Emerging Markets

International Equity Strategies

Confluence INVESTMENT MANAGEMENT

Second 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

Although the emerging markets started 2025 on a positive note, growth decelerated in early April when President Trump announced significant tariffs on goods imported into the United States in an effort to reduce the trade imbalance, which has reached unsustainable levels. Since this initial slowdown, emerging market investors have been encouraged by signs of stabilization in China, easing inflation in key countries, and positive developments in India and Brazil. While the tariffs will impact emerging economies, evidence of front-loading goods ahead of the tariffs continues to be reported. Global trade policy shifts, evolving interest rate expectations, geopolitical developments, and currency dynamics continue to shape the environment for emerging markets. Despite all the noise in the markets, emerging market equities are outperforming foreign developed markets and US equities on a year-to-date basis.

China slowed markedly in the second quarter, rising a modest 2.1% for a year-to-date return of 17.5%. Onerous tariffs exceeding 125% frightened exporters, but by mid-May, China had reduced tariffs on US imports to 10% and President Trump reduced Chinese import tariffs to approximately 50%. Economically, China appears to be stabilizing. Activity is gradually bottoming out and the recovery remains steady rather than strong. Policymakers appear to be committed to achieving the government's 5% growth target via tactical support rather than broad government stimulus. The Chinese property sector remains challenged but could be a policy lever if growth weakens. Meanwhile, a recent round of tariff negotiations and a tentative trade deal have eased some of the concerns that peaked in early April. Chinese consumer trends continue to evolve, revealing pockets of consumption. Despite the current volatility, continuing governmental policy, and geopolitical ramifications, we believe the longer-term opportunity remains intact, and we will continue to look for opportunities that align with our quality growth investment philosophy.

India continues to exhibit some of the strongest growth dynamics in the emerging market universe, registering a 7.4% year-over-year growth rate for the first quarter of 2025 compared to a 6.7% estimate. India's central bank delivered an outsized cut to its benchmark policy rate — the third straight rate cut since February 2025 — bringing it to 5.5%, which is now below the median estimates of 5.75%. Rate cuts are appropriate as the latest inflation results continue to drift lower, with the recent level of 3.1% marking the lowest result since July 2019. India remains a compelling growth story, driven by rising urban consumption, accelerating digitization, and government-backed manufacturing initiatives. India's economy saw record exports, primarily driven by services exports, which are growing by more than 10% per year. In the current environment, India's domestically driven economy is less exposed to global trade tensions and tariff risks. Longer term, India's equity market should benefit from structural tailwinds and strong capital inflows.

In Brazil, equities rose 13.3% during the second quarter, bringing the year-to-date total to approximately 30%. Brazil's central bank is expected to reverse course and cut rates, maybe as soon as the next meeting. Aggressive rate increases in 2024 forced investors into fixed income securities and drove equity valuations down to multi-year lows. However, slowing inflation, lower interest rates, improving consumer sentiment, and a better fiscal situation should provide the backdrop for higher equity prices. We expect that domestically oriented growth companies will be the primary beneficiaries in sectors tied to consumption, services, and financials.

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 second quarter, the USD weakened by 7.0%, boosting emerging market equity returns. The USD is now down 10.7% year-to-date, further enhancing non-US equity returns. 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 strengthens. The Confluence macroeconomic team still feels that the USD will be under pressure longer term; however, its strength may be stickier than initially anticipated.

See GIPS Report on pages 4-5.

Market Commentary continued...

Emerging market equities remain one of the most mispriced asset classes, in our opinion, with valuations reaching historically attractive levels. As of June 30, 2025, the MSCI Emerging Markets Index was trading at a forward P/E of 12.0x versus 14.7x for the MSCI EAFE Index and 22.7x for the MSCI USA Index. 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 more than double that of the US (2.6% for MSCI Emerging Markets versus 1.2% for MSCI USA). Earnings growth in emerging markets is expected to rise 17% in 2025, far outpacing that of the US and the world's developed markets, which are anticipated to grow by about 7%. Furthermore, the emerging/developed market GDP growth gap is set to remain robust at 2.5% in 2025. This recovery can be attributed to global monetary easing, which has already occurred in many emerging markets as monetary authorities have reduced interest rates in response to lower inflation.

