Emerging Markets

International Equity Strategies

Confluence INVESTMENT MANAGEMENT

First Quarter 2025

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

The emerging markets started 2025 on a positive note. The Chinese market continued to perform well following government stimulus measures introduced last September. Beijing's pro-growth policy is designed to support domestic consumption, stabilize the property market, and encourage capital market activity. The Chinese technology sector was particularly strong on the announcement of the DeepSeek artificial intelligence (AI) model, which highlights China's ongoing innovation and global competitiveness. DeepSeek is touted as being able to perform in line with some of the best AI models but at a significantly lower cost. Technology shares outside China sold off as companies began re-evaluating their AI ambitions. In a quarter dominated primarily by trade tariffs and US policy uncertainty, a falling 10-year Treasury yield and a weaker USD were generally supportive of the emerging markets. Global trade policy shifts, evolving interest rate expectations, geopolitical developments, and currency dynamics continue to shape the environment for emerging markets.

Last November, Donald Trump was re-elected for a second term. The Republican majority captured control of both houses of Congress and launched a staunchly anti-establishment mandate. The markets are focusing on the tariffs promised by Trump to level the playing field for trade across global economies. Trump has threatened to increase tariffs on all goods imported into the US from foreign countries. This situation is fluid as tariff levels by country have been imposed, changed, and sometimes delayed. The initial proposal of reciprocal tariffs was amended, and the tariff levels on some emerging market economies were much higher than initially anticipated. These measures could lead to global uncertainty and the risk of retaliatory measures, with the potential to disrupt global supply chains, create inflationary pressures, and cause interest rate uncertainty. It appears that the Trump administration may be willing to negotiate deals, but the ramifications of these tariffs will have very meaningful impacts on global economies and many in the emerging markets and elsewhere will feel the effects. Long-term asset allocators are particularly well-positioned to look through the back-and-forth debates on tariffs and capitalize on the investment opportunities that arise from the realignment of global trade.

Brazilian equities were among the best performers in the first quarter. A supportive commodity backdrop (iron ore/soybeans) and improving fiscal policy have increased investor confidence, pushing the market 15% higher. Rhetoric around government spending and tax reform has quieted, and the Brazilian real has shown signs of stabilization after a sharp devaluation last year. The outlook remains sensitive to inflation dynamics, central bank policy, and political policy, but we believe the diversified economy combined with attractive valuations have positioned Brazil for long-term growth.

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 weakening USD is historically consistent with higher emerging market equity prices. During the first quarter of 2025, the USD weakened by 3.9%, boosting emerging market equity returns. Over the past year, however, the USD was flat and had a negligible impact on emerging market equity prices. A weaker USD will drive capital away from the US, which tends to benefit emerging markets. Moreover, the weaker USD provides additional tailwinds to emerging market firms that issue debt denominated in USD since their debt-servicing costs decrease as the greenback weakens. The Confluence macroeconomic team still feels that the USD will be under pressure longer term; however, its strength may be stickier than initially anticipated.

Over the past three years, emerging market equities have lagged the developed market equities by a wide margin. High interest rates in most major economies combined with a challenging geopolitical environment have resulted in poor returns and capital flight. Global ownership of emerging market equities is currently at a two-decade low. The emerging markets contain many high-quality companies with durable, long-term growth potential trading at very attractive valuations. These factors will become more pronounced as global interest rates continue to fall.

See GIPS Report on pages 5-6.

Market Commentary continued…

Emerging market equities remain one of the most mispriced asset classes, in our opinion, with valuations now reaching historically attractive levels. As of March 31, 2025, the MSCI Emerging Markets Index was trading at a forward P/E of 12.0x versus 13.8x for the MSCI EAFE Index and 20.5x for the MSCI USA Index (representing around a 40% 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 nearly double that of the US (2.7% for MSCI Emerging Markets versus 1.4% for both the MSCI USA and S&P 500 indexes). Earnings growth in emerging markets is expected to rise 14% in 2025, far outpacing that of the US and the world's developed markets, which are anticipated to grow by about 7%. Furthermore, GDP growth is set to accelerate in the emerging markets relative to developed as growth forecasts for 2025 are 3.9% in emerging economies compared to the 1.5% forecast for developed markets. This recovery can be attributed to global monetary easing, which has already occurred in many emerging markets as monetary authorities reduced interest rates to quickly address the recent bout of inflation. While growth in the developed markets is slower than in the emerging markets, the outlook for developed markets has improved modestly due to lower inflation and interest rates. Resilient global GDP should support emerging market economies.

Looking ahead, additional Fed and global monetary easing and potentially more stimulus from China should propel emerging market equity prices higher. Emerging markets will benefit from a more dovish Federal Reserve, which has signaled potential rate cuts in 2025. Expectations of higher economic growth and accelerating corporate earnings should also support prices.

