Emerging Markets • International Equity Strategies

Confluence Emerging Markets invests primarily in large cap, growth-oriented companies in the emerging markets around the world. 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.

Market Commentary

Emerging market indexes struggled early in the quarter by falling nearly 5% in January as investor sentiment weakened and strong macroeconomic data suggested that the Federal Reserve may delay rate cuts in the US. The markets rallied in February and March and finished the quarter 2.4% higher. Information technology and AI-related optimism pushed tech heavy markets such as Taiwan and South Korea significantly higher, but the performance of emerging markets fell short of the world's developed markets. The market still anticipates lower inflation and rate cuts by central banks around the world, which are expected to begin in the second half of 2024 in most of the world's developed economies. Meanwhile, in the emerging markets, some central banks initiated easing cycles in 2023, and these are expected to expand to more countries in 2024.

2024 is shaping up to be an interesting year in emerging markets. Numerous elections are scheduled in developed and emerging markets which may impact geopolitics, economic reform prospects, and even global supply chains. In 2024, elections held in emerging market countries will account for over one-third of emerging market GDP. Outside of the emerging markets, an election of particular interest is the US election in November 2024, where the US relationship with China could be a major concern depending upon the outcome. A Trump victory could introduce meaningful change in our relationship with China and impact trade between the two nations. If reelected, Trump has suggested that he would impose a 60% import tariff on Chinese products as well as trade restrictions on Chinese technology, along with a universal 10% import tariff. Trump's proposed tariffs could place pressure on Chinese textile and electronics imports to the US. A Biden victory would likely result in maintaining the status quo with China. Currently, under the Biden administration, restrictions on technology transfers, financial flows, and semiconductor production have all led to increased tensions with China.

Tariffs and trade restrictions may have a significant impact on supply chain dynamics in the emerging markets. Mainland China imports into the US fell from a high of 21% in mid-2018 to 14% as of year-end 2023. A decrease in imports from China could create opportunities in other emerging market regions such as EM ex-China, Latin America, and Mexico. Mexico now supplies 15% of all goods imported into the US.

In January, Taiwan held elections for its presidency and 113-seat legislature, the Legislative Yuan. The run-up to the election drew global attention because of the growing tensions in the Taiwan Strait. Since the current president Tsai Ing-wen was elected in 2016, official cross-strait dialogue has been suspended, and there is deep concern about China's growing use of "gray zone" tactics along with the rising possibility of actual hostilities. With the elections now concluded and Democratic Progressive Party (DPP) candidate William Lai the victor, all eyes are on the ongoing transition, which will culminate in Lai's inauguration on May 20. The election results were largely in line with public opinion polls, which consistently showed Lai leading his opponents. Lai, who is currently vice president, ultimately won the election with just over 40% of the vote. Once again, Beijing's desire to see a more conciliatory party win the presidential election did not materialize. Chinese leaders can take some solace in the fact that Lai did not win an outright majority and that his presidency will be constrained by the DPP's loss of the legislature. They can also see some rays of hope given that the DPP had moderated its policies over the last eight years under Tsai and did not more aggressively push for outright de jure independence. China has long expected and prepared for a potential Lai victory by readying a range of political, economic, and military options to showcase the PRC's displeasure and punish Lai if Beijing deems his words or actions as provocative.

Other important elections in emerging market countries include India (April-May) and Mexico (June). In India, Prime Minister Narendra Modi is seeking a third term to continue the massive infrastructure upgrades needed to become a meaningful part of the global manufacturing community. These continued reforms are necessary to sustain the country's economic growth ambitions. India now has a great opportunity to capitalize on the friend-shoring/near-shoring trend as manufacturing companies are reducing Chinese exposure, and the country's economic recovery remains on track with a 2023 GDP growth rate of 7.2%. In Mexico, outgoing president Andrés Manuel López Obrador (AMLO) will "pass the baton" to a successor to continue his Fourth Transformation, which hopes to crack down on corruption, eliminate "privileged abuses," curb violence, and promote social progress. The leading presidential candidate is Claudia Sheinbaum, a former mayor of Mexico City, who is a populist leftist seen as a continuation of AMLO and is backed by his Morena party.

See GIPS Report on pages 5-6.

Market Commentary continued...

