



International Developed

International Equity Strategies



Fourth Quarter 2025

International Developed invests primarily in large cap, growth-oriented companies in developed markets (excluding US). 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

2025 turned out to be "the year of international equities." Developed market equities outside of the United States recorded their strongest full-year return (31.2%) since 2009 when the MSCI EAFE Index posted a gain of 31.8%. It was also the strongest year of relative outperformance (+13.8%) for foreign developed market stocks versus domestic US equities in more than 25 years (MSCI EAFE net versus S&P 500 net returns). For those who have exposure to foreign stocks, the robust outperformance has been welcome. However, the strength of foreign stocks has not been confined to the calendar year 2025. The trailing three-year annualized return of the MSCI EAFE Index stands at 17.2%, which is well above the 10-, 20-, and 25-year average returns.

Many investors have recently asked whether the strong performance of foreign stocks means they've missed the opportunity. We don't believe so. Here we'll discuss why we remain optimistic about international equities.

Over the past few years, we have spent a substantial amount of time discussing with investors the relentless strength of the US dollar (USD) along with the benefit that dollar strength provides for US equities and the headwind it creates for foreign stocks. Last year, the dollar weakened by nearly 9.5%. Historically, weak dollar environments have provided a tailwind for foreign stocks, both developed and emerging markets, and that dynamic held true this year. Since January 2025, the Confluence macroeconomic team has been forecasting that the USD has re-entered a period of weakness that, on average, could last more than nine years based on past weak dollar cycles. Our team will be carefully monitoring the path of the dollar as we expect another year of modest weakening, and we continue to look for opportunities to position our strategies accordingly. If we have indeed entered a renewed era of USD weakness, we may be only 1/9 of the way through the average timeline.

Notably, even with the recent strength in foreign developed market equity performance, investors have not altered their exposure to international equities. The US allocation within the MSCI All Country World Index (the index includes more than 2,500 large and mid-cap foreign developed and emerging market equities) ended the year at 64%, down only one full percentage point from 2024. This indicates that many investors have continued to remain biased to domestic US equities rather than rotating into foreign markets.

Questions regarding valuation have also become common. In December 2024, the Price/Earnings Ratio (P/E) of the MSCI EAFE Index was 15.1, representing a 13% discount to the trailing 10-year average P/E of 17.4. Fast forward 12 months, and the P/E ratio now stands at 17.5, which is the average P/E ratio for the index over the past decade. So, while valuations have risen with the strong performance, there has yet to be any "premiumization" ascribed to developed market foreign equities. Looking ahead, Bloomberg estimates that earnings at the underlying index level should rise by more than 9% in 2026, about half a percentage point higher than in 2025, and higher earnings should help keep the P/E in check, even as prices rise.

The income benefit provided by foreign equities versus domestic stocks also remains in place. As of December 31, the dividend yield for the MSCI EAFE was 2.7% compared to the S&P 500 yield of 1.2%. Even the MSCI Emerging Markets Index offers a 2.3% yield. With that in mind, and the US Federal Reserve currently implementing a rate-cutting policy approach, investors with income needs may find foreign markets attractive.

In addition to the question of USD strength, a large headwind to relative foreign market equity performance compared to domestic stocks has been the weight of the Technology sector within the respective indexes. The S&P 500 has a 34% allocation to Tech versus less than 9% among foreign developed markets. Technology has been a leader in terms of global sector-level performance for more than a decade. However, the structural dearth of Technology in the developed markets has been a large contributor to its relative performance shortfall over the years.

See GIPS Report on pages 4-5.

While Technology outgained the broad S&P 500 during the past year, all the strength was recorded in the middle of the year during the post-Liberation Day market bounce. Tech was the worst-performing sector during Q1 2025, and the US market lagged. From September 30 through this writing (mid-January), US Tech has once again begun to underperform and ranks ninth out of the 11 sectors in terms of performance, with a modest gain of +0.3%. During this 100+-day period, index leadership has shifted; Health Care, Energy, Consumer Staples, Materials, and Industrials are all outgaining the broad S&P 500. Notably, after the shift, the MSCI EAFE now carries higher weightings than the domestic market in Health Care, Consumer Staples, Materials, and Industrials, with a slightly larger allocation to Energy as well. Therefore, if investors are initiating a shift and finding less favor in Technology, this might also prove to be an additional catalyst for foreign markets.

