International Growth

International Equity Strategies

Second 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

The recent, sustained, and strong performance of the world's international equity markets has certainly reinvigorated the conversation about the merits of foreign investment. We are seeing a higher degree of interest surrounding our international equity offerings, and yet investors have only just begun to reposition back into foreign stocks. An interesting question we often hear during these conversations is: "With international equities performing so well this year, have we already missed the run, and is it too late to add an allocation to the asset class?" Of course, past performance is no guarantee of future results, and our Confluence crystal ball is just as murky as the rest. Still, we do believe the opportunity for compelling returns for international equities can continue.

Why do we take this position? The US dollar (USD) has historically been a reliable predictor of relative equity market performance between developed and foreign stocks. When the USD is strong, this has been a great period for domestic investment, while foreign stocks have outperformed when the dollar is weak — dating back to 1970 when the MSCI EAFE Index was created. During the most recent period of USD strength that began in May 2011, domestic stocks averaged a return of 13.7% annually (based on the MSCI USA Index), while developed foreign stocks gained 5.7% and emerging markets were up 2.3% (MSCI EAFE and MSCI Emerging Markets indexes, respectively). Clearly, the strong dollar catalyzed domestic stocks. However, as of January 2025, the Confluence macroeconomic team has called an end to this most recent and extended period of USD strength. Indeed, on a year-to-date basis through June, the USD has weakened by 10.7%. We do not believe the dollar is at risk of losing global reserve status, but there have been several factors contributing to the weakening process. These include, but are not limited to, loss of faith in US policies (trade and tariffs), the weaponization of the dollar system, preference for diversification (gold), and potentially more favorable conditions abroad. As a reminder, the previous three periods of USD weakness have lasted nine years, on average. So, if the dollar has entered another phase of extended weakness, then we likely have a long way to go before the USD would become a headwind to foreign stocks.

The dividend yield of the MSCI World ex-US Index stands at 2.9% on June 30, more than twice that of the S&P 500 at 1.3%. For income-oriented investors, the higher yield highlights the potential benefits of additional exposure to foreign stocks. Meanwhile, the valuation discount for international equities based on the Price/Earnings ratio has narrowed during the first half of the year as the benchmark now trades with a 4% discount versus its average 10-year trailing P/E. For comparison, the S&P 500 trades with a 12% premium valuation versus its average 10-year trailing P/E. Looking at earnings estimates for the MSCI World ex-US benchmark, according to Bloomberg, earnings are projected to increase by almost 8% this year, which is an increase from the 6.5% earnings growth from just three months ago. So, the earnings picture for foreign sectors is improving, and this should support a rising P/E ratio. In an early look at 2026, Bloomberg estimates reveal the index should see an additional 10% "kick" to earnings next year. Taking a different perspective, independent macroeconomic research shop Capital Economics forecasts that eurozone GDP should improve both this year and next versus 2024. Should policymakers create durable incentives for additional capital investment, and reawaken their somewhat sleepy economies, this could become a significant tailwind for the asset class.

Some final notes on performance: During the past three months, the strong performance of the benchmark was broad-based, with six of the 11 sectors outperforming. This suggests many companies are performing well and investors are less reliant on one or two large segments of the market to drive returns. Lastly, Bloomberg has created the US Large Cap ex-Magnificent 7 Index, which is designed to show the returns of US large cap stocks without the outsized impact from the M7. Notably, as of June 30, developed foreign stocks have outperformed this benchmark on a one- and three-year trailing basis and are only lagging by 200 basis points over five years. The key takeaway is that while domestic market returns have been powered by the M7 stocks, absent those names, foreign markets remain a compelling option. We hope the data presented here will not only allay concerns about whether it is too late to invest internationally but also provide a strong case for increasing exposure to foreign markets.

See GIPS Report on pages 4-5.

Quarterly Trade Summary

There were no trades completed within the Confluence International Growth strategy during the second quarter.