The trajectory of the US dollar (USD) remains an important driver of emerging market equity returns. The MSCI Emerging Markets Index tends to move inversely with the USD, hence a strengthening USD is consistent with lower emerging market equity prices. During the first quarter, the USD appreciated by 3.1%, pressuring equity returns. Over the past year, the USD has been flat, having little impact on emerging market equity prices. The stronger USD provides additional headwinds to emerging market firms that issue debt denominated in USD since their debt-servicing costs rise as the greenback strengthens. The Confluence macroeconomic team still feels that the USD is under pressure; however, its strength may be stickier than initially anticipated.

Returns in the Chinese market continue to strongly influence the MSCI Emerging Markets benchmark. More than 25% of the benchmark's exposure is to Chinese equities, which have been under pressure for some time due to a real estate bubble and collapse, excessive debt levels, onerous government oversight, tepid recovery following the pandemic, a potentially unfriendly reunification with Taiwan, and ongoing tensions with the US and its allies. As a result, Chinese equities have fallen by nearly 50% since the start of 2021. However, following a weak January, the Chinese market is beginning to show signs of recovery. The shift to a consumption-driven economy from an export-driven economy continues to manifest itself, albeit ever so slowly. China's share of GDP attributed to consumption is 53%, which is lower than many leading economies that typically have consumption levels between 70%-80% of GDP. Chinese President Xi will continue to weigh concerns about national security and societal and political stability against economic growth objectives. Meeting the objectives of both mandates without a major stimulus package will be challenging.

The Chinese investor is feeling uneasy. Traditionally, real estate has been the primary store of wealth for Chinese households. As recently as 2010, nearly 70% of a family's net worth was in real estate. Due to the recent collapse in the housing market, real estate has shifted from one of the most revered asset classes to one that is less trusted to hold its value. Real estate still accounts for almost 50% of household wealth. Nearly 28 million unsold housing starts, which represent about a 30-month supply, plague the market. The housing downturn has resulted in lower consumer confidence and spending, especially on big ticket items. Despite a national savings rate of 45%, people are reluctant to invest in the current environment. During the recent Two Sessions meetings in March, President Xi made no indication that any major stimulus packages were in the works. China will continue exports of the "new growth drivers" which include electric vehicles, batteries, and solar panels around the world. It will continue to "dump" these products in order to maintain production facilities and employ its population. This practice has drawn the attention of policymakers in the US and the EU, who may act to curtail this activity. Modest stimulus measures undertaken by the Chinese government have been unable to increase consumption in a meaningful amount.

Emerging market equities remain one of the more mispriced asset classes, in our opinion, with valuations reaching historically attractive levels. As of March 31, 2024, the MSCI Emerging Markets Index trades at a forward P/E of 12.0x versus 14.3x for MSCI EAFE and 21.4x for the MSCI USA Index (representing around a 45% discount). Emerging markets continue to trade with stronger earnings growth, high and improving return on equity, high free cash flow yield, and a dividend yield near a 20% premium relative to historical figures and double that of the US (2.8% for the MSCI Emerging Markets Index versus 1.4% for the MSCI USA Index). Earnings growth in emerging markets is expected to rise 18% in 2024, far outpacing that of the US and the world's developed markets, which are expected to grow by <11% and <10%, respectively. Furthermore, GDP growth is set to accelerate in emerging markets relative to developed as growth forecasts for 2024 are 4.0% for emerging economies compared to the 1.4% forecast for developed markets. This recovery can be attributed to global monetary easing, which has already occurred in many emerging markets as monetary authorities quickly addressed the recent bout of inflation and reduced interest rates beginning in mid-2023. While growth in the developed markets is slower than in the emerging markets, the outlook for developed markets has improved modestly. A resilient global GDP should support emerging market economies. Finally, emerging markets are under-owned by global investors, with a current 5.2% allocation to emerging markets versus the 20-year average of 8.4% for the typical portfolio.

Quarterly Trade Summary

We made a few changes to the Confluence Emerging Markets portfolio during the first quarter of 2024. In late January, we purchased South Korea-based Shinhan Financial Group Ltd. (SHG). SHG is principally engaged in the banking business and operates through five segments — Banking (commercial bank services), Credit Card, Financial Investment (trading and consignment trading of securities), Life Insurance, and Other (includes asset management, facilities rental and rental business, savings banks, financial information technology services, fund general office management, debts collection and credit investigation, private equities investment, real estate investment, and operation). South Korea is under-banked and SHG's diverse segments allow the bank the opportunity to cross-sell services to the end client.

We also purchased Argentina-based Arcos Dorados Holdings Inc. (ARCO), a McDonald's franchisee that operates or franchises over 2,140 McDonald's-branded restaurants. ARCO divides its operations into four geographical divisions: Brazil; the Caribbean, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the US Virgin Islands of Saint Croix and Saint Thomas, and Venezuela; North Latin America, consisting of Costa Rica, Mexico, and Panama; and South Latin America, consisting of Argentina, Chile, Ecuador, Peru, and Uruguay.

