Global Equity ADR

Quarterly Report | Third Quarter 2024

What's Inside

Get More Online

Insights →
View other reports.

Composite Performance

Total Return (%) — Periods Ended September 30, 2024

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
HL Global Equity ADR (Gross)	5.25	16.37	32.17	2.68	11.94	10.55	9.69
HL Global Equity ADR (Net)	5.03	15.66	31.12	1.88	11.08	9.68	8.81
MSCI All Country World Index	6.72	19.08	32.35	8.59	12.70	9.93	7.85
MSCI World Index	6.46	19.28	33.03	9.60	13.57	10.64	8.05

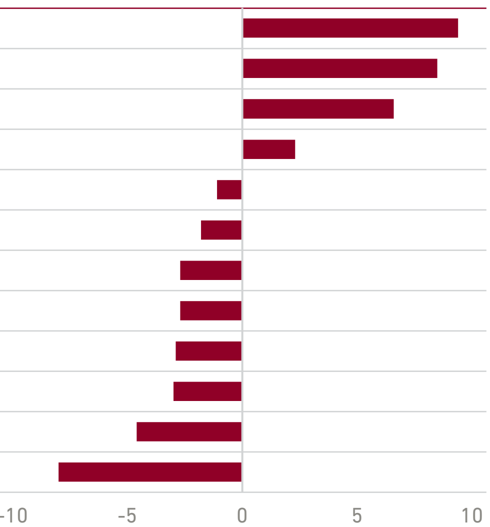
The composite performance returns shown are preliminary. Returns are annualized for periods greater than one year. Global Equity ADR composite inception date: November 30, 1989 corresponds to that of the linked Global Equity composite. MSCI All Country World Index, the benchmark index, and MSCI World Index, the supplemental index, are shown 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)

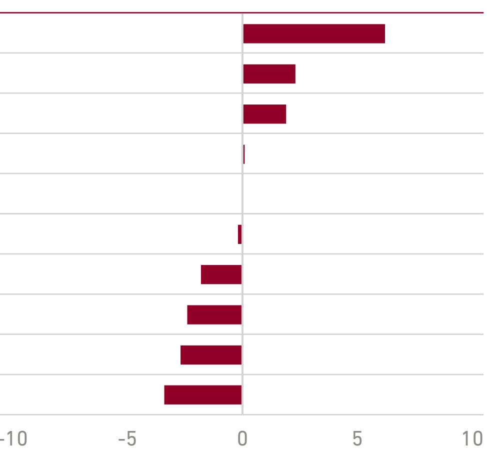
Sector	HL	Index
Health Care	20.3	10.9
Comm Services	16.3	7.8
Industrials	17.2	10.6
Cash	2.3	–
Real Estate	1.1	2.2
Info Technology	22.7	24.5
Cons Discretionary	7.9	10.6
Utilities	0.0	2.7
Materials	1.2	4.1
Energy	1.0	4.0
Cons Staples	1.8	6.4
Financials	8.2	16.2

Under / Over



Geography	HL	Index
Europe ex EMU	13.4	7.2
Cash	2.3	–
Europe EMU	9.4	7.5
Japan	5.1	5.0
Frontier Markets	0.0	–
Middle East	0.0	0.2
Pacific ex Japan	0.8	2.6
US	61.8	64.2
Canada	0.0	2.7
Emerging Markets	7.2	10.6

Under / Over



"HL": Global Equity ADR model portfolio. "Index": MSCI All Country World Index. "Frontier Markets": Includes countries with less-developed markets outside the index.

Sector and geographic allocations are supplemental information only and complement the fully compliant Global Equity ADR Composite GIPS Presentation. Source: Harding Loevner Global Equity ADR model, FactSet, MSCI Inc. 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.

This page intentionally left blank.

Market Review

Global markets advanced during the quarter, with all regions posting gains. However, sector leadership shifted to more interest rate-sensitive sectors as global monetary conditions changed.

This quarter marked the end of the US rate-hike cycle that began in early 2022 to tame surging inflation triggered by the COVID-19 pandemic and its aftermath. With inflation heading back to the Federal Reserve's target, the central bank shifted its focus to its second mandate: maximizing employment. After keeping rates unchanged in July, the Fed cut the federal funds rate by half a percentage point in September to head off further weakening in the labor market. The European Central Bank also lowered rates, delivering its second cut in three months to support the region's faltering economy, now that inflation is cooling there as well.

Conversely, Japan's central bank caught markets off guard with an interest rate *hike* in late July, causing a swift appreciation of the yen. This sudden currency shift disrupted the widely used yen carry trade, a popular strategy where investors borrowed at low Japanese rates to purchase higher-yielding foreign assets. The rapid unwinding of these positions, combined with weaker US economic data and disappointing earnings from US technology giants, ignited a market firestorm. The resulting volatility culminated in a dramatic 12% drop in Japan's Nikkei index on August 5, a marked sell-off in stocks with positive price momentum, and a spike in expected US equity-market volatility to 40%—a level not seen outside of major crises.

But markets rebounded almost as quickly as they had fallen. By the end of August, all regions and sectors recovered from the brief but intense period of disruption to post gains for the month.

