Chinese Equity

Quarterly Report | Second Quarter 2022

HARDING LOEVNER

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Chinese equities received a lift during the second quarter as COVID-19 lockdowns began to ease and the government announced policies to boost growth.

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This quarter, we established a new position in the largest Chinese manufacturer of power semiconductor chips and modules.

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Composite Performance

Total Return (%) — Periods Ended June 30, 2022[1]

	3 Months	YTD	1 Year	Since Inception[2,3]
HL Chinese Equity (Gross of Fees)	4.16	-15.76	-31.19	-19.76
HL Chinese Equity (Net of Fees)	3.92	-16.15	-31.84	-20.52
MSCI China All Shares Index[3]	2.99	-11.70	-25.36	-16.03

[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.

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

Portfolio Positioning (% Weight)

Sector	HL CE	MSCI CAS
Industrials	21.2	9.9
Health Care	13.0	7.2
Info Technology	13.8	9.0
Cons Discretionary	23.6	21.0
Cash	1.3	–
Utilities	2.2	2.8
Real Estate	1.6	3.1
Cons Staples	7.9	10.2
Energy	0.0	2.4
Comm Services	8.3	11.1
Materials	1.1	7.3
Financials	6.0	16.0

Under / Over: -12 -6 0 6 12

Market	HL CE	MSCI CAS
Other Emerging Markets	5.4	–
Cash	1.3	–
Mainland China + Hong Kong	93.3	100.0

Under / Over: -12 -6 0 6 12

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 rose 3.0% in the second quarter, as COVID-19 lockdowns began to ease and the government announced policies to boost growth.

Much of the economic data was still rather grim. Post-quarter end, the National Bureau of Statistics reported that China's economy expanded by an annualized rate of 0.4% in the quarter, its worst performance since the first quarter of 2020, right after the start of the Wuhan COVID-19 outbreak. Consumer confidence in China hit record lows. After weeks of quarantines and dire warnings of outbreaks, many people were initially reluctant to gather in public places like malls or markets. Retail sales fell by 6.7% year-over-year (YoY) in May (on top of a 11.1% decline during the worst of the lockdowns the month prior) before finally recovering to a 3.1% YoY increase in June. On the other hand, despite months of logistical snarls, Chinese manufacturing has proved resilient. Industrial production was essentially flat in May and rose by 3.9% in June versus the year-ago period, while exports grew in June by nearly 17.9% YoY. By early June, just days after its citywide lockdown was lifted, 55% of the listed companies in Shanghai had announced resumption of work, according to China International Capital Corporation.

Following lockdowns, China's economic policymakers worked to mitigate the fallout in the most affected parts of the economy. In late May, the State Council held an unprecedented national video teleconference on shoring up economic stability and unveiled a fresh set of stimulus measures including tax relief, infrastructure support, and the deferral of loan repayments by small- and medium-sized businesses impacted by the pandemic. After home sales by China's largest developers tumbled 59% YoY in May, local governments issued detailed plans to boost the housing market which has been reeling since central policymakers clamped down on excessive leverage last year. All the stimulus policies stand in stark contrast to the aggressive monetary tightening being undertaken in other major economies to rein in runaway consumer prices, which have not been a problem in China to this point. In May, the Consumer Price Index rose just above 2% YoY, while "factory gate" inflation reflecting the prices charged by manufacturers slowed from 8.0% in April to 6.4%, its lowest rate in 14 months.

MSCI China All Shares Index Performance (USD %)

Sector	2Q 2022	Trailing 12 Months
Communication Services	-1.1	-36.8
Consumer Discretionary	13.8	-37.7
Consumer Staples	13.1	-13.6
Energy	2.9	36.3
Financials	-4.0	-12.1
Health Care	-2.1	-41.1
Industrials	3.2	-6.0
Information Technology	-0.6	-29.7
Materials	-0.3	-4.8
Real Estate	-3.4	-30.4
Utilities	1.1	0.3

Source: FactSet (as of June 30, 2022), MSCI Inc., and S&P.

When Xi Jinping advocated for the "healthy" development of the payment and fintech sectors it was a particularly encouraging sign—given that it was the abrupt scuttling of the IPO of Alibaba subsidiary Ant Group that marked the beginning of the regulatory push 18 months ago.

