Chinese Equity

Quarterly Report | Second Quarter 2021

HARDING LOEVNER

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Composite Performance

Total Return (%) — Periods Ending June 30, 2021[1]

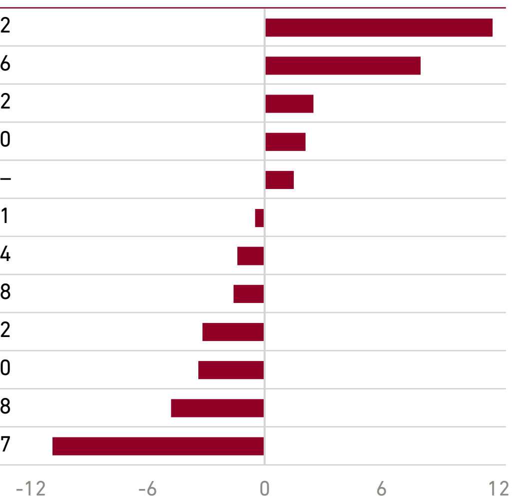
	3 Months	Since Inception[2]
HL Chinese Equity(Gross of Fees)	5.25	4.55
HL Chinese Equity (Net of Fees)	5.00	4.05
MSCI China All Shares Index[3]	4.73	3.17

[1]The Composite performance returns shown are preliminary; [2]Inception Date: December 31, 2020; [3]The Benchmark Index gross of withholding taxes.

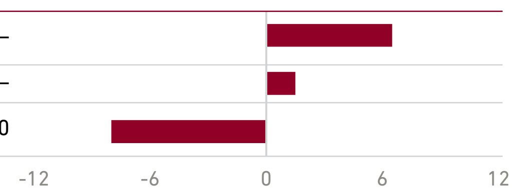
Please read the above performance in conjunction with the footnotes on the last page of this report. Past performance does not guarantee future results. All performance and data shown are in US dollar terms, unless otherwise noted.

Portfolio Positioning (% Weight)

Sector	HL CE	MSCI CAS	(Under) / Over
Industrials	19.9	8.2	
Health Care	17.6	9.6	
Cons Discretionary	27.7	25.2	
Info Technology	11.1	9.0	
Cash	1.5	–	
Utilities	1.6	2.1	
Energy	0.0	1.4	
Comm Services	11.2	12.8	
Real Estate	0.0	3.2	
Cons Staples	5.6	9.0	
Materials	0.0	4.8	
Financials	3.8	14.7	



Market	HL CE	MSCI CAS	(Under) / Over
Other Emerging Markets	6.5	–	
Cash	1.5	–	
Mainland China + Hong Kong	92.0	100.0	



Sector and geographic allocations are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. Source: Harding Loevner Chinese Equity Model; MSCI Inc. and S&P. MSCI Inc. and S&P do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.

Market Review

The MSCI China All Shares Index rose by nearly 5% in the second quarter, after months of treading water following last year's strong performance as the first major market to emerge from the COVID-19 pandemic. Manufacturing and services surveys indicated that economic growth in China continued at the fastest pace in years. As COVID-19 vaccination rates have risen globally, more countries have commenced their own recoveries, which has allowed Chinese exports to catch up with domestic sales. Meanwhile, the country's international borders remained tightly controlled and consumer sentiment a bit subdued compared to pre-pandemic levels. Domestic travel during the International Labor Day holiday week in May reached record volumes but the average traveler spent less money than prior to the pandemic.

In late May, a cluster of COVID-19 infections in the southern province of Guangdong temporarily reduced mobility and economic activity in the region. The spread of the virus was contained in a few weeks and was followed during the end of June by a sharp acceleration of the country's vaccination campaign to more than 20 million doses per day, over half of all vaccinations administered globally. Nearly half of China's 1.4 billion citizens are now fully vaccinated. However, concerns persist regarding the effectiveness of its homegrown vaccines in the face of new variants spreading in other parts of the world, which led to an announcement after quarter end that authorities were close to approving the mRNA-based vaccine produced by Germany-based BioNTech. Widescale domestic manufacturing and distribution could begin ramping up as soon as August.

