

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: Year-End Update

As we enter into a new calendar year, we provide our annual update on the condition of foreign developed market equities, especially as many investors and advisors revisit their asset allocation targets over the next several weeks. We encourage investors to contact us to discuss any of the information presented here in more detail as you make your way through the decision-making process.

Foreign developed market stocks delivered significantly stronger-than-average returns for investors during both the fourth quarter and the full year of 2023. In the final three months of the year, the MSCI EAFE Index posted a gain of 10.4%, well above the 20-year average return of 4.0% historically experienced in fourth quarters. Throughout the year, the index recorded a gain of 18.2%, more than triple the historical average 10-year return of 5.1% and more than double the 20-year return of 7.5%. The returns are even more impressive when considering that the eurozone — the countries that share the euro as a common currency and represent more than one-third of the MSCI EAFE Index — is teetering on the brink of a recession resulting from subdued economic growth. If economic growth within the European continent is bottoming, then improving conditions could serve as at least a moderate catalyst for foreign developed markets.

While developed markets ex-U.S. performed exceedingly well in 2023, valuations did not become “stretched.” On a Price/Earnings basis, the MSCI EAFE Index ended the year at 14.7. The 10-year average P/E ratio for the index is 18.0, meaning that foreign developed market equities now trade at an 18% discount to where they have traded during the past decade. For reference, the P/E ratio one year ago was 13.7, demonstrating that there remains “value” for the asset class despite significant market appreciation. The S&P 500 Index ended the year trading with a P/E of 22.9, representing an 8% premium above the decade-long average for the index. According to Bloomberg estimates, as of this writing, index-level earnings are forecast to reach \$162.99 in 2024, a measure that is 4.8% above the estimated earnings growth for the full year 2023.

Dividend income is another significant and differentiating feature for investors when it comes to owning foreign developed market stocks. At the end of December, the dividend yield on the MSCI EAFE Index was 3.0%, which compares to 2.3% for our actively managed International Developed strategy. Meanwhile, the yield on the S&P 500 was 1.5%. The ability of foreign developed market companies to pay out a higher level of cash flow is a by-product of the index constituents being more short duration in nature. These companies are able to generate significant cash flow as they grow, rather than requiring higher amounts of capital to subsidize growth and build toward the generation of greater cash flow in the future. For over a decade, companies have been given access to capital at historically low costs. The result of this monetary phenomenon has been that investors globally have favored longer-duration, high-cash-burn companies often found within the Information Technology sector. Moreover, the market conditions created from access to cheap capital resulted, at least partially, in the rise of the so-called “Magnificent Seven” (M7) in the U.S. market (Apple, Alphabet, Amazon, Meta, Microsoft, Tesla, and NVIDIA) to a point where their combined market cap exceeded 28% of the S&P 500 in late 2023, according to Strategas Research. In fact, the performance of the Information Technology (IT) sector during the past 10 years has far exceeded any of the other 10 sectors. Domestically, IT, on an annualized basis, has recorded a return of 20.8%, nearly double the next-best-performing group, Consumer Discretionary. This level of outperformance, combined with a larger representation in the S&P 500 of more than three times compared to the MSCI EAFE, explains a great deal of the performance differential between foreign developed and U.S. equity returns during the past 10-year measurement period.

See GIPS Report on pages 4-5.

Market Commentary continued...

Digging deeper into the benchmark construction of the S&P 500 and the MSCI EAFE indexes, we find some notable differences. As highlighted above, Technology comprised 28.9% of the S&P 500 weight at the end of December compared to just 8.6% for the MSCI EAFE. Another sector with meaningfully higher representation in the domestic market than the foreign developed markets is Communication Services at 8.6% versus 4.1%, respectively. However, significant catalysts — such as changes in global monetary policies, shifts in investor preferences, geopolitical fragmentation, among others — could create conditions where benchmark leadership might change, in which case there are some major differences in terms of exposure that foreign markets can offer equity investors. The Industrials sector made up 16.4% of the MSCI EAFE Index at the end of 2023 versus only 8.8% in the S&P 500 Index. Companies within this sector could benefit from global tailwinds, including nearshoring, as well as the desire and need of many countries to re-arm themselves stemming not only from the Israeli war with Hamas and the Russian invasion of Ukraine but also in order to react to other potential conflicts that we are closely monitoring. Financials is another sector with much higher representation in the MSCI EAFE than the S&P 500. The Financials sector is the largest of the 11 sectors within EAFE and carries a 19.0% weight compared to its 13.0% representation in the S&P 500. We expect that financial institutions abroad could benefit from a multitude of factors, including the possibility that Japan moves away from zero interest rates and yield curve control or a modest recovery in China's economy that could benefit Asia and Europe, China's largest trading partners. If the eurozone economy is indeed bottoming out, and the European Central Bank maintains rates at a higher long-term level (as expected), then banks will benefit from wider spreads on loans and increased loan demand.