Toward the end of the quarter, China unveiled a sweeping stimulus package aimed at reducing borrowing costs to boost credit availability. Key measures included lowering the minimum down payment on mortgages to 15% to stabilize the struggling residential real estate market, as well as the creation of a new lending pool to encourage share buybacks and to enable asset managers to buy more domestic stocks. Additionally, positive signals from the Politburo hinted at further fiscal support to come. Despite a lack of specifics, the end of policy inertia was welcomed by a market facing a fourth consecutive annual decline. The resulting buying frenzy pushed the MSCI China Index up more than 20% in just two weeks—its strongest performance in more than a decade. Year to date, China's market has now outperformed those in the US and Japan. Companies with significant exposure to Chinese consumers, such as European and Japanese cosmetics and luxury-goods makers, also saw their shares rally.

The US dollar weakened in the quarter, with the US Dollar Index (DXY)—which tracks the dollar's performance against a basket of major currencies—falling by nearly 5%, led by the surge in the Japanese yen, which appreciated 12% against the dollar.

> By the end of August, all regions and sectors recovered from the brief but intense period of disruption to post gains for the month.

In the US, the yield of the two-year Treasury bond fell below its 10-year counterpart, ending the prolonged yield curve inversion that began in mid-2022 when the Fed started raising rates. Yield curves in Europe showed a similar pattern, with the UK and Germany un-inverting, and the spread widening further in France, Italy, and Spain. The US 10-year yield declined 73 basis points (bps) to 3.63%, giving a noticeable benefit to potential homebuyers via lower mortgage rates. European bond yields declined more modestly.

Despite escalating Middle East tensions and a late-quarter recovery in industrial metals prices spurred by China's stimulus, the Bloomberg Commodity Index declined about 3% in the quarter, largely due to a drop in oil prices. Brent crude fell US$15, settling at US$72 per barrel, as expectations of increased supplies from

MSCI ACWI Index Performance (USD %)

Sector	3Q 2024	Trailing 12 Months
Communication Services	4.4	37.7
Consumer Discretionary	9.4	25.7
Consumer Staples	9.5	18.9
Energy	-1.9	4.0
Financials	10.8	37.1
Health Care	6.3	21.4
Industrials	10.3	34.3
Information Technology	1.2	48.7
Materials	9.8	21.2
Real Estate	17.1	31.2
Utilities	16.8	36.8
Geography	**3Q 2024**	**Trailing 12 Months**
Canada	12.2	27.7
Emerging Markets	8.9	26.5
Europe EMU	7.4	27.9
Europe ex EMU	5.8	24.1
Japan	5.9	22.0
Middle East	12.5	32.9
Pacific ex Japan	14.3	28.3
United States	5.9	36.2
MSCI ACWI Index	6.7	32.3

Source: FactSet, MSCI Inc. Data as of September 30, 2024.

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 September 30, 2024 is available on page 9 of this report.

OPEC and rumors that Saudi Arabia may abandon its US$100 per barrel target weighed on the market.

From a sector perspective, interest-rate-sensitive sectors such as Utilities, Financials, and Real Estate posted the strongest gains, while former leaders Information Technology (IT) and Communication Services both lagged. The semiconductors & semiconductor equipment industry was especially weak, falling roughly 4%. Industrials fared well, buoyed by Capital Goods stocks, while the Energy sector declined, dragged down by lower oil prices.

The Pacific ex Japan region was the top performer, lifted by the nearly 25% return in Hong Kong, which rose sharply late in the quarter, moving in step with the Chinese market. Despite its heavy exposure to Energy stocks, Canada did well due to strong gains in Financials. The US trailed non-US stocks, including Emerging Markets (EMs), as it was weighed down by reversals in index heavyweights like **Microsoft** and **Alphabet**.

In terms of style effects, the fastest-growing companies significantly underperformed, reversing the trend from last quarter. The top quintile of growth stocks fell 1%, while all other quintiles gained 8% or more. High-quality stocks also lagged. The MSCI ACWI Momentum Index, which emphasizes stocks with large recent price gains, underperformed this quarter but remains about 13 percentage points ahead of the core index for the year. Across the main MSCI style indices, value outpaced growth in all regions except EMs, with the US showing the largest performance gap of about 700 bps.

Performance and Attribution

The Global Equity ADR composite rose 5.3% gross of fees in the third quarter, trailing the 6.7% gain in the MSCI ACWI Index, as a timely shift in the portfolio's IT investment mix and a strong showing in Health Care failed to offset weak performance among the stocks of several Communications Services and Consumer Discretionary companies in the US.

In IT, we benefited from our decision earlier in the year to reduce our exposure to semiconductor stocks, which underperformed the sector in the third quarter. Unlike previous quarters, the market's gains were not concentrated in the "Magnificent 7," as investors began to question whether the adoption of generative AI will justify the large outlays for specialized AI chips. Our decision to not own chipmaker NVIDIA, whose shares fell, was one of our largest sources of relative return. Strong performance by software providers **Accenture** and **SAP** also offset the relative underperformance of semiconductor-equipment manufacturers **Applied Materials** and ASML (we sold ASML, which is discussed later in this report).

