International Growth

International Equity Strategies

Confluence INVESTMENT MANAGEMENT

First Quarter 2025

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.

Market Commentary

A multitude of events that transpired during the first quarter of 2025 certainly improved the case for international equity investing. Foreign developed market equity investors were rewarded with well above-average performance returns during the three-month measurement period. The 6.2% quarterly return for the MSCI World ex-US Index was much stronger than the average five-, 10-, 15-, and 20-year trailing index performance levels of 3.8%, 0.9%, 2.2%, and 1.3%, respectively. The factors supporting the strong performance could remain in place and provide some durable advantages for foreign equities.

For starters, the US Dollar (USD) Index weakened by nearly 4% during the first quarter. As of this writing, the US Dollar Index continues to weaken into Q2 by falling more than 8% since the mid-January high-level reading year-to-date of 110. Periods of USD weakness have historically favored foreign equities.

The Information Technology sector rotated away from being the strongest single-performing sector to the worst performer during the first quarter. This is important because some of the relative underperformance of foreign developed market stocks versus the domestic equity market can be attributed to the dearth of technology stocks within the index construct. The MSCI World ex-US Index has a roughly 8% allocation to Information Technology compared to nearly 30% in the S&P 500 Index. With tech stocks underperforming, new leadership groups have had the opportunity to emerge.

Financials, Consumer Staples, and Industrials were among the six sectors that outperformed the broad index during the past three months. These three sectors have significantly more exposure in the MSCI World ex-US compared with their representation in the S&P 500. Industrials have twice the weight, Financials have a 10% larger exposure, and Consumer Staples have a 2% higher allocation. Therefore, on a go-forward basis, should global investors begin to favor companies outside of technology, there is a good chance that developed market ex-US equity returns could benefit. The Bloomberg forecast for full-year 2025 MSCI World ex-US Earnings-Per-Share (EPS) growth stands at 6.7%. This is above the forecast EPS growth rate of 5.5 at the beginning of the year.

The improved earnings outlook can be associated with slight improvements in several important macroeconomic conditions in foreign developed markets. For example, Germany's recent economic malaise may be brightening as the local government raises its debt limit and spends more on defense (discussed further below). Any sustained improvement in the German economy should also benefit much of the rest of Europe. Also, the Bank of Japan appears to remain on the path of slowly normalizing monetary policy, with additional interest rate hikes still expected. Higher rates should attract more capital flow into the Japanese market, resulting in a stronger yen and support for the local equity markets. Leading macroeconomic firm Capital Economics forecasts that growth, as measured by GDP, should improve slightly in 2025 for the eurozone, with Germany being the single country with the largest upgrade to growth expectations in addition to a 10-fold improvement to Japan's growth outlook from +0.1% to +1.0%.

Should the trade and tariff war weigh heavily on global markets, the world's central banks may be forced to restart the implementation of a more accommodative economic policy. If rates are cut, parking assets in cash will likely become less attractive as interest rates decline. Foreign developed equity markets continue to offer a compelling dividend yield, with the MSCI World ex-US Index yielding 3.0% as of March 31. Therefore, if investors begin to search for income, large foreign developed equities may provide an attractive option for new investment. The strong performance level of developed market ex-US stocks during the past quarter did not erase the valuation discount that has persisted for several years. The Price/Earnings ratio for the MSCI World ex-US Index stood at 15.6 at quarter end. This is an 11% discount to the 10-year trailing average P/E for the index of 17.6. In summary, the combination of discounted valuation, higher dividend yield, differentiated sector exposure, weaker USD, and improving local market dynamics and earnings outlook should provide investors with the opportunity to revisit the case for investing in the world's developed foreign markets.

See GIPS Report on pages 4-5.

Quarterly Trade Summary

During the past three months, one purchase and one sale were completed within the Confluence International Growth strategy. In early February, we added a position in Netherlands-based technology company ASML Holding (ASML) and sold Woodside Energy Group (WDS).

