# Chinese Equity

**Quarterly Report** | First Quarter 2022

HARDING LOEVNER

## What's Inside

**Market Review →**
The first quarter of 2022 was turbulent, as the worst COVID-19 outbreak in China since the start of the pandemic elicited concerns about factory and supply chain disruptions, and the potential effect of widespread lockdowns on economic growth.

**Performance and Attribution →**
Sources of relative return by sector.

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China's solar industry has evolved to be highly conducive to durable profits and growth, with a relatively small number of companies boasting high market share and accelerating sales as solar's cost advantage over other energy sources widens–in short, it is an ideal hunting ground for Harding Loevner's disciplined research approach.

**Portfolio Highlights →**
This quarter, we established new positions in two companies that are market leaders within the premium segments in China's spirits and beer industries. We also continue to prioritize investments in industries driven by increased localization.

**Portfolio Holdings →**
Information about the companies held in the portfolio.

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## Composite Performance

**Total Return (%)** — Periods Ended March 31, 2022[1]

| | 3 Months | 1 Year | Since Inception[2,3] |
|---|---|---|---|
| HL Chinese Equity (Gross of Fees) | -19.13 | -30.46 | -25.68 |
| HL Chinese Equity (Net of Fees) | -19.31 | -31.13 | -26.40 |
| MSCI China All Shares Index[4] | -14.26 | -24.11 | -20.81 |

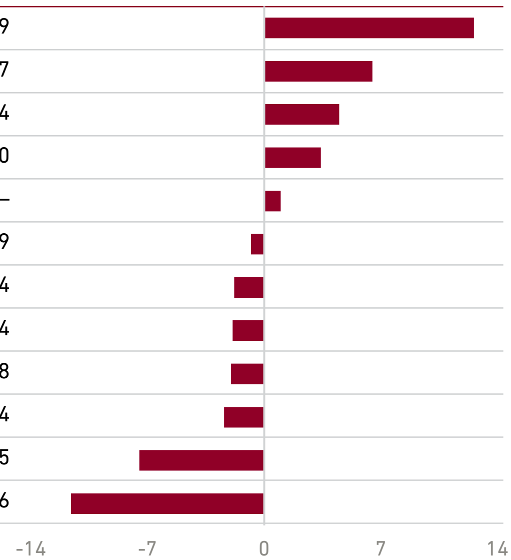
[1]The Composite performance returns shown are preliminary; [2]Annualized returns; [3]Inception Date: December 31, 2020; [4]The Benchmark Index gross of withholding taxes.

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)

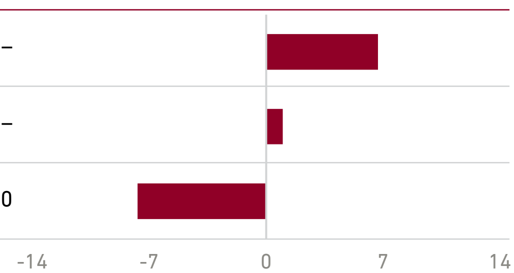
| Sector | HL CE | MSCI CAS |
|---|---|---|
| Industrials | 22.5 | 9.9 |
| Health Care | 14.2 | 7.7 |
| Info Technology | 13.9 | 9.4 |
| Cons Discretionary | 22.4 | 19.0 |
| Cash | 1.0 | – |
| Utilities | 2.1 | 2.9 |
| Real Estate | 1.6 | 3.4 |
| Cons Staples | 7.5 | 9.4 |
| Comm Services | 8.8 | 10.8 |
| Energy | 0.0 | 2.4 |
| Materials | 0.0 | 7.5 |
| Financials | 6.0 | 17.6 |

Under / Over




| Market | HL CE | MSCI CAS |
|---|---|---|
| Other Emerging Markets | 6.7 | – |
| Cash | 1.0 | – |
| Mainland China + Hong Kong | 92.3 | 100.0 |

Under / Over




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.

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# Market Review

The MSCI China All Shares Index fell 14.3% in the first quarter of 2022, as new COVID-19 outbreaks and a long-simmering spat with US securities regulators were accompanied by the spike in geopolitical tensions resulting from Russia's invasion of Ukraine. The invasion triggered strong, rapid, and coordinated sanctions against Russia by Western governments and US allies in Asia and the Pacific Region, one of the largest refugee crises in recent memory, and the threat of an expanded war in Europe. Global oil and commodity prices skyrocketed, leading to outperformance of energy and material companies in China, as in other stock markets.

