



Emerging Markets

International Equity Strategies



Third 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

Emerging markets continued their strong performance in 2025. Third quarter performance delivered double-digit returns primarily driven by strength in MSCI EM Asia. The US-China trade talk progress has been beneficial, and a resolution of trade tensions appears to be imminent. MSCI Asia performance was further buoyed by the Fed's September interest rate cut and continued enthusiasm for AI-related equities. Since the April 2025 market selloff, emerging market investors have been encouraged by signs of stabilization in China, easing inflation in key countries, and positive developments in India and Brazil. Tariff negotiations have produced outcomes that have been less onerous than originally feared. Despite all the noise in these markets, emerging market equities are outperforming foreign developed markets and US equities on a year-to-date basis, with the MSCI Emerging Markets Index returning nearly twice that of the S&P 500 (27.5% versus 14.8%, respectively).

China rebounded sharply, returning more than 20% for the third quarter. Tariff talks continue with a trade deal expected to be completed shortly. China has continued to focus on economic stimulus measures combined with its anti-involution policy, which has led to significant reforms. Anti-involution represents Beijing's ambitious attempt to break free from self-destructive economic cycles that have plagued several key industries. Specifically, involution describes a vicious cycle where companies engage in increasingly intense competition that yields diminishing returns for all participants. China is reshaping the competitive landscape in industries such as electric vehicles (EVs) and renewable energy where excess capacity has crippled these industries. By redeploying this excess industrial capacity into other alternatives, China can create opportunities in new endeavors, which should help strengthen its business cycle and improve market sentiment. Finally, Chinese technology companies reported new AI product rollouts, fostering confidence in additional AI capital expenditures. Chinese semiconductor firms benefited from the government's intent to strengthen the domestic semiconductor industry. Taiwan and South Korea were both up double-digits as the Technology sectors in each of these economies were the beneficiaries of the insatiable demand for AI hardware and software. Based on the capex spending trends of large cap US tech firms, this trend is expected to continue for several more years. South Korea further benefited from the government's confirmation not to lower its capital gains tax threshold for equities.

Mining stocks of South Africa, Peru, and Colombia enjoyed markedly higher appreciation due to the rally in precious metal prices. Reasons for the strong rally include economic uncertainty, "safe haven" properties, lower interest rates, accelerated central bank purchases, and a weaker US dollar (USD). Forecasts are calling for even higher prices. Industrial metals are also showing strength, especially copper due to the anticipated demand of supplying the needs for AI equipment, buildings, and energy requirements. Mining companies will continue to perform well in an environment of higher metals prices, lower interest rates, and lower energy prices. Currently, these factors are impacting mining in a favorable way.

In Brazil, equities shrugged off threats of high tariffs (40%) imposed by the US because investors felt that Brazil's policies and criminal prosecution of former President Bolsonaro would constitute an economic emergency. In actuality, Brazil is at an inflection point as its inflation rate is finally moving downward with interest rate cuts expected in December or January 2026. Aggressive rate increases in 2024 forced investors into fixed income securities and drove equity valuations down to multi-year lows. We expect that companies with domestically oriented growth will be the primary beneficiaries in sectors tied to consumption, services, and financials.

As we've written on 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 third quarter, the USD was little changed and had limited impact on emerging market returns. The outlook for the USD remains weaker as the Fed resumed its easing cycle in September after a long pause and signaled that additional rate cuts would follow. The USD is down nearly 10% year-to-date, 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.

Market Commentary continued...

Emerging market equities have historically performed well following Fed rate cuts. The Fed cutting rates without a recession is normally a positive environment for risk, and therefore equities tend to rally. From the inception of the MSCI Emerging Markets Index (1998) to present, emerging market equities have led all equity classes, posting a 13.4% average return in the 12 months following the first interest rate cut. Over the same period, the S&P 500 returned 11.0% and the MSCI World ex-US returned 6.0%. Not only is the average performance better for emerging markets, but they have outperformed the other asset classes 75% of the time. In fact, emerging market equities historically outperform in instances when the Fed resumes interest rate cuts following a pause after a previous cutting cycle, such as the situation we are in today.

