

International Equity Strategies • International Growth

International Growth invests primarily in large cap, growth-oriented companies in both developed and emerging markets. 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. The maximum direct exposure to emerging markets is 25% of the portfolio's total value.

Strategy Commentary

Never has there been such a singular, simultaneous, and globally encompassing event that could change the very framework of most of our lives. Rich or poor, advanced or emerging, free or controlled, most everyone on earth has had to abruptly change the way they live, work, and care for those they hold close. While we could fill this document with a multitude of economic data points to illustrate the unprecedented global calamity that the COVID-19 virus has produced, the focus of this piece will take a different path. What has lately become certain is the increase in uncertainty. Following a recent investment meeting, Confluence Chief Market Strategist Bill O'Grady wrote:

In the nearly two decades of being involved in such procedures, the current environment is perhaps the most unique for all members of the committee. Simply put, we are in an area of substantial uncertainty. The term "uncertainty" is not used lightly; we view the word in the sense analyzed by Frank Knight in his seminal work, Risk, Uncertainty and Profit. Risk is where known probabilities can be assigned; games of chance such as roulette fall into the category. Uncertainty occurs when probabilities cannot be accurately assigned. That is the world in which most portfolio management decisions are made.

Despite the uncertainty, we at Confluence continue to adhere to our process and discipline that focuses on ownership of high-quality, growth-oriented international equities. Although our portfolios were certainly not immune to the unmitigated downturn, we were able to protect more capital through active management than the passive benchmark was able to achieve. One advantage of this recent dislocation within global equity markets is that stocks recently deemed too pricey are now potential portfolio additions. The Price/Earnings ratio of the MSCI World ex-U.S. Index fell to 14.5 on March 31, 2020, 23.7% less than the Index P/E on December 31, 2019.

A growing number of public companies, as a result of the coronavirus pandemic, have withdrawn guidance, ceased the repurchase of their own stock and canceled dividends. We expect this trend to continue for as long as the global economy

remains on lockdown. These changes to corporate policy and commensurate reductions in shareholder value further lessen the clarity and increase risk. While a limited number of our current holdings have removed guidance and we expect others to amend their capital plans, several of our current holdings have made capital investments since the pandemic began.

While we do not know how the virus-related uncertainty will end, we can take solace in some historical references illustrating the future opportunity in owning international stocks. Following the period of June 2008 through March 2009 of the financial crisis where the MSCI World ex-U.S. Index recorded a loss of 45.7%, the index gained 56.0% by March 2010. During the quarter ending September 2011, the index tumbled by 19.0% only to rebound by nearly 14.0% in the following 12 months. Although much may be unknown today, we are optimistic for a brighter future and will continue to look for opportunities to participate when the recovery occurs. We do so by remaining focused on our investment philosophy of owning well-run, highly capitalized, quality companies.

Quarterly Trading Summary

We were not pressed to make any portfolio changes as a result of market conditions. Instead, we focused on targeted upgrades within the Health Care and Information Technology sectors. During the quarter, we made four changes to the portfolio holdings, including the purchase of Novo-Nordisk, an increase in the position size of Wal-Mart de Mexico, and the sales of Health Care sector holdings Fresenius Medical Care and Smith & Nephew.

In early January, the decision was made to sell the United Kingdom-based Smith & Nephew (owned since July 2016). This company underwent a CEO change in November 2019 as Namal Nawana stepped down after only 18 months following a compensation disagreement. Growth and return metrics have slumped for Smith & Nephew over the past few years, and the combination of tepid growth along with the CEO change provided the catalyst for this sale.

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ABOUT CONFLUENCE INVESTMENT MANAGEMENT LLC

Confluence Investment Management is an independent Registered Investment Advisor located in St. Louis, Missouri, that provides professional portfolio management and advisory services to institutional and individual clients. Confluence's investment philosophy is based upon independent, fundamental research that integrates evaluation of market cycles, macroeconomics and geopolitical analysis with the firm's value-driven, company-specific approach. The portfolio management philosophy begins by assessing risk and follows through by positioning clients to achieve their income and growth objectives.

