International Growth

International Equity Strategies

Fourth Quarter 2024

International Growth invests primarily in large cap, growth-oriented companies in both developed and emerging markets. 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. The maximum direct exposure to emerging markets is 25% of the portfolio's total value.

Market Commentary

The month of December and the fourth quarter as a whole must have been heavily influenced by the Grinch as the Santa Claus rally on every investor's list was not delivered this past holiday season. It was the first negative performance return for the MSCI World ex-US Index for December (-2.7%) and the entire fourth quarter (-7.4%) dating back to 2018. The sell-off during the final three months of the year was broad, with all 11 sectors of the MSCI World ex-US recording negative returns.

A collision of events during the quarter pressured foreign developed market equity prices. Following the election of Donald Trump as the next US president, his economic team began to float the concept of broadly imposing tariffs to a vast swath of imports rather than a more refined approach of limiting tariffs to select countries and products, a shift that largely contributed to the negative performance. While there has been debate as to how exactly the Trump administration will implement tariffs, the consternation surrounding the topic helped create an environment that allowed the US Dollar (USD) Index to strengthen by 7.6%, thus pressuring foreign equities. We have often noted in previous discussions that a strong USD is historically unfavorable for foreign stocks. The abrupt move in the dollar index unwound what had been a slow weakening of the dollar's value, which culminated in the third quarter of 2024 when the MSCI World ex-US outperformed the S&P 500 Index.

Many of the world's largest developed economies experienced economic malaise over the past 12 months. Capital Economics forecasts that eurozone GDP growth was only 0.7% for the full year 2024, with growth hindered by a slight decline in German GDP. Japan's GDP is also forecast to be negative for the past 12 months because of slowing demand from China, dislocation in end-market demand for important exports (autos), and decisions by the Bank of Japan to restrict the normalization of monetary policy. The United Kingdom has also produced below-trend economic growth during the past 12 months (Capital Economics forecasts a 0.8% GDP growth rate). These three countries (Germany, Japan, and the United Kingdom) account for close to half of the country weighting of the MSCI index.

In addition to paltry economic growth, these countries share the common thread of dysfunction within their own political systems. In October, Shigeru Ishiba was selected as the new prime minister of Japan. He is the third individual to hold the office of Japanese prime minister since Shinzo Abe resigned for health reasons in August 2020. Although Ishiba has already withstood a snap election resulting from public outcry over scandals within his political coalition, the hope is that he can carefully move forward and inject stability into the Japanese economy. Political turmoil has also recently muddied conditions in the United Kingdom, with Keir Starmer (elected in July 2024) becoming the fourth person to hold the office of British prime minister since Theresa May stepped down in mid-2019. Current German Chancellor Olaf Scholz witnessed his somewhat fragile political coalition collapse in late 2024, creating the conditions necessary to pull forward scheduled elections from September of this year to February. Each of these turbulent examples has certainly contributed to the muted growth in economic output and more broadly weighed on equity performance. In addition, Bloomberg estimates that Earnings-Per-Share (EPS) of the MSCI World ex-US Index is likely to decline slightly (-1%) on a year-over-year basis.

While these obstacles help explain why 2024 ended in the manner it did, there are plenty of reasons to believe that conditions may have bottomed and should improve in the months to come. We should start to gain clarity soon about the breadth and depth of the Trump administration's plans to implement tariffs. Meanwhile, the stability of leadership in Japan and the United Kingdom should help improve conditions in those countries. Admittedly, the path to a more stable government in Germany may be the most challenging of the three aforementioned examples, given the shifting dynamics and preferences of the German electorate. Post-election, there is a high likelihood that political strife will remain, but investor confidence could improve if greater clarity emerges. In fact, despite the well-documented struggles of the German economy, especially since the outbreak of war between Russia and Ukraine and recessionary-like growth, German equities have actually started to strengthen. Over the past 12 months, MSCI Germany has outperformed the MSCI World ex-US by nearly 3-to-1. While a singular reading does not constitute a trend, German industrial production increased by 1.5% (according to November data released on 1/9/25), much stronger than the 0.5% forecast. Turning to earnings forecasts for this year and next, Bloomberg currently estimates that index level earnings should rise by nearly 5% in 2025 and 9% in 2026. These expectations dovetail nicely with the outlook for growth predicted by Capital Economics, which expects Germany's GDP to expand by 0.4% in 2025 and 0.6% in 2026, increasing from -0.1% for both 2023 and 2024.

See GIPS Report on pages 4-5.

Market Commentary continued...