Stock selection was strongest in Health Care, led by Japan-based **Chugai Pharmaceutical**. Export sales of Chugai's hemophilia treatment Hemlibra to its partner **Roche** jumped 79% year over year as the Swiss company restocked.

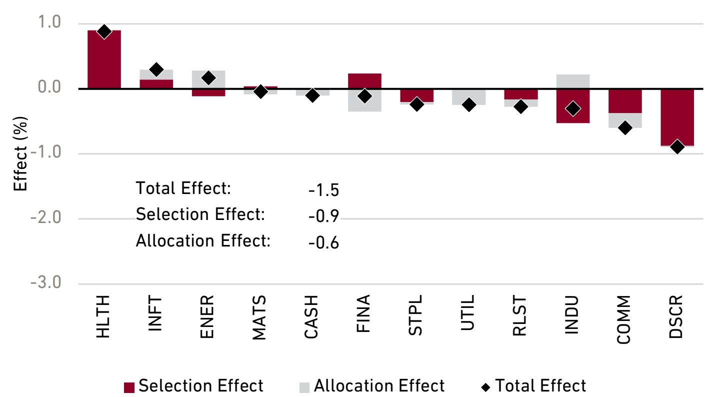
Our two biggest detractors were within Communication Services. **Pinterest** reported revenue that topped consensus estimates; however, the stock fell in response to management's weaker-than-expected outlook for third-quarter sales. Despite Alphabet making progress on its AI initiatives and reporting results for its search business that were in line with expectations, the stock fell due to slower-than-expected growth at YouTube as well as concern that the company's spending on AI will hurt profit margins.

In Consumer Discretionary, weak consumption negatively affected **Amazon.com** and **Kering**. Although growth in the Amazon Web Services division accelerated as corporate customers modernize their IT infrastructure, the market was left disappointed by Amazon's retail business, which grew more slowly than expected due to consumers switching to cheaper alternatives. Shares of France's Kering were dragged down by mounting concerns over

Third Quarter 2024 Performance Attribution

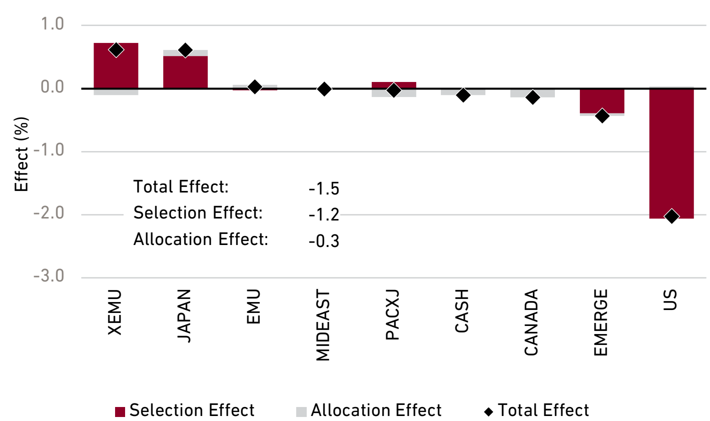
Sector

Global Equity ADR Composite vs. MSCI ACWI Index



Geography

Global Equity ADR Composite vs. MSCI ACWI Index



Source: Harding Loevner Global Equity ADR composite, FactSet, MSCI Inc. Data as of September 30, 2024. 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.

weak demand for luxury goods, especially among consumers in China.

Our underweight in Financials and lack of holdings in Utilities also detracted from returns. Stock selection in Financials was positive, mainly due to Dutch payments provider **Adyen** and Hong Kong-based insurer **AIA Group**. Adyen's quarterly results and outlook were better than investors had feared, while AIA's stock surged alongside China's overall market in late September in response to the country's latest measures to stimulate the economy.

> In IT, we benefited from our decision earlier in the year to reduce our exposure to semiconductor stocks, which underperformed the sector in the third quarter.

By region, the US was the largest detractor, primarily due to Alphabet and Pinterest. Japan was a top contributor, primarily due to Chugai. Stock selection was also broadly positive across Europe, led by Adyen as well as UK-based **Haleon**. The consumer-health company was able to maintain modest growth in sales volumes while raising prices, and its toothpaste business and daily supplements business both grew faster than expected.

By style, our tilt toward growth— though reduced over the past few years by exiting some of our most expensive, and faster-growing, holdings—still hurt us this quarter, as the fastest-growing quintile of the market performed the worst. While quality also underperformed, our holdings in the highest and second-highest quintiles of quality contributed the most to our performance.

Perspective and Outlook

This year the Global Equity ADR portfolio underperformed its benchmark because we held too few of the large index stocks that have risen the most. It's particularly frustrating because some of these top performers are high-quality, growing companies within our opportunity set that we do not currently own. Portfolio analytics indicate that our portfolio exhibits a small negative exposure to the "momentum factor" even as we take care to emphasize other attributes, especially those of high quality and rapid growth, in the companies we own. As we discuss below, we think the analytical observation is a misdirection, pointing towards actions unlikely to help us achieve future outperformance.