Quarterly Trade Summary continued...

We sold China-based ENN Energy Holdings Ltd. (XNGSY), an investment holding company principally engaged in the gas supply business in domestic and overseas markets. The company is engaged in the sale of piped gas, wholesale gas, other energy, and gas appliances and materials, along with gas connection and the construction and operation of vehicle gas refueling stations. Sales in China have slowed with the economy, especially due to the anemic economic recovery following the COVID lockdowns.

At the end of March, we purchased Mexico-based Betterware de México SAPI de CV (BWMX), a Mexico-based company that sells household appliances through an online portal. The company operates through a catalogue that highlights the different retail household products it sells, including kitchen appliances, garden tools, and everyday accessories among other categories. Betterware operates across all Mexican states as its products can reach every city in Mexico due to the strategic position of its distribution facilities. The recent acquisition of JAFRA Cosmetics will allow the company to cross-sell its products to a new customer base and expand its footprint into the US. We anticipate that the expected synergies will be immediately accretive to the bottom line.

Finally, we sold China-based WuXi Biologics Inc. (WXXWY). The company is listed on a proposed US Senate bill that would prevent federal contracting with certain biotechnology providers connected to foreign adversaries. Although this bill has not been voted on yet, similar bills have been approved with detrimental impacts to the underlying companies. Moreover, biotech firms, in general, have not been performing well due to industry-specific factors.

Performance Review

The first quarter performance of the MSCI Emerging Markets (EM) Index was 2.4% in USD terms, underperforming the returns of developed international markets (MSCI EAFE, 5.8%) and the US market (S&P 500, 10.6%).

Among the regions, EM Asia performed best, rising by 3.4% as equity markets in Taiwan and India recorded strong performance. Taiwan is benefiting from the strong chip demand to support global AI initiatives. India's strong macroeconomic fundamentals are being reflected in higher equity prices. EM Europe, Middle East, and Africa (EMEA) underperformed as Egypt, the Czech Republic, and South Africa each underperformed the benchmark. EM LatAm was the worst-performing region, dragged down by the poor performance of Brazilian equities during the quarter.

During the first quarter, the Confluence Emerging Markets strategy posted a return of 3.6% (gross of fees) versus 2.4% for the benchmark, as stated above. Over the past 12 months, Confluence Emerging Markets gained 9.8% (gross of fees), outperforming the benchmark at 8.2%. [*The strategy's net-of-fees returns for the same periods were 2.8% QTD and 6.5% one-year. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

The two best-performing countries within our portfolio, on an absolute basis, were Taiwan and Peru, whereas Brazil and Indonesia recorded the worst returns. From a sector standpoint, Energy and Information Technology were the strongest during the quarter, while Health Care and Industrials were the weakest.

The top contributors and detractors for the portfolio in 2024 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
MakeMyTrip Ltd.	5.93	2.58
Taiwan Semiconductor Manufacturing	5.47	1.51
Vista Energy S.A.B. de C.V.	4.26	1.48
H World Group Ltd.	3.01	0.54
KB Financial Group Inc.	2.29	0.53
Bottom 5		
WNS Holdings Ltd.	2.27	(0.47)
Vale S.A.	2.11	(0.50)
Controladora Vuela Cia de Avia	2.13	(0.56)
HDFC Bank Ltd.	3.01	(0.62)
Wuxi Biologics Cayman Inc.	*Sold*	(0.82)

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

What We Are Watching

Macro and micro factors are changing in a positive direction for emerging market equities, indicating that they are poised for a period of outperformance in 2024 and beyond. In general, we expect countries that are more exposed to the US to outperform relative to those more exposed to the eurozone or China.

We continue to identify countries and regions that have better adapted to macroeconomic changes related to increasing levels of inflation, slowing global growth, and shortening supply chains. Most emerging markets have identified inflation in their economies and quickly raised rates to mitigate inflation expectations. As inflation is moderating and peaking in some areas, these economies are now reducing policy rates to stimulate stagnant growth. Provided that a significant global recession can be avoided, we believe emerging market equities are trading at extremely attractive valuations relative to historical levels and relative to the developed markets.

What We Are Watching continued...