The breadth of sector performance underlying the benchmark also supported the robust full-year 2023 returns for foreign developed market stocks. Throughout the past 12 months, five of the 11 sectors within the MSCI EAFE Index (Information Technology, Industrials, Consumer Discretionary, Materials, and Financials) outperformed the broad index by an average of 6.6%. By comparison, returns for the S&P 500 Index were more concentrated, with only three sectors (Information Technology, Communication Services, and Consumer Discretionary) outperforming the broad index by an average of 25.8% each. However, when evaluating the six underperforming sectors within EAFE last year, the average return was 11.5%, resulting in an average shortfall of -7.3%. The eight sectors within the S&P 500 that fell short of the broad index recorded an average return of 6.2%, or an average performance drag of -20.1% each. Therefore, the less binary performance differential between sectors of foreign developed equities compared to the domestic market could provide investors with more balanced returns should volatility rise or if economic conditions deteriorate unexpectedly during the year ahead. As we begin to navigate through 2024, we believe foreign developed market equities offer compelling and tangible differences that may create opportunities for equity investors.

Quarterly Trade Summary

We completed a handful of changes in the International Developed portfolio during the final quarter of 2023. In mid-October, we sold Swiss pharmaceutical maker Novartis, a company we've owned since Q4 2018, in favor of taking a position in Sandoz. Sandoz was spun out of Novartis in early October, and this "new" entity (also domiciled in Switzerland) specializes in producing and distributing generic and biosimilar medications. According to published company data, Sandoz manufactures 1,500 generic and biosimilar drugs prescribed to more than 500 million patients globally that help to treat arthritis, diabetes, and cancer. Sandoz currently produces eight biosimilars in the areas of immunology, endocrinology, and oncology. The company expects to grow its biosimilar product offerings substantively in the coming years. We have long believed that the Sandoz asset held within Novartis was very attractive and that it offers a stronger growth profile than the "parent" company. Additionally, Sandoz has a large pipeline of proven drugs it can pursue in generic form which do not have the same risks as new formulations that must navigate the various phases of testing required by the FDA and other regulatory bodies.

In mid-December, we decided to exit Switzerland-domiciled Lonza Group (originally purchased in January 2022) in favor of German defense contractor Rheinmetall. Founded in 1889, Rheinmetall is an industrial and technology company benefitting directly from the rising instabilities created by war and geopolitical fragmentation. The company is a leading international systems supplier in the defense industry, manufacturing ammunition and building vehicles, weapons, and communications systems to help modernize the battlefield, while also engaging in the support and production of environmentally friendly forms of both mobility and energy supply. We expect Rheinmetall to perform strongly if/when the Russia-Ukraine war comes to an end and European countries rebuild military stockpiles and update their military capabilities. The company is also in the process of selling non-core assets that should further catalyze growth in the coming quarters. The company pays a 1.4% dividend, has an order backlog, EPS growth of at least 40%, and has grown revenue by 24% on a year-over-year basis.

As for Lonza, the company has transformed itself during the past couple of years into a pure-play healthcare company specializing in the contract manufacturing of biosimilar pharmaceuticals. While we believe that the longer-term outlook for biosimilars is very bright, Lonza and many of its peers have struggled with a withering near-term pipeline of biosimilar drug development globally. Adding to Lonza's woes, former CEO Pierre-Alain Ruffieux mutually agreed with the Board of Directors to leave the company at the end of September. During its most recent investor day, Lonza issued a downbeat assessment of forward sales and earnings. Therefore, the combination of a deteriorating sales environment, tepid forecast, and changes to the senior management team led us to sell Lonza in favor of Rheinmetall in the portfolio.

Performance Review

During the fourth quarter, the MSCI EAFE Index recorded a gain of 10.4%, while the Confluence International Developed strategy was up 9.4% (gross of fees). For the full year, Confluence International Developed returned 18.5% (gross of fees), in line with the benchmark at 18.2%. *[The strategy's net-of-fees returns for the same periods were 8.6% QTD and 15.0% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

The MSCI EAFE Growth Index outperformed the MSCI EAFE Value Index by 4.5% (+8.2% versus +12.7%) in the fourth quarter. This is similar to the beginning of 2023 when Growth equities outperformed Value by 5.2% in Q1. The Q1 and Q4 returns bookended the middle six months of the year where Value outgained Growth by a wide margin. Thus, for the entire year, the MSCI EAFE Value Index returned 19.0% versus the MSCI EAFE Growth Index at 17.6%. As a growth-oriented strategy, this was a mild headwind to our relative performance for the year.

Quality stocks, as measured by the MSCI EAFE Quality Index, continued to perform well as the index posted a 14.0% return during the final three months of the year and 20.1% for the entirety of 2023. The relative strength of Quality helped to offset the strength in Value during the full year.

In the fourth quarter, the two best-performing countries within our portfolio, on an absolute basis, were Israel and Germany, while Australia and Denmark recorded the worst returns. From a sector standpoint, Communication Services and Information Technology were the strongest sectors during the quarter, while Energy and Materials were the weakest.

