Confluence INVESTMENT MANAGEMENT

FIRST QUARTER 2022

Emerging Markets • International Equity Strategies

Confluence Emerging Markets invests in large cap, growth-oriented companies in the more mature emerging markets around the world. The strategy's management team employs both top-down and bottom-up fundamental analysis to identify attractive emerging market 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.

Market Commentary

Emerging market equities edged lower during the first quarter of 2022 as geopolitical events had a profound impact on the world's equity markets. The Russian invasion of Ukraine on February 24 bifurcated the emerging market universe. The emerging markets of central Europe—Greece and Turkey—were some of the worst performers given their dependence on Russian energy, grains, and tourism. The severe sanctions imposed on the Russian economy will have a spillover effect in these markets. Commodity exporters, such as Latin America, Saudi Arabia, and South Africa, benefited from higher commodity prices as a result of the war, while Asian economies were generally weaker as they are commodity importers and will pay higher prices for energy and raw materials.

Inflationary pressures will weigh on emerging market economies, but they are now much better suited to handle these forces than they have been historically due to improved monetary and fiscal policies, trade surpluses, and floating rate currencies. The inflationary impact may be more profound on the world's developed markets as they raise interest rates to quell the inflationary pressures in their own economies. Nevertheless, slowing global growth would not be positive for most emerging market economies.

The fallout from the Russian invasion was immediate. Russian stocks plunged and various stock exchanges unexpectedly halted trading in Russian stocks ahead of looming sanction deadlines. The ruble cratered. Western nations announced plans for waves of heavy financial and commercial sanctions to cripple the Russian economy. While Russia represented less than 4% of the MSCI Emerging Markets Index prior to its removal, the Russian economy is supported by plentiful crude oil, natural gas, minerals, and agricultural commodities. Approximately 10% of the world's oil and 20% of the world's natural gas production is based in Russia, and the country is also responsible for 17% of the world's wheat production. Russian steel and mineral production are sufficient enough to affect the global markets for these products. Due to the sanctions, the decreased supply of these commodities is contributing to global inflationary pressures. Further, the decrease in agricultural products from Russia and Ukraine poses some risk to global food security, especially in large, poor countries that will be hard hit by the higher prices.

China's private sector overreach via onerous regulations and President Xi's drive for "common prosperity" resulted in market losses in excess of $1 trillion in 2021. Realizing the negative impacts of these measures on the economy, the Chinese government has indicated that its regulatory offensives would be tapering off and they would provide economic stimulus to the economy in a world in which nearly every major economy has looked to combat inflationary pressures through less accommodation and/or higher interest rates. The Chinese government has unveiled more fiscal stimulus this year including stepping up local bond issuance to fund infrastructure projects and cutting taxes for businesses. China is also expected to continue to use timely cuts in banks' reserve requirement ratios (RRR) and other policy tactics to support the economy. In mid-April, the People's Bank of China (PBoC) announced a modest reduction in the RRR and released more liquidity. These measures should help stimulate the economy that has recently slowed. A resurgence of COVID infections since mid-March has caused the government to lock down several large cities, including Shanghai which has more than 25 million inhabitants. China appears to be ready to relax its zero-COVID policy in an effort to jumpstart the economy, but close to half the country's exports are in areas that are now experiencing COVID outbreaks.

The Chinese authorities continue to work with the U.S. Securities and Exchange Commission (SEC) concerning Chinese equities listed on U.S. exchanges and adherence to the 2020 Holding Foreign Companies Accountable Act (HFCAA). The HFCAA permits the SEC to ban companies from trading and order them to be delisted from U.S. exchanges if they are found to be in violation of foreign ownership laws or audit requirements. Currently, the SEC has identified several companies that are failing to meet the requirements. Delistings will not occur until 2023 at the earliest, and there is a good chance that Chinese and American regulators will come to terms beforehand to avoid them. Recently, in a continued push for transparency, Chinese regulators asked some of the U.S.-listed firms to prepare additional audit disclosures to comply with the HFCAA. Thus, it appears that both U.S. and Chinese officials are working to mitigate any issues surrounding these new requirements well in advance of the deadlines.

Market Commentary continued…

Brazil was a big beneficiary of Russia's removal from the MSCI Emerging Markets Index. Growth in late 2021 and early 2022 have lifted the economy out of recession, with the services and agricultural sectors being the primary drivers of growth. The MSCI Brazil Index rose 36% in Q1 2022 with record foreign inflows and a 15% appreciation of the real. The next Brazilian elections will take place this fall, and former President Luiz Inacio Lula da Silva is expected to fare well against current President Jair Bolsonaro. The Selic rate has increased to 11.75% from its pandemic low of 2.0% as inflation expectations have risen in the country.