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 one or two potential rate cuts in 2025. Expectations of higher economic growth and accelerating corporate earnings should also support higher equity prices. Emerging markets are entering an attractive phase, supported by a weak USD, fading US exceptionalism, and renewed investor interest in undervalued, under-owned countries. Monetary policy cycles globally are loosening after several years of high rates to address persistent inflation. An environment of lower interest rates and reduced inflation creates a more supportive backdrop for increased risk appetites among investors.

Quarterly Trade Summary

In mid-June, we added Hong Kong Exchanges and Clearing Ltd. (HKXCY) to the Confluence Emerging Markets portfolio. HKXCY is based in Central Hong Kong and, together with its subsidiaries, owns and operates stock and futures exchanges and related clearing houses in Hong Kong, the United Kingdom, and mainland China. Incorporated in 1999 and employing over 2,400 people globally, the company operates through its core business segments of Cash, Equity & Financial Derivatives, Commodities, and Data & Connectivity. The Cash segment covers various equity products traded on the cash market platforms of the Stock Exchange of Hong Kong Limited, as well as through the Shanghai-Hong Kong and the Shenzhen-Hong Kong stock connects. Its Equity & Financial Derivatives segment provides and maintains trading and clearing platforms for a range of equity and financial derivative products. The Commodities segment operates an exchange for the trading of base, ferrous, and precious metals futures and options contracts in the United Kingdom, and it operates Qianhai Mercantile Exchange Co., Ltd., a commodity trading platform on mainland China. Its Data & Connectivity segment offers various services that provide access to the platform and infrastructure.

Performance Review

During the second quarter of 2025, the MSCI Emerging Markets Index was up 12.0% in USD terms, outperforming the quarterly returns of developed international markets (MSCI EAFE, 11.8%) and the US market (S&P 500, 10.9%). By comparison, the Confluence Emerging Markets strategy was up 12.2% for the quarter with a one-year gain of 20.7% (both gross of fees) versus 15.3% for the benchmark over the one-year trailing period. [*The strategy's net-of-fees returns for the same periods were 11.4% QTD and 17.2% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

Among the regions, MSCI EM Latin America delivered the strongest performance, rising by 15.2%, led by Mexico (20.5%), Peru (18.8%), and Brazil (13.3%). Returns were primarily driven by rising commodity prices in the region and improving economies. MSCI EM Asia (12.4%) was the second-best performing region due to the sharp recovery in technology shares during the quarter, with South Korea (32.7%) and Taiwan (26.1%) leading the way. MSCI EM EMEA was the laggard (7.6%), dragged down primarily by unrest in the Middle East which offset strong performance in Central Europe and South Africa. Chinese equities were only up 2.0% for the quarter as trade tariffs and a slowing economy challenged the equity market. Due to a series of geopolitical issues, we remain nearly 12 percentage points underweight China, which created a performance tailwind for our second quarter performance.

In the second quarter, the two best-performing countries within our portfolio, on an absolute basis, were the Netherlands (former Russian security) and Taiwan, while China and Colombia recorded the worst returns. Communication Services and Financials were the strongest sectors during the quarter, while Industrials and Energy were the weakest.

From a relative standpoint, the most accretive country allocations were the overweights to the Netherlands (former Russian security) and Argentina, while underweight allocations to Taiwan and China combined with poor Chinese security performance detracted the most from performance. From a sector perspective, our strong security selection in Financials and Communication Services added the most alpha during the quarter, whereas our underweight positioning to the Information Technology sector and weak security performance in Industrials contributed negatively to returns.

Performance Review continued...