Regulatory pressures, which caused global investors so much distress last year, also appear to be easing. Policy announcements in March indicated that regulation of blue-chip technology companies will become more transparent and predictable. In April, an official (if vaguely worded) editorial announced forthcoming new measures to support internet platform companies. After an eight-month suspension, approvals of new video games resumed. Then in June, Chinese President Xi Jinping chaired a meeting in which he advocated for the "healthy" development of the payment and fintech sectors—a particularly encouraging sign given that it was the abrupt scuttling of the IPO of **Alibaba** subsidiary Ant Group that marked the beginning of the regulatory push 18 months ago.

Consumer Discretionary, among the poorest-performing sectors over the previous year, was this quarter's best-performing, led by online services and auto stocks, the latter of which saw a boost from new government car-buying incentives.

Performance and Attribution

The Harding Loevner Chinese Equity Composite returned 4.2% gross of fees in the second quarter, ahead of the 3.0% return of the MSCI China All Shares Index.

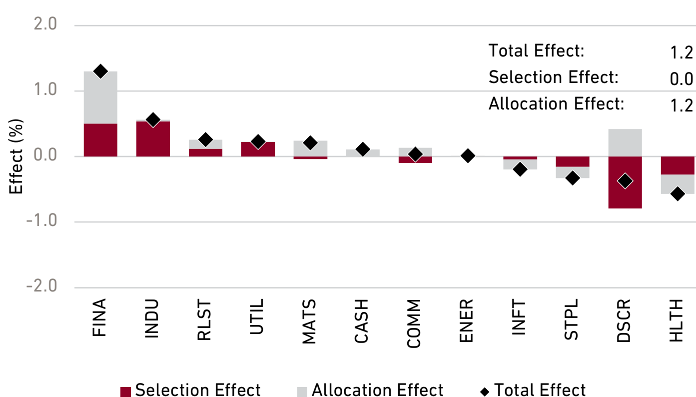
Good stock selection in Financials helped our relative performance. Shares of Hong Kong-based insurer **AIA Group** rose after the city's fifth pandemic wave receded. On the mainland, mobility restrictions have made new customer acquisition a challenge, but continued approvals of licenses to operate in new cities indicates the company's long-term expansion plans are on track. The portfolio was also helped by its lack of exposure to Chinese banks. Most Chinese banks do not meet our criteria for

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 June 30, 2022 is available on page 9 of this report.

Second 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.

quality and growth—the benefits of that discernment have been apparent during this period of slower growth and real estate deleveraging.

Stock selection in the Industrials sector also contributed positively. Shares of **Sanhua Intelligent Controls**, a leading Chinese manufacturer of thermal management components for appliances and automobiles, were up sharply on better sales volumes, while express delivery service provider **SF Holding** fared well as lockdowns had a smaller impact on operations than initially feared.

Poor stocks in Health Care and Consumer Discretionary stocks dragged on relative returns. **WuXi AppTec**, a leading contract development and manufacturing organization for small molecule drugs, suffered from both the market's broader distaste for richly valued fast-growing stocks and from the citywide lockdowns in Shanghai, home to its headquarters and a significant portion of its production facilities.

Within Consumer Discretionary, our underweight to automakers and the poor stock performance of technical fabric and sportswear maker **Shenzhou International** hurt the most. Concerns about the impact of inflation on global demand for major customers like Nike, Adidas, and Puma weighed on Shenzhou's shares.

Perspective and Outlook

Fears about the concentration of global manufacturing and supply chains in China persist, having been brought into sharp relief during President Trump's 2018 trade war and again during the COVID-19 pandemic. Those fears were assuaged by China's effective management of the first wave of lockdowns, which allowed the rapid restoration of critical global manufacturing and supply chains as the country helped fill the global manufacturing void. However, after last year's barrage of regulatory reforms, new lockdowns, and the potential for new trade restrictions stemming from China's economic support of Russia in the war in Ukraine, handwringing by Western executives and politicians over supply-chain security and trade dependence on rival countries has been fully revived.