Emerging market equities remain one of the most mispriced asset classes, in our opinion, with valuations reaching historically attractive levels. As of September 30, 2025, the MSCI Emerging Markets Index was trading at a forward P/E of 14x versus 15.2x for the MSCI EAFE Index and 23.3x 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 double that of the US (2.4% 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 (14%) and the European Union (12%). 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, macro data suggests that the emerging market rally will continue. It appears that emerging markets are entering a “goldilocks” phase. A weak labor market in the US bodes well for continued rate cuts by the Fed, thus the additional cuts are expected to continue to weaken the USD. Data also suggests that US tariffs continue to be less inflationary than expected and not enough to deter the Fed from additional rate cuts at this juncture. Despite the weak employment numbers, the immediate risk of US recession remains quite low. The current Atlanta Fed GDPNow estimate for real Q3 2025 GDP growth is 3.8%, indicating economic activity in the US is accelerating. US growth combined with resilient activity in the emerging markets creates a positive environment for continued outperformance of emerging market equities.

Expectations of higher economic growth and accelerating corporate earnings should support higher emerging market equity prices. Emerging markets are entering this attractive phase, supported by a weak USD, fading US exceptionalism, and renewed investor interest in undervalued, under-owned countries. Monetary policy cycles globally are still loosening after several years of high interest rates, which were implemented to address persistent inflation. An environment of lower interest rates and reduced inflation creates a more supportive backdrop for increased risk appetites among investors. Finally, following a year of strong equity performance, “fear of missing out” (FOMO) remains a theme, which should support additional equity inflows into the emerging market asset class.

Quarterly Trade Summary

In early July, we sold WNS Holdings (WNS) from the Confluence Emerging Markets portfolio. WNS is based in India and is a business process management (BPM) company, providing data, voice, analytical, and business transformation services worldwide. The company operates through the following segments: Banking/Financial Services, and Insurance; Travel, Shipping/Logistics, and Utilities; Manufacturing/Retail/Consumer, Hi-tech/Professional Services, and Procurement; and Healthcare/Life Sciences. Further, it offers digital transformation solutions and consulting services designed to allow its clients to enhance productivity, manage changes in the business environment, and leverage business knowledge to increase market competitiveness. Finally, the company provides claims handling and repair management services for automobile repairs through a network of third-party repair centers, as well as accident management services. WNS was acquired by Capgemini SE, a company based in France, with the deal closing in October 2025. Upon the announcement, the position was sold to capture the deal premium.

In mid-July, we also added Copa Holdings SA (CPA), a leading provider of airline passenger and cargo services in Latin America. Based in Panama, it operates through subsidiaries, primarily Copa Airlines, and also owns Copa Colombia (which includes Wingo). Copa Airlines, the flag carrier of Panama, is known for its extensive route network connecting major cities across the Americas, while Copa Colombia provides service within Colombia and international flights from various cities in Colombia to Panama, Venezuela, Ecuador, Mexico, Cuba, Guatemala, and Costa Rica. Copa Colombia provides domestic and international air transportation for passengers, cargo, and mail with a point-to-point route network.

Finally, at quarter-end, we increased position sizes in several high-conviction holdings to full model weight (2.5%) to reduce the cash balance to more modest levels. The three-year trailing turnover for this strategy remains within the target range at 18.2% as of 9/30/25.

Performance Review

During the third quarter of 2025, the MSCI Emerging Markets Index was up 10.6% in USD terms, outperforming the quarterly returns of developed international markets (MSCI EAFE, 4.8%) and the US market (S&P 500, 8.1%). By comparison, the Confluence Emerging Markets strategy was up 11.3% (gross of fees) for the third quarter, with a one-year gain of 25.6% (gross of fees) versus 17.3% for the benchmark over the one-year trailing period. *[The strategy's net-of-fees returns for the same periods were 10.5% QTD and 21.9% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.]*

All regions performed well, with little differentiation between the best and worst performing. MSCI EM Asia delivered the strongest performance, rising by 10.9%, led by China (20.7%), Taiwan (14.3%), and South Korea (12.8%). Returns were primarily driven by technology companies and the abundant AI spending and stabilization within the Chinese economy. MSCI EM Latin America (10.2%) was the second-best performing region, with mining operations in Peru (23.1%) and Colombia (19.5%) contributing the most value as precious metals and some industrial metals rallied sharply. MSCI EM EMEA was the laggard (9.1%), with Egypt (24.8%) and South Africa (20.4%) contributing the most to regional performance.

Chinese equities were up 20.7% for the quarter as economic growth is returning to the region. Due to a series of geopolitical issues, we remain about 12 percentage points underweight China, which created a drag for our third quarter performance. As mentioned in the Quarterly Trade Summary, at the end of the quarter we brought several high-conviction holdings, including some Chinese companies, back to full positions.

