Emerging Markets

International Equity Strategies

Confluence Investment Management

Third 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

The MSCI Emerging Markets (EM) Index had a challenging third quarter, giving back part of the strong gains accumulated earlier in the year after peaking in June. The MSCI EM Index declined 0.4% during the quarter, although it remained solidly positive on a year-to-date basis. Despite the Q3 pullback, emerging markets have materially outperformed their historical trend over the past year, with the index rising 23.4% year-to-date and 29.2% over the past 12 months.

Performance by region showed a wide divergence between the strongest and weakest performers. MSCI EM LatAm delivered the best performance, rising by 3.9%, led by Colombia (+17.2%) and Brazil (+8.2%), as recent trends toward lower inflation and attractive valuations drew investment. MSCI EM EMEA was the second-best performing region (+2.9%), supported by gains in Poland (+17.2%) and Greece (+15.4%) but offset by continued weakness in the Middle East. MSCI EM Asia (-1.1%) was the laggard as South Korea (-9.6%) gave back some of the extraordinary gains it had posted earlier in the year as the AI trade softened mid-quarter before a late-quarter rally.

Key performance drivers for the third quarter included the resumption of the AI-driven equity rally, which resulted in resilient earnings, an improving manufacturing cycle, and emerging market growth that outpaced developed market growth. These positives were offset by weakness in the Chinese market and profit taking after a strong first half of 2026.

Emerging market equities rebounded strongly in August after a period of volatility in July. Several emerging market countries have significant exposure to semiconductor and technology hardware companies. Taiwan and South Korea remained the core beneficiaries due to their leadership in semiconductors and memory. Investors rotated aggressively back into companies supplying chips, memory, networking equipment, and data center infrastructure in mid-to-late September. Taiwan and South Korea continue to anchor the global AI value chain with leadership in foundry, memory, and advanced processors. An increasing number of emerging market companies now participate in AI infrastructure, ASIC design, cooling, power systems, testing, and automation. Capex for AI projects has shown no sign of retreating despite the aggressive use of debt financing to fund these projects. AI-related hardware demand (data centers, semiconductors, and memory) is supporting strong emerging market earnings and will likely continue to do so for the foreseeable future.

Furthermore, higher corporate earnings expectations have driven emerging market equity prices higher. Investors became increasingly confident that the global AI investment cycle would remain intact despite ongoing geopolitical tensions. Major hyperscale technology companies continued increasing capital-expenditure budgets for data centers and AI infrastructure, supporting earnings forecasts throughout the semiconductor supply chain. AI is now a structural emerging market theme, not just a cyclical one, and many emerging market companies are leveraged to the AI value chain.

Emerging market economic growth continues to outpace that of developed markets and has done so since 2024. Year-to-date, emerging market growth held at 4.1%, with the emerging market/developed market alpha rising to 2.6% due to weaker European growth. Emerging market macro conditions are "comparatively solid" despite global crosscurrents, and the growth is broad-based: LatAm is recovering, emerging Europe is improving, and Asia is stabilizing.

Resilient earnings and an improving manufacturing cycle have benefited emerging market equities. Momentum broadened across Asia and the emerging markets, with high-tech manufacturing and exports (especially in China, Taiwan, and South Korea) offsetting mixed domestic demand. This backdrop supports emerging market cyclicals, exporters, and information technology supply-chain companies.

The Chinese market is still exhibiting a mixed recovery as domestic demand remains soft but exports and high-tech manufacturing have held up. China is building its own parallel AI ecosystem despite weak consumer sentiment. Onshore equities outperformed offshore, while AI, technology, and small caps also strengthened.

The emerging market rally highlights the resilience of the emerging economies, the flexibility of global supply chains, and continued reform efforts that are improving macro stability across the EM 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 AI buildout.

As we've written extensively, the trajectory of the US dollar (USD) remains an important driver of emerging market equity returns. The MSCI EM 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 rose slightly (<1%) and had limited impact on emerging market returns; however, the USD has appreciated by about 4.0% this year through September 30, with minimal impact on non-US equity returns. Despite ongoing global conflicts, the Confluence macroeconomic team still feels that the USD will be under pressure for the longer term. A weaker USD would also provide additional tailwinds to emerging market firms that issue debt denominated in USD since their debt-servicing costs decrease as the greenback weakens.

See GIPS Report on pages 4-5

Emerging market equities remain one of the most underpriced asset classes, in our opinion, with valuations reaching historically attractive levels. As of September 30, 2026, the MSCI EM Index was trading at a forward P/E of 9.7x compared with 14.8x for the MSCI EAFE Index and 19.4x for the MSCI USA Index. Emerging markets continue to trade with stronger earnings growth forecasts (+20% vs. mid-single-digits to low-double-digits 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 (2.0% for MSCI EM vs. 1.1% for MSCI USA). Furthermore, the emerging/developed market GDP growth gap is set to remain robust at two percentage points in 2026. These favorable fundamentals can be attributed to the proactive approach being taken by the EM central banks to combat global inflation, which has historically been problematic for emerging economies.