Furthermore, Japanese economic growth is predicted to return to positive territory and rise to 0.9% this year. Expectations for the United Kingdom also appear to be on an upward trajectory, with GDP estimates of 1.3% and 1.6% during the next two years, respectively. Another potential catalyst that could contribute to European economic improvement should arrive via easier monetary conditions. Using data compiled by Capital Economics, forecasts call for the European Central Bank to reduce interest rates by 150 basis points and for the Bank of England to cut by 100 basis points. For Japan, expectations are for the resumption of monetary policy normalization, with rates rising by 75 basis points during the next 12 months. This could serve as a significant catalyst for Japanese equities, particularly those sensitive to a stronger Japanese yen.

As we begin the new year with the potential for an upswing, we note that foreign developed market stocks continue to offer compelling valuations and income opportunities. As of 12/31/24, the Price/Earnings ratio of the MSCI World ex-US stands at an undemanding 15.5. This compares to the average 10-year trailing P/E ratio of 17.7, or stated differently, a 13% discount. With monetary policy expected to continue to loosen in many of the world's developed markets throughout the year, there is a significant possibility that holding cash will become less favorable. Thus, for investors seeking new sources of income, foreign developed market equities could help fill the shortfall. The MSCI World ex-US dividend yield at the end of the year stands at 3.0%.

A new year brings new opportunity for investors to revisit their allocations to international equities and consider the differentiated exposures that these markets have to offer. We believe selectivity in choosing these allocations remains important, and we welcome the opportunity to assist with navigating these dynamic markets. Happy New Year!

Quarterly Trade Summary

There were no portfolio changes completed within the Confluence International Growth strategy during the quarter.

Performance Review

During the fourth quarter of 2024, the MSCI World ex-US Index recorded a loss of 7.4%, while the Confluence International Growth strategy was down 2.9% (gross of fees). For the full year 2024, Confluence International Growth gained 9.9% (gross of fees) versus 4.7% for the index over the same period. [*The strategy's net-of-fees returns for the same periods were -3.7% QTD and +6.6% YTD. See disclosures on last page for fee description; actual investment advisory fees may vary.*]

This is the eighth time out of the past 10 years that the Confluence International Growth strategy has outperformed the MSCI World ex-US Index. Looking at growth versus value, for the second straight quarter, the MSCI World ex-US Growth Index underperformed the MSCI World ex-US Value Index (-8.3% versus -7.4%). On a three-year trailing basis, the MSCI World ex-US Value Index is more than 800 bps ahead of the Growth Index (+6.0% versus -2.3%) on an annualized basis. This remains in contrast with domestic equity performance where investors have greatly favored growth over value. The S&P 500 Growth Index posted a full-year return in 2024 of 36.1% versus the S&P 500 Value Index gain of 12.3%.

Quality stocks, as measured by the MSCI EAFE Quality Index (there is no MSCI World ex-US Quality Index), down 11.7%, underperformed the broad MSCI EAFE Index and the EAFE Value Index during the past three-month measurement period, resulting in a performance headwind for our strategies.

In the fourth quarter, the two best-performing countries within our portfolio on an absolute basis were Israel and Taiwan, while Denmark and France recorded the worst returns. From a sector standpoint, Communication Services and Energy were the strongest sectors during the quarter, while Materials and Industrials were the weakest.

From a relative standpoint, the most accretive country allocation was the underweight to Germany, followed by the overweight to Taiwan. An overweight allocation to France detracted the most from performance, and an underweight positioning to Japan also proved unfavorable. From a sector perspective, our overweight allocation to Information Technology added the most alpha during the quarter, followed by the overweight allocation to Health Care. Our underweight allocation to the Financials sector coupled with our overweight allocation to Industrials contributed negatively to returns.

The direct emerging market allocation within the International Growth strategy remains at 5.0% for new money being invested today. The top contributors and detractors for the portfolio for the full year 2024 are shown in the accompanying table.[1]

Security	Avg Weight (%)	Contribution (%)
Top 5		
Taiwan Semiconductor Manufacturing	4.07	2.58
Rheinmetall AG	3.83	2.46
CyberArk Software Ltd.	3.29	1.47
SAP S.E.	2.53	1.22
DBS Group Holdings Ltd.	2.66	1.08
Bottom 5		
DSV A.S.	*Sold*	(0.58)
POSCO Holdings Inc.	*Sold*	(0.62)
ICON plc	3.06	(0.75)
L'Oréal S.A.	2.68	(0.88)
Wal-Mart de México S.A.B. de C.V.	2.07	(0.92)

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

What We Are Watching

As we start this new year, several key issues are likely to influence foreign developed market stocks that we will need to monitor closely. We have already discussed the upcoming election in Germany, but we have not yet covered the ongoing political turmoil in France. French equities represent nearly 10% (the fourth largest country allocation) of the stocks within the MSCI World ex-US Index. French President Emmanuel Macron has been in power since May 2017 and is *scheduled* to face reelection in April 2027. However, the French electorate has increasingly pressured Macron over his policies and support has grown for parties such as Marine Le Pen's far-right National Rally Party. A collapse of the French government was triggered in early December when the French Parliament voted to oust then Prime Minister Michael Barnier and left the government dysfunctional until a new prime minister could be agreed upon. Francois Bayrou was selected in mid-December to succeed Barnier, becoming the fourth individual to hold the post in 2024. There is obvious strain in the French political system, and significant disruption has and can occur at any time. Although he has stated otherwise, this could persuade President Macron to hold elections in advance of 2027. Tamping down tensions within France would aid its economic climate and support the whole of Europe.