Price momentum refers to the well-documented phenomenon where securities whose prices have risen are more likely to keep rising in the short run, while those that have fallen are more likely to experience further declines. The precise causes of this phenomenon are debated, but the evidence is strong enough for it to be classified as a "factor"— a recurring pattern associated with positive excess returns. We're persuaded that momentum is closely linked to investor psychology, namely conservatism in (under-)reacting to new information, and the tendency to extrapolate existing trends. The concept of momentum has garnered sufficient adherents to secure its place in the pantheon of portfolio analytics and inspire the creation of numerous indices and ETFs designed to exploit it, as well as a group of active investors that range from the most sophisticated quants to the most naive amateurs.

We have deliberately resisted incorporating the momentum factor into our investment process for several reasons. First, despite being well documented, simple price momentum does not provide a fundamental basis for making investment decisions. Serial correlation of share price changes has, at best, a weak connection to the underlying business you're investing in, and nothing to do with what it is worth. Second, momentum investing is literally "chasing" stocks that have already gone up or outperformed (or selling those that already went down or underperformed). This approach carries real-world costs. Our trading desk estimates that trades executed in a stock with strong momentum cost, on average across all markets, up to 400 basis points more than trades involving stocks with little or no price momentum. For a strategy such as ours, which turns over its portfolio roughly 25% a year, a 4% trading penalty would subtract 100 basis points of alpha every

Cumulative Excess Returns

MSCI ACWI Momentum Index vs. MSCI ACWI Index

Source: MSCI Inc., Bloomberg. Data as of September 30, 2024.

year. Even worse, attempting to keep up with the ever-changing group of momentum stock leaders typically demands significantly more than 25% annual turnover, while frequently conflicting with our fundamental and longer-term investment conclusions.

Third, although momentum investing has shown net positive returns over very long periods, there is considerable volatility in its return path, with frequent momentum reversals leading to sharp "drawdowns" in performance. This whipsaw effect makes momentum investing much harder to stomach in practice than it appears in theory. Moreover, unlike high-quality portfolios or even value portfolios, where drawdowns typically increase future expected returns, a momentum reversal offers no such silver lining. In fact, when momentum turns against you, there's reason to believe that the portfolio has become less attractive, not more.

> Serial correlation of share price changes has, at best, a weak connection to the underlying business you're investing in, and nothing to do with what it is worth.

The biggest drawback may lie in a related but distinct area. Over the last 18 months, disciplined fundamental investors have been challenged by an episode of momentum concentrated in a few of the largest stocks in the market. When the biggest companies, with the largest market capitalizations, experience highly correlated share-price rallies, momentum returns become aligned with overall market returns. In such cases, a more troubling form of momentum emerges—one increasingly driven by the fear of missing out (FOMO).

Investors who hold the winning stocks are happy to hold on, while those who don't quickly feel the pressure of "missing out," amplified by the constant media coverage that acts as free advertising for these market leaders. Passive investors inadvertently pour more capital into these heavyweight stocks in ever-increasing percentages, further amplifying their impact. As a result, the momentum behind these stocks grows ever stronger, and they come to dominate index returns. All (human) investors who measure themselves against a benchmark index feel drawn to jump on the bandwagon.

> Although momentum investing has shown net positive returns over very long periods, there is considerable volatility in its return path, with frequent momentum reversals leading to sharp "drawdowns" in performance.

There can be, naturally, a link between stock-price momentum and company fundamentals: When a profound and structural change is harnessed by one or more companies over a long period, sustained profit growth should find itself linked to an extended share-price appreciation. A clear example is **Apple**, where even casual observers can recognize the transformative impact its products have had on consumer behavior, a shift reflected in its share price over the past two decades. Less iconic examples include **Schneider Electric**'s role in the global trend toward electrification of industry this decade and L'Oréal's expansion into emerging markets with branded cosmetics products over thirty years.

Most equity investors fail to immediately appreciate the scale and longevity of such trends. This delay—what's referred to above as under-reaction behavior—allows fundamental growth to drive price momentum, by enabling a sustained compounding of earning that surpasses the attention span of initial excitement. Research by Hendrik Bessembinder illustrates that these "profound and structural changes" tend to follow a power-law distribution—a pattern seen in the returns of venture capital: a small number of incidents have a disproportionate impact, often referred to as the 80/20 rule. A minority of companies experience sustained appreciation due to real, underlying causes, making these few cases the most consequential in terms of value creation.

An aversion to momentum, perhaps formalized with a pre-committed, mechanical sale rule, risks forfeiting enormous potential gains when an extraordinary case delivers a disproportionately large and sustained run of value creation. This possibility is worth serious consideration in today's market, where we see such dynamics possibly at play with NVIDIA in the US, leading weight-loss drug developers Novo Nordisk of Denmark or Eli Lilly in the US, and the broader Artificial Intelligence ecosystem residing primarily within the IT sector.

Nevertheless, most of the time investors tend to overestimate the number of transformative changes that will actually materialize, often falling into a pattern of "being slow to overreact" as one of our colleagues aptly described the behavioral two-step that has fueled many instances of momentum and inevitable reversals. The FOMO response to price momentum is clearly associated with poor investment decisions, and, in our experience, is most acute when it's most dangerous—near the peak of market trends, or worse, an investment bubble. We suspect that FOMO has been a significant element contributing to some of the most damaging drawdowns in the performance record of momentum investing, and we expect it will likely feature in some doozies to come.