We rely on our investment process to filter near-term noise and amplify low-frequency signals deemed important by our research analysts. Part of that process involves regularly speaking with the management of invested companies and, until pandemic travel restrictions made it more challenging, meeting with them in person at their offices and factories in China. On March 30, portfolio manager Wenting Shen boarded one of the last China-bound flights permitted to leave the US East Coast and underwent a strict four-week quarantine for the opportunity to again visit in-person with our portfolio companies. ("Going Home: An Account from China's Zero-COVID Frontline.") Her meetings brought into sharper focus an interesting phenomenon: while Western companies have begun the arduous (if perhaps impossible) task of repositioning their supply chains closer to home to guard against future disruptions, a growing number of Chinese manufacturers are shifting key parts of their production *out* of China, to be nearer to end customers and save on transportation and labor costs. Rather than globalization being on the wane, parts of the global supply chain are being relocated—*glocalized*, if you will.

China's glocalization model typically involves relocating manufacturing to countries like Mexico or in Eastern Europe while retaining research and development (R&D) in China. In this way, companies save on labor costs, sidestep tariffs, or shorten supply chains and delivery lead times by increasing proximity to customers, all while preserving a critical competitive advantage: access to China's deep talent pool of engineers.

> A worsening labor shortage amid China's aging population has made labor-intensive industries—once China's chief advantage—more apt to glocalize.

What China makes for the rest of the world and *how* it is made has changed considerably over the past 20 years. China has transitioned away from a heavy industry and infrastructure-led economy built on an ample supply of cheap labor to one with a technically skilled labor force that meets some of the world's most sophisticated manufacturing needs. Today, China is the world's dominant maker of electronics and machine tools and produces the majority of electric vehicles (EVs) and solar power equipment. For manufacturers operating inside China, cutting-edge automation, state-of-the art infrastructure, and deliberate clustering of suppliers has resulted in efficiencies that are hard to overstate.

But China's manufacturing base has its shortcomings. One large and growing problem has been a worsening labor shortage amid China's aging population which has seen labor costs more than double in the last ten years. This has made labor-intensive industries—once China's chief advantage—more apt to glocalize.

> With its global presence, Sanhua can now access most key global markets tariff-free; it has enough capacity in Mexico alone to supply all its US appliance-related demand.

Sanhua Intelligent Controls is one of our portfolio companies that has leaned into glocalization. At the height of the 2018 trade war, many of its products manufactured in China became subject to 25% tariffs if they were bound for the US. The company temporarily passed on much of the added cost to its buyers while expanding its plants in Mexico, Poland, and Vietnam, whose exports to the US remained tariff-exempt. These facilities' machines and processes are standardized and remain under the control of the core engineering team in China. By adjusting the level of automation of the equipment—dialing it down (and therefore saving on tooling and machine costs) for lower-cost labor markets, increasing it where labor costs are higher—the company has managed to achieve consistent operational efficiency around the world.[1] With its global presence, Sanhua can access most key global markets tariff-free; it has enough capacity in Mexico alone to supply all its US appliance-related demand.

WuXi Biologics is embracing glocalization from a different angle. The company (originally spun out of formerly US-listed WuXi PharmaTech) is one of China's largest contract research and development manufacturing organizations for biologic drugs and the third largest globally. It provides comprehensive services across the lifecycle of large-molecule drugs, from discovery to clinical development to manufacturing, for some of the world's largest and most advanced biotech and biopharma companies. WuXi Biologics' expansion of its overseas footprint has not been about lowering labor costs or working around tariffs; instead, it has moved its manufacturing closer to its customers to improve collaboration and facilitate local regulatory oversight. During the pandemic, US Commerce Department inspectors' inability to work in China due to travel restrictions landed the company a spot on the department's dreaded "unverified" list, threatening its ability to supply some customers and adding urgency to its glocalization efforts. The company is nearing completion of a new factory in Ireland and recently established a manufacturing presence in the US, with one facility outside Princeton, New Jersey, and a larger one going up in Boston's Route 128 tech corridor. The company also has two plants in Germany, including one site fortuitously acquired from Bayer just before the pandemic. That German manufacturing capacity is now being used to make AstraZeneca vaccines, including roughly half of its COVID-19 shots.

China's grandaddy of glocalization is **Haier Smart Home**. Haier is the world's largest appliance manufacturer, made even bigger by the purchase of General Electric's appliance division in 2016.[2] Founded in the 1980s as part of the restructuring of a stodgy, state-owned refrigerator maker, Haier gradually established leadership within China in product quality and operational capabilities. It then expanded its production outside the country, building factories in each major market it entered to be closer to its customers and to respond to diverse local preferences better. This had the side benefit, of course, of reducing risks of protectionism by creating local jobs. Haier's brands—including Fisher & Paykel, especially popular in New Zealand and Australia; Italy's Candy; and the various labels under the GE Appliances umbrella including Monogram and Café—are now perceived as quality *local* brands, not foreign ones, wherever its products are sold.