The portfolio's top contributors and detractors for Q2 2025 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
MercadoLibre Inc.	5.77	2.66
Gold Fields Ltd.	4.38	2.56
Nebius Group N.V.	2.28	1.94
KB Financial Group Inc.	2.68	1.20
Shinhan Financial Group Co. Ltd.	2.55	0.97
Bottom 5		
Infosys Ltd.	2.18	(0.43)
Techtronic Industries Co. Ltd.	2.26	(0.44)
Controladora Vuela Cia de Avia	1.43	(0.72)
Vista Energy S.A.B. de C.V.	5.39	(0.74)
MakeMyTrip Ltd.	5.96	(0.83)

(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 related to the onerous tariffs. Since the announcements on April 2, 2025, the situation remains highly fluid. Country-specific tariffs have been proposed, revised, and even paused. Ramifications continue to be difficult to predict as many emerging market nations are still actively negotiating better trade terms with the Trump administration. As of this writing, it appears that China will be subject to 55% tariffs on most goods. China has also agreed to resume the sale of rare earth minerals to the US which are critical for manufacturing high-end technological products. 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 tariff impact.

While our Emerging Markets portfolio is significantly underweight Chinese holdings, the health, or lack thereof, of the Chinese economy has international ramifications. China's tepid economic recovery, soft real estate sector, and shifting supply chains continue to plague the economy. Final tariff negotiations may have a significant impact on Chinese economic growth. While "greenshoots" are starting to emerge in the Chinese economy, we are looking for low-risk, high-reward opportunities to add value to our portfolio.

As discussed above in the Market Commentary, the USD is likely to continue weakening, driven by a larger US budget deficit and increased 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 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.

A possible US recession could impact growth in the emerging markets, but the odds of a US recession have decreased as employment numbers remain firm and the impact of the tariffs have yet to materialize in higher inflation. Despite economic conditions in the US, eurozone spending is set to increase materially, and Chinese growth initiatives have been gaining traction, albeit slowly. 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 outside their borders.

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 several 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 own economies continue to abate.

Lastly, 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 as 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. To the dismay of Chinese President Xi, Taiwan just began a 10-day live fire military drill to counter China's threats in the region. The Confluence International Equities Investment Committee diligently monitors the various geopolitical theaters in order to manage our strategies accordingly.

Portfolio Characteristics[2] (as of 6/30/2025)

10 Largest Holdings	Weight
Taiwan Semiconductor Manufacturing	6.3%
MercadoLibre Inc.	6.0%
MakeMyTrip Ltd.	5.3%
Vista Energy S.A.B. de C.V.	4.8%
KB Financial Group Inc.	4.6%
Gold Fields Ltd.	4.5%
ICICI Bank Ltd.	3.4%
Nebius Group N.V.	3.2%
Tencent Holdings Ltd.	3.1%
Shinhan Financial Group Co. Ltd.	3.1%

Sector Allocation	Weight
Consumer Discretionary	21.3%
Consumer Staples	10.4%
Energy	6.1%
Financials	24.2%
Health Care	2.6%
Industrials	6.6%
Information Technology	10.3%
Materials	6.6%
Communication Services	7.5%
Cash	4.4%

10 Largest Countries	Weight
India	17.5%
Mexico	16.7%
China	13.9%
South Korea	8.5%
Taiwan	8.4%
Brazil	6.5%
Argentina	6.0%
Hong Kong	6.0%
South Africa	4.5%
Netherlands	3.3%

Performance Composite Returns[3] (For Periods Ending June 30, 2025)

	Since Inception**	15-Year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
Emerging Markets *Pure Gross-of-Fees[4]*	5.3%	5.5%	4.7%	7.5%	13.9%	20.7%	15.8%	12.2%
Max Net-of-Fees[5]	2.1%	2.4%	1.6%	4.3%	10.5%	17.2%	14.1%	11.4%
MSCI Emerging Markets (Net)	4.3%	4.4%	4.8%	6.8%	9.7%	15.3%	15.3%	12.0%

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%

**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

Mark Keller, CFA | Gregory Tropf, CFA | Tore Stole | Patrick Fearon-Hernandez , CFA
Bill O'Grady | Matt Sinkovitz | Blair Brumley, CFA

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

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.