For all our tools to promote objectivity and our culture of awareness surrounding the behavioral pitfalls in investing, we can be just as susceptible as other investors to such temptations. To stiffen our resolve, we've made pre-commitments in the form of absolute limits in our risk guidelines, which are primarily aimed at enforcing diversification in our portfolios, but secondarily act as brakes to curb our enthusiasm. We set maximum limits on holdings of single securities to keep us from the most basic of fundamental company infatuations. We also set maximums on aggregate investments in single industries and sectors, as well as individual countries.

These are fixed limits, preferably set in moments of low controversy and neutral enthusiasm for those classifying categories. They later compel us to look through and beyond current fashion and consensus to recall and consider the investment world as it long has been and as it may be again in less florid times. These limits are arrived at from a common-sense perspective, rather than scientifically. We have altered them from time to time as reasonable considerations of changing opportunity size and enduring alterations in market significance have become manifest.

> We suspect that FOMO has been a significant element contributing to some of the most damaging drawdowns in the performance record of momentum investing, and we expect it will likely feature in some doozies to come.

Inevitably, we face pressure to bend or break those risk guideline pre-commitments when FOMO is greatest. (By the way, well-schooled portfolio managers trot out sophisticated terms such as "enforced tracking error" instead of "FOMO.") But our long experience with these absolute limits—such as the benefits of maximum weights in China (2020), in Brazil (2006-7), in Emerging Market banks (2012), in the IT sector (back in 1999-2000), and minimum weights in the US (2004-5) and in Japan (1998)—serves as positive reinforcement for a discipline that some find to be commercially unhelpful, and others find to be simply constraining without a corresponding well-researched theoretical underpinning.

For the moment, as is visible in the graph above, the fever for AI-related semiconductor stocks and the first wave of weight-loss drugmakers has broken, oddly at the same time that the crowding into Japanese stocks with low price-to-book ratios did. No possible investment thesis that we have heard can tie all three of those market themes together, but they all fell apart as one in less than a month over the summer. And that's really the problem with momentum investing: It works until it doesn't, and when it doesn't, all the gains you made can be reversed more quickly than you can exit the market. Gains of months are squandered in days.

Portfolio Highlights

One of the most famous maxims in the world of chipmaking is what's known as Moore's Law, after Intel co-founder Gordon Moore, who in 1975 accurately predicted that the number of transistors on an integrated circuit would double about every two years with minimal cost increases. In 2012, pharmaceutical researchers used awareness of the concept to note that essentially the opposite was happening in their industry: Every nine years, according to their data, the number of new drugs approved per dollar invested in pharmaceutical R&D in the US has fallen by half, an eightyfold decline in efficiency since 1950. The researchers coined their observation Eroom's Law—Moore spelled backwards.

We agree that inefficient R&D can be an unattractive feature of the pharmaceutical industry, and our holdings in Health Care—our largest sector overweight—reflect this concern. It is why the drugmakers we do hold (**AbbVie**, Chugai, **Genmab**, and **Vertex Pharmaceuticals**) are among those whose research has yielded commercially successful drugs and whose focused approach to drug discovery may have helped support their R&D efficiency. However, most of our Health Care exposure comes through medtech companies such as **Thermo Fisher Scientific**, **Danaher**, and **Repligen** that aren't negatively affected by Eroom's Law and, as suppliers of equipment and services used by labs, may even benefit from it. Thermo Fisher, which got its start making glass beakers and flasks, is the world's largest provider of life-sciences tools by revenue, while Danaher, a conglomerate, now generates US$24 billion of revenue from biotechnology, life sciences, and diagnostics businesses that it built through years of value-enhancing acquisitions. Repligen, a smaller, more specialized player, provides advanced bioprocessing technologies used to make biologic drugs, including chromatography and filtration products for upstream manufacturing and downstream purification, quality control, and formulation. All three have delivered steady, above-average growth in revenue and profits when compared to the broader industry.

From 2020 to 2022, the COVID-19 pandemic distorted the growth of these companies, as virus-related drug research and inventory stockpiling by customers concerned about supply-chain interruptions dramatically boosted their sales. When industry demand normalized in 2023 and the companies' revenues fell, the market took it as a sign of a more permanent slowdown. However, our analysis led us to a different view, and over the past 18 months, we've used the weakness in the share prices of Thermo Fisher, Danaher, and Repligen as an opportunity to add to our holdings, including this quarter, when we increased our Repligen stake. We think the companies' long-term growth trends are now back on track.

> Although China will likely continue to be a source of growth for L'Oréal, the pace of that growth is slowing to a degree that is not yet reflected in its share price.

Meanwhile, we exited two Consumer Staples holdings whose valuations reflected overly optimistic growth projections. One was L'Oréal, which we had held for 22 years. By building and buying cosmetic brands that increasingly appealed to sophisticated beauty consumers, L'Oréal's revenue tripled from US$13.5 billion to US$44.5 billion over the two decades we owned the stock. However, China is a critical market for L'Oréal, and the decline in Chinese consumer confidence this year has hurt the business.