In our view, international equities are positioned very well as we embark on the new year. They present fair valuations, higher income opportunities via dividends, a broadly diversified index construct, and are poised to outperform with a weaker USD. We believe this is an opportune time to reassess allocations to international equities without requiring a significant shift.

Quarterly Trade Summary

We made two transactions in the International Developed portfolio during the fourth quarter of 2025.

First, in May, Japanese Consumer Discretionary company Sony announced its intention to partially spin off its stake in Sony Financial Group. Over the past several years, Sony's management had concluded that the best strategy to enhance shareholder value for Sony Financial Group was to create a separate, publicly listed company. It was made into a wholly owned subsidiary of Sony in September 2020, and in early October, Sony Financial Group (SFGYY) began trading. This new company operates three divisions that include life insurance, non-life insurance (auto and medical), and banking (foreign exchange, housing loans, trust, etc.). After evaluating the new company, we decided to sell the spin-off shares investors received as the portfolio already includes more attractive insurance companies, in our view. Sony maintains a 20% stake in Sony Financial Group post spin-off.

The second transaction was also the result of a spin-off. In early December, Unilever, the United Kingdom-based Consumer Staples company, completed the demerger of The Magnum Ice Cream Company N.V. (MICC) that was originally announced in the spring of 2024. Magnum is now an independent company with a market cap of more than \$9 billion. It is the largest ice cream company in the world, with a global market share of over 20%, and owns many highly familiar brands, including Magnum, Ben & Jerry's, Yasso, Klondike, Talenti Gelato, and Breyers. In addition, Magnum trades at a compelling valuation relative to its peers. Rather than immediately sell the relatively small position (<1%), we will continue to monitor and evaluate Magnum to better determine whether the company should be included as a larger position. Magnum reports its first quarterly earnings as a standalone company in mid-February.

The three-year turnover for this strategy remains within the expected range at 15% as of 12/31/25.

Performance Review

During the fourth quarter, the Confluence International Developed strategy recorded a gain of 1.7%, while the MSCI EAFE Index gained 4.9%. For the year, Confluence International Developed was up 31.1% in 2025 versus the MSCI EAFE at 31.2%. This was the strongest full-year return for the strategy since 2003. *[The strategy's net-of-fees returns for the same periods were 1.0% QTD and 27.2% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

Our growth-oriented investment strategy composed of high-quality companies faced significant headwinds during much of the past 12 months, especially during the fourth quarter, as both quality and growth underperformed the broad MSCI EAFE. Looking first at growth, the MSCI EAFE Growth Index underperformed the MSCI EAFE by three percentage points during the quarter, and Growth underperformed Value by nearly 600 bps (MSCI EAFE Growth, 1.9%, vs. MSCI EAFE Value, 7.8%). Over the full year, Value outgained Growth by more than 21%, and the MSCI EAFE Value Index has now outperformed both the broad MSCI EAFE and the MSCI EAFE Growth on a quarterly, one-, three-, five-, and 10-year trailing basis. This remains in direct contrast with the US equity markets, where growth has substantially outgained value for more than a decade.

Quality stocks, as measured by the MSCI EAFE Quality Index, once again underperformed the broad MSCI EAFE (4.4% vs. 4.9%, respectively) during the final three months of 2025. Quality stocks have now underperformed the MSCI EAFE on a one-year (-10.0%), three-year (-4.8%), and five-year (-3.4%) trailing basis. Thus, the somewhat dramatic rotation away from quality and growth in favor of value and lower quality accounts for most of the performance shortfall during the last quarter.

In the fourth quarter, the two best-performing countries in our portfolio, on an absolute basis, were Switzerland and the Netherlands, while Germany and Hong Kong recorded the worst returns. From a sector standpoint, Health Care and Energy were the strongest sectors during the quarter, while Communication Services and Information Technology were the weakest.

