we expect near-term headwinds to the U.K. economy, thus supporting our underweight allocation to the country.

The current wave of increasing coronavirus infections in Japan, Europe, and elsewhere continues to weigh on global economic expansion. As of mid-January, government leaders in Japan, the U.K., and Germany have all announced new and significant lockdown restrictions within their respective countries as new and more highly transmissible COVID-19 variants wreak havoc. The *South China Morning Post* reported in early January that new lockdowns for several cities in the Hebei Province were necessary to protect "the political security" of Beijing, which borders the province. Likewise, *Reuters*, sourcing German newspaper *Bild*, recently published a story reporting that in response to the new coronavirus strain sweeping through Europe, German Chancellor Angela Merkel said, "If we don't manage to stop this British virus, then we will have 10 times the number of cases by Easter. We need eight to 10 more weeks of tough measures." This would mean potential lockdowns could last until spring. As we know, these virus-necessitated lockdowns will reduce economic expansion and delay recovery. We are likely to remain positioned with an underweight to the Eurozone for the near-term as a result.

Eurozone politics will also garner more attention in the coming months as Europe's longest-tenured leader, Angela Merkel, will end her 16-year chancellorship this fall. Merkel has served as a stabilizing force for the Eurozone throughout her term. The Brookings Institute has highlighted that she has now worked with four different American and French presidents, five British prime ministers, and seven (maybe eight before long) Italian PMs. As of this writing, there are five potential candidates to replace Merkel in elections slated for this fall. We will spend time analyzing the different policies of the front-running candidates during the next few months. There is also growing tension within the Italian government as former Prime Minister Matteo Renzi and his small Italia Viva party are threatening to leave current Prime Minister Giuseppe Conte's coalition government over a "row" about taking a loan from the European Stability Mechanism's (ESM) fund to help fortify Italy's health system during the coronavirus pandemic. Should this happen, there would very likely be a re-shuffling of Conte's cabinet, and the possibility that Conte would be replaced as PM cannot be ruled out.

One other significant item that has our full attention is the result of President Trump's Executive Order 13959, signed on November 12, prohibiting U.S. persons from transacting in certain securities and derivatives of Communist Chinese Military companies. The list, as of January 8, 2021, has identified more than 30 companies that fit this description, culminating in the New York Stock Exchange's decision to delist three Chinese Telecommunications companies on January 11.

Continued on page 3...

What We Are Watching continued...

While the events between the U.S. and China may not directly affect clients who invest in our International Developed strategy (as there are no Chinese companies held within this portfolio), the abrupt nature and confusing dialogue surrounding this issue are certainly worth noting. Additionally, the rationale used to make these decisions could be applied to any foreign country in the future. We also do not believe the incoming Biden administration will significantly, or soon, alter the hardline stance on China as both Democrats and Republicans support this position. However, what has been lost in this narrative is that despite all the negative headlines, according to *Barron's*, 33 Chinese equities listed in the U.S. during 2020 and those companies raised $13.4 billion in doing so. Also, Qilian and Kuke Music Holding, both Chinese-domiciled companies, made their Initial Public Offerings in the U.S. on January 12, proving that the proverbial door for business and investment has not been shut between the world's two largest economies. 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
AIA Group Ltd.	3.7%
Nintendo Co., Ltd.	3.7%
DSV Panalpina A/S	3.3%
Novo Nordisk A/S	3.2%
Sony Corporation	3.1%
Novartis AG	3.1%
Canadian National Railway Co.	3.1%
Rio Tinto Group	3.0%
SAP SE	3.0%
Diageo plc	3.0%

Sector Allocation	Weight
Financials	21.3%
Health Care	17.1%
Industrials	16.2%
Information Technology	14.7%
Consumer Discretionary	9.2%
Consumer Staples	7.9%
Materials	7.3%
Communication Services	3.7%
Energy	2.2%
Cash	0.6%

10 Largest Countries	Weight
Canada	17.6%
Ireland	13.2%
Switzerland	12.0%
Japan	11.5%
United Kingdom	11.5%
Denmark	6.5%
France	6.2%
Singapore	4.9%
Hong Kong	4.7%
Sweden	4.6%

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 EAFE
Since 10/1/99	5.5%	2.4%	4.3%
20-Year*	5.4%	2.2%	4.5%
15-Year*	6.0%	2.9%	4.5%
10-Year*	6.4%	3.3%	5.5%
5-Year*	8.5%	5.3%	7.4%
3-Year*	8.7%	5.5%	4.3%
1-Year	15.9%	12.4%	7.8%
YTD	15.9%	12.4%	7.8%
QTD	14.7%	13.8%	16.0%

**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
2020	15.9%	12.4%	7.8%	8.0%	1	$241	$6,889,798	19.3%	17.9%	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 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 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. 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.

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 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.*