Quarterly Trade Summary

The Confluence International Equities Investment Committee did not make any changes to the Emerging Markets strategy during the first quarter of 2022.

Performance Review

The first quarter performance of the MSCI Emerging Markets (EM) Index was -7.0% in U.S. dollar terms, underperforming the return of developed international markets (MSCI EAFE, -5.9%) and the U.S. markets (S&P 500, -4.6%). Much of the weakness during the quarter can be attributed to a challenging and dramatic course of events, including the Russian invasion of Ukraine and global monetary tightening being implemented to minimize the impact of accelerating inflation across the major economies. COVID outbreaks in major Chinese cities prompted new lockdowns, further pressuring global supply chains.

Among the regions, EM Latin America posted the best performance by a wide margin (+27.3%) as the Latin American markets have benefited from the rise in commodity prices. In contrast, EM Asia and EM Europe, Middle East, and Africa (EMEA) were much weaker, falling 8.7% and 13.7%, respectively. From a sector perspective, only Financials (+5.6%) and Materials (+3.3%) posted positive returns, while Energy (-20.7%) and Consumer Discretionary (-16.4%) were the worst-performing sectors.

It is important to note that we have seen a sharp style shift in the emerging markets since June 30, 2020, as these markets were recovering from the COVID global shutdown. For most of the past decade, the MSCI EM Growth Index outpaced the MSCI EM Value Index as growth companies performed well in the emerging market economies. However, over the past year, the MSCI EM Index fell 11.4% as the MSCI EM Value Index returned -3.5% and the MSCI EM Growth Index returned -18.3%. The Confluence Emerging Markets strategy is growth-oriented and performs well in environments where growth companies are more competitive compared to their value counterparts.

During the first quarter of 2022, the Confluence Emerging Markets strategy posted a return of -5.0% (gross of fees) versus -7.0% for the MSCI Emerging Markets Index. Year-over-year, Confluence Emerging Markets returned -17.9% (gross of fees) versus -11.4% for the benchmark. *[Net-of-fees returns for the same periods were -5.7% QTD and -20.3% year-over-year . See disclosures on p.5 for fee description; actual investment advisory fees may vary.]*

The two best-performing countries within our portfolio on an absolute basis were Colombia (+43.4%) and South Africa (+41.9%), and the worst returns were recorded by Russia (-100%) and China (-15.0%). Materials (36.5%) and Energy (+23.1%) were the strongest sectors during the quarter, while Communication Services (-54.8%) and Health Care (-25.6%) were the weakest.

The top contributors and detractors for the portfolio thus far in 2022 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
Gold Fields Limited	3.12	1.08
Vale S.A.	2.68	0.98
Ecopetrol S.A.	2.02	0.70
Localiza Rent a Car S.A.	2.04	0.64
Credicorp Ltd.	1.68	0.55
Bottom 5		
Taiwan Semiconductor Manufacturing	5.24	(0.71)
Tencent Holdings Limited	4.01	(0.84)
ENN Energy Holdings Limited	3.49	(0.89)
WuXi Biologics (Cayman) Inc.	3.67	(1.52)
Yandex N.V.	2.74	(4.50)

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

What We Are Watching

The outlook calls for fading global growth as commodity prices remain relatively high as the war in Ukraine rages on and the onerous sanctions on Russia curtail exports of energy and commodities. Commodity-exporting economies should perform well, while commodity importers will face inflationary pressures. Inflationary pressures also persist from the supply chain disruptions due to COVID-19, which have improved but are still causing production and shipping bottlenecks. New lockdowns in China will exacerbate the near-term situation, but conditions should normalize in the longer term. Several economic forecasting institutions have pared back global growth estimates as central banks attempt to limit the inflationary impacts on their economies.

U.S. dollar strength is important for international markets, in general, and emerging markets, in particular. During the first quarter of 2022, the dollar strengthened by 2.4% for the year which is reflected in the weaker performance of international and emerging market returns relative to the U.S. If the Federal Reserve feels that it is too far behind the inflation curve, policymakers will likely raise rates and reduce the balance sheet at a faster rate than anticipated, potentially leading to a stronger dollar. Nevertheless, the Confluence macro team still feels the factors are in place for the U.S. dollar to resume a weakening trend and the macroeconomic environment supports this thesis moving forward. Emerging market equities have tended to outperform developed international equities and U.S. equities during periods of dollar weakness.