Although China will likely continue to be a source of growth for L'Oréal, the pace of that growth is slowing to a degree that is not yet reflected in its share price. The other Consumer Staples holding we sold was Costco. Like L'Oréal, Costco is an exceptional business, but with US consumers under increasing pressure due to food inflation and declining savings rates, the dramatic rise in Costco's share price left it with a valuation that was difficult to justify.
We also sold our shares of ASML, a Dutch supplier of advanced photolithography equipment used by the semiconductor industry. ASML, along with NVIDIA (which we sold in the first quarter),

are large index constituents that exemplify the momentum phenomenon discussed in the previous section; while both businesses have been fundamental beneficiaries from AI thus far, their stocks surged over the past two years to a degree that their prices had significantly outrun what their fundamentals at the time could justify. It is difficult to time the sale of momentum stocks, but with the industry's capital expenditures set to reach all-time highs in 2025, and inventory levels rising since the second quarter of this year, the semiconductor industry may be heading for a downturn. Even though ASML has unique technology and a dominant competitive position, we chose to lock in gains and look for other investment opportunities that have yet to attract widespread attention.

For example, Applied Materials benefits from the same secular trend of rising demand for semiconductors but trades at a more attractive valuation. It also benefits from an important technical change in semiconductor manufacturing: Until now, innovation in the semiconductor industry has focused on shrinking the size of each transistor, a process mainly enabled by the cutting-edge lithography machines made by ASML. But as transistor sizes approach their physical limits, the industry is shifting its focus to advanced-packaging technologies that stack many logic and memory chips into a single, increasingly powerful format. Unlike ASML, which is primarily focused on lithography, Applied Materials is a key supplier of advanced-packaging machines, and its expertise is likely to become more important in the coming years.

Lastly, a note on political uncertainty and our US exposure. Countries that are home to almost half of the world's population will have held national elections in 2024. By the time of our next report, we will know the result of one of the most significant, the US presidential election. It could have implications for the global economy as well as the 60% of our portfolio invested in US stocks. We can't predict the outcome of the election, or which campaign pledges will be implemented, but we have examined the various risks and have made no changes in response.

> Unlike ASML, which is primarily focused on lithography, Applied Materials is a key supplier of advanced-packaging machines, and its expertise is likely to become more important in the coming years.

That said, throughout the year, we have continued to reduce the portfolio's more expensive holdings, particularly in the US, while increasing our exposure to high-quality businesses (those with strong balance sheets and cash flows) that we believe can grow in the face of whatever challenges lie ahead. These moves have resulted in the portfolio now being underweight the US relative to the index. Should the election produce undue market volatility and price dislocations in otherwise high-quality businesses, we're prepared to take advantage of opportunities to increase our weightings of US quality growth companies at more reasonable prices.

Portfolio Management Team Update

As previously announced, Rick Schmidt, CFA, became a co-lead portfolio manager of the Global Equity strategy on October 1, replacing Peter Baughan, who will retire from Harding Loevner at year end. Rick brings long, broad, and deep experience to the job, having managed a paper portfolio for Global since 2014. Jingyi Li will remain the other co-lead portfolio manager, while Sean Contant, CFA, and Moon Surana, CFA, support the strategy as paper portfolio managers.

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.

Global Equity ADR Holdings (as of September 30, 2024)

Communication Services	Market	End Wt. (%)
Alphabet (Internet products and services)	US	4.0
Meta Platforms (Virtual reality and social network)	US	4.7
Netflix (Entertainment provider)	US	2.9
Pinterest (Social network)	US	1.5
Rightmove (Online property listings operator)	UK	1.1
Tencent (Internet and IT services)	China	2.1
Consumer Discretionary		
Amazon.com (E-commerce retailer)	US	4.1
Compass Group (Contract food services)	UK	1.2
Kering (Luxury goods manufacturer)	France	0.7
Sony (Japanese conglomerate)	Japan	1.9
Consumer Staples		
Haleon (Consumer health products manufacturer)	UK	0.9
Walmart de México (Foods and cons. products retailer)	Mexico	0.9
Energy		
SLB (Oilfield services)	US	1.0
Financials		
Adyen (Payment processing services)	Netherlands	0.9
AIA Group (Insurance provider)	Hong Kong	0.8
Bank Central Asia (Commercial bank)	Indonesia	0.9
CME Group (Derivatives exchange and trading services)	US	2.2
HDFC Bank (Commercial bank)	India	1.2
Tradeweb (Electronic financial trading services)	US	1.7
XP (Broker dealer and financial services)	Brazil	0.5
Health Care		
AbbVie (Biopharmaceutical manufacturer)	US	1.2
Alcon (Eye care products manufacturer)	Switzerland	2.5
Chugai Pharmaceutical (Pharma manufacturer)	Japan	2.0
Danaher (Diversified science and tech. products and svcs.)	US	1.6
Genmab (Oncology drug manufacturer)	Denmark	0.7
Intuitive Surgical (Medical equipment manufacturer)	US	1.6
Repligen (Biopharma equipment supplier)	US	1.0
Roche (Pharma and diagnostic equipment manufacturer)	Switzerland	1.2
Thermo Fisher Scientific (Health care products & svcs.)	US	2.7
UnitedHealth Group (Health care support services)	US	2.0
Vertex Pharmaceuticals (Pharma manufacturer)	US	3.7

