Emerging Markets

International Equity Strategies

Confluence INVESTMENT MANAGEMENT

First Quarter 2026

Confluence Emerging Markets invests primarily in large cap, growth-oriented companies in the emerging, frontier, and standalone markets around the world, as well as limited exposure to developed markets and ETFs. 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

Despite continued global uncertainty, emerging markets began the year on solid footing, extending the momentum from late 2025. Growth remained resilient, disinflation continued, and a softer US dollar (USD) supported capital inflows in the first quarter. The strong emerging market rally was then suddenly halted by the Iranian conflict in late February.

First quarter benchmark performance delivered a slightly negative return yet was supported by strength in MSCI Latin America. For the 12 months ended March 31, 2026, emerging market equity performance was broad-based, with all regions posting strong returns. Central bank policy easing and a weaker USD have supported this rally. Emerging market equities have outperformed developed foreign markets and US equities on a one-year trailing basis, with the MSCI Emerging Markets Index significantly outperforming the S&P 500, 29.6% versus 17.8%, respectively.

The emerging market rally highlighted the resilience of the emerging economies, flexibility of global supply chains, and continued reform efforts that improved the macro stability across the emerging market universe. Since the April 2025 market selloff, emerging market investors have been encouraged by signs of stabilization in China, easing inflation in key countries, and the massive artificial intelligence (AI) buildout.

More recently, the Middle East conflict has been the primary driver of global equity returns since the war started on February 28, 2026. The tail risk of the Strait of Hormuz closure has materialized. Energy prices have risen sharply, and supply shortages, particularly in Asia, are emerging. With the situation still very fluid and negotiations between the US and Iran reportedly ongoing, it is impossible to say whether we are on the edge of a long-term oil supply shock.

For dedicated emerging market investors, the key story is not relative emerging market performance but rather the divergence in returns within the emerging markets. The variability of performance across emerging market regions and countries during energy crises is exactly why active management is critical. History shows the emerging market countries that have historically performed best during oil shocks have been South American commodity exporters, e.g., Brazil, Colombia, Chile, and Peru, while Asian oil importers, particularly Taiwan and Korea, have tended to underperform. India has been a surprising outperformer during this event despite its high oil import dependency, likely due to its domestically driven economy being relatively shielded from global risk events.

Whether this becomes a full-blown oil shock depends on how long the strait remains closed and the extent of damage to the Middle East energy infrastructure. A resolution within weeks would keep energy inflation manageable. If Iran and the US cannot reach a settlement, and an oil shock does materialize, the macro backdrop is far more favorable than in prior energy spikes. Real rates are positive, inflation expectations are anchored, growth is stable, and the labor market is soft enough to limit pass-through to wages. If the initial inflation spike turns into a growth shock, the Federal Reserve will have room to cut rates. Emerging market central banks, having front-loaded their tightening, would have even more room to ease. What is already clear is that dispersion across emerging market assets will be high.

Due to proactive emerging market central banks, inflation dynamics in these markets are likely to remain better anchored than in the US and other developed markets. Nevertheless, we expect emerging market central banks will be cautious and pause their easing cycles, with others proceeding to cut policy rates only gradually. Higher real policy rates and more firmly anchored inflation expectations suggest that emerging market rates present an asymmetric policy dynamic relative to the US. Should the oil shock tip the global economy into a recession, emerging market central banks retain significantly more room to cut than their developed market counterparts, a macro stabilizer that was absent in prior cycles.

Latin America, Central Asia, and Africa currently maintain real rates well above neutral and have genuine capacity to ease into any growth slowdown. Taiwan and South Korea benefit from strong tech export cycles that provide a partial growth cushion. China is arguably the least exposed major importer. CPI inflation is very low, and policymakers are actively trying to

See GIPS Report on pages 5-6.

reflate, so a moderate rise in energy costs is more likely to be absorbed than to prompt tightening. Also, renewables and coal dominate the energy mix, and coal prices are up far less than oil, providing cushion to energy price inflation.