Inflation rates have continued to spike higher. Inflation rates can negatively impact emerging market economies since lower income consumers are especially sensitive to higher food and energy prices. Rising inflation and interest rates heighten concerns about emerging market economic growth, financing costs, and debt sustainability. Developed markets, particularly the U.S. and Europe, have driven global growth since the depths of the global pandemic. Slower growth in these economies should ease supply chain stresses and bring down inflationary pressures as global supply chains need to be reestablished. This will require that all factors of production are available, including sufficient levels of labor. The current COVID lockdowns in China are again stressing some of these supply chains, but the eventual restoration of supply chains should help lessen global inflation pressures and fears.

We continue to identify countries and regions that have better adapted to the pandemic and subsequent recovery. Global supply chains are being restored in most emerging market economies, but bottlenecks persist. We continue to explore the emerging market-based Information Technology companies that have developed innovative systems and products, keeping them in competitive positions. The pandemic "pulled forward" the adoption of several trends that are likely to persist. These new technologies will provide greater efficiencies, higher satisfaction, lower costs, and improved quality of life.

These factors combined with an expected weaker U.S. dollar bode well for emerging market equities. Top-down macro factors, bottom-up fundamentals, and favorable valuations all support the case for strong equity returns across the world's emerging markets. Emerging market earnings growth is currently running at a decade-high pace. As developed market countries start to withdraw aggressive monetary and fiscal stimulus and emerging market growth accelerates, we expect the gap between the two, which is at its narrowest point in 20 years, to widen.

Risks to our positive outlook for emerging markets include:

- Prolonged slowdown in global economic activity caused by new COVID-related outbreaks/lockdowns:
  - Persistent problems associated with new variants
  - China's back-peddling on a zero-COVID plan could lead to additional/extended lockdowns, further disrupting supply chains
- Excessive inflation causes emerging market central banks to sharply raise rates to combat crippling inflationary pressures:
  - Emerging markets are particularly sensitive to inflationary pressures and may react in such a way that could severely damage an economic recovery
- Declining fiscal and monetary stimulus on a global scale:
  - The need for massive fiscal and monetary stimulus packages has softened as global economies reopen
- Escalation in tensions within China:
  - Chinese regulatory actions on Chinese companies:
    - Onerous new regulations placed on many of China's most prolific and powerful companies and implemented under the objective of wealth re-distribution, or "common prosperity"
  - Tensions between China and Taiwan escalate

Portfolio Characteristics[2] (as of 3/31/2022)

10 Largest Holdings	Weight
Taiwan Semiconductor Manufacturing	4.5%
Infosys Limited	4.4%
Grupo Financiero Banorte	4.0%
Wal-Mart de México	4.0%
MercadoLibre, Inc.	3.8%
Gold Fields Limited	3.7%
Localiza Rent a Car S.A.	3.4%
ENN Energy Holdings Limited	3.4%
HDFC Bank Limited	3.2%
Vale S.A.	3.2%

Sector Allocation	Weight
Financials	18.9%
Information Technology	14.9%
Consumer Discretionary	13.9%
Consumer Staples	10.1%
Materials	9.2%
Industrials	8.7%
Health Care	5.6%
Energy	5.1%
Communication Services	5.1%
Cash	5.1%
Utilities	3.4%

10 Largest Countries	Weight
China	28.8%
India	18.9%
Brazil	12.0%
Mexico	10.3%
South Korea	5.5%
Taiwan	4.5%
Argentina	3.8%
South Africa	3.7%
Colombia	2.9%
Hong Kong	2.3%

Performance Composite Returns[3] (For Periods Ending March 31, 2022)

	Since Inception**	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Pure Gross-of-Fees[4]	4.6%	4.0%	4.3%	2.0%	(17.9%)	(5.0%)	(5.0%)
Net-of-Fees[5]	1.5%	0.9%	1.2%	(1.0%)	(20.3%)	(5.7%)	(5.7%)
MSCI Emerging Markets	4.2%	3.4%	6.0%	4.9%	(11.4%)	(7.0%)	(7.0%)