Quarterly Trading Summary

The following changes were made to the Confluence Emerging Markets portfolio during the third quarter.

In early July, we purchased positions in iShares MSCI Taiwan (EWT) and iShares MSCI South Korea (EWY). These ETFs give the portfolio access to markets where investment opportunities may be limited or non-existent. Specifically, they provide exposure to one of the AI industry's most pressing bottlenecks: memory chips. Only three major memory chip makers exist globally, with two domiciled in the emerging markets. Memory chip prices are in a historic supercycle, which started in late 2024, and prices are expected to surge through 2027. The addition of these two ETFs allows us to capture opportunities in the Asian Information Technology sector, an area in which the portfolio has been underweight.

To make room for the new purchases, we sold Sendas Distribuidora S.A. (ASAIY) [Brazil, Consumer Staples] and POSCO Holdings Inc. (PKX) [South Korea, Materials]. Sendas Distribuidora, a food retailer, has struggled as rising inflation over the past couple years was adversely impacting its thin margins. As an asset class in general, Consumer Staples has performed poorly on a global basis for similar reasons. We sold POSCO Holdings because the company is also held in the iShares MSCI South Korea ETF (EWY). Owning both EWY and PKX would have given the portfolio a larger exposure to this security than we would normally prefer to hold.

In mid-August, we purchased Silicon Motion Technology Corporation (SIMO) [Taiwan, Information Technology] and SK hynix Inc. (SKHY) [South Korea, Information Technology]. Both purchases support our conviction around the critical shortage of memory products. SIMO provides the controllers required for memory chips to operate and works with all three of the world's major memory chip providers to optimize the operating characteristics of the memory units. SIMO has developed the premium controller for data center applications. Meanwhile, SK hynix is one of the three global memory producers. We bought the stock after the initial enthusiasm surrounding a recent IPO had subsided. The company plans to use the IPO proceeds to build additional capacity for memory chip production, especially the new high-bandwidth memory chips, which are in great demand from AI data centers.

To facilitate the purchases of SIMO and SKHY, we sold Nebius Group N.V. (NBIS) [Netherlands, Information Technology], PagSeguro Digital Ltd. (PAGS) [Brazil, Financials], and Ping An Insurance Company of China, Ltd. (PNGAY) [China, Financials]. We sold NBIS because, having been spun out of the Russian company Yandex and since redomiciled in the Netherlands, it no longer qualifies as an emerging market company. PagSeguro has been unable to meaningfully lift its share price despite solid operating results, as rising competition in its target market has slowed growth. Finally, PNGAY has been the victim of a weak consumer market in China, and we feel better opportunities exist elsewhere in the emerging market Information Technology sector.

Performance Review

During the third quarter of 2026, the MSCI Emerging Markets (EM) Index was down 0.4% in USD terms, underperforming the quarterly returns of developed international markets (MSCI EAFE, +0.8%) and the US market (S&P 500, +2.3%). By comparison, Confluence Emerging Markets was up 0.4% in the third quarter, for a one-year gain of 17.9% (both gross of fees) versus 29.2% for the benchmark over the same one-year period. [*The strategy's net-of-fees returns for the same periods were -0.4% QTD and 14.5% one-year trailing. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

During the quarter, the two best-performing countries in our portfolio, on an absolute basis, were Canada (Brazilian mining assets) and South Korea, while the Netherlands (former Russian security) and Panama recorded the worst returns. From a sector standpoint, Materials and Financials were the strongest, while Health Care and Industrials were the weakest.

From a relative standpoint, the most accretive country allocations were due to strong security selection in South Korea and the overweight/strong security selection in Canada (Brazilian mining assets), while an underweight allocation and weak security selection in Taiwan and China detracted the most from performance. From a sector perspective, our security selection in Information Technology and overweight/security selection in Materials added the most alpha during the quarter, whereas security selection in Industrials and underweight/security selection in Health Care contributed negatively to returns.