Inflationary pressures are moderating, and global growth is resuming, albeit at a slow pace. Nevertheless, risks to our positive outlook for emerging markets include:

- Elections around the world will impact developed and emerging economies:
  - 40 major elections are expected to occur in 2024 and 3.2 billion people will be impacted by the results.
  - Over one-third of emerging market GDP may be impacted, including several significant emerging market countries.
  - We are focused on fiscal discipline and populist shifts, which could blur the outlook for these key economies.
- Persistent inflation that would cause central banks in both emerging and developed markets to raise/maintain high rates and reduce liquidity to combat inflationary pressures:
  - Emerging markets are particularly sensitive to inflationary pressures, although they tend to be in a better position to address these pressures as inflation has peaked in most cases.
- China's economy meaningfully slows due to inadequate stimulus and/or a real estate crisis:
  - China's existing debt problem makes solving the real estate crisis more challenging.
  - Authorities outside of China may not fully appreciate the magnitude of the indebtedness at all levels of government.
- Prolonged US dollar strength:
  - A strong USD could weaken local currencies, which would exacerbate inflation in the emerging economies.
  - Debt service on USD-denominated emerging market sovereign debt is much more expensive to repay.
  - The Confluence macro team believes that a secular USD bear market started at the beginning of 2023; however, some recent appreciation in the USD suggests that its strength may be stickier than previously anticipated.
    - History suggests these USD market cycles generally last 8-10 years, with a significant decline in the USD.
  - The BRICS nations (Brazil, Russia, India, China, and South Africa) are contemplating using alternative currencies to conduct global trade, potentially undermining the importance of the USD as the reserve currency.
    - This would exert downward pressure on the USD, benefitting non-US assets, especially in emerging markets.
    - Many other countries are interested in joining the BRICS.
    - Non-USD trade arrangements have become more prevalent recently.
- Geopolitical tensions escalate:
  - Tensions between the US and China
  - Tensions between China and Taiwan
  - Russia/Ukraine war
  - Middle East tensions/war
- A long, drawn-out conflict between Russia and Ukraine or in the Middle East would keep commodity prices (especially energy) artificially high, which may impact inflation and consumer spending on a global basis.

Portfolio Characteristics[2] (as of 3/31/2024)

10 Largest Holdings	Weight
Vista Energy S.A.B. de C.V.	4.9%
MakeMyTrip Ltd.	4.5%
Taiwan Semiconductor Manufact. Co. Ltd.	4.5%
MercadoLibre Inc.	4.1%
Fomento Económico Mexicano S.A.B.	3.7%
Grupo Financiero Banorte S.A.B.	3.6%
Gold Fields Ltd.	3.5%
Wal-Mart de México S.A.B. de C.V.	3.5%
KB Financial Group Inc.	3.3%
ICICI Bank Ltd.	3.2%

Sector Allocation	Weight
Consumer Discretionary	20.1%
Consumer Staples	13.0%
Energy	6.8%
Financials	20.1%
Health Care	2.9%
Industrials	11.5%
Information Technology	6.6%
Materials	6.9%
Communication Services	3.9%
Cash	8.2%

10 Largest Countries	Weight
Mexico	22.8%
India	16.6%
China	12.0%
Brazil	11.4%
South Korea	7.6%
Taiwan	4.5%
Argentina	4.1%
Hong Kong	4.1%
South Africa	3.6%
Colombia	1.9%

Performance Composite Returns[3] (For Periods Ending March 31, 2024)

	Since Inception**	10-year*	5-year*	3-year*	1-year	YTD	QTD
Emerging Markets *Pure Gross-of-Fees[4]*	4.5%	3.9%	2.9%	(3.7%)	9.8%	3.6%	3.6%
Max Net-of-Fees[5]	1.4%	0.9%	(0.1%)	(6.5%)	6.5%	2.8%	2.8%
MSCI Emerging Markets (Net)	3.4%	2.9%	2.2%	(5.1%)	8.2%	2.4%	2.4%

Calendar Year	Pure Gross-of-Fees[4]	Max 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%
2022	(13.7%)	(16.2%)	(20.1%)	6.4%	7	$6,068	$6,931,635	21.3%	20.3%	0.6%
2023	15.7%	12.2%	9.8%	5.8%	6	$5,807	$7,200,019	18.5%	17.1%	1.9%

Average annualized returns ***Inception is 10/1/2009* *See performance disclosures on last 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)*

Confluence International Equities Investment Committee

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

For more information contact a member of our sales team: (314) 530-6729 or sales@confluenceim.com

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Disclosures

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Indexes: The MSCI Emerging Markets 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, 2022. 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 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.

[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: 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.

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.

**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.