Global Developed Markets Equity

Quarterly Report | Third Quarter 2022

HARDING LOEVNER

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Composite Performance

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

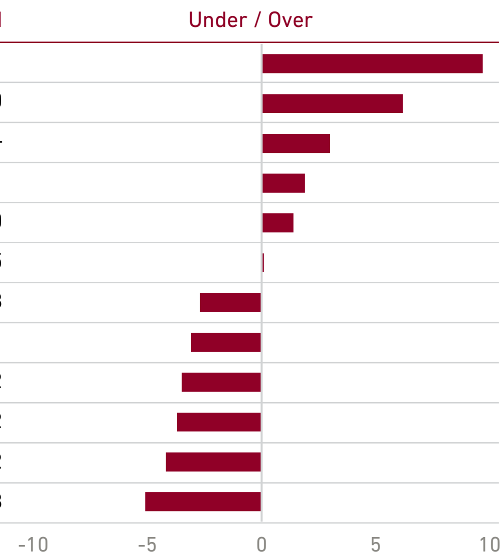
	3 Months	YTD	1 Year	3 Years[2]	5 Years[2]	Since Inception[2,3]
HL Global Dev. Markets Equity (Gross of Fees)	-4.30	-34.48	-30.54	5.99	6.74	9.29
HL Global Dev. Markets Equity (Net of Fees)	-4.39	-34.69	-30.82	5.57	6.32	8.86
MSCI World Index[4,5]	-6.08	-25.13	-19.25	5.06	5.84	7.41
MSCI All Country World Index[5,6]	-6.71	-25.34	-20.29	4.23	4.96	6.72

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: September 30, 2013; [4]The benchmark index; [5]Gross of withholding taxes; [6]Supplemental index.

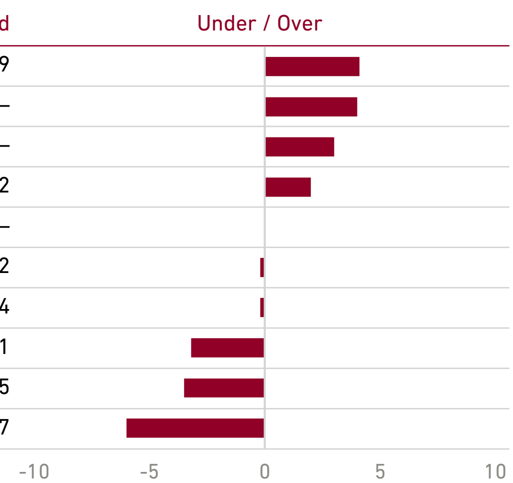
Past Performance does not guarantee future results. Invested capital is at risk of loss. Please read the above performance in conjunction with the footnotes on the last page of this report. All performance and data shown are in US dollar terms, unless otherwise noted.

Portfolio Positioning (% Weight)

Sector	HL GDM	MSCI World
Health Care	23.8	14.1
Industrials	16.2	10.0
Cash	3.0	–
Info Technology	23.0	21.1
Comm Services	8.4	7.0
Financials	13.6	13.5
Real Estate	0.1	2.8
Utilities	0.0	3.1
Cons Discretionary	7.7	11.2
Energy	1.5	5.2
Materials	0.0	4.2
Cons Staples	2.7	7.8



Geography	HL GDM	MSCI World
Europe ex-EMU	13.0	8.9
Emerging Markets	4.0	–
Cash	3.0	–
Europe EMU	10.2	8.2
Frontier Markets[7]	0.0	–
Middle East	0.0	0.2
Pacific ex-Japan	3.2	3.4
Japan	2.9	6.1
Canada	0.0	3.5
US	63.7	69.7



[7]Includes countries with less-developed markets outside the Index.

Sector and geographic allocations are supplemental information only and complement the fully compliant Global Developed Markets Equity Composite GIPS Presentation. Source: Harding Loevner Global Developed Markets 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

Global equity markets fell sharply in the quarter as investors parsed inflation and employment data and speculated on the future direction of central bank policy.

Improving US core inflation measures in July, which conjured the possibility of an earlier-than-expected end to the Federal Reserve's monetary tightening, lifted spirits, and the MSCI World Index rallied more than 10% in the four weeks through mid-August—the largest monthly gain since the unveiling of COVID-19 vaccine trial results in November 2020. Bond prices surged as well, sending the yield on the US 10-year Treasury down almost 100 basis points (bps) from its mid-June high. Accordingly, growth stocks hugely outperformed value stocks in the month. But the brightening of sentiment proved fleeting. While headline inflation continued to moderate due to oil and gas price coming down off their previous highs, underlying measures indicated that price increases were becoming entrenched, and, more worryingly, *expectations of* future inflation were rising, introducing the specter of a wage-price spiral. Global stock markets turned tail and resumed their retreat. The MSCI World Index finished the quarter down 6.1, bringing its year-to-date decline to 25.1%. Bond markets also relapsed, with the Bloomberg Global-Aggregate Index falling 4%.