Industrials	Market	End Wt. (%)
Alfa Laval (Industrial equipment manufacturer)	Sweden	1.2
Atkore (Electrical conduit manufacturer)	US	0.3
Atlas Copco (Industrial equipment manufacturer)	Sweden	1.2
Diploma (Specialized technical services)	UK	1.3
Epiroc (Industrial equipment manufacturer)	Sweden	1.1
Honeywell (Diversified technology and product mfr.)	US	0.9
John Deere (Industrial equipment manufacturer)	US	1.9
MISUMI Group (Machinery-parts supplier)	Japan	1.3
Northrop Grumman (Aerospace and defense mfr.)	US	0.9
Rockwell Automation (Manufacturing IT provider)	US	1.4
Schneider Electric (Energy management products)	France	4.7
SGS (Quality assurance services)	Switzerland	1.0
Information Technology		
Accenture (Professional services consultant)	US	1.9
Adobe (Software developer)	US	1.3
Apple (Consumer electronics and software developer)	US	2.7
Applied Materials (Semiconductor & display eqpt. mfr.)	US	1.5
Broadcom (Semiconductor manufacturer)	US	1.7
Globant (Software developer)	US	0.9
Microsoft (Consumer electronics & software developer)	US	4.4
Salesforce (Customer relationship mgmt. software)	US	2.1
SAP (Enterprise software developer)	Germany	2.0
ServiceNow (Enterprise resource planning software)	US	1.6
Synopsys (Chip-design software developer)	US	1.1
TSMC (Semiconductor manufacturer)	Taiwan	1.6
Materials		
Symrise (Fragrances and flavors manufacturer)	Germany	1.2
Real Estate		
CoStar (Real estate information services)	US	1.1
Utilities		
No Holdings		
Cash		2.3

Model portfolio holdings are supplemental information only and complement the fully compliant Global Equity ADR 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.

3Q24 Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL	Avg. Weight Index	Effect
Chugai Pharmaceutical	HLTH	1.9	<0.1	0.43
NVIDIA*	INFT	–	3.9	0.34
Meta Platforms	COMM	4.5	1.5	0.20
Adyen	FINA	0.8	<0.1	0.17
Haleon	STPL	0.9	<0.1	0.16

Last 12 Mos. Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL	Avg. Weight Index	Effect
Meta Platforms	COMM	4.3	1.4	1.47
Schneider Electric	INDU	4.4	0.2	1.08
Netflix	COMM	2.4	0.4	0.84
Broadcom	INFT	1.7	0.8	0.56
SAP	INFT	1.7	0.3	0.55

3Q24 Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL	Avg. Weight Index	Effect
Pinterest	COMM	1.6	<0.1	-0.69
Applied Materials	INFT	1.6	0.2	-0.33
Alphabet	COMM	4.2	2.5	-0.30
Vertex Pharmaceuticals	HLTH	4.0	0.2	-0.29
Synopsys	INFT	1.2	0.1	-0.27

Last 12 Mos. Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL	Avg. Weight Index	Effect
NVIDIA	INFT	0.6	2.9	-1.77
SLB	ENER	1.3	0.1	-1.01
Kering	DSCR	1.0	<0.1	-0.91
Genmab	HLTH	1.0	<0.1	-0.84
Rockwell Automation	INDU	1.7	<0.1	-0.74

*Company was not held in the portfolio; its absence had an impact on the portfolio's return relative to the index.
"HL": Global Equity ADR composite. "Index": MSCI All Country World Index.

Portfolio Characteristics

Quality and Growth	HL	Index
Profit Margin[1] (%)	16.0	15.4
Return on Assets[1] (%)	9.4	8.9
Return on Equity[1] (%)	22.2	19.0
Debt/Equity Ratio[1] (%)	36.4	63.7
Std. Dev. of 5 Year ROE[1] (%)	4.5	5.8
Sales Growth[1,2] (%)	11.4	8.2
Earnings Growth[1,2] (%)	13.8	12.5
Cash Flow Growth[1,2] (%)	14.1	12.5
Dividend Growth[1,2] (%)	10.2	8.2
Size and Turnover	**HL**	**Index**
Wtd. Median Mkt. Cap. (US $B)	166.6	122.6
Wtd. Avg. Mkt. Cap. (US $B)	617.4	649.1
Turnover[3] (Annual %)	31.2	–

Risk and Valuation	HL	Index
Alpha[2] (%)	-1.35	–
Beta[2]	1.08	–
R-Squared[2]	0.91	–
Active Share[3] (%)	81	–
Standard Deviation[2] (%)	19.47	17.23
Sharpe Ratio[2]	0.49	0.60
Tracking Error[2] (%)	5.9	–
Information Ratio[2]	-0.13	–
Up/Down Capture[2]	106/108	–
Price/Earnings[4]	31.8	22.3
Price/Cash Flow[4]	21.6	14.9
Price/Book[4]	5.6	3.2
Dividend Yield[5] (%)	1.0	1.8

[1]Weighted median. [2]Trailing five years, annualized. [3]Five-year average. [4]Weighted harmonic mean. [5]Weighted mean. Source: (Risk characteristics): Harding Loevner Global Equity ADR composite based on the composite returns, gross of fees, eVestment Alliance LLC, MSCI Inc. Source: (other characteristics): Harding Loevner Global Equity ADR model based on the underlying holdings, FactSet (Run Date: October 3, 2024) based on the latest available data in FactSet on this date.), MSCI Inc.