The most pressing domestic issue in China during the quarter was COVID-19 outbreaks, the worst since the start of the pandemic. The rising case count prompted lockdowns in several major Chinese cities including Shenzhen, creating chokepoints in supply chains. In late March, an expansion of testing revealed many thousands of (mostly asymptomatic) cases of the Omicron variant in Shanghai, China's business and finance hub, which until then had been spared the containment measures periodically imposed on other cities under China's zero-COVID policy. Within hours, the city's factories were shuttered and its entire population of 26 million was locked down, causing a scramble for groceries and testing kits.

Concerns mounted over the effect that new lockdowns will have on economic growth. Companies in the consumer industry saw significant drops in nationwide sales volumes in March, between 20–50% year-over-year. The government continues to assert that its zero-COVID policy is the only way to flatten the curve until more of the still-reluctant elderly population can be persuaded to get jabbed. But there is vigorous debate within Chinese society over the logic of the approach, including on social media, where, mirroring the culture wars in the West, the "zero-COVID-ers" and "open-uppers" have been ratcheting up the rhetoric and defriending one another. We will only note that, so long as the policy remains in place, the risks to growth persist.

**MSCI China All Shares Index Performance (USD %)**

| Sector | 1Q 2022 | Trailing 12 Months |
|---|---|---|
| Communication Services | -15.9 | -38.1 |
| Consumer Discretionary | -19.9 | -43.2 |
| Consumer Staples | -18.2 | -18.8 |
| Energy | 22.5 | 49.4 |
| Financials | -2.2 | -11.3 |
| Health Care | -17.2 | -26.3 |
| Industrials | -15.6 | 1.5 |
| Information Technology | -24.0 | -17.5 |
| Materials | -9.1 | 4.8 |
| Real Estate | -3.6 | -33.7 |
| Utilities | -15.6 | -1.0 |

Source: FactSet (as of March 31, 2021), MSCI Inc., and S&P.

The future of overseas listings of Chinese securities also remained a focal point as US regulators continued their march toward delisting Chinese companies refusing to provide audit transparency. A number of Chinese companies whose audit reports do not comply with existing US audit standards were officially designated for delisting as early as 2023, sending the share prices of major US-listed Chinese companies (both their US-listed securities and Hong Kong-traded counterparts) into free fall, with some stocks down as much as 25% overnight on the news. Within our Chinese Equity portfolio, we do not hold any US-listed shares, though we hold Hong Kong-listed shares of several Chinese companies that are also listed in the US as ADRs and, as a result, could be more volatile as the issue evolves.

> Market sentiment also deteriorated over concerns that China might extend Russia military aid or sanction workarounds that could invite US retaliation. But incentives run high for both sides to be careful about rocking the boat.

Since Russia's attack on Ukraine in late February, Chinese market sentiment has also deteriorated over concerns that China might extend Russia military aid or sanction workarounds that could invite US retaliation. Despite China's assertion of a "no limits" partnership with Russia prior to the invasion, we think it is unlikely that China will pursue actions that would provoke a serious Western response. For one, there is the risk of damage to China's economy and development ahead of the 20th National Party Congress[1] scheduled for the fall. The West, too, has reason to tread carefully. Disentangling from Russian energy and commodity supplies is hard enough; China's roughly US$1.5 trillion in annual trade with the US and Europe represents a different level of economic integration altogether. Also, the global revulsion over Russia's invasion of Ukraine may serve as a cautionary tale for China that reduces the probability of a potential flareup over Taiwan. Incentives run high for both sides to be careful about rocking the boat.

On a positive note, we expect China to continue to carry through with the pro-growth policies first sketched out at the end of last year, perhaps even faster now given the economic headwinds that have appeared since. In a rare gesture of comfort to the markets,

[1] Slated to occur this fall, the 20th National Party Congress is a critical meeting during which the Chinese government's future leadership and the course of long-term strategic government priorities are determined.

Companies held in the portfolio at the end of the quarter appear in bold type; only the first reference to a particular holding appears in bold. 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. A complete list of holdings at March 31, 2022 is available on page 9 of this report.

Vice Premier Liu He made remarks in mid-March reiterating stability as a key policy goal. Liu reaffirmed the government's focus on solving the crisis in the beleaguered property sector, implementing (as opposed to expanding on) existing regulation of big technology platforms, and supporting economic growth and capital markets ahead of the 20th Party Congress. He also cited a willingness to work with US regulators on a framework that would be acceptable to both sides to head off delisting of US-listed Chinese stocks, which prompted them to rally. Subsequently, multiple pro-growth announcements were released by various government bodies, including measures to support the property market, such as lowering mortgage rates, reducing required down payments from 30% to 20% in several cities, and putting property tax rollouts on hold.