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

From a relative standpoint, the most accretive country allocations were the overweights to South Africa and the Netherlands (former Russian security), while underweight allocations to China and Taiwan detracted the most from performance. From a sector perspective, our strong security selection in Communication Services and Materials added the most alpha during the quarter, whereas our weaker security performance in Financials and even-weight positioning to the Energy sector contributed negatively to returns.

The portfolio's top contributors and detractors year-to-date are shown in the accompanying table.¹

Security	Avg Weight (%)	Contribution (%)
Top 5		
Gold Fields Ltd.	4.85	6.68
Nebius Group N.V.	2.65	5.31
Alibaba Group Holding Ltd.	2.79	2.37
Tencent Holdings Ltd.	3.95	2.14
MercadoLibre Inc.	5.33	2.08
Bottom 5		
Yum China Holdings Inc.	2.22	(0.28)
Dr Reddy's Laboratories Ltd.	2.74	(0.39)
Infosys Ltd.	2.03	(0.69)
MakeMyTrip Ltd.	5.30	(1.12)
Vista Energy S.A.B. de C.V.	4.92	(2.25)

(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, 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 with more exposure to the eurozone or China.

While our Emerging Markets portfolio 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. Global investors remain significantly underweight this major global economy, ensuring a steady flow of investment funds.

The final quarter of 2025 has begun with increased tensions between the United States and China surrounding trade issues. US President Trump and Chinese President Xi are scheduled to meet during an Asian forum in late October. On October 9, the Chinese Ministry of Commerce and General Administration of Customs issued a notice imposing export controls on high-performance lithium batteries and substantive additional export controls on rare earth materials, extending to finished products. These actions are being taken as a result of the well-documented efforts by the Trump administration to severely limit China's access to advanced semiconductors and semiconductor manufacturing capabilities. China's new export controls could threaten supply chains throughout the globe as the country is the world's largest exporter of rare earth materials. Therefore, the aforementioned meeting between Trump and Xi becomes potentially even more significant. The outcome of these talks should determine if the most recent escalation in trade rhetoric is more about negotiating tactics or an indication of durable changes to trade terms between the world's two largest economies.

What We Are Watching continued...

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.

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 tariffs has yet to materialize in higher rates of inflation. Despite these 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 cyclical and look toward emerging market countries with strong domestic economies, which are a bit more insulated from what is 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, this year, 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, and the US has recently "joined the party."

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. The US response to a Chinese attack on Taiwan remains "strategic ambiguity," but the position may become a bargaining chip during the China trade negotiations. The Confluence International Equities Investment Committee continues to diligently monitor the various geopolitical theaters in order to manage our strategies accordingly.

Emerging Markets • International Equity Strategies

Portfolio Characteristics² (as of 9/30/2025)

10 Largest Holdings	Weight	Sector Allocation	Weight	10 Largest Countries	Weight
Gold Fields Ltd.	7.1%	Consumer Discretionary	18.4%	China	18.3%
KB Financial Group Inc.	4.2%	Consumer Staples	10.3%	Mexico	15.3%
Taiwan Semiconductor Manufacturing	3.7%	Energy	4.3%	India	12.9%
Alibaba Group Holding Ltd.	3.7%	Financials	23.0%	South Korea	8.0%
Tencent Holdings Ltd.	3.6%	Health Care	2.1%	South Africa	7.1%
Vista Energy S.A.B. de C.V.	3.1%	Industrials	8.8%	Brazil	6.5%
MercadoLibre Inc.	3.1%	Information Technology	8.7%	Hong Kong	6.4%
Shinhan Financial Group Co. Ltd.	3.1%	Materials	9.1%	Taiwan	6.2%
MakeMyTrip Ltd.	3.0%	Communication Services	8.9%	Argentina	3.1%
Nebius Group N.V.	2.9%	Cash	6.4%	Netherlands	2.9%

Performance Composite Returns³ (For Periods Ending September 30, 2025)

	Since Inception**	15-Year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
Emerging Markets	5.9%	5.3%	7.6%	8.0%	20.5%	25.6%	28.9%	11.3%
<i>Pure Gross-of-Fees⁴</i>								
<i>Max Net-of-Fees⁵</i>	2.7%	2.2%	4.4%	4.8%	16.9%	21.9%	26.0%	10.5%
MSCI Emerging Markets (Net)	4.9%	4.0%	8.0%	7.0%	18.2%	17.3%	27.5%	10.6%

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)

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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.

¹Contribution—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.

²Portfolio 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.

³Performance 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 inceptioned 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.

⁴Pure gross returns are shown as supplemental information to the disclosures required by the GIPS® standards.

⁵Net-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.