Performance Review

During the second quarter, the MSCI World ex-US Index recorded a gain of 12.0%, while the Confluence International Growth strategy rose 11.2% (gross of fees). Although our strategy lagged the index slightly over the past three months, it still marked our second-strongest Q2 return since 2010, surpassed only by the 22.5% gross return in Q2 2020 during the post-COVID market recovery. Year-to-date, the strategy is now up 24.1% (gross of fees), representing its best December-June performance period dating all the way back to 2000. On a one-year trailing basis, the Confluence International Growth strategy returned 27.3% (gross) versus 18.7% for the index. [*The strategy's net-of-fees returns for the same periods were 10.4% Q2 2025, 21.6% Q2 2020, 22.3% YTD 6/30/2025, and 23.6% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Following three consecutive quarters of underperformance, the growth equities within the index outgained the value constituents. However, value still outperformed growth on a one-, three-, and five-year trailing basis. This remains in direct contrast with domestic equity market performance where investors have overwhelmingly preferred growth over value for more than a decade.

Quality stocks, as measured by the MSCI World ex-US Quality Index, once again underperformed the broad MSCI World ex-US and the World ex-US Value indexes during the past three-month measurement period. The rotation away from quality creates a performance headwind for our strategies and partially explains the performance shortfall during the recently completed quarter.

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

From a relative standpoint, the most accretive country allocation was the overweight to non-benchmark Taiwan, followed by the even-weight to Germany. An underweight exposure to Canada detracted the most from performance, while a zero allocation to Australia also proved unfavorable. From a sector perspective, our overweight allocations to Information Technology and Industrials added the most alpha during the quarter, whereas our underweight allocations to the Financials and Consumer Discretionary sectors 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 Q2 2025 are shown in the accompanying table.1

Security	Avg Weight (%)	Contribution (%)
Top 5		
Rheinmetall AG	5.18	7.79
BAE Systems plc	2.57	1.73
Safran S.A.	2.76	1.27
Nintendo Co. Ltd.	2.23	1.27
Agnico Eagle Mines Ltd.	2.66	1.22
Bottom 5		
LVMH Moët Hennessy Louis Vuitton	1.46	(0.29)
Techtronic Industries Co. Ltd.	2.06	(0.40)
Accenture plc	2.72	(0.44)
Novo Nordisk A.S.	1.92	(0.48)
ICON plc	1.59	(0.71)

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

What We Are Watching

The third quarter this year has started in much the same manner as the second quarter, with US trade and tariff policy taking center stage. As of this writing, the Trump administration has extended the trade negotiation deadline to August 1 from July 9. At the same time, it is also submitting new letters to dozens of countries without amended and finalized deals, including new tariff rates ranging from 20% to 40% on goods imported into the domestic market. Global equity markets, so far, have reacted in a much more sanguine manner to the renewed focus on trade-related announcements as opposed to the massive market sell-off that followed the "Liberation Day" proclamation on April 2. The relative calm persists, even after President Trump recently threatened to broaden the trade war by adding significant new tariffs on goods, including imported copper, pharmaceuticals, and semiconductors. In addition, he has threatened to apply new 50% tariffs on Brazil, and we expect India to be targeted as well. Although the president has recently stated that trade talks are going "well" with Europe, we still await a signed deal. A new trade agreement with Japan has also proven elusive during the past 90 days.

What We Are Watching continued…

Furthermore, negotiations with China remain ongoing. Notably, the current pause in the implementation of reciprocal tariffs on goods made in China is set for expiry in mid-August. Should negotiations fail to produce a workable solution for both sides, there is a possibility that the US will return to taxing Chinese goods at significantly higher rates than are currently in place. Fortunately, equity markets have recovered from the April sell-off, and economic data on a global basis has remained resilient, to a large degree. Concerns from several months ago that the US could enter a recession have also abated.

We remain vigilant regarding the perceptible shift in macroeconomic conditions, which could cause fundamentals to weaken. For example, we expect the US Federal Reserve to cut rates later this year (possibly in September) to help offset waning growth, slowing retail sales, and a drop in housing demand. This moderation in growth should continue to be supported by tight labor markets and rising wages but conditions bear watching. Elsewhere, the Bank of England recently stated in its semi-annual Financial Stability Report that "uncertainty around the global outlook has intensified following significant geopolitical shocks." Eurozone unemployment ticked up slightly in the May reading, while the European Central Bank cut rates back to 2% this past June — the eighth cut since rates peaked in the euro region at 4% in September 2023. These moves, combined with improved capital investment, rebounding consumer demand, and the German state-sponsored stimulus, should support European economic activity. We remain adaptive in our portfolio construction should conditions change unexpectedly.