## Performance and Attribution

The Chinese Equity Composite fell 19.1% (gross of fees) in the first quarter, trailing the 14.3% decline for the MSCI China All Shares Index.

Our biggest detractors were in Information Technology (IT), led by smartphone-camera and auto lens supplier **Sunny Optical**, as investors grew concerned about a weaker demand cycle for smartphones despite a new potential source of long-term demand from automakers, which are beginning to use Sunny's products in advanced driver assistance systems. Shares of power-management chip designer **Silergy** corrected on potential capacity constraints at its main foundry partner. Software companies **Sangfor**, a cybersecurity specialist, and **Yonyou**, an enterprise management solutions specialist, were weak as both saw lower or delayed demand amid a domestic business downcycle. In Industrials, **Sanhua Intelligent Controls**, despite record results, also underperformed due to worries about increased rivalry for its electric vehicle (EV) thermal management components.

The portfolio's underweight in Financials also hurt relative performance this quarter. **AIA Group** was our strongest individual performer in Financials, as a large part of its life insurance business in Hong Kong and Southeast Asia benefited from higher US interest rates, and the company announced a buyback over the next two years of nearly 8% of its shares. However, we lacked holdings in banks, which performed well as the scale of credit easing and other pro-growth policies became clear. Most Chinese banks, largely state-owned, do not meet our threshold for quality and growth, especially during the current real estate deleveraging cycle. Our lack of exposure to Materials and Energy companies amid sharply rising commodity prices also hurt relative performance.

The recent uptick in inflation from higher energy and materials prices led to short-term margin contractions for many of our Industrials companies, and a meaningful downtick in their shares. In most cases, they have begun passing through price increases, but often with a time lag and not always in full. However, because of their superior competitive positions, as leaders in their industries, with superior margins and better bargaining power over suppliers and buyers, many of our holdings should be able to take advantage of the challenging environment to gain share from vulnerable rivals. We believe this opportunity will extend to **CATL**, the world's largest maker of EV batteries, and **Midea Group**, a leading global manufacturer of home appliances and robots.

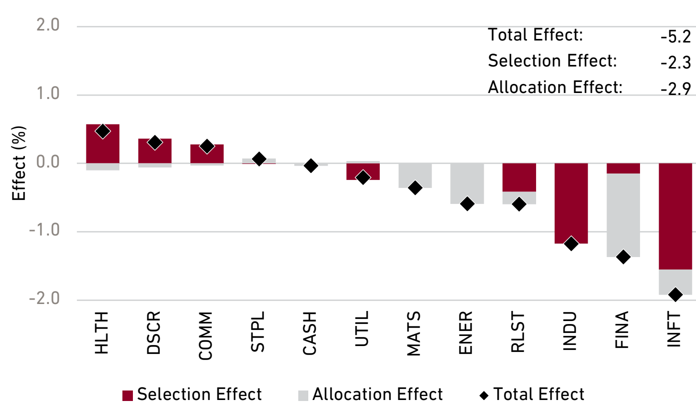
Health Care was the strongest contributor to performance as several of our holdings rebounded, including **CSPC Pharmaceutical Group**, **Tigermed**, and **WuXi AppTec**. The rise in WuXi AppTec's shares was in part a reaction to what could be an important development for China's COVID-19 containment policies: Chinese regulators greenlighted domestic distribution of Pfizer's antiviral drug Paxlovid, which is set to be produced by WuXi AppTec under contract. In Communication Services and Consumer Discretionary, our lower exposure to internet and e-commerce companies helped in relative terms. We benefited similarly from our avoidance of lossmaking, earlier-stage companies such as EV makers NIO and XPeng, which corrected sharply in the risk-off environment.

Style headwinds remained acute for us this quarter, continuing last year's trend. The MSCI China Growth Index underperformed the MSCI China Value Index by around 1,270 basis points (-20.3% vs. -7.6% respectively). While stocks of companies of average quality outperformed those of the highest- and lowest-quality companies, the spread in performance between expensive and inexpensive stocks—2,300 basis points in favor of cheap stocks—was extreme.