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Quarterly Trading Summary continued...

Proceeds from the Smith & Nephew sale were used to increase the position of Wal-Mart de Mexico (Walmex) from 1.25% up to a full 2.5% allocation. This increase was predicated on the company's unique ability to grow above its peers, and the underlying Latin American economies in which it participates. Company sales are derived 82% from Mexico, with the remaining portion coming from the countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Wal-Mart de Mexico has superior logistical expertise when compared to the majority of its highly fragmented and much smaller competitors, has steadily grown EBITDA margin, and offered a compelling dividend yield of nearly 5% at the purchase date. The addition to Walmex raised the portfolio's direct emerging market allocation to 12.5%, half of our 25% limit. As fundamentals and relative growth characteristics of emerging markets have improved in recent years, we have steadily increased this exposure.

In mid-January, we purchased a 2.5% stake in Denmark-based Novo-Nordisk, a pharmaceutical company focusing on diabetes, obesity, and biopharmaceuticals. The company's primary business is working to control the blood sugar of diabetics and pre-diabetics via the use of modern insulin. The long-term growth prospects, in terms of blood sugar control for Novo, are based on the development and usage of a new class of drugs called GLP-1. Novo's GLP-1 franchise has developed from Victoza, which is a daily injection, to Ozempic, a weekly injection, to Rybelsus, a daily oral insulin delivery method which was approved by the FDA in September 2019. Rybelsus is game-changing in terms of eliminating the need for patient injection and is potentially a \$5 billion/year "blockbuster" formulation. Novo-Nordisk has also recently been granted FDA approval for Saxenda, an obesity drug. This drug has received prior approval outside the United States and is also on a trajectory to obtain "blockbuster" status (sales of greater than \$1 billion annually) in 2020/2021. Novo has a robust drug pipeline and offered a dividend yield of 2.6% as of the purchase date.

Shares of Germany-based Fresenius were sold to fund the purchase of Novo-Nordisk. We believe Fresenius will continue to be challenged as the company's primary business, dialysis services (80% of sales), has slowed to less than 2% trailing three-year growth. Further, healthcare providers have forcibly reduced the "moat" for companies such as Fresenius by making them price-takers rather than price-makers as their once leading-edge technology has become more commoditized.

Performance Review

During the first quarter, the MSCI World ex-U.S. Index recorded a return of -23.3% compared to -19.6% for Confluence International Growth (gross of fees). During the past year, the International Growth strategy recorded a return of -8.9% (gross of fees) versus -14.9% for the MSCI World ex-U.S. Index. *(The strategy's QTD and 1-year returns were -20.3% and -11.6% (net of fees), respectively. Net of fees calculated using the highest applicable annual bundled fee of 3.00%. See disclosures on p.4 for fee description; actual investment advisory fees may vary.)*

The two best-performing countries within the portfolio on an absolute basis were China (1.2%) and Canada (-10.7%), while the weakest returns were recorded by Brazil (-43.4%) and India (-39.3%). Communication Services (-0.9%) and Health Care (-14.9%) were the strongest sectors during the quarter, while Energy (-35.5%) and Financials (-26.0%) were the worst-performing sectors.

The top-performing and worst-performing positions during the quarter were as follows:

Security	Avg Weight	Contribution
Top 5		
ZTO Express Cayman Inc.	1.87	0.19
Shopify Inc.	3.61	0.13
Tencent Holdings Ltd.	1.65	0.05
Fresenius Medical Care AG & Co. KGaA	0.28	0.03
Nintendo Co., Ltd.	1.96	0.01
Bottom 5		
Accenture plc	3.37	(0.75)
CyberArk Software Ltd.	3.33	(0.81)
DBS Group Holdings Ltd.	2.45	(0.87)
Icon plc	4.35	(0.99)
Aptiv plc	2.28	(1.27)

(Contribution data shown from a sample account)

What We Are Watching

The relentlessly furious pace of dramatic and unprecedented pandemic-related news flow makes focusing on the proverbial forest rather than being fascinated by each singular new tree a genuine challenge. Therefore, it remains incumbent upon us to carefully monitor the events beyond COVID-19 that could provide risk or benefit to our portfolio construction methodology.

