International Growth

International Equity Strategies

Second Quarter 2026

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 first half of 2026 has been nothing short of eventful. Nearly all of the world's major equity markets recorded negative returns in Q1. In Q2, the trend reversed, and global equity markets posted positive returns, on a year-to-date basis, in the +9% to +15% range for developed markets, and +24% for emerging markets. Ironically, the directional change for stocks coincided with a deterioration in global macroeconomic conditions and an energy crisis stemming from the breakout of war in the Middle East.

As we entered the new year, most of the world's central banks were expected to hold steady, while the Bank of Japan was expected to slowly raise rates and further normalize policy, and the US Federal Reserve was signaling up to three interest rate cuts. However, the hostilities spreading throughout the Middle East and the Strait of Hormuz closure immediately restricted the supply of commodities (such as energy, fertilizer, and chemicals) and caused a global spike in inflationary pressures. As a result of these inflationary fears, the European Central Bank, Reserve Bank of Australia, Norwegian Central Bank, Brazilian Central Bank, and Bank of Japan all raised rates earlier this summer. The remainder of the world's major central banks remain on pause, and we are evaluating economic data to determine if any action will be required.

While cost of living challenges were being felt, equity investors looked through these issues and poured money into finite areas of the market. During the second quarter, only two of the 11 sectors within the benchmark outperformed the broad benchmark: Financials and Information Technology. Together, these two sectors represent about 26% of the broad benchmark. Interestingly, only about half of the tech names outperformed, and fewer than 65% of the companies in the Financials sector outperformed the MSCI World ex-US Index. Therefore, if investments were made outside of these two sectors or, more precisely, in the names within the sector that didn't outperform the benchmark, then relative underperformance was virtually certain during the quarter.

Another notable aspect of the first half of 2026 was the extreme swing in performance from the first quarter into the second for the value versus growth components of the broad benchmark. During Q1, the MSCI World ex-US Value Index outperformed the MSCI World ex-US Growth Index by 7.0%. In the past three months, growth staged a massive rally and outgained value by more than 4.5%. This dramatic pendulum swing between opposite ends of the investment universe created a headwind for our growth-at-a-reasonable price-based investment strategy. While this rapidly shifting dynamic can create short-term performance volatility, we believe our investment process will continue to generate long-term excess gross returns relative to the benchmark, as it has over many years.

So, where does all of this leave us as we enter the back half of the year? Developed market equities, both domestic and abroad, have been mostly flat compared to one another over the past two years. Emerging market stocks are the outlier and have outperformed domestic and foreign developed markets, on average, by more than 20% on a one-year trailing basis, by nearly 10% (annualized) on a three-year trailing basis, and by 4.5% (annualized) over the past five years. However, much of the relative outperformance in emerging markets this year is confined to an extremely narrow number of stocks domiciled in South Korea and Taiwan. For a more detailed analysis of what is going on within the world's emerging economies, we invite you to read our Q2 2026 Confluence Emerging Markets strategy commentary.

Returning to developed markets, although there has been significant year-to-date rotation within the benchmark itself, the pillars supporting investment in foreign equities remain steady. In terms of valuation, the Price/Earnings (P/E) ratio of the benchmark stood at 19.0 on June 30, a modest 8% premium to the trailing year average. The dividend yield remains an attractive fundamental support driver for foreign developed stocks, with the yield of the MSCI World ex-US Index at 2.6%.

Additionally, the forward earnings estimates at the benchmark level continue to accelerate, with current Bloomberg estimates expecting +11% this year and +9% for 2027. Combine these factors with the broad diversity of the index construction along with our continued thesis that the US dollar will return to a gradual weakening trend, and we believe that international equites will remain quite attractive.

See GIPS Report on pages 4-5.

Quarterly Trading Summary

In early April, we purchased Materials company CRH plc (CRH) and sold longtime portfolio holding Diageo (DEO). Although CRH is domiciled in Ireland, it employs more than 83,000 people and operates more than 400 locations within 28 countries. Importantly, the company generates three-quarters of its earnings in the domestic US market, with significant exposure to three ongoing megatrends: 1) Transportation, 2) Water, and 3) Reindustrialization (data centers). CRH is the largest road paver in the United States and has the largest proven reserves of aggregates in the country. CRH is built on a growth-by-acquisition model and has demonstrated the ability to perform M&A while recording improving margins for 12 consecutive years. It has one of the highest ESG scores versus its peer group and should continue to benefit from its scale, growth orientation, and exposure to both government and private capital being allocated to infrastructure spending.