From a relative standpoint, the most accretive country allocation was the overweight to Canada, followed by the overweight to Ireland. An underweight allocation to Australia detracted the most from performance, while a zero allocation to Sweden proved unfavorable. From a sector perspective, our overweight allocations to both Information Technology and Financials added the most alpha during the fourth quarter, while our underweight positioning in Materials coupled with an overweight to Industrials contributed negatively to returns.

Security	Avg Weight (%)	Contribution (%)
Top 5		
Novo Nordisk A.S.	4.43	2.31
CyberArk Software Ltd.	3.23	1.96
ICON plc	3.86	1.60
Shopify Inc.	1.58	1.35
Safran S.A.	3.40	1.29
Bottom 5		
United Overseas Bank Ltd.	1.15	(0.14)
Diageo plc	2.04	(0.37)
Lonza Group	Sold	(0.41)
CNH Industrial N.V.	Sold	(0.42)
Franco-Nevada Corp.	2.97	(0.54)

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

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

What We Are Watching

In China, 2024 is the Year of the Dragon. For much of the rest of the world, 2024 is the year of the election. According to the Associated Press, voters will be going to the polls this year in at least 50 countries to elect new or extend current leadership. These countries include small economies, such as Lithuania, Panama, Finland, and Iceland, and medium-sized economies, including Venezuela, Romania, Mozambique, and Sri Lanka. Six of the 10 largest countries in the world, a list that includes India, the United States, Indonesia, Pakistan, Russia, and Mexico, will also see their citizens cast ballots. In total, these elections will cover nearly half of the world's population and more than 80% of worldwide stock market capitalization, according to Bloomberg. The Taiwanese election in mid-January for the office of president could likely become the first of many to change the course of policy, economic reform, geopolitics, and global trade. We will spend a great deal of time collectively during the next 12 months working to identify investment opportunities and hazards that may develop depending on these outcomes.

The Confluence international investment team will also be closely monitoring the course of inflation globally. Bank of Japan (BOJ) Governor Kazuo Ueda has a historic decision to make — whether to extend or end the negative interest rate and yield curve control monetary policy initiatives. Whether or not the BOJ aims to begin raising interest rates as the rest of the world is on hold or cutting rates will significantly influence the economy of one of the largest foreign developed markets. We will also be closely watching if the European Central Bank is able to hold rates at elevated levels with a mixture of sticky high levels of core inflation and complex economic conditions. The U.S. Federal Reserve will also have a prominent role in 2024 as it remains to be seen whether the central bank will cut interest rates as aggressively as many market participants currently anticipate.

We would be remiss if we did not also mention that we will continue to track the strength of the U.S. dollar (USD) as the global election process sorts itself out and policy decisions are made by the world's central bankers. The U.S. Dollar Index has weakened (as of this writing) by nearly 9% since registering its most recent high value in September 2022. The balance of opposing forces between the dollar's "safe haven" status, considering geopolitical turbulence (elections, wars, and economic fragmentation) and the Fed's rate-cutting, may keep the dollar somewhat rangebound during the year. A rangebound or weakening USD could become a catalyst for equities domiciled outside the U.S.

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Portfolio Characteristics² (as of 12/31/2023)

10 Largest Holdings	Weight	Sector Allocation	Weight	10 Largest Countries	Weight
Safran S.A.	3.7%	Consumer Discretionary	5.7%	France	14.4%
DBS Group Holdings Ltd.	3.3%	Consumer Staples	9.7%	Canada	12.2%
ICON plc	3.3%	Energy	7.4%	Switzerland	11.4%
Chubb Ltd.	3.3%	Financials	21.8%	Ireland	10.9%
L'Oréal S.A.	3.2%	Health Care	10.0%	Japan	10.7%
Accenture plc	3.2%	Industrials	20.1%	United Kingdom	10.2%
SAP S.E.	3.1%	Information Technology	13.1%	Germany	7.7%
Novo Nordisk A.S.	3.1%	Materials	6.3%	Denmark	5.8%
CyberArk Software Ltd.	3.0%	Communication Services	2.6%	Netherlands	5.2%
Waste Connections Inc.	2.9%	Cash	3.3%	Singapore	3.3%

Performance Composite Returns³ (For Periods Ending December 31, 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	5.6%	7.1%	8.0%	5.9%	12.7%	6.6%	18.5%	18.5%	9.4%
Max Net-of-Fees ⁵	2.5%	3.9%	4.8%	2.7%	9.4%	3.4%	15.0%	15.0%	8.6%
MSCI EAFE (Net)	4.2%	5.6%	6.9%	4.3%	8.2%	4.0%	18.2%	18.2%	10.4%

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
2023	18.5%	15.0%	18.2%	0.3%	1	\$277	\$7,200,019	17.9%	16.6%	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.)

Confluence International Equities Investment Committee

Mark Keller, CFA

Tore Stole

Matthew Sinkovitz

Blair Brumley, CFA

William O'Grady

Gregory Tropf, CFA

Kaisa Stucke, CFA

Patrick Fearon-Hernandez, CFA

FOR MORE INFORMATION CONTACT A MEMBER OF OUR SALES TEAM: (314) 530-6729 or sales@confluenceim.com

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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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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.