From a relative standpoint, the most beneficial country allocation was the overweight to the Netherlands, followed by the overweight to Switzerland. An underweight allocation to the United Kingdom detracted the most from performance, while the underweight to Japan also weighed on quarterly returns. From a sector perspective, our overweight allocations to Health Care and Information Technology added the most alpha during Q4. Our underweight allocation to the Financials sector coupled with our overweight to Industrials contributed negatively to returns.

The portfolio's top contributors and detractors for the full year are shown in the accompanying table.¹

Security	Avg Weight (%)	Contribution (%)
Top 5		
Rheinmetall AG	4.11	7.51
Agnico Eagle Mines Ltd.	2.98	2.54
Sandoz Group	3.10	2.13
ING Groep N.V.	2.70	1.93
Safran S.A.	2.84	1.70
Bottom 5		
LVMH Moët Hennessy Louis Vuitton	1.34	(0.09)
Diageo plc	0.97	(0.31)
ICON plc	2.03	(0.59)
Novo Nordisk A.S.	1.69	(0.82)
Accenture plc	2.58	(0.93)

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

What We Are Watching

The list of developments we are watching as we begin the new year is as vast and complex as ever. This is further complicated by the frenetic pace of news flow, which at any point could markedly shift investor sentiment dynamically. Thankfully, as of this writing, global equity markets have largely digested the significant uptick in geopolitical tensions, such as the removal of Venezuelan President Maduro; saber rattling with Iran; the threat of additional military action between the US and multiple other countries including Cuba, Colombia, Mexico, and Greenland; new tariff threats and import/export restrictions; the US Department of Justice serving US Federal Reserve Chair Powell with subpoenas; the impending US Supreme Court decision about the legality of tariffs put in place by the Trump administration; along with the "normal" ebbs and flows of macroeconomic data releases and corporate earnings announcements. While staying on top of all these topics can, at times, be harrowing, we are fortunate to have our own in-house macroeconomic and geopolitical team to help guide our decisions on these matters and assist with sorting through the noise and clutter to determine what is likely to matter.

One of the fundamental supports for equities globally has been the staggering amount of capital that has been spent on the development of artificial intelligence (AI) and the infrastructure (datacenters) being built to support this technological development. The World Economic Forum predicts that global AI spending reached \$1.5 trillion in 2025 and will grow to more than \$2 trillion this year! J.P. Morgan has estimated that Alphabet, Amazon, Meta, Microsoft, and Oracle alone will spend more than \$530 billion in 2026 versus "only" a \$241 billion investment just two years ago. As the spending grows, the halo of investment opportunities in surrounding goods and services (power generation, physical infrastructure, regulation, construction, and engineering) continues to grow as well. While the management teams that we have interacted with during the past year have all stated they expect this trend to extend into at least next year, we remain alert that even a slight decrease in capex in this area could lead to lasting market declines. Thus, both the health of the AI spending cycle currently underway and the ability of companies to begin monetizing this incredible investment in a scalable and meaningful manner require diligent oversight.

In terms of the global election calendar in 2026, aside from the US midterms in November, Latin America will be the region to follow most closely. Presidential elections are scheduled in Peru (April), Colombia (May), and Brazil (October), and the result of each could have an impact on their geopolitical relationship with the US. A more near-term development is that newly elected Japanese Prime Minister Sanae Takaichi has announced her intention to dissolve the Lower House of the Japanese Diet (House of Representatives), triggering a snap election for early February. She hopes the move will strengthen the Liberal Democratic Party's (LDP) standing and allow her to govern from a better position.