### First Quarter 2022 Performance Attribution

Sector

**Chinese Equity Composite vs. MSCI China All Shares Index**




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

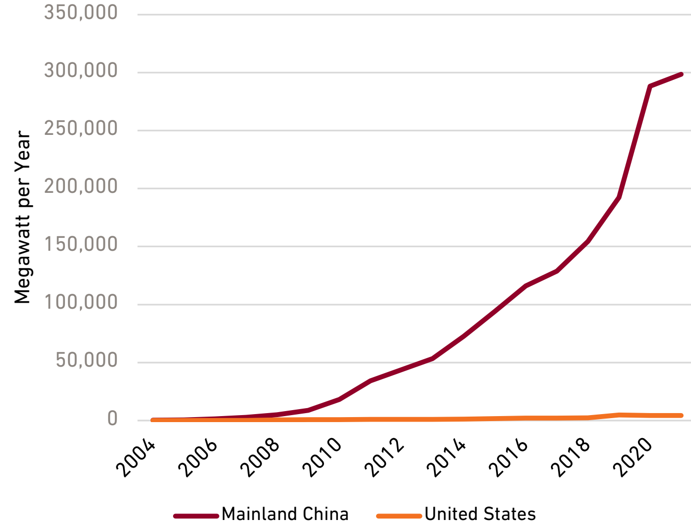
We do not own stocks of any companies that have direct material exposure to Russia or Ukraine, but our companies feel the pinch of escalating raw materials prices. Oil prices, which had already risen meaningfully in 2021, nearly touched US$135 per barrel in the days immediately following the Russian invasion and have generally stayed above US$100 as many countries have refused to buy Russian oil products and Western sanctions were expanded to include the energy sector. The recent jump in oil prices has provided more impetus for China to push forward with its green energy agenda. As the world's largest consumer of energy, China is the most significant contributor of carbon emissions. In the 14th Five-Year Plan issued last year, Chinese policymakers announced sweeping carbon reduction plans with a goal of achieving net carbon neutrality by 2060.

China's path to net neutrality requires a major shift in its primary energy sources. As of 2019, coal-fired plants accounted for 72% of power generation in China. By 2050 the balance is expected to reverse, with 90% of power coming from non-fossil fuels, according to estimates by Chinese brokerage firm CICC. The transformation will be enabled by what is the world's largest and most cost-competitive solar power generation industry. Along with possessing the largest share of installed solar capacity of any country, China is also the home of nearly 80% of the world's supply chain in solar equipment. China also manufactures most of the world's polysilicon, a key material in the manufacturing of solar panels, the legacy of a disastrous (for the US) trade war during the Obama years that left the then-dominant US polysilicon industry hobbled and China's ascendant. The result of China's unique situation is that, even before the recent Ukraine-related spike in global energy prices, electricity from solar in China was cheaper than that from coal or gas.[2]

How did China's enviable position in solar come to pass? Quite simply, from the same long-term deliberateness and top-down planning and vision that has helped build up (and occasionally tear down) other parts of China's economy. Starting in the late 2000s, the government provided land, funding, and above-market power rates to young solar-energy producers, turning China into the biggest market for solar panels globally. For their part, domestic solar manufacturers sought to employ advanced technologies—for example, slicing polysilicon more thinly to produce more solar cells from the same amount of raw material inputs—which helped reduce production costs. In its infancy, China's solar equipment industry was extremely fragmented, which dampened returns. But eventually the stronger companies consolidated the market and gained economies of scale, ultimately cementing China's position as the global low-cost producer of the world's most preferred type of panels.[3] Since 2017, Chinese producers have pushed down the cost of solar power by 55%, almost three times more than projected by industry sources at the time.

**Solar Surge**

**Manufacturing capacity for the world's dominant form of solar panel technology has soared in China while languishing in the US.**

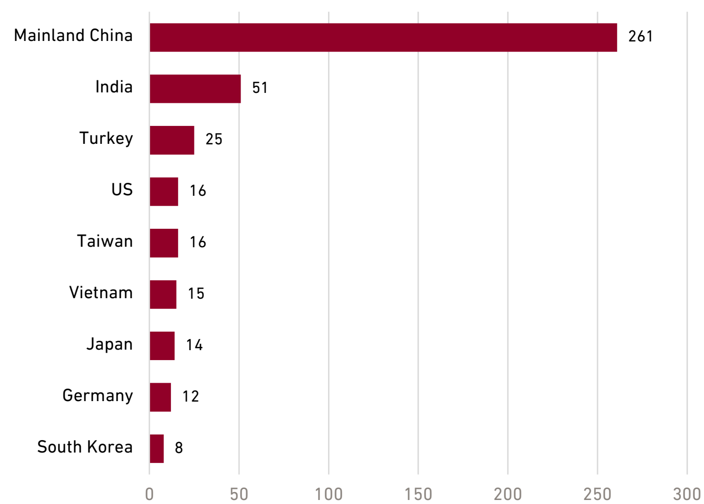



Source: BloombergNEF.

