International Equity Income

International Equity Strategies

Confluence INVESTMENT MANAGEMENT

Second Quarter 2026

Confluence International Equity Income invests primarily in large capitalization companies in international developed markets (excluding US) that collectively generate an above-average stream of dividend income, while also providing capital appreciation potential. 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 that have the ability to either pay a high level of dividend income or grow the dividend stream over time. The strategy is appropriate for clients seeking total return from dividend income and capital appreciation.

"The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd."

— Warren Buffett

Over the years, Warren Buffett has dispensed numerous quotes around the advantages of investing well and the dangers of doing so poorly. The quote above seems particularly well suited to the current environment faced by money managers. It does not strike us as an exaggeration to say these are truly unique times and the market is delivering investment returns befitting that description. For those not riding the wave, that gives rise to the temptation to alter one's principles and stated objectives or make decisions that would "enhance" performance — chasing today's hot theme with little concern that something else could very well take its place sooner rather than later. As it turns out, one of the hardest parts of professional money management is resisting temptation.

But there is nuance to account for as well. The Confluence International Equity Income strategy endeavors to deliver above-average dividend income without sacrificing capital appreciation potential. As a result, we do not take the view that our approach is "out of favor" and simply surrender to the notion that there is little we can do if we resist that temptation. Our collective experience has taught us that opportunities to explore and take advantage of are always present during extraordinary times and more familiar conditions alike, and we seek to do just that. As such, we look for investments that fulfill both mandates of dividend income and capital appreciation.

So, what sort of companies manage to thread this seemingly microscopic needle? It's likely one would not associate them with the AI/data center/semiconductor narratives that seem to be at peak popularity right now, but they do leverage off those trends (and other significant drivers) in important ways. We observe that nearly every aspect of data center construction is currently facing limited capacity relative to strong demand. These assets don't simply spring out of the ground, and that creates opportunity for construction and raw materials companies.

In International Equity Income, we own two strong operators in those categories, Komatsu and BHP Group. How exactly do a bulldozer manufacturer and an iron ore miner enable AI? The answer is actually quite simple: nothing associated with AI can take place without the establishment of facilities to house and protect the hardware central to its growth. You need construction equipment to prepare a site and install many specific and ancillary elements for data centers (and semiconductor fabs as well). Further, iron ore processed into steel and copper ore processed into wire and other conductive materials are, quite literally, the basic elements without which nothing else in a data center could function. Better yet, the trend toward recasting supply chains through near-shoring/re-shoring is also driving similar construction needs globally. The broader push to "electrify" more elements of the economy will also increase demand for copper, given its superior conductive properties. Coupled with our overarching quality metrics, we remain confident that International Equity Income will continue to deliver total shareholder returns over long periods that benefit our investors.

Quarterly Trading Summary

In terms of the portfolio's composition, there was only one change made during the quarter and neither side of the transaction had anything to do with technology. Instead, the change was driven by our ongoing desire to improve the quality of the portfolio, and this trade also delivered the added benefit of increasing the overall portfolio's yield. As such, we elected to sell Diageo (DEO) and establish a position in the Dutch banking firm ING Groep (ING) in its place. In the case of Diageo, there is considerable change taking place, up to and including installation of new senior management. Our assessment of the goals being laid out for the company and management's reduced fidelity to maintaining its dividend payout brought us to the conclusion that this was no longer a fit for our stated parameters. ING, on the other hand, is performing well in an industry where we see higher representation as a positive going forward. Judged by both operating metrics and its practices concerning shareholder returns, we believe ING Groep will be a positive addition for some time.

See GIPS Report on pages 3-4.

Performance Review

During the second quarter, the Confluence International Equity Income increased 0.8% for a year-to-date gain of 7.4% (both gross of fees) compared to the MSCI EAFE Index at 9.4% for the first half of the year. Over the trailing one-year period, Confluence International Equity Income returned 19.5% (gross of fees) versus the benchmark at 20.2%. At quarter end, the portfolio yield was 4.3%. [*The strategy's net-of-fees returns for the same periods were 0.0% QTD, 5.8% YTD, and 16.0% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary*.]

Performance throughout the quarter was remarkably consistent from month to month, which, given the considerable economic and geopolitical crosscurrents that occurred during the period, speaks to the benefits of owning high-quality companies that can weather a variety of conditions and circumstances.

In terms of performance drivers for the quarter, our holdings across the Financials sector (both banks and insurance) were the standouts to the upside. Detractors were generally consumer-related names and commodity providers that had benefited from the shipping disruptions in the Strait of Hormuz.