Another important milestone scheduled for the first quarter is the detailed announcement of China's 15th Five-Year-Plan. The main points of the plan have been published and are expected to focus on national priorities, including increasing technology self-reliance, development of high-technology industries, and, importantly, the stimulation of domestic demand and inflation. Chinese GDP growth has softened since mid-2025, and while slower growth isn't necessarily a positive, the Chinese Communist Party has apparently abandoned the specified growth rate target for the economy, which could usher in an era of fundamentally driven growth rather than the approach that merely prioritizes growth for growth's sake. Therefore, we will thoroughly dissect the portion of the Five-Year-Plan announcement that relates to stimulating domestic consumption. Chinese retail sales have also weakened since May of last year, even as import growth has gained traction. With China being the second-largest economy in the world, a sustained improvement in the Chinese consumer would likely benefit emerging markets along with companies that import into the country.

As always, we welcome the opportunity to discuss the topics covered in this quarterly summary or to answer questions on other subjects related to international equity investing. We thank you for your confidence in us.

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Portfolio Characteristics² (as of 12/31/2025)

10 Largest Holdings	Weight	Sector Allocation	Weight	10 Largest Countries	Weight
Sandoz Group	3.2%	Consumer Discretionary	5.1%	Japan	18.9%
Agnico Eagle Mines Ltd.	3.1%	Consumer Staples	9.1%	France	15.3%
ASML Holding N.V.	3.1%	Energy	2.5%	Switzerland	11.4%
AerCap Holdings N.V.	3.0%	Financials	20.9%	Ireland	9.4%
ING Groep N.V.	2.9%	Health Care	13.1%	Netherlands	9.1%
LVMH Moët Hennessy Louis Vuitton	2.9%	Industrials	21.8%	United Kingdom	8.9%
Roche Holding A.G.	2.8%	Information Technology	15.4%	Canada	8.2%
DBS Group Holdings Ltd.	2.8%	Materials	5.3%	Germany	6.9%
Chubb Ltd.	2.8%	Communication Services	3.8%	Singapore	4.6%
ITOCHU Corp.	2.7%	Cash	3.1%	Hong Kong	2.2%

Performance Composite Returns³ (For Periods Ending December 31, 2025)

	Since 10/1/99	25-Year*	20-year*	15-year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
International Developed										
Pure Gross-of-Fees ⁴	6.7%	6.7%	7.5%	8.2%	10.2%	12.0%	19.9%	31.1%	31.1%	1.7%
Max Net-of-Fees ⁵	3.5%	3.5%	4.3%	5.0%	7.0%	8.7%	16.3%	27.2%	27.2%	1.0%
MSCI EAFE (Net)	5.1%	5.4%	5.6%	6.6%	8.2%	8.9%	17.2%	31.2%	31.2%	4.9%

Calendar Year**	Pure Gross-of-Fees ⁴	Max Net-of-Fees ⁵	MSCI EAFE (Net)	Difference (Gross-MSCI EAFE)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI EAFE 3yr Std Dev	Composite Dispersion
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
2024	10.9%	7.6%	3.8%	7.1%	1	\$301	\$7,280,773	17.4%	16.6%	N/A
2025	31.1%	27.2%	31.2%	(0.1%)	18	\$3,335	\$6,769,052	11.8%	11.9%	0.0%

*Average annualized returns

**Performance History begins 10/1/1999. Additional years of performance available on our website.

See performance disclosures on last page.

Portfolio Benchmark

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)

Confluence International Equities Investment Committee

Mark Keller, CFA

Gregory Tropf, CFA

Tore Stole

Patrick Fearon-Hernandez, CFA

Bill O'Grady

Matt Sinkovitz

Blair Brumley, CFA

Amanda Bersing

For more information contact a member of our sales team: (314) 530-6729 or sales@confluenceim.com

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Disclosures

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Investment or investment services mentioned may not be suitable to an investor and the investor should seek advice from an investment professional, if applicable. It is important to review your investment objectives, risk tolerance, and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk, including possible loss of principal, that investors should be prepared to bear. Equity securities are subject to market risk and may decline in value due to adverse company, industry, or general economic conditions. There can be no assurance that any investment objective will be achieved or that any investment will be profitable or avoid incurring losses.

Indexes: 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 performance figures are reported as net returns.

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, 2024. 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 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 US 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 US-listed shares of large capitalization, non-US 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.