The AI capex cycle also propelled equity prices higher in certain developed and emerging market economies. The US and northern Asian economies (China, Taiwan, South Korea, etc.) directly benefited from the massive AI spend, and upstream supply chains include many emerging market-based countries. The five largest hyperscalers have committed over $1 trillion to AI capex spending in both 2026 and 2027, with only a small percentage of the total currently deployed. Emerging market participants have both upstream and downstream AI opportunities. The upstream manufacturing base in Taiwan/China (wafer fabrication; assembly, packaging, and testing; AI learning models) and South Korea (wafer fabrication, especially high band width, and solid-state memory components) are central to global AI data center buildouts, providing one of the strongest earnings engines for 2026. Results of AI spending downstream (users of AI models) will likely be deflationary as higher productivity should result in lower employment/operating costs. Productivity is enhanced by leveraging computing power and using data to maximize operating efficiency.

As we've written extensively, the trajectory of the 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, the USD rose slightly and had limited impact on emerging market returns; however, the USD has declined by over 4% in the past year through March 31, 2026, supporting non-US equity returns. Our outlook for the USD continues to expect weakness as the Fed is anticipated to reduce rates further in 2026, though timing of the cuts is still unknown. 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. Despite the global conflict, the Confluence macroeconomic team still feels that the USD will be under pressure for the longer term.

Emerging market equities remain one of the most underpriced asset classes, in our opinion, with valuations reaching historically attractive levels. As of March 31, 2026, the MSCI Emerging Markets (EM) Index was trading at a forward P/E of 11.5x compared to 14.9x for the MSCI EAFE Index and 20.0x for the MSCI USA Index. Emerging markets continue to trade with stronger earnings growth forecasts (20%+ vs. mid-single-digit to low double-digit for developed market earnings), high and improving return on equity, high free cash flow yield, and a dividend yield nearly double that of the US (2.3% for MSCI EM vs. 1.2% for MSCI USA). Furthermore, the emerging/developed market GDP growth gap is set to remain robust at two percentage points in 2026. This recovery can be attributed to global monetary easing, with many emerging market monetary authorities already reducing interest rates in response to lower inflation, as discussed above.

Looking further into 2026, our analysis of macro data suggests that the emerging market rally will continue. A weak labor market in the US supports the case for continued rate cuts by the Fed, thus the additional cuts are expected to further weaken the USD. Data also suggests that US tariffs continue to be less inflationary than expected but not enough to deter the Fed from additional rate cuts at this juncture. Despite the softer employment numbers, the immediate risk of US recession remains low.

Overall, emerging markets are looking to us like a favorable trade heading further into 2026, with money managers increasingly positioning for what could be a multi-year reallocation after a long period of underperformance. Capital inflows into emerging market equities in 2025 reached their highest level since 2009, a shift that coincided with emerging market equities outperforming their US peers for the first time since 2017. Finally, following a year of strong equity performance, "fear of missing out" (FOMO) remains a theme, which should support additional equity inflows into the asset class. Overall, emerging markets are expected to continue being the primary engine of global economic growth, contributing about two-thirds of global GDP growth in the coming years, supported by solid fundamentals and a favorable external environment.

Quarterly Trading Summary

There were no trades completed during the first quarter in the Emerging Markets strategy.

Performance Review

During the first quarter of 2026, the MSCI Emerging Markets (EM) Index was down 0.2% in USD terms, outperforming the quarterly returns of developed international markets (MSCI EAFE, -1.2%) and the US market (S&P 500, -4.4%). By comparison, the Confluence Emerging Markets strategy was up 5.5% in the first quarter, for a one-year gain of 37.0% (both gross of fees) versus 29.6% for the benchmark over the same one-year period. [*The strategy's net-of-fees returns for the same periods were 4.8% QTD and 32.9% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Performance by region showed a wide divergence between the strongest and weakest performers. MSCI EM Latin America delivered the best performance, rising by 14.6%, led by Colombia (+21.1%), Peru (+20.8%), and Brazil (+19.1%), as resources such as oil, precious metals, and some industrial metals rallied sharply. MSCI EM EMEA was the second-best performing region (0.0%), supported by gains in Turkey (+13.7%) and Saudi Arabia (+9.2%) that were partially offset by weakness in the Czech Republic (-10.1) and UAE (-7.1%). MSCI EM Asia was the laggard (-1.5%) as strong returns in South Korea (+16.5%), Thailand (+15.4%), and Taiwan (+9.1%) were outweighed by notably poor performance in China (-8.9%) and India (-18.1%).