To fund the purchase of CRH, we decided to sell Diageo. Originally purchased in September 2016, Diageo has underperformed our expectations in recent years as former CEO Debra Crew failed to revitalize the company. In January of this year, Diageo named Sir Dave Lewis, the former CEO of both British grocer Tesco and Unilever, as its CEO. Soon after, Lewis announced that he was cutting the dividend and asked investors to "have patience" as he worked to develop a new path forward for the company. The dividend reduction, disappointing share performance, earnings downgrade, and weak sales forecast without a clear vision were catalysts for the sale.

In mid-June, we exited another of the portfolio's longest-tenured positions, Nintendo (NTDOY), first purchased in June 2017. As owners of a consumer-dependent stock for nearly a decade, we expected some cyclicality and sentiment to impact shares, but we also believed in the long-term vision that management had established. However, over the past several quarters, Nintendo has had to cut production of its newly launched gaming system (Switch 2) and significantly raise prices due to the massive increase in memory pricing. Nintendo management astutely recognized that memory prices would rise, so they hedged those costs through the first quarter of this year. Nevertheless, global demand for memory chips has skyrocketed, while supply has struggled to keep pace. The result has driven memory prices higher by several hundred percentage points, creating an environment in which effective hedging is no longer feasible. Given the rapid increase in costs, the lack of viable offsets to mitigate those pressures, and weakening consumer demand driven by higher retail prices, we concluded that Nintendo's fundamentals had deteriorated and sold the shares.

Performance Review

During the second quarter, the Confluence International Growth strategy was up 4.9% (gross of fees), while the MSCI World ex-US Index gained 10.2%. On a one-year trailing basis, Confluence International Growth has recorded a return of 13.4% (gross of fees). [*The strategy's net-of-fees returns for the same periods were 4.1% QTD and 10.1% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

In a remarkable reversal from Q1 2026, the MSCI World ex-US Growth Index (+12.6%) and the MSCI World ex-US Quality Index (+12.4%) outperformed the MSCI World ex-US Value Index (+8.2%) during Q2. The significant shift from value outperforming early in 2026 to aggressive growth in the April to June performance period served as a headwind for our core growth-at-a-reasonable-price investment philosophy. During the past three months, market strength was very narrow and confined to Information Technology and Financials. These were the only two sectors to outperform the benchmark during the measurement period. Until very recently, the value component of the broad MSCI World ex-US Index has been much stronger in terms of relative performance. While value underperformed growth in the second quarter, the longer-term trend of value dominance persists as the MSCI World ex-US Value continues to outperform the broad MSCI World ex-US, the MSCI World ex-US Growth, and the MSCI World ex-US Quality on a one-, three-, five-, and 10-year trailing basis.

In the second quarter, the two best-performing countries in our portfolio on an absolute basis were Taiwan and Denmark, while China and Germany recorded the worst returns. From a sector standpoint, Information Technology and Financials were the strongest during the quarter, while Energy and Materials were the weakest

From a relative standpoint, the most accretive country allocation was the overweight to Taiwan, followed by the overweight to the Netherlands. An underweight to Japan detracted the most from performance, while the underweight to Canada also weighed on quarterly returns. From a sector perspective, our overweight to Health Care and underweight to Communication Services added the most alpha during Q2. Our underweight allocation to the Financials sector, coupled with our in-line allocation to Industrials, contributed negatively to returns.

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			
TSM	Taiwan Semiconductor Manufacturing Co.	6.82	3.29
ASML	ASML Holding N.V.	3.28	2.13
DSCSY	Disco Corp.	3.37	1.73
SDZNY	Sandoz Group	4.00	0.93
MUFG	Mitsubishi UFJ Financial	3.73	0.87
Bottom 5			
SHOP	Shopify Inc.	1.65	(0.66)
BABA	Alibaba Group Holding Ltd.	1.78	(0.66)
RNMBY	Rheinmetall AG	2.00	(0.79)
SAP	SAP S.E.	1.69	(0.80)
ACN	Accenture plc	1.37	(0.96)

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

What We Are Watching

On June 22, British Prime Minister Keir Starmer announced he was resigning following a nearly two-year tenure that was embroiled in controversy, resulting in election losses for his Labour Party and a stunning loss of popularity. Almost immediately, Andy Burnham, the former mayor of Manchester, England, rose to become the favorite to replace Starmer, which would make him the seventh person to hold the title of prime minister in just the past decade. An election could be held as soon as mid-July; if elected, we will closely monitor how Mr. Burnham maneuvers the United Kingdom's relationships with the US, the European Union, and others.