The rally in cyclicals that marked the prior two quarters continued in the second quarter, with Energy and Materials extending their outperformance, driven by higher oil and commodity prices. The best-performing sectors, though, were Health Care and Information Technology (IT). Within Health Care, contract development and manufacturing organizations (CDMOs) and contract research organizations (CROs) continued to gain share from Western rivals. In IT, the ongoing global shortage in semiconductors highlighted the vital importance and pricing power of the industry, a growing portion of which relies on Chinese suppliers. Conversely, Real Estate fell the most amid talk of increased property taxes and tighter credit policies aimed at limiting the pace of price appreciation.

Elsewhere on the policy front, the People's Bank of China began the delicate process of unwinding some of its pandemic-driven stimulus, the first major economy to so do. Regulators also flexed their muscles in other ways, introducing new proposals that take Chinese internet giants to task for allegedly anticompetitive behavior, rein in private tutoring, and curtail the country's large cryptocurrency mining sector, including measures to prohibit banks from transacting in them. The resultant share price weakness particularly weighed on the Communication Services sector, where many of the affected large companies are grouped.

On a broader level, this latest series of policy changes reflects an intense interplay unfolding in China at the moment between private firms moving quickly to explore new ideas and government regulators. In some areas, the government has shown a willingness to be hands-off, providing sufficient leeway for private firms to operate, sometimes even proactively clearing red tape to remove unnecessary barriers for innovators—for example, by reducing the time to approve starting drug trials, or lowering the tax rate for startups.[1] Policy adjustments can also work in the other direction, though, when regulators judge that the unintended consequences of its policies threaten other important social goals. While anticipating the government's actions is admittedly challenging, we think long-term investors should view regulatory risk in China against the backdrop of growth and innovation taking place at a pace and magnitude that are unprecedented.

MSCI China All Shares Index Performance (USD %)

Sector	2Q 2021	YTD
Communication Services	-3.1	2.1
Consumer Discretionary	4.0	-1.9
Consumer Staples	6.3	-0.9
Energy	12.7	26.6
Financials	-3.2	-0.6
Health Care	20.7	19.3
Industrials	11.0	11.1
Information Technology	16.4	2.1
Materials	9.6	14.3
Real Estate	-9.7	-5.0
Utilities	-0.1	10.0

Source: FactSet (as of June 30, 2021). MSCI Inc. and S&P.

Performance and Attribution

In the second quarter, the Chinese Equity composite rose 5.3%, outperforming the 4.7% return of the MSCI China All Shares Index.

We had positive stock selection in Health Care, and our relative performance was further helped by our overweight to this sector as it bounced back strongly from first quarter's decline. **WuXi Biologics**, a CDMO, was a notable outperformer, reporting strong quarterly earnings and upgrading guidance for this year's sales and earnings growth to 65%. The company's project pipeline has continued to grow and includes several new contracts for

[1] In 2015 it took as long as 530 days on average to have a drug trial approved; now the wait time is at most 60 days. The tax rates for startups are now as low as 5%. Also, the recently amended Chinese Patent Law increases punishments for intellectual property infringement.

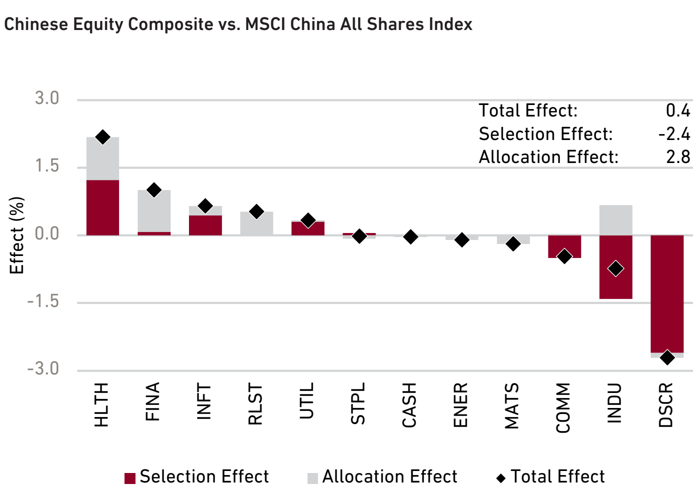
COVID-19-related vaccines and antibodies. Another Health Care holding, **WuXi Apptec**, also outperformed as its robust earnings reflected strong global demand for outsourced research and development services.