Note: Chart depicts production capacity for the dominant crystalline silicon solar panel technology, with capacity reflecting the total power rating of panels that can be produced through a year assuming the factories are fully running.

**Flush with Solar Factories**

**China dominates the world in number of panel manufacturing facilities**




Source: Bloomberg.

[2]Solar's cost advantages over coal and gas excludes energy storage costs. If including the cost of energy storage, solar power is more expensive than that from fossil fuels, but parity including storage costs is not far off (this is expected around 2025, according to a recent report by Morgan Stanley).

[3]After the US polysilicon industry was killed off by the Obama-era solar panel trade war, US-based solar manufacturers focused on a different type of technology using cells coated with cadmium telluride. At this point, the US is the only country where a sizeable portion (~40%) of the panels sold are made of this material, which, though cheaper to manufacture, is less efficient at converting sunlight to energy and risks leaching toxic chemicals. Now that US tariffs on imported Chinese solar panels have come down, they represent ~60% of the US market.

The industry's evolution has resulted in an industry structure that is highly conducive to durable profits and growth, with a relatively small number of companies commanding high market share whose sales are accelerating as solar's cost advantage over other energy sources widens. This quarter, we initiated a position in **LONGi**, the world's largest manufacturer of polysilicon wafers, an essential component in solar panels. We envision the company playing a critical role in enabling new solar power generation capacity in China and globally for the next several decades.

LONGi first established its leadership a decade ago by making a key early bet on monocrystalline ("mono") wafers. At the time, the technology was more expensive to produce than the multicrystalline ("multi") wafer technology that dominated the market, even though multi was less efficient at converting sunlight to electricity. LONGi believed (correctly, as it turned out) that with enough investment in research and development it could learn to make mono wafers that would be cheaper than multi. The company's investments in R&D and production created tremendous operating leverage, which LONGi used to drive most of its major competitors out of business and eventually become the world's largest wafer manufacturer, with a quarter of global capacity and nearly 50% of global sales (a majority of competitors' capacity now sits idle). The company then forward integrated into cells and modules, increasing its bargaining power over buyers and providing it with yet more significant cost advantages.

LONGi's ascendance reminds us of that of TSMC, the Taiwan-based semiconductor manufacturer that has come to dominate the market for the world's most advanced chips.

LONGi's ascendance reminds us of that of TSMC, the Taiwan-based semiconductor manufacturer that has come to dominate the market for the world's most advanced chips. (LONGi actually beat back a challenge from TSMC when the latter briefly tried to enter solar wafer production during the first half of the last decade.) As with TSMC, an entire ecosystem has grown up around LONGi, strengthening its local supply chain. First Applied Material (no relation to TSMC supplier and US-based Applied Materials) enjoys 50–60% of global market share in its niche of making the specialty films that LONGi and its competitors use to protect solar cells from the weather. Suzhou Maxwell and Shenzhen SC New Energy Technology have achieved similar share in different aspects of the screen-printing and etching equipment used in solar cell production. Having owed so much of its success to disrupting its competition, LONGi's management seems to recognize full well the risk of obsolescence. Over the past few months, it has set multiple world records in the conversion efficiency of solar cells and continues to invest aggressively in new technologies, especially the heterojunction techniques (essentially applying multiple types of conductive layers to both sides of a solar cell) that are expected to dominate the market over the next decade.

Spurred in large part by China's migration to renewable energy, we expect demand for new solar installations to grow at a 20% compounded annual rate globally for the foreseeable future. With our positions in the EV value chain, which we have written about in past letters, and our purchase of LONGi this quarter, Harding Loevner's Chinese Equity portfolio is tilted toward companies that participate in China's energy transition.

## Portfolio Highlights

China's alcohol industry is huge, and unique in relation to the global industry. In terms of volume, China's market represents more than a third of the global market, with Chinese spirits and beer each ranked number one globally. More than 90% of spirits sold in China is *baijiu* ("white liquor"). To put the size of this market in perspective, the annual consumption of baijiu in China is more than twice the size of the global vodka market and almost five times that of the entire US spirits market by volume. The Chinese beer market is relatively concentrated across four main companies, encouraging rational competition and stable returns. This quarter, we established new positions in two companies that are market leaders within the premium segments in China's spirits and beer industries.