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What We Are Watching continued...

One area we would like to highlight is the current state of negotiations pertaining to Brexit. While the year-end deadline for final post-Brexit trade discussions has not been yet been extended, we remain acutely aware of the potential risks facing the U.K. economy. Recently, our team has begun to explore the concept that the negotiation process between the United Kingdom and the European Union may be significantly altered considering the growing disquiet among the remaining members of the European Union. Not only have EU member states closed borders to one another, but there have been multiple reports of competition with one another over the supplies required to confront the virus and protect those directly affected.

The most recent flashpoint within the EU comes from the apparent inability of the membership to quickly agree on the terms necessary to establish a €500 billion European Stability Mechanism (ESM) to support the bloc's economies impacted by the coronavirus. According to a Reuters report, the European Central Bank issued a warning that the EU may need

up to €1.5 trillion in economic support to help offset the negative impact of the COVID-19 pandemic. Italian Prime Minister Giuseppe Conte, in an interview with the BBC on April 9, warned, "If we do not seize the opportunity to put new life into the European project, the risk of failure is real." So, while the leaders of the European Union haggle with one another over the terms of backstopping their own cratering economies, questions regarding the ongoing viability of the trade union are festering. This awkward state of EU affairs is likely to complicate the time-sensitive negotiations with the U.K.

Confluence Market Strategist Patrick Fearon-Hernandez recently authored the following two-part *Weekly Geopolitical Report* series: "Could the Coronavirus Pandemic Break Up the EU?" [Part I](#) (March 30, 2020) and [Part II](#) (April 6, 2020). These reports discuss the possibility of the EU collapse in light of the current virus pandemic. For the time being, and until more certainty is reached, our large relative underweight allocation to Europe is likely to remain.

Confluence International Equities Investment Committee

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*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. Holdings identified do not represent all of the securities purchased, sold or recommended. Sector and country allocations along with securities mentioned 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 World ex-U.S. 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.*

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(as of 3/31/20)

10 Largest Holdings	Weight	Sector Allocation	Weight	10 Largest Countries	Weight
Icon plc	4.3%	Industrials	17.8%	Canada	14.9%
Shopify Inc.	3.9%	Information Technology	16.3%	Ireland	13.2%
LVMH Moët Hennessy Louis Vuitton	3.6%	Financials	14.6%	Japan	11.8%
Accenture plc	3.4%	Consumer Discretionary	12.3%	United Kingdom	10.9%
Sony Corporation	3.4%	Health Care	11.6%	China	7.2%
Franco-Nevada Corporation	3.4%	Consumer Staples	8.6%	Denmark	6.3%
Elbit Systems Ltd.	3.3%	Materials	7.9%	Israel	6.2%
AIA Group Ltd.	3.3%	Communication Services	4.4%	Switzerland	5.2%
Waste Connections, Inc.	3.3%	Energy	4.2%	France	4.5%
DSV Panalpina A/S	3.2%	Cash & Other	2.3%	Singapore	4.1%