In Information Technology, **Silergy**, a Taiwan-listed manufacturer of power management integrated circuits that find their way into a variety of consumer electronics and specialized industrial applications, was another standout. Its revenue and earnings growth have been very strong, and the current semiconductor chip shortage has provided an opportunity for the company to acquire new customers whose existing suppliers are facing production challenges.

New-breed automakers like Nio and BYD, which do not yet meet our qualifying criteria due to lack of profitability, rallied during the quarter on optimism surrounding electric vehicles (EVs), hurting our relative performance in Consumer Discretionary. Our returns in the sector were also impacted by custom furniture maker **Suofeiya**, whose product expansion from wardrobes into kitchen cabinets appears to be progressing more slowly than expected. The company's shares were further dampened by reports of financial trouble at real estate developer Evergrande, a major customer. Suofeiya itself maintains a large net cash position and remains a well-capitalized company.

Among the biggest hits in Consumer Discretionary came from **New Oriental**, which was caught up in the potential regulatory dragnet directed against after-school tutoring companies. The government's campaign against the tutoring industry seems partly a response to China's latest census results released in May, which confirmed a continued decline in the country's total fertility rate, to only 1.3 children per woman last year. After-school tutoring is a major expense for many Chinese families and a potential deterrent to childbearing.[2] Some of the new measures against tutoring companies, such as clampdowns on aggressive advertisements and tightening of regulations related to prepaid tuition fees, will impact mainly unscrupulous smaller players. However, post-quarter end these actions were followed by broader measures restricting tutoring during weekends or holidays that also cloud the growth outlook for market leaders such as New Oriental.

Second Quarter 2021 Performance Attribution
Sector



Source: FactSet; Harding Loevner Chinese Equity Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on the first page of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS Presentation.

Perspective and Outlook

"Made in China" to "Created in China"

Not long ago, China's low-cost labor force was its primary competitive advantage and "Made in China" brought to mind cheap socks and toys. However, through technological advancement and help from significant economies of scale, over the last 20 years China has developed the capabilities to address sophisticated manufacturing requirements with precision, service, and speed. Today, China is the world's dominant manufacturer of electronics and machinery. Beyond manufacturing products created by others, Chinese firms have also progressed in product development. Amid a favorable backdrop of talent availability, ample research funding, and local access to a big market full of willing consumers, Chinese firms have begun to innovate in powerful ways, creating not only products and services with global consumer appeal, but also novel business models.

The state of Chinese innovation in product development is evident in the country's leading internet companies, which have built giant businesses over the past decade and pioneered a number of business models never before seen. One is "social commerce," which allows consumers to view recommendations from friends and social media influencers about what to buy and then purchase those goods or services all on the same social media platform.

Since social app Weibo introduced social commerce six years ago, e-commerce platform **Alibaba** and short-form video platforms Kuaishou (partly owned by **Tencent**) and Douyin (part of privately held ByteDance and known internationally as TikTok) have brought the concept to nearly one billion engaged users. Another new business model is the "super app," exemplified by Tencent's WeChat and Ant Financial's Alipay, through whose easy-to-use interfaces users can access restaurants, hotels, rideshares, payments, and financial services. Super apps now support a vast collection of "mini-programs" from third parties that can also be used without leaving the host app.

Innovation has also mushroomed in China's electric vehicle industry, encompassing the world's largest ecosystem of EV

[2]The new tutoring regulations appear to reflect the Chinese government's view that education should largely be a public good: similar to the view taken by South Korea when it reined in its own private tutoring sector in the 1980s in response to an earlier generation of companies—and parents—that had grown a bit *too* intent on helping their children get ahead.

makers and component suppliers. Recent innovations include swappable batteries, safer and denser battery chemistries, and advanced powertrains from portfolio company **Inovance**.

Despite China's size, the ambitions of its mold-breaking entrepreneurs extend well beyond the country's geographic boundaries. **NetEase**, a Chinese video game developer known for mobile games that play like intricate console games, has seen its titles consistently rank among the most popular in Japan and South Korea. Genshin Impact, a role-playing game developed by tiny rival Chinese studio miHoYo, ranks second in US iOS app store revenues. Shockingly, a Chinese fast-fashion app called SHEIN has overtaken Amazon to become the most downloaded shopping app in the US.