Based in Australia and originally purchased in June 2022, shares of Woodside underperformed the MSCI Australia Index, the MSCI World ex-US Energy sector, and the broad MSCI World ex-US Index following the most recent peak in July 2024. Woodside was negatively impacted as global demand for liquefied natural gas (LNG) softened and has yet to recover, and shares ended the quarter lower than our exit price. The proceeds raised from the sale of Woodside were used to purchase a position in ASML.

ASML defines itself as "an innovation leader in the semiconductor industry providing chipmakers with end-to-end solutions to mass produce advanced chips on silicon through lithography." This company is and will be a beneficiary of some of the world's most predominant technological breakthroughs including but not limited to autonomous driving vehicles, AI, and advanced, high-performance computing. ASML is a company we have held in high regard for quite some time as one of the world's most important technology companies and has been on our internal watch list for years. However, shares consistently traded above levels where we were comfortable establishing what we hope to be a very long-term portfolio holding. Shares in ASML began to trade down beginning in mid-2024 following multiple announcements by the US government to crack down on the sale of leading-edge technological equipment to China. Although ASML cannot currently sell its most advanced lithography machines to Chinese entities, we believe the share price now more accurately reflects this loss of potential revenue. ASML trades at a discount on a Price/Earnings basis to its peers, pays a modest dividend, and, as previously mentioned, is positioned to benefit significantly from the large global investments being made in technology.

Performance Review

We are very pleased with the strong relative and absolute performance level of the Confluence International Growth strategy during the first three months of this year. During the first quarter, the MSCI World ex-US Index rose by 6.2%, whereas the Confluence International Growth strategy delivered a return of 11.6% (gross of fees). Notably, this was the second strongest December-to-March performance return for this strategy dating back to Q1 2000. Only our Q1 2019 performance of 14.8% provided a stronger start to the year. On a one-year trailing basis, Confluence International Growth gained 14.7% (gross of fees) versus 5.3% for the index. [*The strategy's net-of-fees returns for the same periods were 10.8% QTD and 11.3% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

For the third consecutive quarter, the MSCI World ex-US Value Index outperformed the MSCI World ex-US Growth Index (10.3% versus 2.1%). On a three-year trailing basis (as of March 31), MSCI World ex-US Value is more than 650 bps ahead of the Growth index (9.0% versus 2.3%) on an annualized basis. This remains in contrast with domestic equity performance, where investors continue to favor growth over value. The S&P 500 Growth Index posted a one-year trailing return of 10.2% versus the S&P 500 Value Index gain of 3.5%. However, the "value" stocks within the S&P 500 did outperform growth equities during Q1 by a wide margin (+0.1% versus -8.5%) as investors began rotating out of longer-duration companies.

Quality stocks, as measured by the MSCI EAFE Quality Index (there is no MSCI World ex-US Quality Index), were up 3.3% but underperformed the broad MSCI EAFE Index and the EAFE Value Index during the past three-month measurement period, resulting in a performance headwind for our strategies.

The two best-performing countries in our portfolio this quarter, on an absolute basis, were Ireland and Germany, while Taiwan and Denmark recorded the worst returns. From a sector standpoint, Energy and Financials were the strongest sectors during the quarter, while Information Technology and Consumer Discretionary were the weakest.

From a relative standpoint, the most accretive country allocation was the underweight to Germany, followed by the underweight to Japan. A zero allocation to Spain detracted the most from performance, while an overweight allocation to non-benchmark Taiwan also proved unfavorable. From a sector perspective, our overweight allocation to Industrials and underweight to Materials added the most alpha during the quarter. Our even-weight allocation to the Health Care sector, coupled with our overweight allocation to Information Technology, contributed negatively to returns.