Global trade, or more specifically, the increasing barriers to global trade, remains a topic of discussion for our team. In early July, the Trump administration chose to forego the automatic renewal of the trade pact between the US, Canada, and Mexico known as the USMCA agreement, opting instead to renegotiate terms deemed unfavorable to the US. Furthermore, in late June, China placed restrictions on rare earths and critical mineral exports to at least 40 Japanese companies in response to Japanese Prime Minister Sanae Takaichi's comments about a possible military response should China attack Taiwan. Additionally, Chinese and US officials have continued to impose export controls on one another, citing concerns related to unfair trade practices, military applications, and other strategic issues. The European Union is also actively engaged in trade discussions with China and the US on separate initiatives. The takeaway is that the global fracturing process remains ongoing. While these shifts will continue to create headwinds for countries and companies, the environment will also likely create beneficiaries for us to evaluate as well.

The outbreak of war in the Middle East has had far-reaching consequences for global markets and the broader economy. The price per barrel of oil, expressed in West Texas Intermediate (WTI) pricing, leapt from the mid-$60/barrel price in late February to more than $113 in early April. The abrupt rise in the cost of oil, fertilizer, and other distillates and chemicals from the extended closure of the Strait of Hormuz stoked inflationary pressures, which weighed on consumers. As a result, the European Central Bank, Banco Central do Brasil, and Bank of Japan all raised interest rates, with the remainder of the world's largest monetary policy authorities making comments that they are on notice and willing to adjust rates if necessary. The path forward for rate implementation could weigh heavily on sentiment, and our macroeconomic team will continue to keep our investment team informed of ongoing developments.

Globally, investors have poured money into the Information Technology sector, especially during the past several months. In fact, technology stocks performed so strongly in Q2 that they were the only sector to outperform the broad benchmark within emerging markets and the US. In developed markets outside the US, only Financials and Tech bested the MSCI World ex-US Index. Much of the fervor driving the extraordinary rise in technology valuations is predicated on the expectation that hundreds of billions of dollars will continue to be spent on the development and buildout of artificial intelligence (AI) models and the capital expense required to put this computational power to work. As we detailed last quarter, we are very closely scrutinizing the spending on AI and are constantly monitoring the data for any deviation in direction, which will very likely result in meaningful changes to investor behavior.

We thank you for your confidence in our team, and we encourage you to contact us for further discussion on these topics or other subject matter.

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

10 Largest Holdings	Weight
Taiwan Semiconductor Manufacturing	6.7%
ASML Holding N.V.	5.1%
Sandoz Group	4.0%
Disco Corp.	3.9%
Mitsubishi UFJ Financial	3.8%
DBS Group Holdings Ltd.	3.6%
AerCap Holdings N.V.	3.4%
ING Groep N.V.	3.3%
Agnico Eagle Mines Ltd.	3.1%
Safran S.A.	3.1%

Sector Allocation	Weight
Consumer Discretionary	4.7%
Consumer Staples	5.5%
Energy	5.6%
Financials	22.7%
Health Care	11.4%
Industrials	17.1%
Information Technology	19.6%
Materials	7.6%
Communication Services	1.6%
Cash	4.1%

10 Largest Countries	Weight
Japan	18.3%
Netherlands	11.8%
Switzerland	11.2%
France	9.4%
Canada	7.4%
Taiwan	6.7%
United Kingdom	6.1%
Ireland	5.4%
Singapore	5.2%
Mexico	4.6%

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

	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]*	7.6%	8.4%	7.9%	8.2%	11.9%	10.0%	18.3%	13.4%	6.1%	4.9%
Max Net-of-Fees[5]	4.4%	5.2%	4.7%	5.0%	8.6%	6.7%	14.8%	10.1%	4.5%	4.1%
MSCI World ex-US (Net)	5.6%	6.6%	5.7%	6.9%	9.8%	9.3%	16.9%	21.0%	9.2%	10.2%

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
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%)	(14.0%)	(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%	21.5%	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%
2025	32.7%	28.8%	31.9%	0.9%	32	$26,124	$6,769,052	11.6%	12.0%	1.0%

**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 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)*

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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.**

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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.

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.