Whereas, a decade ago, many thought of Alibaba and its peers as Chinese versions of US internet companies, the direction of copying has shifted. Facebook has been incorporating a wider variety of payment services into WhatsApp and has launched Reels, a short-form video equivalent to Douyin and TikTok. PayPal has been signing up retailers such as Nike to use quick response (QR) codes, an identification system that played a key role in facilitating mobile payments adoption in China. PayPal is also creating a social-commerce loop with its Venmo app. Private companies Grab and Gojek have taken the super app concept to Southeast Asia, and externally based companies LINE, Rappi, and Yandex have done the same in Japan, Latin America, and Russia, respectively. Although the "reverse copy" trend is just starting, it is already one we are investing in across our firm's portfolios.

As innovation and creation happen in many places, it is worth exploring how conditions in China helped it narrow the gap with traditional centers of innovation, particularly the US. We find that the transition from "Made in China" to "Created in China" has been enabled by a confluence of growing talent, scale, and robust R&D spending, all underpinned by improving capital markets.

A Growing Talent Pool

Following the aggressive expansion of higher education over the past two decades, the number of annual university graduates in China has risen more than tenfold. Since 2007 China has been producing the most graduates in natural sciences and engineering of any country, including more than double its closest peer, the US.[3] While the number of Chinese students studying abroad continues to rise, Chinese researchers are increasingly choosing to return to China, attracted by generous research funding, the opportunities available thanks to rapid growth, and, in some respects, a better quality of life. Many research graduates have gone on to work at private businesses, but a significant portion of them have also become entrepreneurs. A survey earlier this year from Tsinghua, a leading university in China, shows that 20 years after graduation, over 37% of its alumni have started at least one company. Innovative companies have sought to sustain the entrepreneurial culture. For example, WeChat was born at Tencent only because Tencent had acquired an email startup and continued to encourage its creator to incubate new products. A few years later, as ByteDance was displacing traditional news websites with its newsfeed app Toutiao, ByteDance's founder had already launched Douyin. Inspired by these examples, many educated young Chinese, like previous generations in America, are now approaching their careers with a sense that anything is possible.

Increased R&D

As companies in China have grown, R&D spending has also grown rapidly, at an average of 17% per annum between 2000 and 2017, versus 4% annually in the US. In 2019, China surpassed the US in absolute R&D spending in purchasing power parity (PPP) terms. Contrary to the common misconception about the heavy financial thumb of the Chinese government, 76% of R&D funding in China comes from businesses themselves, more than in the US. The upshot: nearly half of worldwide patent families in 2018 originated in China. China still lags in basic, as opposed to applied, research, which amounts to only 6% of China's annual R&D budget, compared to 17% in the US and 21% in France. Basic research is crucial for long-term progress in advanced areas of technology like cutting-edge computing, AI, and life sciences.

Immense Scale

The size of China's domestic market provides an advantage to Chinese firms ultimately seeking to compete globally. It is indisputably vast: China's GDP is the world's second largest, spread across 1.4 billion consumers who largely speak the same language and have similar preferences. Adoption rates, especially for technology-oriented products, are high, so new ideas can be rolled out and optimized quickly. By the same token, companies operating in such an environment must be responsive and nimble to stay competitive. Tencent requires each of its product managers to collect 1,000 pieces of user feedback and survey 10 users every month and to regularly update products. In turn, the continuous critique and iterations enable Tencent to adapt quickly to changes in consumer preferences, ahead of rivals.

Capital Markets Development

Chinese companies have a wider variety of funding sources for growth and innovation today than in previous decades. China already accounts for 36% of global venture capital funding (the US accounts for 44%), with information and communications technology (including internet and software) accounting for slightly over half. Biotechnology is another area of focus, where deals attracted over US$28 billion of venture capital last year, more than five times the amount five years ago. A third of those investments went to fund drug development at biopharmaceutical companies. Reforms have also improved access to public markets by earlier-stage companies over the last couple of years. The Hong Kong Stock Exchange relaxed its listing rules for internet and biotech firms, no longer requiring a history of profitability, while the Shanghai Stock Exchange launched its Science and Technology Innovation Board (the "STAR Market"), which no longer mandates a second, onerous round of pre-listing approvals after the initial regulatory review.