As the example of Haier suggests, today's glocalization has its roots in earlier eras. In the 1980s and '90s, Japanese automakers set up plants in North America en masse after being slapped with tariffs by the US government. During the same period, other Japanese and US manufacturers started to segue from simply outsourcing to China (essentially relying on cheap local labor to make socks and toys destined for sale back in their home markets) to viewing China as a new source of customers. The typical factory set-up at the time was a joint venture (JV) involving a domestic partner. That structure has waned over the years as China abandoned its requirement of Chinese co-ownership. Some of China's glocalization leaders like Sanhua and Haier started life as the local JV partners of global companies from Japan, the US, and Europe, acquiring valuable know-how in the process.

> Glocalization can be a win-win for the firms redistributing their operations and their local partners. It must be managed carefully, though, lest companies fall prey to the sorts of cultural clashes that initially befell Fuyao Glass in Ohio, as featured in the Oscar-winning documentary "American Factory."

As China's experience has shown, glocalization can be a win-win for the firms redistributing their operations and for the countries and businesses partnering with them. Beyond potentially helping to boost the prospects for their local partners, multinationals establishing local presence are subject to taxation and fees and therefore can be a robust funding source for local coffers as well as help cultivate local ecosystems to meet their demand. The presence of multinational firms also serves as a seal of approval for developing nations, a consequential signal of confidence

[1] This is evidenced in the company's margins, which are slightly higher for products sold outside of China compared to those sold in China. Higher global prices and lower labor costs in Vietnam and Mexico make up for lower initial efficiency relative to the highly mature and automated production capabilities available in China.

[2] The acquisition of GE Appliances by Haier is a curious (Or is it more "ironic"?) reversal of fortune. GE tried to purchase Haier in the early 1990s when it was a fledgling provincial refrigerator maker in Qingdao. Haier refused the offer, which prompted GE to proclaim that one of its key goals was to "eliminate Haier."

that these countries possess enough infrastructure, talent, and governmental support for a foreign behemoth to locate important business operations there.

On the flip side, companies must manage glocalization carefully for its benefits to be realized. Labor availability can become uncertain if locations are not chosen wisely and other glocalizers start straining the local talent pool. Building new plants can represent a large outlay of capital, especially when compared to the lower cost of maintaining the huge installed base of highly efficient operations back in China. And there is always the possibility of culture clashes, like those that befell **Fuyao Glass**, China's dominant automobile glass manufacturer, whose early stumbles learning the glocalization ropes in Ohio (before we bought it for our portfolio) became the subject of the Oscar-winning documentary "American Factory."

We think decentralized production closer to end customers will become more prevalent as the older model of centralized globalization is increasingly subject to logistical disruption or trade frictions, and as participants at every link of supply chains look to adapt and evolve. For the most part, Sanhua, WuXi Biologics, Haier, and the other companies in our portfolio that have undertaken forays onto foreign soil have managed the excursions prudently and should benefit from better growth prospects as a result.

Portfolio Highlights

This quarter we initiated a position in **Starpower**, a designer of power semiconductor chips and modules. The company was founded 17 years ago, originally focused on producing modules that incorporated chips from other suppliers before backward-integrating and designing its own chips. Starpower is now the largest Chinese maker of power semiconductor modules, the electronic switches that regulate the current that powers everything from home appliances to robots to, increasingly, EVs. Its modules and chips are similar to ones offered by global peers but cheaper, thanks to the low cost of China's engineering and chip foundry resources. Even though it is the largest local player, the company still has only about 10% domestic market share. We see that changing, especially as more of its business shifts to EVs, where ties between local manufacturers in the supply chain and power management global leaders like Germany's Infineon are less established, and where Starpower's cost and local customer service advantages should help it gain share.