Completed Portfolio Transactions

Positions Established	Market	Sector
Alfa Laval	Sweden	INDU
Compass Group	UK	DSCR
Walmart de México	Mexico	STPL

Positions Sold	Market	Sector
ASML	Netherlands	INFT
Costco	US	STPL
L'Oréal	France	STPL
Spirax-Sarco	UK	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 and the last 12 months. 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. Performance of contributors and detractors is net of fees, which is calculated by taking the difference between net and gross composite performance for the Global Equity ADR strategy prorated by asset weight in the portfolio and subtracted from each security's return. Contributors and detractors exclude cash and securities in the composite not held in the model portfolio. Quarterly data is not annualized. Portfolio attribution and characteristics are supplemental information only and complement the fully compliant Global Equity ADR Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

Global Equity ADR Composite Performance (as of September 30, 2024)

	HL Global ADR Gross (%)	HL Global ADR Net (%)	MSCI ACWI[1] (%)	MSCI World[2] (%)	HL Global ADR 3-yr. Std. Deviation[3] (%)	MSCI ACWI 3-yr. Std. Deviation[3] (%)	MSCI World 3-yr. Std. Deviation[3] (%)	Internal Dispersion[4] (%)	No. of Accounts[5]	Composite Assets[5] ($M)	Strategy Advisory Only Assets ($M)	Firm Assets ($M)
2024 YTD[6]	16.37	15.66	19.08	19.28	19.87	16.34	16.77	N.A.	3	13	613	41,856
2023	28.45	27.48	22.81	24.42	19.95	16.27	16.75	N.M.	3	9	593	43,924
2022	-31.67	-32.22	-17.96	-17.73	22.56	19.86	20.43	N.M.	6	27	638	47,607
2021	18.80	17.95	19.04	22.35	16.85	16.83	17.05	N.M.	5	32	1,061	75,084
2020	32.01	30.96	16.82	16.50	18.50	18.12	18.26	N.M.	6	30	780	74,496
2019	28.18	27.18	27.30	28.40	12.51	11.21	11.13	N.M.	5	23	588	64,306
2018	-9.05	-9.85	-8.93	-8.20	11.85	10.48	10.39	N.M.	2	2	422	49,892
2017	32.97	32.00	24.62	23.07	11.33	10.37	10.24	N.M.	3	3	271	54,003
2016	5.91	5.04	8.48	8.15	11.56	11.07	10.94	N.M.	3	2	148	38,996
2015	2.89	2.07	-1.84	-0.32	11.22	10.78	10.80	N.M.	5	4	73	33,296
2014	6.34	5.47	4.71	5.50	10.90	10.48	10.21	N.M.	5	4	51	35,005

[1]Benchmark index. [2]Supplemental index. [3]Variability of the composite, gross of fees, and the index returns over the preceding 36-month period, annualized. [4]Asset-weighted standard deviation (gross of fees). [5]Total product accounts and assets are 3385 and 640 million, respectively, at September 30, 2024, and both include separately managed and advisory-only assets. [6]The 2024 YTD performance returns and assets shown are preliminary. N.A.–Internal dispersion less than a 12-month period. N.M.–Information is not statistically significant due to an insufficient number of portfolios in the composite for the entire year. Strategy Advisory Only Assets and total product accounts and assets are supplemental information.

The Global Equity ADR composite contains fully discretionary, dual contract, fee-paying accounts that may also pay a wrap fee to their custodian investing in US and non-US equity and equity-equivalent securities and cash reserves. The composite was re-defined in March 2018, to allow for the inclusion of dual contract wrap portfolios. The percentage of wrap assets in the composite as of December 31, 2023 was 0.00%, as of December 31, 2022 was 0.00%, as of December 31, 2021 was 0.00%, as of December 31, 2020 was 3.59%, as of December 31, 2019 was 3.65%, and as of December 31, 2018 was 42.46%. Securities are held in Depository Receipt (DR) form, including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), or are otherwise traded on US exchanges. For comparison purposes the composite return is measured against the MSCI All Country World Total Return Index. 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 All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 47 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The index consists of 23 developed market countries. You cannot invest directly in these indexes.

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 June 30, 2024.

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. The Global Equity ADR composite has been examined for the periods December 1, 1989 through June 30, 2024. The verification and performance examination reports are available upon request. 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.

Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of AMG (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

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.

Under a wrap fee program, a client is charged a specified fee, which is not based directly upon transactions in a client's account, for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisors) and execution of client transactions.

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 Global Equity ADR accounts is 0.80% annually of the market value for the first $20 million and 0.40% above $20 million. Refer to Part 2A of our Form ADV for more details regarding our fees. 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 Global Equity ADR composite was created on October 31, 2001 and the performance inception date is November 30, 1989.

This page intentionally left blank.