Another political development that deserves scrutiny arose from the decision made in early January by Canadian Prime Minister Justin Trudeau to step down from office following declining support for his policies as well as other personal setbacks. As of this writing, Trudeau has suspended the Canadian Parliament until late March and will continue to serve as prime minister until his Liberal Party selects his replacement. Our portfolios have an allocation to Canadian equities, and thus we will study the new policy agenda of the next prime minister to determine if our allocation needs adjustment. There have also been multiple forewarnings from both the incoming Trump administration and Canadian officials relating to potential conflict over trade and tariffs. We are regularly reviewing the business environment between the US and Canada and considering the possible ramifications.

Our lens that surveils global trade will need to be further divided should the Trump administration implement a global tariff regime. However, no country is more at risk of the application of new trade rules and tariffs than China. While our portfolio has no direct Chinese holdings, the health, or lack thereof, of the Chinese economy has international ramifications. President Xi's government has recently made multiple proclamations aimed at shoring up the local economy, including the vast distortions in real estate, debt, and the reignition of confidence in consumer spending. While investors initially cheered these announcements, the air has leaked from the proverbial balloon, with markets once more turning lower partially because of the limited details provided for these new plans. Adding substantive new tariffs to Chinese exports that are directed to the US could further complicate the ability of China's central planning to recover domestic growth and consumption.

As of now, there have been "fits and starts" in terms of generating sustained improvement in China's economic health. Services PMI has strengthened, while manufacturing PMI has softened. Domestic car sales remain buoyant, though imports have dropped for two consecutive months. Even within the Chinese housing market, where more concrete measures have been put in place to improve conditions — including tax incentives, smaller down payment requirements, and mortgage rate relief — the National Bureau of Statistics of China reports that housing prices have now declined for 17 straight months. The takeaway is that sustained improvements within the Chinese economy remain tenuous, at best. However, as the world's second-largest economy, and a sizeable trading partner with Europe and throughout Asia, any material or lasting change to Chinese economic health will be measurable, even in the world's developed markets.

As always, we thank you for your continued support of our firm and invite further discussion on any of the topics covered herein or other matters related to investing internationally.

Portfolio Characteristics[2] (as of 12/31/2024)

10 Largest Holdings	Weight
Taiwan Semiconductor Manufacturing	5.3%
Rheinmetall AG	4.5%
SAP S.E.	3.4%
DBS Group Holdings Ltd.	3.3%
AerCap Holdings N.V.	3.3%
Mitsubishi UFJ Financial	3.3%
CyberArk Software Ltd.	3.2%
Chubb Ltd.	3.0%
Accenture plc	2.9%
Zurich Insurance Group A.G.	2.9%

Sector Allocation	Weight
Consumer Discretionary	3.8%
Consumer Staples	10.1%
Energy	5.9%
Financials	22.4%
Health Care	12.0%
Industrials	19.0%
Information Technology	16.7%
Materials	5.0%
Communication Services	2.2%
Cash	3.0%

10 Largest Countries	Weight
Japan	17.6%
United Kingdom	10.9%
Ireland	10.6%
France	10.4%
Switzerland	10.0%
Germany	7.9%
Netherlands	5.7%
Canada	4.7%
Taiwan	4.6%
Singapore	3.3%

Performance Composite Returns[3] (For Periods Ending December 31, 2024)

	Since 10/1/99	20-year*	15-year*	10-year*	5-year*	3-year*	1-year	YTD	QTD
International Growth *Pure Gross-of-Fees[4]*	6.6%	7.4%	6.9%	7.1%	8.7%	3.2%	9.9%	9.9%	(2.9%)
Max Net-of-Fees[5]	3.4%	4.2%	3.7%	3.9%	5.5%	0.1%	6.6%	6.6%	(3.7%)
MSCI World ex-US (Net)	4.4%	5.0%	5.2%	5.3%	5.1%	1.9%	4.7%	4.7%	(7.4%)