One factor that we are keeping a close eye on is a paradigm shift in the technology underlying the power semiconductor industry. Silicon carbide metal-oxide semiconductor field-effect transistors (SiC MOSFETs) should gradually begin to displace legacy insulated-gate bipolar transistors (IGBTs). SiC MOSFETs are orders of magnitude more efficient than IGBTs, dramatically reducing the size of the chips as well as the cooling they require. They are, however, at least three times as expensive, meaning that for the foreseeable future most of their usage will be confined to the highest-end applications, such as luxury vehicles, premium consumer appliances, and certain especially space-constrained industrial applications. Starpower is investing in the new technology and will ship its first self-designed SiC MOSFET chips later this year. In the meantime, it will continue to leverage its large—and growing—scale and cost advantages in China to fund its longer-term ambitions at the field's cutting edge.

Harding Loevner's Quality, Growth, and Value rankings are proprietary measures determined using objective data. Quality rankings are based on the stability, trend, and level of profitability, as well as balance sheet strength. Growth rankings are based on historical growth of earnings, sales, and assets, as well as expected changes in earnings and profitability. Value rankings are based on several valuation measures, including price ratios.

Silver Linings Playbook: An Update on the Chinese Company Delisting Saga

By Wenting Shen, CFA

Every company, foreign or domestic, that lists on US stock exchanges is required to share underlying records supporting its audited accounts to the US Public Company Accounting Oversight Board (PCAOB) for routine audit inspections. But China's government has not permitted US-listed Chinese companies to comply with this policy, maintaining that some required information impinges on Chinese national security. For 20 years, China—as well as Belgium and France, which took similar positions—were given an unofficial pass.

This is no longer the case. In December 2020, around the same time that US-listed Chinese company Luckin Coffee agreed to pay the US Securities and Exchange Commission (SEC) US$180 million to settle accounting fraud charges, the US government's forbearance ended. Approved with bipartisan support, the Holding Foreign Companies Accountable Act (HFCAA) resolves that any company failing to meet the PCAOB's audit inspection standards for three consecutive years due to restrictions imposed by a foreign government is subject to forced delisting from US exchanges. Given that the HFCAA became effective in 2021, the first delistings of noncompliant companies could begin in 2024; however, Congress is considering an amendment to shorten the timeline to two consecutive years, which, if passed, could trigger delistings as early as 2023.

This past March the SEC ratcheted up the pressure by publishing the names of Chinese companies on track to be pushed off US exchanges. The shares of those companies, as well as those of many other US-listed Chinese companies, tumbled as much as 25% after the announcement. As of June 30, the SEC has identified 153 Chinese companies for delisting—a little under two-thirds of the total of 261 US-listed Chinese firms.

How is this issue likely to play out? I am skeptical that China's government will ever comply with the letter of the HFCAA, which includes a requirement to disclose companies' ties to Communist Party members. On the other hand, conciliatory comments by Chinese policymakers and reports that the two sides have begun discussing the logistics of allowing onsite audit inspections suggest there is room for compromises like those worked out with Belgium and France. In the meantime, since we cannot dismiss the possibility that US regulators will follow through with delisting, we need to consider the potential impact of mass delisting on the structure of China's equity markets and on our portfolio.

Plan Bs

The first Chinese companies listed on US exchanges were state-owned companies in industries such as power generation and oil and gas that debuted as American Depository Receipts (ADRs) on the New York Stock Exchange and NASDAQ in the early 1990s. They listed in the US because, until very recently, raising capital in China was hard. US exchanges offered access to a larger pool of capital, and listing rules were more accommodative to early-stage businesses. Unlike in China, there is no requirement in the US, for example, that companies be profitable before offering shares to the public. Nor is there any rule preventing public companies from issuing multiple share classes with different voting rights—a key inducement for company founders wanting to maintain control over the company without retaining most of the shares.

China's domestic A-share market has grown and become more capital-friendly over the years, but significant restrictions still apply, including limits on how much of a company any single foreign investor may own. For Chinese companies that desire access to foreign capital but want to stay within sovereign China (and not have to worry about national security issues, etc.), listing in Hong Kong has long been another option. Historically, the listing requirements for Hong Kong's Main Board relating to profitability and revenue were also stringent. But over the past few years, as it sought to equalize its footing with other leading global exchanges, Hong Kong relaxed its requirements. For instance, Hong Kong now allows multiple share classes with different voting rights, the same as the US.