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 3/31/20

	Pure Gross-of-Fees ¹	Net-of-Fees ²	MSCI World ex-US	Calendar Year	Pure Gross-of-Fees ¹	Net-of-Fees ²	MSCI World ex-US	Difference (Gross-MSCI World exUS)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI World exUS 3yr Std Dev	Composite Dispersion
Since 10/1/99	4.9%	1.8%	2.8%	1999**	26.6%	25.6%	17.4%	9.2%	131	\$48,987	-	N/A	N/A	N/A
15-Year*	5.6%	2.4%	3.1%	2000	(15.0%)	(17.6%)	(13.4%)	(1.7%)	58	\$15,193	-	N/A	N/A	3.0%
10-Year*	3.6%	0.5%	2.4%	2001	(18.1%)	(20.5%)	(21.4%)	3.3%	42	\$7,128	-	N/A	N/A	1.1%
5-Year*	(0.5%)	(3.5%)	(0.8%)	2002	(17.9%)	(20.4%)	(15.8%)	(2.1%)	32	\$4,654	-	17.1%	16.1%	0.7%
3-Year*	1.6%	(1.4%)	(2.1%)	2003	40.2%	36.1%	39.4%	0.8%	26	\$4,642	-	18.1%	17.7%	0.9%
1-Year	(8.9%)	(11.6%)	(14.9%)	2004	18.7%	15.2%	20.4%	(1.6%)	25	\$5,004	-	15.4%	15.3%	1.1%
YTD	(19.6%)	(20.3%)	(23.3%)	2005	18.2%	14.7%	14.5%	3.8%	25	\$6,651	-	12.1%	11.3%	0.5%
QTD	(19.6%)	(20.3%)	(23.3%)	2006	29.5%	25.6%	25.7%	3.8%	35	\$11,866	-	11.6%	9.5%	1.1%
				2007	23.4%	19.7%	12.4%	10.9%	49	\$16,292	-	12.5%	9.7%	2.9%
				2008	(37.8%)	(39.6%)	(43.6%)	5.8%	76	\$14,221	-	20.7%	19.5%	1.5%
				2009	31.8%	27.9%	33.7%	(1.8%)	114	\$28,437	-	23.0%	23.9%	2.1%
				2010	13.2%	9.9%	8.9%	4.3%	168	\$60,558	-	24.3%	26.3%	1.3%
				2011	(11.4%)	(14.1%)	(12.2%)	0.8%	253	\$80,988	-	20.1%	22.3%	0.6%
				2012	16.1%	12.7%	16.4%	(0.3%)	254	\$94,222	-	17.6%	19.0%	0.6%
				2013	19.1%	15.6%	21.0%	(1.9%)	291	\$113,801	-	14.4%	16.0%	0.6%
				2014	(1.7%)	(4.6%)	(4.3%)	2.6%	177	\$88,982	-	11.4%	12.7%	0.7%
				2015	(2.1%)	(5.0%)	(3.0%)	0.9%	191	\$81,898	-	11.5%	12.3%	0.4%
				2016	(5.1%)	(7.9%)	2.7%	(7.8%)	113	\$39,444	-	12.0%	12.3%	0.7%
				2017	25.2%	21.4%	24.2%	1.0%	62	\$28,303	-	11.1%	11.7%	0.8%
				2018	(13.5%)	(16.1%)	(14.1%)	0.6%	30	\$15,707	\$5,486,737	11.7%	11.1%	0.2%
				2019	30.1%	26.3%	22.5%	7.6%	24	\$14,419	\$7,044,708	12.5%	10.8%	0.3%

*Average annualized returns

Portfolio Benchmarks

MSCI World ex-U.S. (Net) Index – Free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. 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 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 claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence has been independently verified for the periods of 8/1/2008 through 12/31/2018. A copy of the verification report is available upon request. Verification assesses whether: 1. the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis, and 2. the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The International Growth Strategy was inception on October 1, 1997, and the current International Growth 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. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. 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. Beginning with year-end 2018, an equal-weighted standard deviation calculated for accounts in the composite for the entire year. The International Growth Composite contains fully discretionary International Growth wrap accounts. The International Growth portfolio invests in U.S.-listed shares of large capitalization, growth-oriented, non-U.S. companies from developed markets with up to 25% from emerging 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.