Quarterly Trade Summary

In mid-January, we added ASE Technology Holding Co., Ltd. (ASX) to the Emerging Markets portfolio. Founded in 1984, ASX is a Taiwan-based information technology company that employs 94,500 people worldwide with operations in the United States, Taiwan, Asia, and Europe. Together with its subsidiaries, ASX is the largest and leading outsourced semiconductor assembly and test company in the global semiconductor space and provides electronic manufacturing services. The company also develops, constructs, sells, leases, and manages real estate properties; produces substrates; offers information software, equipment leasing, investment advisory, and warehousing management services; facilitates commercial complex, after-sales, and support services; manages parking lot services; processes and sells computer and communication peripherals, electronic components, telecommunications equipment, and motherboards; and imports and exports goods and technology

Performance Review

During the first quarter of 2025, the MSCI Emerging Markets Index was up 2.9% in USD terms, underperforming the developed international markets (MSCI EAFE, +6.9%) but well ahead of the US market (S&P 500, -4.3%). By comparison, the Confluence Emerging Markets strategy was up 3.2% for the quarter for a one-year gain of 5.2% (both gross of fees) versus the benchmark's one-year return of 8.1%. [*The strategy's net-of-fees returns for the same periods were 2.4% QTD and 2.1% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Among the regions, MSCI EM Latin America performed best, rising by 12.7%, led by Colombia (+33.3%), Chile (+17.8%), and Brazil (+14.1%). This strong performance was driven by rising commodity prices in the region. MSCI EM EMEA (+8.1%) was the second-best region, with Poland (+31.3%), the Czech Republic (+28.7%), and Greece (+23.4%) leading the way as the result of a historic shift in European fiscal policies. EM Asia was the laggard (+1.4%), dragged down primarily by poor performance in Thailand (-13.7%) and Taiwan (-12.6%) which offset a strong return from China (+15.2%).

Chinese equities continued their strong advance, which started in the third quarter of 2024. Due to a series of geopolitical issues, we remain nearly 14 percentage points underweight China, which created a significant performance headwind since the Chinese rally started.

The MSCI Emerging Markets Value Index outperformed the MSCI Emerging Markets Growth Index (4.3% versus 1.7%) during the quarter. On a one-year trailing basis (as of March 31), MSCI Emerging Markets Growth is 0.9% ahead of the Value index (8.5% versus 7.6%). However, in similar fashion to international developed markets, the value component of the emerging markets index outperformed growth (2.8% versus 0.2%) on a three-year trailing basis.

Quality stocks, as measured by the MSCI Emerging Markets Quality Index (-4.8%), underperformed the broad MSCI Emerging Markets as well as the MSCI EM Growth and Value indexes during the past three-month measurement period. The Emerging Markets Quality Index has now underperformed the MSCI Emerging Markets Index by over 1,050 bps on a one-year basis (-2.4% versus +8.1%), accounting for a significant performance headwind for our strategy.

Performance Review continued...

In the first quarter, the two best-performing countries within our portfolio, on an absolute basis, were South Africa and Colombia, while the Netherlands and Taiwan recorded the worst returns. From a sector standpoint, Materials and Consumer Staples were the strongest sectors during the quarter, while Health Care and Information Technology were the weakest.

From a relative standpoint, the most accretive country allocation was the overweight to South Africa, followed by the underweight to Taiwan. Our underweight allocation to China detracted the most from performance, while the overweight positioning to Mexico also proved unfavorable. From a sector perspective, our overweight allocations to Materials and Consumer Staples added the most alpha during the quarter, whereas our underweight positioning to Communication Services and Financials contributed negatively to returns.

The portfolio's top contributors and detractors for Q1 2025 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
Gold Fields Ltd.	3.93	2.06
Alibaba Group Holding Ltd.	2.80	1.18
Tencent Holdings Ltd.	3.78	0.69
MercadoLibre Inc.	5.41	0.69
WNS Holdings Ltd.	1.90	0.49
Bottom 5		
Controladora Vuela Cia de Avia	1.79	(0.54)
Dr Reddy's Laboratories Ltd.	2.86	(0.55)
Vista Energy S.A.B. de C.V.	5.76	(0.84)
MakeMyTrip Ltd.	6.16	(0.86)
Taiwan Semiconductor Manufacturing	6.07	(0.95)

(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 2025 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.

Emerging market stocks appear likely to face specific challenges under the Trump administration, especially with regard to possible tariffs. Since the announcements on April 2, the situation remains highly fluid. Country-specific tariffs have been proposed, revised, and even paused. Ramifications are still difficult to predict as many emerging market nations are actively negotiating more moderate terms with the Trump administration. As of this writing, only China is immediately subject to onerous tariffs, but the high tariffs on China are a negotiation tactic. The hope is that China is able to negotiate a better deal with the US. Fortunately, the US goods imports from China have decreased as a percentage of total imports over the past eight years from 22% to 15%, partly reducing the impact of the tariffs.