Between Hong Kong's liberalizing reforms and the ongoing audit inspection controversy in the US, it is no surprise that more US-listed Chinese companies are now migrating to Hong Kong. In the 18 months since the passage of the HFCCA, over two dozen Chinese companies trading on US exchanges have become dual listed in the US and Hong Kong, joining a dozen that already had dual listings in place. Hong Kong-listed shares are fungible with US-listed ones, so investors can convert their US holdings to the Hong Kong equivalent at any time. Many investors have been doing that, thereby increasing the liquidity of the Hong Kong shares. For example, Alibaba has had a secondary listing in Hong Kong since 2019. As recently as two years ago, only 8% of its shares traded in Hong Kong; by mid-year 2022, more than 30% of them traded in Hong Kong. When its trading volume

in Hong Kong surpasses 55%, the company will be eligible (and will eventually be required by the Hong Kong Exchange) to designate Hong Kong as its primary listing, at which point trading in the shares could open to mainland Chinese investors through the Shanghai and Shenzhen Stock Connect program.

On the Bright Side

From our perspective, issuers and investors will ultimately find their own solutions to the delisting threat. If negotiations become deadlocked, the shift in trading activity to Hong Kong should accelerate. More Hong Kong trading volume means more local, Chinese, and other foreign shareholders who are unconcerned with US rules. The fewer shareholders with a direct reason to worry, the less bearing the delisting issue will have on the share prices. Not all US-listed Chinese companies will be able to follow the path taken by Alibaba and others. Hong Kong's listing requirements, while more relaxed, are still stricter than the US's. But the great majority of the larger listings will convert—including those in our own qualified universe of profitable, high-quality growing businesses.

Today, all the shares in our Chinese Equity portfolio are either Hong Kong shares of dual-listed companies or mainland-listed firms. That brings me to one more impact of the de-listing saga: It appears to have helped catalyze reforms of China's capital markets. Last year saw the launch of the Beijing Stock Exchange, designed to allow small- and mid-sized firms to raise capital more effectively. The Shanghai Exchange's Science and Technology Innovation Board was established the year before with a lower profitability threshold for listed companies. Now the new board has indicated it will move to a registration IPO system that reduces regulators' involvement and shifts compliance responsibility onto the listing companies themselves, cutting IPO lead times from multiple years to a few months. Over time, these reforms should reduce Chinese companies' desire to offer their shares on US exchanges. That, in turn, will help grow the pool of mainland-listed companies, which will benefit our investors.

Despite its growing pains, China's large and growing economy remains home to some of the world's most dynamic businesses irrespective of where they happen to be traded. Regardless of the saga's eventual outcome, we look forward to the day when investors everywhere can focus again on the long-term fundamentals of companies.

Chinese Equity Holdings (as of June 30, 2022)

Communication Services	Market	End Wt. (%)
Baidu (Internet products and services)	Mainland China	1.6
NetEase (Gaming and internet services)	Mainland China	1.9
Tencent (Internet and IT services)	Mainland China	4.8
Consumer Discretionary		
Alibaba (E-commerce retailer)	Mainland China	3.8
ANTA Sports (Athletic footwear and apparel retailer)	Mainland China	1.7
China Tourism Group Duty Free (Duty free services)	Mainland China	3.6
Fuyao Glass (Automotive glass manufacturer)	Mainland China	1.2
Haier Smart Home (Consumer appliances mfr.)	Mainland China	1.6
JD.com (E-commerce retailer)	Mainland China	3.1
Li-Ning (Athletic footwear and apparel retailer)	Mainland China	1.0
Midea Group (Consumer appliances manufacturer)	Mainland China	2.6
Shenzhou International (Textile manufacturer)	Mainland China	2.3
Shuanghuan Driveline (Mechanical equipment mfr.)	Mainland China	1.3
Trip.com Group (Online travel services)	Mainland China	1.4
Consumer Staples		
Budweiser APAC (Alcoholic beverages manufacturer)	Hong Kong	1.0
Foshan Haitian (Condiments manufacturer)	Mainland China	1.1
Moutai (Alcoholic beverages manufacturer)	Mainland China	2.2
Wuliangye Yibin (Alcoholic beverages manufacturer)	Mainland China	1.2
Yili (Dairy products manufacturer)	Mainland China	2.3
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	1.9
Haier Biomedical (Biomedical storage manufacturer)	Mainland China	1.1
Jiangsu Hengrui Medicine (Pharma manufacturer)	Mainland China	1.1
Tigermed (Clinical development services)	Mainland China	2.1