Moreover, the Bank of Japan has also held rates steady at 0.5%, despite the stated goal to continue its path of monetary policy normalization. During the past several months, Japanese industrial production has stagnated and business confidence has grinded lower. The Japanese consumer has remained confident; however, there has not been enough impetus for the Bank of Japan to raise rates. Our current Japanese allocation within the portfolio is largely predicated on an improving domestic market tied to a stronger yen. We will continue to closely examine Japanese policy initiatives as we move into the back half of the year to ensure we are positioned appropriately. We are also watching for signs of movement within the Chinese economy. Data has shown that there was a pull-forward in export demand as the US implemented high tariffs on the country's exports. With tepid consumer demand and consumption in place, the local government has announced measures to curb excess and unprofitable manufacturing capacity to right-size the Chinese export market amid an ever-evolving global trade backdrop. More recently, there have been reports that Chinese President Xi's government may finally be taking steps to tackle Chinese real estate issues. KraneShares Chief Investment Officer Brendan Ahern reported on July 10 that the National Development and Reform Commission's (NDRC) Urban and Small Town Reform and Development Center stated four "major actions of new urbanization with high quality" will be implemented in order to reach "new urbanization by 2035." The policies include:

- Support the construction of a new round of qualified major projects;
- Allow the population to flow into cities…increase the recovery of idle land and the acquisition of existing commercial housing;
- Promote the coordinated development of new industrialization and new urbanization; and
- Use fiscal, land, finance, tax, and other policies to support and accelerate the introduction of industries.

If successful, these actions could strengthen Chinese consumer confidence, potentially rekindling domestic demand. This would be a welcome development for international investors as sustained improvement in the world's second-largest economy would be beneficial.

At Confluence, our focus is not limited to the above topics, and we remain keenly aware that unpredictable events — such as the recent escalation of tensions in the Middle East — can arise at any time and we are prepared to react accordingly. As always, we welcome the opportunity to discuss the topics covered in this quarterly summary or to dive into other aspects of investing in international equities. We thank you for your confidence in us.

Portfolio Characteristics[2] (as of 6/30/2025)

10 Largest Holdings	Weight
Rheinmetall AG	5.4%
Taiwan Semiconductor Manufacturing	4.7%
SAP S.E.	3.3%
AerCap Holdings N.V.	3.2%
CyberArk Software Ltd.	3.1%
Agnico Eagle Mines Ltd.	3.1%
Mitsubishi UFJ Financial	3.1%
Safran S.A.	3.1%
Sandoz Group	3.0%
BAE Systems plc	3.0%

Sector Allocation	Weight
Consumer Discretionary	3.5%
Consumer Staples	9.2%
Energy	4.3%
Financials	21.2%
Health Care	10.2%
Industrials	20.5%
Information Technology	17.3%
Materials	5.2%
Communication Services	2.9%
Cash	5.7%

10 Largest Countries	Weight
Japan	17.4%
France	10.8%
United Kingdom	10.7%
Switzerland	9.9%
Germany	8.7%
Netherlands	8.3%
Ireland	7.8%
Canada	4.9%
Taiwan	4.7%
Israel	3.1%

Performance Composite Returns[3] (For Periods Ending June 30, 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]*	7.4%	6.8%	8.7%	9.3%	8.5%	13.8%	20.6%	27.3%	24.1%	11.2%
Max Net-of-Fees[5]	4.2%	3.6%	5.4%	6.0%	5.3%	10.5%	17.0%	23.6%	22.3%	10.4%
MSCI World ex-US (Net)	5.0%	4.6%	5.9%	7.4%	6.7%	11.5%	15.7%	18.7%	19.0%	12.0%

Calendar Year**	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	MSCI World ex-US (Net)	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.

See performance disclosures on last page.

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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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, 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 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.

**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.