The direct emerging market allocation within the International Growth strategy remains at 5.0% for new money invested today. The portfolio's top contributors and detractors for Q1 2025 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
Rheinmetall AG	5.31	5.34
BAE Systems plc	2.23	0.86
Agnico Eagle Mines Ltd.	2.48	0.86
BNP Paribas S.A.	2.25	0.72
ING Groep N.V.	2.46	0.59
Bottom 5		
Diageo plc	1.17	(0.25)
Accenture plc	3.04	(0.32)
ICON plc	1.90	(0.36)
Novo Nordisk A.S.	2.18	(0.45)
Taiwan Semiconductor Manufacturing	4.60	(0.72)

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

What We Are Watching

The Oxford Dictionary defines the term "fluidity" as the state of being *unsettled or unstable*, *changeability*. This term is an appropriate manner in which to frame the first 100 days of Donald Trump's second term as president. Unfortunately, acceptance of a highly fluid policy backdrop within the US will be required. Like it or not, the fluid manner in which the president seemingly prefers to legislate is unlikely to change in the near future, if at all. The "Liberation Day" announcement made by President Trump on April 2 immediately stressed global equity markets, weakened the USD, and raised deep concerns about the global growth outlook. While the tariff announcement date and timing were known well in advance, the unexpectedly high tariff levels ascribed to foreign countries caught most investors off guard. As of this writing, there is incredible variance and wide speculation about not only the durability of the tariffs themselves but how foreign countries will respond, in addition to increasing fears of a global recession.

At present, the fluidity of the situation renders even the near-term outcome unknowable. Therefore, we expect a period of high volatility within the global equity markets until there is more clarity. We will be closely monitoring how foreign countries respond to these new tariffs. For example, on April 4, China retaliated against the US with a myriad of measures including a new 34% import duty on all goods imported into China from the US beginning in mid-April. Also on April 4, Vietnam, a country with one of the highest tariff rates assigned to it, apparently agreed to negotiate with President Trump to potentially lower its tariff rate to zero as long as an agreement could be reached between the two countries.

We will be carefully tracking notable decisions officially announced by the corporate management teams in which we invest. For instance, on April 2, Nintendo provided details including the launch date, pricing, and technological specifications of their new Switch gaming system. Then, on April 4, company management announced they were suspending pre-orders of the Switch to the United States to assess the potential impact of tariffs until a to-be-determined date. This type of on-again, off-again decision-making is something we expect to occur very regularly among the "C-Suites" for the foreseeable future. We are also watching for any changes to monetary policy and/or currency manipulation on a global basis stemming from the new tariffs.

Moving away from the discussion on tariffs, another event we will be closely watching is the late April parliamentary election in Canada. In mid-March, the former governor of both the Bank of Canada and the Bank of England, Mark Carney, was sworn in as prime minister of Canada, replacing Justin Trudeau. He moved very quickly to suspend the Canadian Parliament, setting the stage for a new parliamentary election scheduled for April 28. Carney, the Liberal Party candidate, will square off against Conservative Party member Pierre Poilievre, Green Party representative Yves-François Blanchet, and New Democratic Party candidate Jagmeet Singh. The result of this election is likely to have a significant impact on how Canada progresses and manages the new US tariff policies. Our portfolios continue to have exposure to Canadian equities.

During the first quarter, markets were deeply unsettled by a late January announcement from the relatively unknown Chinese technology startup DeepSeek. It claimed to have developed an AI model that rivals those of major US companies like OpenAI, Anthropic, and Google, but at a fraction of the cost using older technology. Since the announcement, investors started questioning the viability of hundreds of billions of dollars earmarked for AI model development and correlating infrastructure, such as data centers and chip demand. As a result, the Information Technology sector, both domestically and internationally and in developed and emerging markets, recorded the lowest returns out of the 11 benchmark sectors. As of the first week of April, tech sector performance has yet to improve. We are closely monitoring whether technology companies can regain traction and return to sector leadership, or if previously underperforming sectors and industries will assume the role. Notably, large cap developed market ex-US indexes have only about one-third of the exposure to technology within their index constructs compared to the S&P 500, and this partially contributed to the outperformance of foreign developed over domestic large cap stocks during the first quarter of the year.