**Moutai** is the market leader in premium baijiu. Though the overall baijiu market is fragmented, Moutai dominates the ultra-premium segment, with nearly 50% market share. Half-liter bottles of its highest-end brands sell for a whopping US$400. The company's competitive strategy is to maintain and reinforce the elite status and mystique of Moutai's baijiu. A potential risk is that retail prices could be subject to government regulations. But since distribution margins for Moutai's products are very high, we think that most of whatever price compression occurs will be at the retail and wholesale level rather than at the factory. This quarter, the company also launched an e-commerce platform, which, by adding direct-to-consumer sales into the revenue mix, should help protect margins. The company's track record certainly suggests it knows the right levers to pull; through economic cycles and regulatory clampdowns it has consistently delivered a nearly 30% return on equity over the last 10 years.

A potential risk is that the prices commanded by Moutai—topping out at US$400 per half-liter bottle—could be subject to government regulations. But since distribution margins are very high, we think that most of whatever compression occurs will be at the retail and wholesale level rather than at the factory.

We also purchased **Budweiser APAC**, China's market leader in premium beer as well as a major brewer in South Korea. The company's key competitive advantage is its exclusive Chinese and Korean rights to several premium-priced international brands.

The company uses a segmented approach, targeting each brand to a particular occasion. For example, Stella Artois is marketed almost exclusively as an accompaniment to meals; Corona (with lime, naturally) is positioned, even more so than in the US, as the beer for outdoor downtime. While the mainstream beer market in China is mature, premium beer is still growing, supported by rising disposable income. Budweiser Brewing's strong management team, with a good mix of international and local market experience, has made expanding distribution a major area of focus. After finishing 2021 with distribution in 50 Chinese cities, it is targeting 70 by the end of this year.

> Li-Ning's revenue growth should exceed 20% per annum over the next few years as sportswear remains underpenetrated in China. Government programs aimed at encouraging higher sports participation and less screen time among kids is another tailwind.

Although premium beer is an exception, the general trend in many Chinese consumer categories (as we wrote about last quarter) is toward increased localization. This quarter we bought domestic sportswear company **Li-Ning**. The company, named after its founder, Olympic gold medalist gymnast Li Ning, is a brand with strong Chinese heritage. Like Moutai, it has been focusing on strengthening its distribution. A new more advanced enterprise resource planning (ERP) system has given the company better visibility into the sales and inventory at its distributors, and Li-Ning has established more company-owned stores, which now account for a quarter of its sales. The result has been a significant improvement in operational metrics such as store productivity, channel inventory, and days receivables. Li-Ning's revenue growth should exceed 20% per annum over the next few years as sportswear remains underpenetrated in China. Government programs aimed at encouraging higher sports participation and less screen time among kids is another tailwind.

We also exited two positions last quarter where the growth outlook has deteriorated. Ping An Insurance has been undergoing a restructuring of its agent workforce, which has proven to be a significant headwind for growth, adding to our concerns about balance sheet weakness from its exposure (through Ping An Bank and investments by its life insurance funds) to China's beleaguered property sector. We also exited our position in Shanghai International Airport as the virus resurgences and ongoing zero-COVID policy have pushed chances of a recovery in international travel even further into the future.

Finally, at the start of 2022, our Chinese Equity portfolio migrated to a co-lead portfolio manager structure (in line with other Harding Loevner strategies), with the promotion of Wenting Shen, CFA, to co-lead. Shen has served as a "paper" (supporting) portfolio manager on the strategy since its launch. The change has not resulted in any material alteration of the portfolio's quality and growth characteristics or its risk profile.

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## Chinese Equity Holdings (as of March 31, 2022)