MSCI World Index Performance (USD %)

Sector	3Q 2022	Trailing 12 Months
Communication Services	-12.9	-38.1
Consumer Discretionary	0.4	-25.7
Consumer Staples	-6.7	-7.4
Energy	-1.1	29.1
Financials	-5.9	-19.0
Health Care	-6.7	-9.5
Industrials	-5.7	-21.7
Information Technology	-6.2	-25.2
Materials	-7.6	-15.9
Real Estate	-11.5	-20.7
Utilities	-8.2	-3.6
Geography	**3Q 2022**	**Trailing 12 Months**
Canada	-7.7	-12.4
Europe EMU	-10.5	-30.1
Europe ex-EMU	-9.8	-18.1
Japan	-7.5	-29.0
Middle East	-1.7	-21.4
Pacific ex-Japan	-8.8	-18.7
United States	-4.7	-17.2
MSCI World Index	-6.1	-19.2

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

The Fed increased short-term interest rates twice in the quarter with a pair of jumbo sized 75 basis point hikes, all the while acknowledging that the chances of a "soft landing" for the US economy were receding. All the major central banks except for the Bank of Japan followed with their own 50–75 bps hikes, including the European Central Bank, the Bank of England, and the Reserve Bank of Australia. Even the Swiss National Bank ended its almost eight-year dalliance with negative borrowing rates. The rapid pace of rate increases, coupled with the energy crisis emanating from the war in Ukraine, weighed heavily on the economic outlook. The Organization for Economic Co-operation and Development (OECD) slashed its global GDP growth forecast for next year to 2.2%, down from 2.8% three months earlier. In Europe, Russia's decision to strangle the continent's natural gas supply sent countries scrambling to fill storage facilities ahead of winter and all but ensured a continental recession.

> About a third of the negative US dollar returns to the Index this quarter were the result of weaker currencies as the US dollar reached a 20-year high.

About a third of the negative US dollar returns to the World Index this quarter were the result of weaker currencies as the US dollar reached a 20-year high as measured by the DXY Index. The cumulative depreciation exacerbates the inflationary impacts of higher imported energy prices and makes it harder for debtor countries and companies to service their US dollar debts.

Nearly every region and sector fell in the quarter. European markets dropped sharply, affected by the unfolding energy crisis. The UK stock market fell in a spectacular paroxysm induced by new Prime Minister Liz Truss's announcement of an aggressive fiscal stimulus package of tax cuts and greater borrowing. UK sovereign bonds ("gilts") were sent tumbling, and the British pound fell to a record low against the US dollar. The Bank of England, caught unawares, hastily announced it would buy bonds "on whatever scale necessary" to stabilize markets, effectively abandoning its earlier commitment to begin reducing the size of its balance sheet. The US market, unmarked by currency weakness, outperformed non-US markets modestly. In Emerging Markets, China faced dimming economic prospects due to its severe property slowdown and COVID-19 lockdowns.

Among sectors, Communication Services fared the worst on concerns over slowing advertising spending. Real Estate suffered a triple whammy of high debt levels, rising financing costs, and weakening economic conditions. Financials were bifurcated between weak insurance stocks—their investment portfolios temporarily impacted by suddenly volatile bond prices—and resurgent banks, which continued to see their lending margins

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, 2022 is available on page 10 of this report.

expand with rising interest rates. Even amid growing pessimism about the economic cycle, Energy managed a smaller decline than the overall market and Consumer Discretionary eked out a positive return.

The outperformance of growth stocks in July fizzled out with the broader market's decline so that by the end of the quarter the factor edge in favor of growth had largely diminished. Shares of higher quality companies—those with more resilient cash flows and less leverage—again offered no safe harbor, except in the sharp declines in the final two weeks of the quarter. Year to date, value stocks, less negatively correlated to interest rates, have outperformed by a wide margin: The performance gap between the cheapest and the most expensive cohort of stocks remains more than 20 percentage points.

Performance and Attribution

The portfolio declined 4.3% during the quarter, gross of fees, outperforming the benchmark's 6.1% decline. For the year to date, the portfolio decline of 34.5% (also gross of fees) trails the return of the Index, down 25.1%.

Positive stock selection in our US-based Industrials holdings was the primary driver of performance this quarter. **John Deere**, the world's largest manufacturer of agricultural equipment, reported fiscal third-quarter growth in revenues and earnings of 22% and 16%, respectively. These results reaffirmed Deere's pricing power, which enabled the company to overcome rising raw material costs and a host of supply chain challenges. Industrial services provider **CoStar** was another significant contributor. The company, the world's largest digital platform for buying, selling, and leasing commercial properties, delivered 12% revenue growth and 36% earnings growth, and increased its earnings guidance for the year following record-high annualized subscriptions and advertising sales across its key services.

Netflix mustered a modest recovery as the market mulled the potential of its new lower-priced ad-supported subscription model to drive revenue growth and reduce its dependency on continued heavy investment in content to attract and retain viewers.