The portfolio's top contributors and detractors thus far in 2026 are shown in the accompanying table.[1]

Ticker	Security	Avg Weight (%)	Contribution (%)
Top 5			
BHP	BHP Group Ltd.	4.31	1.44
BNPQY	BNP Paribas S.A.	4.04	0.98
TRP	TC Energy Corp.	4.72	0.94
DBSDY	DBS Group Holdings Ltd.	5.07	0.93
KMTUY	Komatsu Ltd.	4.55	0.86
Bottom 5			
DEO	Diageo plc	*Sold*	(0.14)
SGAPY	Singapore Telecommunications Ltd	5.14	(0.16)
CAJPY	Canon Inc.	2.59	(0.31)
JMHLY	Jardine Matheson ADR	5.81	(0.40)
MBGYY	Mercedes-Benz Group	2.67	(0.76)

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

Outlook

In many instances, looking at something through either a narrow or wide lens can lead to very different conclusions about what we're dealing with. Like much of the world today, one may believe the advent of AI and the data centers required to drive its use are the only things worth focusing on. And while it may be true that this technology will eventually occupy a central role in many areas, it is extremely rare for development and adoption of this kind of trend to unfold in a smooth, "up and to the right" fashion without fits and starts along the way. Progress, after all, only delivers benefits at a cost. If the costs are ever seen as exceeding the benefits, then we'll start to see valuation adjustments and investment opportunities tied to the trend.

This is why we at Confluence employ that wide angle lens and maintain our enthusiasm for consistency over velocity and volatility. We expect there will continue to be a wide world of opportunity to harness, and we look forward to doing just that in service of our clients. We remain committed to identifying high-quality companies with capable management teams and above-average yields in order to construct a portfolio that we believe is well positioned to achieve its objectives over time.

Portfolio Characteristics[2] (as of 6/30/2026)

10 Largest Holdings	Weight
DBS Group Holdings Ltd.	5.5%
TC Energy Corp.	5.0%
Jardine Matheson ADR	5.0%
Allianz SE	4.9%
Singapore Telecommunications Ltd.	4.8%
BHP Group Ltd.	4.7%
BNP Paribas S.A.	4.5%
Enel SpA	4.5%
ING Groep N.V.	4.4%
Komatsu Ltd.	4.3%

Sector Allocation	Weight
Consumer Discretionary	2.1%
Consumer Staples	8.6%
Energy	9.1%
Financials	26.7%
Health Care	8.4%
Industrials	13.2%
Information Technology	2.4%
Materials	11.3%
Communication Services	4.8%
Utilities	4.5%
Cash	9.0%

10 Largest Countries	Weight
Canada	12.6%
Singapore	10.3%
Japan	10.0%
Italy	8.6%
Netherlands	8.3%
Germany	7.1%
Switzerland	6.9%
United Kingdom	6.1%
Bermuda	5.0%
Australia	4.7%

Performance Composite Returns[3] (For Periods Ending June 30, 2026)

	Since Inception**	5-Year*	3-year*	1-year	YTD	QTD
International Equity Income *Pure Gross-of-Fees[4]*	14.7%	11.9%	16.4%	19.5%	7.4%	0.8%
Max Net-of-Fees[5]	11.3%	8.6%	13.0%	16.0%	5.8%	0.0%
MSCI EAFE (Net)	12.6%	9.0%	16.4%	20.2%	9.4%	10.8%

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
2020**	19.0%	17.3%	21.6%	(2.6%)	1	$119	$6,889,798	N/A	N/A	N/A
2021	18.4%	14.9%	11.3%	7.1%	1	$141	$7,761,687	N/A	N/A	N/A
2022	(6.6%)	(9.4%)	(14.5%)	7.8%	1	$132	$6,931,635	N/A	N/A	N/A
2023	15.7%	12.3%	18.2%	(2.5%)	1	$153	$7,200,019	14.3%	16.6%	N/A
2024	9.9%	6.7%	3.8%	6.1%	1	$168	$7,280,773	13.6%	16.6%	N/A
2025	26.5%	22.7%	31.2%	(4.7%)	1	$212	$6,769,052	9.3%	11.9%	N/A

**Average annualized returns* ***Inception is 6/30/2020* *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)*

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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 Equity Income strategy was incepted on June 30, 2020, and the current International Equity Income – Direct Composite was created on June 30, 2020. 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. Gross returns are shown as supplemental information.

*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. Non-fee-paying assets as a percentage of total composite assets at year-end are as follows for 2024: 100%

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. The three-year annualized standard deviation measures the variability of the composite gross returns over the preceding 36-month period. The International Equity Income – Direct Composite contains fully discretionary International Equity Income non-wrap accounts. The International Equity Income portfolio invests in U.S.-listed shares of large capitalization, non-U.S. companies primarily from developed markets with a total return objective, i.e. dividend income plus capital appreciation. The primary benchmark is the MSCI EAFE Index. An index is unmanaged and does not incur management fees, transaction costs or other expenses associated with separately managed accounts. It is not possible to invest directly in the index.

**Results shown for the year 2020 represent partial period performance from June 30, 2020, through December 31, 2020.

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.