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

Ticker	Security	Avg Weight (%)	Contribution (%)
Top 5			
ASX	ASE Technology Holding Co. Ltd.	5.86	5.98
NBIS	Nebius Group N.V.	2.93	3.23
TSM	Taiwan Semiconductor Manufacturing Co. L	4.49	1.86
VIST	Vista Energy S.A.B. de C.V.	5.20	1.44
KB	KB Financial Group Inc.	3.71	1.41
Bottom 5			
BIDU	Baidu Inc.	1.98	(0.73)
GFI	Gold Fields Ltd.	6.90	(0.88)
INFY	Infosys Ltd.	1.79	(0.95)
MMYT	MakeMyTrip Ltd.	1.50	(1.06)
TCEHY	Tencent Holdings Ltd.	3.17	(1.12)

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

What We Are Watching

Over the short to intermediate term, emerging market performance is likely to be shaped by a tight cluster of macro, market, and structural factors. Currently, the most important are the AI-driven tech cycles, US monetary policy and USD strength, commodity trends, and country-specific political risk.

The most significant driver of recent EM performance has been the semiconductor and IT hardware spending cycle. Valuations are still reasonable provided that massive spending on the AI buildout continues. We will be watching hyperscalers' announcements for indicators that the AI investment cycle remains intact and/or is accelerating. Especially important for emerging markets are Taiwan Semiconductor Manufacturing capex cycles, high bandwidth memory pricing dynamics, Asian foundry utilization rates, and AI server order books.

Emerging market returns are closely tied to the strength of the USD. It appears the US has entered a rate-tightening cycle following last month's Fed meeting and subsequent interest rate increase. Forecasts indicate an additional rate increase this calendar year with the potential for further increases in 2027. Higher rates generally portend a stronger USD and weaker emerging market equity returns. We will continue to focus on the Fed's rate path, real rate differentials, USD momentum, and Treasury yields. A resolution to the war in Iran could bring down energy costs substantially and lower inflationary pressures and interest rates globally.

2026 is shaping up to be a year of significant transformation for Latin America. First, the Brazilian elections, which started in early October, go to a run-off on October 25, 2026, as no single candidate received more than 50% of the vote. Conservative Flávio Bolsonaro (47.2% of votes) upset incumbent Luiz Inácio Lula da Silva (44.9% of votes) in the initial results, and the Brazilian markets rallied sharply as the business-friendly Bolsonaro pulled off the upset. 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 and business-friendly reforms

While our Emerging Markets strategy is significantly underweight in Chinese holdings, the health, or lack thereof, of the Chinese economy has international ramifications. Economic recovery is underway, but we are monitoring property sector stress, local government debt, weak consumer demand, and regulatory unpredictability. As "green shoots" are starting to emerge in the Chinese economy, we are looking for low-risk, high-reward opportunities to add value to our strategy.

The Confluence International Equities Investment Committee continues to diligently monitor the various geopolitical theaters in order to manage our strategies accordingly. We thank you for your confidence in our team.

Portfolio Characteristics[2] (as of 9/30/2026)

10 Largest Holdings	Weight
ASE Technology Holding Co. Ltd.	6.7%
KB Financial Group Inc.	4.9%
Gold Fields Ltd.	4.8%
Taiwan Semiconductor Manufacturing	4.7%
Vista Energy S.A.B. de C.V.	4.6%
Shinhan Financial Group Co. Ltd.	3.8%
ERO Copper Corp.	3.4%
SK Hynix Inc.	3.2%
Silicon Motion Technology Corp.	3.2%
Coca-Cola Femsa S.A.B. de C.V.	2.7%

Sector Allocation	Weight
Consumer Discretionary	12.8%
Consumer Staples	8.4%
Energy	6.6%
Financials	22.2%
Health Care	1.9%
Industrials	9.9%
Information Technology	22.5%
Materials	9.8%
Communication Services	3.6%
Cash	2.4%

10 Largest Countries	Weight
Taiwan	17.2%
Mexico	16.4%
South Korea	14.2%
China	12.0%
India	7.0%
Brazil	6.5%
Hong Kong	6.0%
South Africa	4.8%
Canada	3.4%
Peru	2.7%

Performance Composite Returns[2] (For Periods Ending September 30, 2026)

	Since Inception**	15-Year*	10-Year*	5-Year*	3-Year*	1-Year	YTD	QTD
Emerging Markets *Pure Gross-of-Fees*[4]	6.6%	7.5%	7.9%	8.3%	19.7%	17.9%	13.5%	0.4%
Max Net-of-Fees[5]	3.4%	4.3%	4.7%	5.1%	16.1%	14.5%	11.0%	(0.4%)
MSCI Emerging Markets (Net)	6.2%	7.0%	9.1%	8.9%	24.1%	29.2%	23.4%	(0.4%)

Calendar Year	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	MSCI Emerging Markets (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%)	(6.4%)	(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%	0.7%
2020	22.9%	19.2%	18.3%	4.6%	14	$11,350	$6,889,798	21.3%	19.6%	2.0%
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%	2.0%
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%	0.3%	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 – A free float-adjusted market capitalization index that is 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, 2025. 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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[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.