While our Emerging Markets portfolio is significantly underweight Chinese holdings, the health, or lack thereof, of the Chinese economy has international ramifications. President Xi's government has recently made multiple proclamations aimed at shoring up the local economy, including the vast distortions in real estate and debt and the reignition of confidence in consumer spending. While investors initially cheered these announcements, the air has leaked from the proverbial balloon, with markets once more turning lower partially due to the limited details provided for these new plans. Adding substantive new tariffs on Chinese exports that are directed to the US could further complicate the ability of China's central planning to recover domestic growth and consumption.

During the first quarter, markets were deeply unsettled by a late January announcement from the relatively unknown Chinese technology startup DeepSeek. It claimed to have developed an AI model that rivals those of major US companies like OpenAI, Anthropic, and Google, but at a fraction of the cost using older technology. Since the announcement, investors started questioning the viability of hundreds of billions of dollars earmarked for AI model development and correlating infrastructure, such as data centers and chip demand. As a result, the Information Technology sector, both domestically and internationally and in developed and emerging markets, recorded the lowest returns out of the 11 benchmark sectors. As of the first week of April, tech sector performance has yet to improve. We are closely monitoring whether technology companies can regain traction and return to sector leadership, or if previously underperforming sectors and industries will assume the role.

As discussed earlier in the Market Commentary section, a weaker USD is likely in the future, driven by a growing US budget deficit and an increase in spending. Historically, a weaker USD has been a tailwind for emerging market investors as it increases the purchasing power of the local currency and helps keep inflation in check. Emerging market companies who have issued USD-denominated debt will have a reduced debt service burden in a weaker USD environment.

What We Are Watching continued...

A possible US recession could impact growth in the emerging markets. The odds of a recession in the US have increased and ramifications within the emerging markets may be severe. Despite economic conditions in the US, eurozone spending is set to increase materially, and Chinese growth initiatives have been gaining traction. If a slowdown does materialize, we will consider reducing exposure to some of the more global cyclicals and look toward emerging market countries with strong domestic economies, which are a bit more insulated from what's happening in the US.

During the past several months, there has been an increase in the asymmetric application of monetary policy worldwide. A year ago, the international battle against inflation was raging, and monetary policy became more restrictive as a result. However, during the past few months, inflationary pressures have largely subsided, at least in the world's developed markets, allowing central banks to ease rates. Emerging market central banks are cutting rates as inflationary pressures within their economies continue to abate.

Lastly, we remain attentive to the current geopolitical tensions. The war between Russia and Ukraine continues to rage even as President Trump has promised to help negotiate a peace deal between Russian President Putin and Ukrainian President Zelensky. Confluence's macroeconomic team has also highlighted the elevated tensions brewing in the South China Sea. We have previously discussed the potential for China to take military action against Taiwan, and now pressure is building in a territorial dispute between China and the Philippines. There have been several encounters between the Chinese Coast Guard and Philippine vessels. Each of these situations carries a real risk of immediate escalation, which could impact investors around the globe. The Confluence International Equities Investment Committee is diligently monitoring each of these theaters to manage our strategies accordingly.

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

10 Largest Holdings	Weight
MakeMyTrip Ltd.	6.0%
Vista Energy S.A.B. de C.V.	5.3%
Taiwan Semiconductor Manufacturing	5.2%
MercadoLibre Inc.	5.0%
Gold Fields Ltd.	4.7%
ICICI Bank Ltd.	3.6%
KB Financial Group Inc.	3.4%
Tencent Holdings Ltd.	3.4%
Alibaba Group Holding Ltd.	3.3%
Fomento Económico Mexicano S.A.B.	2.8%

Sector Allocation	Weight
Consumer Discretionary	23.7%
Consumer Staples	10.3%
Energy	7.0%
Financials	19.2%
Health Care	2.5%
Industrials	7.8%
Information Technology	9.4%
Materials	7.0%
Communication Services	6.2%
Cash	6.9%

10 Largest Countries	Weight
India	18.6%
Mexico	17.6%
China	16.8%
Taiwan	7.3%
South Korea	6.7%
Brazil	6.5%
Argentina	5.0%
South Africa	4.7%
Hong Kong	3.8%
Peru	1.8%

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

	Since Inception**	15-Year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
Emerging Markets *Pure Gross-of-Fees[4]*	4.6%	4.1%	4.0%	9.2%	4.6%	5.2%	3.2%	3.2%
Max Net-of-Fees[5]	1.5%	1.0%	0.9%	6.0%	1.5%	2.1%	2.4%	2.4%
MSCI Emerging Markets (Net)	3.7%	3.0%	3.7%	7.9%	1.4%	8.1%	2.9%	2.9%

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%
2024	5.6%	2.5%	7.5%	(1.9%)	7	$6,051	$7,280,773	17.4%	17.5%	0.9%

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

Portfolio Benchmark

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)*

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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, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

Verification provides assurance on whether the firm's policies and procedures related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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The 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 US 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 US-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.