German Chancellor-in-waiting Friedrich Merz accomplished a remarkable feat this past March by securing a mandate in Germany to substantially increase spending for both military defense and infrastructure by raising the amount of German federal debt. This equates to spending more than 1% of German GDP on defense and over 500 billion euros on infrastructure and green initiatives. Additionally, it permits the 16 German states to spend above their current debt limit, an increase of more than one trillion euros in additional spending over the next decade. These decisions were made amid growing concerns in Europe that the longstanding implicit guarantee that the US would provide protection and defend Europe is ending. This new substantive investment could stimulate the German economy, which has recorded stagnant growth for much of the past two years. Therefore, if the German economic outlook brightens, this upswing could spread throughout the European Union and provide a tailwind to foreign developed market stocks for some time.

As always, we thank you for your continued support of our firm and invite investors to contact us to discuss any of the topics covered herein or any other matter related to investing internationally.

Portfolio Characteristics[2] (as of 3/31/2025)

10 Largest Holdings	Weight
Rheinmetall AG	4.1%
Taiwan Semiconductor Manufacturing	3.8%
Mitsubishi UFJ Financial	3.4%
SAP S.E.	3.3%
Agnico Eagle Mines Ltd.	3.2%
DBS Group Holdings Ltd.	3.2%
AerCap Holdings N.V.	3.1%
Zurich Insurance Group A.G.	3.1%
CyberArk Software Ltd.	2.9%
Chubb Ltd.	2.9%

Sector Allocation	Weight
Consumer Discretionary	3.9%
Consumer Staples	9.0%
Energy	4.9%
Financials	23.0%
Health Care	10.4%
Industrials	18.6%
Information Technology	16.1%
Materials	5.5%
Communication Services	2.3%
Cash	5.8%

10 Largest Countries	Weight
Japan	17.2%
United Kingdom	11.2%
France	11.0%
Switzerland	10.2%
Ireland	9.2%
Netherlands	8.0%
Germany	7.4%
Canada	4.8%
Taiwan	3.8%
Singapore	3.2%

Performance Composite Returns[3] (For Periods Ending March 31, 2025)

	Since 10/1/99	25-Year*	20-year*	15-year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
International Growth *Pure Gross-of-Fees*[4]	7.0%	6.2%	8.1%	7.6%	7.4%	16.1%	9.8%	14.7%	11.6%	11.6%
Max Net-of-Fees[5]	3.8%	3.1%	4.9%	4.4%	4.3%	12.6%	6.5%	11.3%	10.8%	10.8%
MSCI World ex-US (Net)	4.6%	4.0%	5.3%	5.6%	5.5%	12.2%	5.7%	5.3%	6.2%	6.2%

Calendar Year**	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	MSCI World ex-US	Difference (Gross-MSCI World ex-US)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI World ex-US 3yr Std Dev	Composite Dispersion
2005	18.2%	14.7%	14.5%	3.8%	25	$6,651	-	12.1%	11.3%	0.5%
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%
2020	20.6%	17.1%	7.6%	13.1%	25	$15,512	$6,889,798	18.0%	18.1%	0.4%
2021	14.3%	10.9%	12.6%	1.7%	24	$16,158	$7,761,687	16.7%	17.2%	0.9%
2022	(16.5%)	(19.0%)	(14.3%)	(2.2%)	24	$16,094	$6,931,635	20.7%	20.1%	0.8%
2023	19.8%	16.2%	17.9%	1.8%	18	$15,121	$7,200,019	18.1%	16.6%	0.4%
2024	9.9%	6.6%	4.7%	5.2%	19	$17,113	$7,280,773	17.6%	16.6%	0.4%

**Average annualized returns **Performance history begins 10/1/1999. Additional years of performance available on our website.*

Portfolio Benchmark

MSCI World ex-US (Net) Index – Free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the US. Performance results presented net of estimated foreign withholding taxes on dividends, interest and capital gains. *(Source: Bloomberg)*

Confluence International Equities Investment Committee

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See Territory Map on the Confluence website for sales coverage.

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 World ex-US 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, 2023. 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 Growth Strategy was incepted 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.

[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 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 Growth Composite contains fully discretionary International Growth wrap accounts. The International Growth portfolio invests in US-listed shares of large capitalization, growth-oriented, non-US companies from developed markets with up to 25% from emerging markets.

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.

**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.