[3] It is also not just quantity of talent that is distinctive in China—the volume of their productivity is also remarkable. China accounted for nearly 20% of papers published in peer-reviewed scientific journals globally during 2016-18, slightly ahead of the US's 18%.

A Selective Approach

While the rapid pace of change and innovative growth helps create a target-rich environment of "Created in China" companies for our portfolios, ensuring that the growth and quality that is visible in a business today will be durable is a challenge given the level of creative destruction and regulatory flux in many industries. The EV space illustrates the need to navigate such cross currents. EVs face strong structural growth, but for now we are avoiding the automakers themselves, where competition is intense and the outlook for free cash flow is hazy. In contrast, "upstream" of the automakers, certain component companies offer predictable growth in their core businesses, augmented by new opportunities in EVs that can be leveraged by farsighted management. For example, as the largest domestic supplier of automation components, Inovance has deployed its experience making robot inverters[4] (including for the robots that make EVs) to manufacture highly efficient EV inverters. While competition in that niche is nearly as intense as it is downstream, the quality of its product and its scale should be differentiating, and an investment such as this should not carry the same risk as one in pure-play EV manufacturing.

For every ByteDance that sprouts up, there are many other first movers that later fall by the wayside, pushed aside by later entrants with superior products or business models. In an area like search, for example, an early leader like **Baidu** has seen its industry structure change. The evolution of social commerce, apps, mini-programs, and the like have shrunk the total addressable market for conventional search advertising, so Baidu has had to innovate in new areas such as autonomous driving to remain relevant. Even in traditional consumer products, few stones remain unturned. For example, we are keeping an eye on how **Foshan Haitian**, China's leading maker of soy sauce and seasonings, could be impacted by the recent birth of community group buying (CGB). Yet another created-in-China phenomenon, CGB is a digital retail format in which grocery shoppers place orders through an app, and orders from the same neighborhood are then pooled. Fulfillment and delivery of bulk orders to central pickup locations create economies of scale, which allows cheaper prices. Online retailers such as Alibaba, **JD.com**, and Pinduoduo, as well as the food delivery and ride share networks Meituan and Didi, are all leveraging their existing infrastructure to vie for leadership in this fast-growing, and fast-moving, space. It is too early to tell which platform will prevail and where the profits, if any, will flow. In the meantime, we are watching for a potential rise in the threat of new entrants for Foshan Haitian as smaller competitors find their way to consumers through the CGB channel.

Portfolio Highlights

Another way in which we balance our portfolio exposure to innovative companies, where success is not necessarily assured, is by investing in traditional companies that are growing strongly in key areas of the market. It is worth remembering that for all the transformation it has witnessed over the past 30+ years, China remains, to this day, an *emerging* market, with robust growth stemming from manufacturing capabilities or from simply needing to meet the rising consumer demands of a massive population with more income to spend. Regardless of whether they can be catalogued in the "Made in," "Copied in," or "Created in" buckets (or perhaps a little of all three), the companies that we follow and rate in China have in common attractive features that arise from strong competitive positions in their industries or favorable competitive dynamics.

One company we added to the portfolio in the second quarter is **Sanhua**, a supplier of thermal management components for appliances and cars. In the appliance segment, it is the established leader, with more than 50% market share in certain thermal management components in refrigerators, dishwashers, and air conditioners manufactured globally. However, much like Inovance and its inverters, the company has leveraged its position to become a leader in comparable parts for EVs as well. Because electric powertrains still produce large amounts of heat and are more sensitive to temperatures compared to internal combustion engine (ICE) powertrains, EVs require better thermal management components, whose value could increase from US$10 per ICE car to more than US$1,000 per EV for top-tier component suppliers. With its industry-leading operating efficiency and a strong balance sheet, Sanhua is in a good position to see more of that added content value flow through to its bottom line.

Another fast-growing, but hardly novel, market is cybersecurity. China's cybersecurity spending is expected to double in the four years from 2019 to 2023 from its current low representation, in which only 1.5% of total information and communication technology spending is on cybersecurity, compared to nearly 4% in the US. We bought a new position in **Sangfor**, a leading provider of cybersecurity and cloud computing focused on serving small- and medium-sized enterprises. It helps those businesses transition from passive defense to active detection with an impressive array of tools for anticipating and snuffing out threats before cyberattacks take place.