Calendar Year**	Pure Gross-of-Fees[4]	Max Net-of-Fees[5]	MSCI World ex-US	Difference (Gross-MSCI World ex-US)	# of Portfolios	Composite Assets (000s)	Total Firm Assets (000s)	Composite 3yr Std Dev	MSCI World ex-US 3yr Std Dev	Composite Dispersion
2005	18.2%	14.7%	14.5%	3.8%	25	$6,651	-	12.1%	11.3%	0.5%
2006	29.5%	25.6%	25.7%	3.8%	35	$11,866	-	11.6%	9.5%	1.1%
2007	23.4%	19.7%	12.4%	10.9%	49	$16,292	-	12.5%	9.7%	2.9%
2008	(37.8%)	(39.6%)	(43.6%)	5.8%	76	$14,221	-	20.7%	19.5%	1.5%
2009	31.8%	27.9%	33.7%	(1.8%)	114	$28,437	-	23.0%	23.9%	2.1%
2010	13.2%	9.9%	8.9%	4.3%	168	$60,558	-	24.3%	26.3%	1.3%
2011	(11.4%)	(14.1%)	(12.2%)	0.8%	253	$80,988	-	20.1%	22.3%	0.6%
2012	16.1%	12.7%	16.4%	(0.3%)	254	$94,222	-	17.6%	19.0%	0.6%
2013	19.1%	15.6%	21.0%	(1.9%)	291	$113,801	-	14.4%	16.0%	0.6%
2014	(1.7%)	(4.6%)	(4.3%)	2.6%	177	$88,982	-	11.4%	12.7%	0.7%
2015	(2.1%)	(5.0%)	(3.0%)	0.9%	191	$81,898	-	11.5%	12.3%	0.4%
2016	(5.1%)	(7.9%)	2.7%	(7.8%)	113	$39,444	-	12.0%	12.3%	0.7%
2017	25.2%	21.4%	24.2%	1.0%	62	$28,303	-	11.1%	11.7%	0.8%
2018	(13.5%)	(16.1%)	(14.1%)	0.6%	30	$15,707	$5,486,737	11.7%	11.1%	0.2%
2019	30.1%	26.3%	22.5%	7.6%	24	$14,419	$7,044,708	12.5%	10.8%	0.3%
2020	20.6%	17.1%	7.6%	13.1%	25	$15,512	$6,889,798	18.0%	18.1%	0.4%
2021	14.3%	10.9%	12.6%	1.7%	24	$16,158	$7,761,687	16.7%	17.2%	0.9%
2022	(16.5%)	(19.0%)	(14.3%)	(2.2%)	24	$16,094	$6,931,635	20.7%	20.1%	0.8%
2023	19.8%	16.2%	17.9%	1.8%	18	$15,121	$7,200,019	18.1%	16.6%	0.4%
2024	9.9%	6.6%	4.7%	5.2%	19	$17,113	$7,280,773	17.6%	16.6%	0.4%

**Average annualized returns **Performance history begins 10/1/1999. Additional years of performance available on our website.*

Portfolio Benchmark

MSCI World ex-US (Net) Index – Free float-adjusted market capitalization index designed to measure developed market equity performance, excluding the US. Performance results presented net of estimated foreign withholding taxes on dividends, interest and capital gains. *(Source: Bloomberg)*

Confluence International Equities Investment Committee

Mark Keller, CFA	Tore Stole	Matthew Sinkovitz	Blair Brumley, CFA
Bill O'Grady	Gregory Tropf, CFA	Kaisa Stucke, CFA	Patrick Fearon-Hernandez , CFA

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

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Indexes: The MSCI World ex-US Index is shown as additional information. This index is unmanaged. An investor cannot invest directly in an index. It is shown for illustrative purposes only & does not represent the performance of any specific investment. Index performance figures are reported as net returns.

[1] **Contribution—**Table showing the top 5 contributors/detractors reflects the strategy's best and worst performers (net), based on each holding's contribution to the sample account for the period stated. Individual client portfolios in the strategy may differ, sometimes significantly, from these listings.

[2] **Portfolio Characteristics—**Listings of countries and holdings do not represent all of the countries/stocks currently or previously owned in the portfolio or which Confluence may be currently recommending. Sector/country weightings and holdings of individual client portfolios in the program may differ, sometimes significantly, from these listings.

[3] **Performance Composite Returns—Confluence Investment Management LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Confluence Investment Management LLC has been independently verified for the periods August 1, 2008, through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards.**

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

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The International Growth Strategy was incepted on October 1, 1997, and the current International Growth 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 U.S. 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 is as follows: 0.60% on the first $500,000; 0.55% on the next $500,000; and 0.50% 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. 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.

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 International Growth Composite contains fully discretionary International Growth wrap accounts. The International Growth portfolio invests in US-listed shares of large capitalization, growth-oriented, non-US companies from developed markets with up to 25% from emerging markets.

Prior to March 31, 2020, the S&P/BNY ADR Index was shown as a secondary benchmark. This index was removed to simplify the presentation, being less widely recognized and relevant than the primary benchmark.

**Results shown for the year 1999 represent partial period performance from October 1, 1999, through December 31, 1999. 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.