Calendar Year	Pure Gross-of-Fees[4]	Net-of-Fees[5]	MSCI EM	Difference (Gross-MSCI EM)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI EM 3yr Std Dev	Composite Dispersion
2009**	10.3%	9.5%	8.5%	1.8%	5	$1,030	-	N/A	N/A	N/A
2010	13.1%	9.8%	18.9%	(5.7%)	5	$1,462	-	N/A	N/A	0.1%
2011	(15.7%)	(18.2%)	(18.4%)	2.7%	7	$2,430	-	N/A	N/A	0.0%
2012	11.4%	8.1%	18.2%	(6.8%)	4	$2,346	-	18.3%	21.5%	0.8%
2013	13.5%	10.2%	(2.6%)	16.1%	1	$220	-	16.0%	19.0%	N/A
2014	(3.6%)	(6.5%)	(2.2%)	(1.4%)	4	$1,636	-	13.9%	15.0%	N/A
2015	(2.7%)	(5.6%)	(14.9%)	12.2%	6	$3,218	-	14.7%	14.1%	0.5%
2016	0.7%	(2.3%)	11.2%	(10.5%)	17	$6,265	-	15.5%	16.1%	0.2%
2017	42.7%	38.5%	37.3%	5.4%	16	$9,288	-	15.0%	15.4%	0.8%
2018	(19.7%)	(22.1%)	(14.6%)	(5.1%)	15	$8,643	$5,486,737	14.8%	14.6%	0.6%
2019	17.3%	13.9%	18.4%	(1.1%)	13	$9,604	$7,044,708	16.0%	14.2%	0.6%
2020	22.9%	19.2%	18.3%	4.6%	14	$11,350	$6,889,798	21.3%	19.6%	1.9%
2021	(11.4%)	(14.1%)	(2.5%)	(8.9%)	9	$8,357	$7,761,687	20.7%	18.3%	0.4%

**Average annualized returns*

***Inception is 10/1/2009*

See performance disclosures on next page.

Portfolio Benchmarks

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

(Prior to March 31, 2020, the S&P/BNY Emerging Market 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.)

Disclosures

Market & Strategy Commentary—Information is presented as supplemental information to the disclosures required by GIPS® standards. 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. Opinions and estimates are as of a certain date and subject to change without notice. Past performance is no guarantee of future results. Holdings identified do not represent all of the securities purchased, sold or recommended. Sector and country allocations represent a portion currently or previously held in a representative (model) portfolio invested in accordance with the stated investment strategy.

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.

Indices: The MSCI Emerging Markets Index is shown as additional information. These indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only & do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

[1]**Contribution—**Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers, 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. Contact Confluence for a complete list of holdings. 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.

[2]**Portfolio Characteristics—**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.

[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, 2020. 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.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Emerging Markets Strategy was incepted on October 1, 2009, and the current Emerging Markets 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: 1.00% on the first $500,000; 0.90% on the next $500,000; and 0.75% 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. Subsequent to February 1, 2013, 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.

Performance prior to February 1, 2013, is based on the Emerging Markets–Direct Composite which was initially created on October 1, 2009. The Emerging Markets–Direct Composite includes accounts that pursue the Emerging Markets strategy, but do not have bundled fees. Gross returns from the Emerging Markets–Direct Composite include transaction costs and net-of-fee performance was calculated using the highest applicable annual bundled fee of 3.00% applied quarterly.

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 Emerging Markets Composite contains fully discretionary Emerging Markets wrap accounts. The Emerging Markets portfolio invests in U.S.-listed shares of companies from emerging markets.

**Results shown for the year 2009 represent partial period performance from October 1, 2009, through December 31, 2009. 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.

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.

Confluence International Equities Investment Committee

Mark Keller, CFA	Tore Stole	Matthew Sinkovitz	Blair Brumley, CFA
Bill O'Grady	Greg Tropf, CFA	Kaisa Stucke, CFA	Patrick Fearon-Hernandez, CFA

For more information contact a member of our sales team:

Wayne Knowles
National Sales Director
(314) 526-0914
wknowles@confluenceim.com

Ron Pond, CFA | *West*
Sr. Regional Sales Director
(314) 526-0759
rpond@confluenceim.com

Jason Gantt | *East*
Sr. Regional Sales Director
(314) 526-0364
jgantt@confluenceim.com

Michael Kelnosky | *North-Central*
Regional Sales Director
(314) 526-0622
mkelnosky@confluenceim.com

Jim Taylor | *Mid-South*
Regional Sales Director
(314) 526-0469
jtaylor@confluenceim.com