We sold **Autohome**, China's answer to Autotrader.com, due to concerns related to rising competition. The daily active user base of Autohome's new rival Dongchedi, another ByteDance subsidiary, has grown rapidly in the last two years; because Dongchedi's products are priced cheaper, we forecast weaker margins and lower earnings growth for Autohome. We also exited our position in **ASM Pacific Technology**, a manufacturer of precision equipment critical to the production of advanced semiconductors. The company's margins appear to have deteriorated over the last few years, which has led to a weaker growth outlook compared to alternative investments in the semiconductor chain. As the valuation of ASM Pacific does not look attractive at current levels, we have elected to exit the position in favor of better growth opportunities.

[4] An inverter converts a direct electric current to an alternating current to power the machinery.

Chinese Equity Holdings (as of June 30, 2021)

Communication Services	Market	End Wt. (%)
Baidu (Internet products and services)	Mainland China	2.1
NetEase (Gaming and internet services)	Mainland China	2.3
Tencent (Internet and IT services)	Mainland China	6.7
Consumer Discretionary		
Alibaba (E-commerce retailer)	Mainland China	10.8
China Tourism Group Duty Free (Duty free services)	Mainland China	4.4
Gree Electric Appliances (Air-conditioner mfr.)	Mainland China	1.8
JD.com (E-commerce retailer)	Mainland China	2.4
Midea Group (Consumer appliances manufacturer)	Mainland China	2.1
New Oriental (Private education services)	Mainland China	0.9
Shenzhou International (Textile manufacturer)	Mainland China	2.6
Suofeiya (Home-furnishings retailer)	Mainland China	1.5
Trip.com Group (Online travel services)	Mainland China	1.3
Consumer Staples		
Foshan Haitian (Condiments manufacturer)	Mainland China	1.4
Wuliangye Yibin (Alcoholic beverages manufacturer)	Mainland China	3.0
Yili (Dairy products manufacturer)	Mainland China	1.2
Energy		
No Holdings		
Financials		
AIA Group (Insurance provider)	Hong Kong	3.0
Ping An Insurance (Insurance provider)	Mainland China	0.8
Health Care		
CSPC Pharmaceutical Group (Pharma manufacturer)	Mainland China	2.5
Jiangsu Hengrui Medicine (Pharma manufacturer)	Mainland China	1.7
Tigermed (Clinical development services)	Mainland China	3.0

Health Care	Market	End Wt. (%)
WuXi AppTec (Biopharma manufacturer)	Mainland China	4.8
WuXi Biologics (Biopharma manufacturer)	Mainland China	5.5
Industrials		
AirTAC (Pneumatic-equipment manufacturer)	Taiwan	3.7
Country Garden Services (Residential property mgr.)	Mainland China	2.2
Haitian International (Injection-molding machines mfr.)	Mainland China	2.1
Inovance (Industrial controls manufacturer)	Mainland China	1.8
Meyer (Optical sorting machine manufacturer)	Mainland China	1.6
SF Holding (Delivery services)	Mainland China	2.4
Shanghai International Airport (Airport operator)	Mainland China	1.1
Techtronic Industries (Power tool manufacturer)	Hong Kong	3.4
Sanhua (Refrigeration & HVAC parts manufacturer)	Mainland China	1.6
Information Technology		
Sangfor (IT security services)	Mainland China	1.3
Silergy (Electronics chips manufacturer)	Taiwan	2.8
Sunny Optical (Optical component manufacturer)	Mainland China	3.5
TravelSky (Aviation IT services)	Mainland China	2.4
Yonyou (Enterprise software developer)	Mainland China	1.2
Materials		
No Holdings		
Real Estate		
No Holdings		
Utilities		
ENN Energy (Gas pipeline operator)	Mainland China	1.6
Cash		1.5

Model Portfolio holdings are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of portfolio holdings for the past year contact Harding Loevner.