| Communication Services | Market | End Wt. (%) |
|---|---|---|
| **Baidu** (Internet products and services) | Mainland China | 1.6 |
| **NetEase** (Gaming and internet services) | Mainland China | 2.0 |
| **Tencent** (Internet and IT services) | Mainland China | 5.2 |
| **Consumer Discretionary** | | |
| **Alibaba** (E-commerce retailer) | Mainland China | 4.0 |
| **ANTA Sports** (Athletic footwear and apparel retailer) | Mainland China | 1.8 |
| **China Tourism Group Duty Free** (Duty free services) | Mainland China | 2.8 |
| **Fuyao Glass** (Automotive glass manufacturer) | Mainland China | 1.0 |
| **Haier Smart Home** (Consumer appliances mfr.) | Mainland China | 1.5 |
| **JD.com** (E-commerce retailer) | Mainland China | 3.0 |
| **Li-Ning** (Athletic footwear and apparel retailer) | Mainland China | 1.0 |
| **Midea Group** (Consumer appliances manufacturer) | Mainland China | 2.7 |
| **Shenzhou International** (Textile manufacturer) | Mainland China | 2.6 |
| **Trip.com Group** (Online travel services) | Mainland China | 1.3 |
| **Shuanghuan Driveline** (Mechanical equipment mfr.) | Mainland China | 0.9 |
| **Consumer Staples** | | |
| **Budweiser APAC** (Alcoholic beverages manufacturer) | Hong Kong | 0.9 |
| **Foshan Haitian** (Condiments manufacturer) | Mainland China | 1.1 |
| **Moutai** (Alcoholic beverages manufacturer) | Mainland China | 2.0 |
| **Wuliangye Yibin** (Alcoholic beverages manufacturer) | Mainland China | 1.0 |
| **Yili** (Dairy products manufacturer) | Mainland China | 2.4 |
| **Energy** | | |
| **No Holdings** | | |
| **Financials** | | |
| **AIA Group** (Insurance provider) | Hong Kong | 3.7 |
| **Hong Kong Exchanges** (Clearing house and exchange) | Hong Kong | 2.3 |
| **Health Care** | | |
| **CSPC Pharmaceutical Group** (Pharma manufacturer) | Mainland China | 2.3 |
| **Jiangsu Hengrui Medicine** (Pharma manufacturer) | Mainland China | 1.2 |

| Health Care | Market | End Wt. (%) |
|---|---|---|
| **Haier Biomedical** (Biomedical storage manufacturer) | Mainland China | 1.1 |
| **Tigermed** (Clinical development services) | Mainland China | 2.3 |
| **WuXi AppTec** (Biopharma manufacturer) | Mainland China | 3.9 |
| **WuXi Biologics** (Biopharma manufacturer) | Mainland China | 3.4 |
| **Industrials** | | |
| **AirTAC** (Pneumatic-equipment manufacturer) | Taiwan | 3.8 |
| **CATL** (Battery systems manufacturer) | Mainland China | 2.7 |
| **Haitian International** (Injection-molding machines mfr.) | Mainland China | 2.9 |
| **Hongfa** (Power relay manufacturer) | Mainland China | 0.9 |
| **Inovance** (Industrial controls manufacturer) | Mainland China | 2.7 |
| **Meyer Optoelectronic** (Optical machine manufacturer) | Mainland China | 1.7 |
| **Sanhua Intelligent Controls** (HVAC&R parts mfr.) | Mainland China | 2.6 |
| **SF Holding** (Delivery services) | Mainland China | 1.7 |
| **Techtronic Industries** (Power tools manufacturer) | Hong Kong | 3.4 |
| **Information Technology** | | |
| **ASM Pacific Technology** (Semiconductor eqpt. mfr.) | Hong Kong | 1.0 |
| **LONGi** (Solar equipment manufacturer) | Mainland China | 2.4 |
| **Sangfor** (IT security services) | Mainland China | 1.4 |
| **Silergy** (Electronics chips manufacturer) | Taiwan | 2.9 |
| **Sunny Optical** (Optical components manufacturer) | Mainland China | 2.2 |
| **TravelSky** (Aviation IT services) | Mainland China | 2.2 |
| **Yonyou** (Enterprise software developer) | Mainland China | 1.8 |
| **Materials** | | |
| **No Holdings** | | |
| **Real Estate** | | |
| **Country Garden Services** (Residential property mgr.) | Mainland China | 1.6 |
| **Utilities** | | |
| **ENN Energy** (Gas pipeline operator) | Mainland China | 2.1 |
| **Cash** | | 1.0 |

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.

### 1Q22 Contributors to Relative Return (%)

| Largest Contributors | Sector | Avg. Weight HL CE | Avg. Weight MSCI CAS | Effect |
|---|---|---|---|---|
| AIA Group | FINA | 3.4 | – | 0.54 |
| Meituan* | DSCR | – | 2.4 | 0.45 |
| CSPC Pharmaceutical Group | HLTH | 2.1 | 0.3 | 0.33 |
| WuXi AppTec | HLTH | 3.4 | 0.4 | 0.27 |
| Tigermed | HLTH | 1.8 | 0.1 | 0.24 |

### Last 12 Mos. Contributors to Relative Return (%)

| Largest Contributors | Sector | Avg. Weight HL CE | Avg. Weight MSCI CAS | Effect |
|---|---|---|---|---|
| Silergy | INFT | 3.1 | – | 1.25 |
| WuXi AppTec | HLTH | 4.0 | 0.5 | 0.77 |
| Meituan* | DSCR | – | 2.7 | 0.74 |
| Techtronic Industries | INDU | 4.0 | – | 0.67 |
| AirTAC | INDU | 3.5 | – | 0.63 |