During the quarter, the two best-performing countries in our portfolio, on an absolute basis, were Columbia and the Netherlands (former Russian security), while India and Argentina recorded the worst returns. From a sector standpoint, Energy and Information Technology were the strongest sectors, while Communication Services and Consumer Discretionary were the weakest.

From a relative standpoint, the most accretive country allocations were the overweight to Mexico and underweight to China, while an underweight allocation to South Korea and security selection in Argentina detracted the most from performance. From a sector perspective, our overweight positions and security selection in Energy and Consumer Staples added the most alpha during the quarter, whereas our large underweight to Information Technology and no exposure to Utilities contributed negatively to returns.

During the first quarter, Chinese equities lost 8.9% as investors took profits following solid performance for much of 2025. Due to a series of geopolitical issues, we remain about 9% underweight China. Our Chinese positioning added more than 160 basis points of alpha during the quarter due to both the lower allocation and our Chinese holdings outperforming the Chinese benchmark.

The portfolio's top contributors and detractors thus far in 2026 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
Vista Energy S.A.B. de C.V.	4.71	2.24
ASE Technology Holding Co. Ltd.	4.26	1.15
JBS N.V.	2.32	0.55
ZTO Express Cayman Inc.	2.74	0.53
Gold Fields Ltd.	8.05	0.50
Bottom 5		
ICICI Bank Ltd.	2.86	(0.39)
Infosys Ltd.	2.18	(0.58)
Tencent Holdings Ltd.	3.70	(0.68)
HDFC Bank Ltd.	2.09	(0.81)
MakeMyTrip Ltd.	1.71	(1.34)

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

What We Are Watching

Macro and micro factors are moving in a positive direction for emerging market equities, in our opinion, indicating to us that they are poised for a period of outperformance in the coming years. In general, we expect countries that are more exposed to the US to outperform relative to those with more exposure to the eurozone or China. A quick resolution to the Middle East conflict should provide the impetus for emerging markets to regain their growth trajectory.

While our Emerging Markets strategy is significantly underweight Chinese holdings, the health, or lack thereof, of the Chinese economy has international ramifications. Economic recovery is underway as AI innovation and the Chinese government's move toward anti-involution is leading to significant reforms. While "greenshoots" are starting to emerge in the Chinese economy, we are looking for low-risk, high-reward opportunities to add value to our strategy. As China continues to export deflation to the rest of the world, global central banks can consider looser monetary policies to stimulate economic growth.

We have previously discussed the potential for China to take military action against Taiwan, and pressure also continues to build in the territorial dispute between China and the Philippines, since there have been several encounters between the Chinese Coast Guard and Philippine vessels. Both situations carry a real risk of immediate escalation, which could impact investors around the globe. The US response to a potential Chinese attack on Taiwan remains one of "strategic ambiguity," but the position may become a bargaining chip during further China trade negotiations.

2026 is shaping up to be a year of significant transformation for Latin America. The US is already putting into practice its renewed prioritization of the Western Hemisphere through the capture of Venezuelan President Nicolás Maduro. The extraordinary intervention highlights the US's intent to exert significant influence over the whole region. The "Donroe Doctrine," an adaptation of the historical Monroe Doctrine, refers to principles of President Donald Trump's foreign policy and describes a perceived desire by the second Trump administration to reassert American predominance. Supporters see the doctrine as restoring American primacy and combatting the influence of China, Russia, and possibly Iran in the region. In 2018, Trump stated that the US was committed to "maintaining our independence from the encroachment of expansionist foreign powers" in the Americas. Since his second inauguration, Trump's efforts – including attempts to rename the Gulf of Mexico, acquire Canada, the Panama Canal, and Greenland, and pursue military action against Venezuela – have been cited as part of the doctrine, alongside initiatives aimed at countering the influence of other major powers. The communist regime in Cuba is reeling from the US embargo on goods into Cuba, including energy. The fall of the Cuban government would reduce the chances that China, Russia, or any other "adversary" could establish a presence 100 miles from US shores.