2Q21 Contributors to Relative Return (%)

		Avg. Weight		
Largest Contributors	Sector	HL CE	MSCI CAS	Effect
WuXi Biologics	HLTH	4.3	1.0	1.23
Silergy	INFT	2.2	–	1.08
WuXi AppTec	HLTH	4.0	0.5	0.99
Sunny Optical	INFT	2.7	0.4	0.76
Tigermed	HLTH	2.6	0.1	0.59

2Q21 Detractors from Relative Return (%)

		Avg. Weight		
Largest Detractors	Sector	HL CE	MSCI CAS	Effect
Autohome	COMM	2.4	0.1	-0.84
Suofeiya	DSCR	1.9	<0.1	-0.58
SF Holding	INDU	2.5	0.3	-0.49
Haitian International	INDU	3.3	0.1	-0.49
New Oriental	DSCR	1.4	0.4	-0.49

Portfolio Characteristics

Quality and Growth	HL CE	MSCI CAS
Profit Margin[1] (%)	20.2	16.3
Return on Assets[1] (%)	10.2	7.7
Return on Equity[1] (%)	19.0	16.2
Debt/Equity Ratio[1] (%)	19.4	35.1
Std. Dev. of 5 Year ROE[1] (%)	3.8	2.9
Sales Growth[1,2] (%)	22.3	20.6
Earnings Growth[1,2] (%)	20.2	16.6
Cash Flow Growth[1,2] (%)	28.2	24.7
Dividend Growth[1,2] (%)	24.0	17.7

Risk and Valuation	HL CE	MSCI CAS
Price/Earnings[3]	32.6	16.6
Price/Cash Flow[3]	30.4	15.6
Price/Book[3]	5.6	2.7
Dividend Yield[4] (%)	0.7	1.4
Size		
Wtd. Median Mkt. Cap. (US $B)	71.6	52.9
Wtd. Avg. Mkt. Cap. (US $B)	161.4	176.9

[1]Weighted median; [2]Trailing three years, annualized; [3]Weighted harmonic mean; [4]Weighted mean. Source: FactSet (Run Date: July 5, 2021, based on the latest available data in FactSet on this date.); Harding Loevner Chinese Equity Model, based on the underlying holdings; MSCI Inc.

Completed Portfolio Transactions

Positions Established	Market	Sector
Country Garden Services	Mainland China	INDU
Meyer	Mainland China	INDU
Sangfor	Mainland China	INFT
Sanhua	Mainland China	INDU

Positions Sold	Market	Sector
ASM Pacific Technology	Hong Kong	INFT
Autohome	Mainland China	COMM

The portfolio is actively managed therefore holdings identified above do not represent all of the securities held in the portfolio and holdings may not be current. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and relative contribution of all holdings during the quarter. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall relative performance over the period. Contributors and detractors exclude cash and securities in the Composite not held in the Model Portfolio. Quarterly data is not annualized. Portfolio contributors and detractors and characteristics are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

Chinese Equity Composite Performance (as of June 30, 2021)

	HL Chinese Equity Gross (%)	HL Chinese Equity Net (%)	MSCI China All Shares Index[1] (%)	HL Chinese Equity 3-yr. Std. Deviation[2] (%)	MSCI China All Shares Index 3-yr. Std. Deviation[2] (%)	Internal Dispersion[3] (%)	No. of Accounts	Composite Assets ($M)	Firm Assets ($M)
2021 YTD[4]	4.55	4.05	3.17	+	+	N.A.[5]	1	5	77,155

[1]Benchmark Index; [2]Variability of the composite, gross of fees, and the Index returns over the preceding 36-month period, annualized; [3]Asset-weighted standard deviation (gross of fees); [4]The 2021 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion less than a 12-month period; +Less than 36 months of return data.

The Chinese Equity Composite contains fully discretionary, fee-paying accounts investing in equity and equity-equivalent securities of companies domiciled predominately in China and Hong Kong and cash reserves and is measured against the MSCI China All Shares USD Total Return Index (Gross) for comparison purposes. Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI China All Shares Index is a free float-adjusted market capitalization index that is designed to measure large and mid-cap China share classes listed in Hong Kong, Shanghai, Shenzhen, and outside of China. You cannot invest directly in this Index.

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Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross of foreign withholding taxes on dividends, interest income and capital gains. Additional information is available upon request. Past performance does not guarantee future results. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Chinese Equity accounts is 1.15% annually of the market value up to $20 million; 0.80% of amounts from $20 million to $100 million; 0.75% of amounts from $100 million to $200 million; 0.55% of amounts over $200 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The Chinese Equity Composite was created on December 31, 2020 and the performance inception date is January 1, 2021.