### 1Q22 Detractors from Relative Return (%)

| Largest Detractors | Sector | Avg. Weight HL CE | Avg. Weight MSCI CAS | Effect |
|---|---|---|---|---|
| Sunny Optical | INFT | 2.9 | 0.4 | -1.04 |
| Silergy | INFT | 3.5 | – | -0.82 |
| Sanhua Intelligent Controls | INDU | 2.9 | 0.1 | -0.59 |
| Sangfor | INFT | 1.7 | 0.1 | -0.50 |
| WuXi Biologics | HLTH | 3.2 | 0.8 | -0.48 |

### Last 12 Mos. Detractors from Relative Return (%)

| Largest Detractors | Sector | Avg. Weight HL CE | Avg. Weight MSCI CAS | Effect |
|---|---|---|---|---|
| China Tourism Group Duty Free | DSCR | 4.0 | 0.5 | -0.74 |
| Sangfor | INFT | 1.7 | 0.1 | -0.72 |
| CATL | INDU | 0.7 | 1.3 | -0.68 |
| Suofeiya | DSCR | 0.8 | <0.1 | -0.66 |
| Country Garden Services | RLST | 1.8 | 0.3 | -0.58 |

*Company was not held in the portfolio; its absence had an impact on the portfolio's return relative to the Index.

### Portfolio Characteristics

| Quality and Growth | HL CE | MSCI CAS |
|---|---|---|
| Profit Margin[1] (%) | 16.4 | 15.7 |
| Return on Assets[1] (%) | 10.3 | 6.5 |
| Return on Equity[1] (%) | 19.9 | 14.4 |
| Debt/Equity Ratio[1] (%) | 22.6 | 42.0 |
| Std. Dev. of 5 Year ROE[1] (%) | 3.5 | 3.0 |
| Sales Growth[1,2] (%) | 22.5 | 20.8 |
| Earnings Growth[1,2] (%) | 25.2 | 16.8 |
| Cash Flow Growth[1,2] (%) | 19.9 | 18.6 |
| Dividend Growth[1,2] (%) | 19.1 | 16.8 |

| Risk and Valuation | HL CE | MSCI CAS |
|---|---|---|
| Price/Earnings[3] | 25.8 | 12.0 |
| Price/Cash Flow[3] | 21.7 | 10.8 |
| Price/Book[3] | 3.8 | 2.1 |
| Dividend Yield[4] (%) | 0.9 | 1.9 |
| **Size** | | |
| Wtd. Median Mkt. Cap. (US $B) | 35.0 | 33.7 |
| Wtd. Avg. Mkt. Cap. (US $B) | 79.3 | 102.0 |

[1]Weighted median; [2]Trailing five years, annualized; [3]Three-year average; [3]Weighted harmonic mean; [4]Weighted mean. Source FactSet (Run Date: April 5, 2022, 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 |
|---|---|---|
| ASM Pacific Technology | Hong Kong | INFT |
| Budweiser APAC | Hong Kong | STPL |
| Haier Biomedical | Mainland China | HLTH |
| Haier Smart Home | Mainland China | DSCR |
| Hongfa | Mainland China | INDU |
| Li-Ning | Mainland China | DSCR |
| LONGi | Mainland China | INFT |
| Moutai | Mainland China | STPL |
| Shuanghuan Driveline | Mainland China | DSCR |

| Positions Sold | Market | Sector |
|---|---|---|
| Ping An Insurance | Mainland China | FINA |
| Shanghai International Airport | Mainland China | INDU |

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 tables 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 tables 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 March 31, 2022)

| | 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) |
|---|---|---|---|---|---|---|---|---|---|
| 2022 YTD[4] | -19.13 | -19.31 | -14.26 | + | + | N.A.[5] | 1 | 4 | 64,240 |
| 2021 | -14.59 | -15.42 | -12.80 | + | + | N.M.[6] | 1 | 4 | 75,084 |

[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 2022 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion less than a 12-month period; [6]N.M.– Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year; +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.

Harding Loevner LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Harding Loevner has been independently verified for the period November 1, 1989 through December 31, 2021. 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 and pooled fund 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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

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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 1.05% annually of the market value for the first $20 million; 0.75% for the next $80 million; 0.70% for the next $100 million; above $200 million upon request. 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.

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