We are closely monitoring the situation in the Middle East to assess whether the fragile ceasefire holds, as well as US attempts to control the Strait of Hormuz through a blockade restricting Iranian ships entering or leaving the country. The latest negotiations failed to provide any solutions that were agreeable to all parties. The US and Israel are likely to continue applying pressure on the Iranian government to abandon its nuclear ambitions, ensure the Strait of Hormuz remains open, and stop supporting terror groups in the region. The timing of any cessation of fighting is unknown.

As previously discussed in the Market Commentary, the USD is likely to continue weakening, driven by a larger US budget deficit, increased spending, and lower interest rates. 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 local inflation in check. Also, emerging market companies who have issued USD-denominated debt will have a reduced debt service burden in a weaker USD environment.

Against the backdrop of growing US assertiveness, a crowded electoral calendar will also play a decisive role in the emerging market outlook. Disappointing economic results under left-leaning incumbents are creating momentum for right-wing candidates following a long period of left-of-center dominance. This ideological shift is likely to bring more market-friendly policies, including lighter regulations, business-friendly reforms, and efforts to address deteriorating security conditions. Important emerging market elections this year include Thailand, February 8; Vietnam, March 15; Peru, April 12; Colombia, May 31; and Brazil, October 4.

The Confluence International Equities Investment Committee continues to diligently monitor the various geopolitical theaters in order to manage our strategies accordingly.

Portfolio Characteristics[2] (as of 3/31/2026)

10 Largest Holdings	Weight
Gold Fields Ltd.	7.1%
Vista Energy S.A.B. de C.V.	6.3%
KB Financial Group Inc.	4.6%
ASE Technology Holding Co. Ltd.	4.5%
Taiwan Semiconductor Manufacturing	4.1%
Shinhan Financial Group Co. Ltd.	3.4%
ZTO Express Cayman Inc.	3.0%
H World Group Ltd.	2.9%
JBS N.V.	2.8%
Grupo Financiero Banorte S.A.B.	2.7%

Sector Allocation	Weight
Consumer Discretionary	13.8%
Consumer Staples	10.7%
Energy	8.0%
Financials	22.4%
Health Care	1.9%
Industrials	10.1%
Information Technology	12.9%
Materials	9.6%
Communication Services	4.4%
Cash	6.2%

10 Largest Countries	Weight
Mexico	18.7%
China	16.4%
South Korea	8.9%
India	8.8%
Taiwan	8.6%
Brazil	7.3%
South Africa	7.1%
Hong Kong	5.9%
Peru	2.5%
Netherlands	2.4%

Performance Composite Returns[3] (For Periods Ending March 31, 2026)

	Since Inception**	15-Year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
Emerging Markets *Pure Gross-of-Fees[4]*	6.3%	5.4%	8.1%	5.2%	16.5%	37.0%	5.5%	5.5%
Max Net-of-Fees[5]	3.1%	2.3%	4.9%	2.1%	13.1%	32.9%	4.8%	4.8%
MSCI Emerging Markets (Net)	5.1%	3.7%	7.8%	3.7%	14.8%	29.6%	(0.2%)	(0.2%)

Calendar Year	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	MSCI EM (Net)	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%
2025	33.9%	29.9%	33.6%	0.4%	3	$7,075	$6,769,052	13.8%	13.4%	0.7%

*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)*

Confluence International Equities Investment Committee

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See Territory Map on the Confluence website for sales coverage.

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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.

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, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

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

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The 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.

**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.