Industrials	Market	End Wt. (%)
AirTAC (Pneumatic-equipment manufacturer)	Taiwan	3.5
CATL (Battery systems manufacturer)	Mainland China	2.6
Haitian International (Injection-molding machines mfr.)	Mainland China	2.2
Hongfa (Power relay manufacturer)	Mainland China	1.0
Inovance (Industrial controls manufacturer)	Mainland China	2.8
Meyer Optoelectronic (Optical machine manufacturer)	Mainland China	1.7
Sanhua Intelligent Controls (HVAC&R parts mfr.)	Mainland China	3.4
SF Holding (Delivery services)	Mainland China	1.9
Techtronic Industries (Power tools manufacturer)	Hong Kong	2.1
Information Technology		
ASM Pacific Technology (Semiconductor eqpt. mfr.)	Hong Kong	0.8
LONGi (Solar equipment manufacturer)	Mainland China	2.8
Sangfor (IT security services)	Mainland China	0.6
Silergy (Electronics chips manufacturer)	Taiwan	1.9
StarPower (Semiconductor manufacturer)	Mainland China	1.2
Sunny Optical (Optical components manufacturer)	Mainland China	2.1
TravelSky (Aviation IT services)	Mainland China	2.9
Yonyou (Enterprise software developer)	Mainland China	1.5
Materials		
Sinocera (Nanoceramics manufacturer)	Mainland China	1.1
Real Estate		
Country Garden Services (Residential property mgr.)	Mainland China	1.6
Utilities		
ENN Energy (Gas pipeline operator)	Mainland China	2.2
Cash		1.3

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.

2Q22 Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Sanhua Intelligent Controls	INDU	2.9	<0.1	1.42
China Tourism Group Duty Free	DSCR	3.1	0.4	0.76
TravelSky	INFT	2.5	<0.1	0.70
Shuanghuan Driveline	DSCR	1.1	–	0.40
LONGi	INFT	2.5	0.5	0.38

Last 12 Mos. Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Sanhua Intelligent Controls	INDU	2.6	0.1	0.85
Meituan*	DSCR	–	2.6	0.46
NIO*	DSCR	–	0.9	0.46
AirTAC	INDU	3.5	–	0.45
AIA Group	FINA	3.4	–	0.39

2Q22 Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Techtronic Industries	INDU	2.8	–	-1.28
Silergy	INFT	2.5	–	-1.11
WuXi AppTec	HLTH	3.5	0.5	-0.51
Meituan*	DSCR	–	2.5	-0.46
BYD*	DSCR	–	1.4	-0.41

Last 12 Mos. Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
WuXi Biologics	HLTH	4.2	1.0	-1.08
Sangfor	INFT	1.8	0.1	-0.81
Shenzhou International	DSCR	2.7	0.4	-0.71
Country Garden Services	RLST	1.7	0.3	-0.64
Sunny Optical	INFT	3.1	0.4	-0.49

*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] (%)	14.7	13.3
Return on Assets[1] (%)	10.0	5.6
Return on Equity[1] (%)	19.9	13.8
Debt/Equity Ratio[1] (%)	19.3	43.6
Std. Dev. of 5 Year ROE[1] (%)	4.0	4.0
Sales Growth[1,2] (%)	23.0	23.0
Earnings Growth[1,2] (%)	25.2	19.2
Cash Flow Growth[1,2] (%)	14.3	15.2
Dividend Growth[1,2] (%)	15.9	18.1

Risk and Valuation	HL CE	MSCI CAS
Price/Earnings[3]	27.6	12.2
Price/Cash Flow[3]	22.8	11.5
Price/Book[3]	3.9	2.3
Dividend Yield[4] (%)	1.0	2.1
Size		
Wtd. Median Mkt. Cap. (US $B)	37.2	35.1
Wtd. Avg. Mkt. Cap. (US $B)	79.0	101.1

[1]Weighted median; [2]Trailing five years, annualized; [3]Three-year average; [3]Weighted harmonic mean; [4]Weighted mean. Source FactSet (Run Date: July 6, 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
Sinocera	Mainland China	MATS
StarPower	Mainland China	INFT

Positions Sold	Market	Sector
There were no completed sales this quarter.		

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 June 30, 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]	-15.76	-16.15	-11.70	+	+	N.A.[5]	1	4	50,423
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 March 31, 2022. 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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