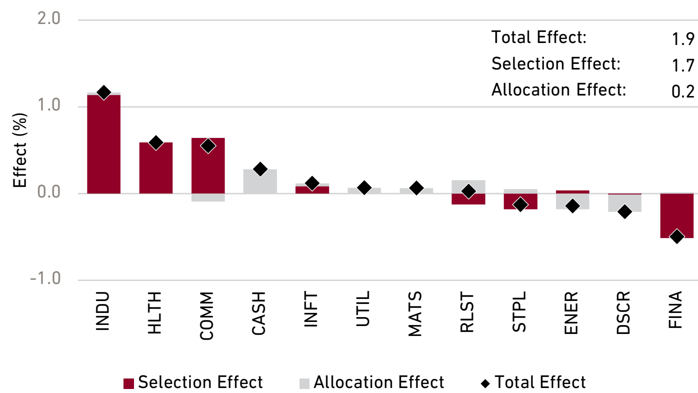
The portfolio also benefited from outperformance within Communication Services. A new highly regarded CEO at **Pinterest** (Bill Ready, formerly of Google and **PayPal**) and the disclosure that savvy activist investor Elliott Management is now the company's largest shareholder helped boost the share price of the social media and commerce platform. **Netflix** also mustered a modest recovery as the market mulled the potential of its new lower-priced ad-supported subscription model to drive revenue growth and reduce its dependency on continued heavy investment in content to attract and retain viewers.

Underperformance was centered in Real Estate and Health Care, where a trio of China-based holdings did the most damage. In Real Estate, **Country Garden Services** (CG Services) has been among our worst performers all year. It is a leading manager of residential properties, many of them built by Country Garden Holdings (CG Holdings), China's largest property developer owned by the same family. Efforts by Chinese regulators to prick the country's gargantuan residential real estate bubble have generated severe strain across the Real Estate sector, with even less-leveraged developers like CG Holdings facing resistance to rolling over their debt or issuing new bonds. The absence of any cross holdings between the two companies has been insufficient to inoculate CG Services from its sister company's woes. As new construction slows, CG Services will inevitably slow as well. Nevertheless, we are

Third Quarter 2022 Performance Attribution

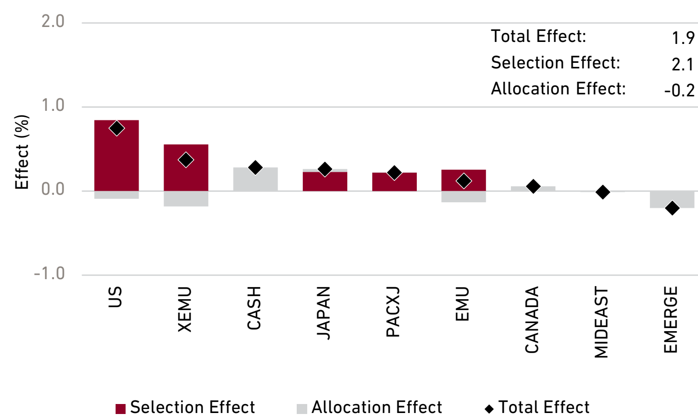
Sector

Global Developed Markets Equity Composite vs. MSCI World Index



Geography

Global Developed Markets Equity Composite vs. MSCI World Index



Source: FactSet; Harding Loevner Global Developed Markets 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.

modestly encouraged by the government's announcement toward the end of the quarter that it will start guaranteeing the bonds of a select group of large non-state-owned developers, including CG Holdings. We think the prospect of anemic growth for CG Services is more than fully reflected in its current valuation because we don't see a risk to its contracts to deliver daily services to tens of thousands of residents across its client properties. CG Services's net cash balance sheet and minimal need to invest allow us to be patient holders as it navigates the challenges facing the Chinese real estate industry.

Our Chinese Health Care holdings, **WuXi AppTec** and **WuXi Biologics**, continued to report strong growth in backlog, sales, and earnings, expanding their global shares in their respective fields of molecule drug discovery and production. Regardless, their share prices came under pressure following an executive order by the Biden administration intended to accelerate development of biotechnology and biomanufacturing in the US, which rekindled concerns that Chinese companies might find themselves cut off from the lucrative US market. It mattered little that the initial details of the White House initiative suggest the measure could be modest, or that WuXi Biologics continued to expand its global footprint in Ireland, Germany, Singapore, and the US, which together now account for a third of its total production capacity.

By geography, stock selection was strong across regions this quarter, more than offsetting the portfolio's overweights in Europe and weak Chinese holdings.

Perspective and Outlook

Within the space of three months, markets have lurched from consensus that the fight against inflation will soon be won toward a despairing view that slaying inflation will require sustained punishment by high interest rates. As practiced observers of both markets and policymakers, we have not put much belief in either narrative or tried to predict which outcome will ultimately drive the markets. (For a recapitulation of our view on market prognostication, see Edmund Bellord and Simon Hallett's "Macro Do's and Don'ts" on page 8.)

Instead, we have intensified our efforts to reconfirm the long-term business prospects of the companies we own and those qualified by our analysts for investment. We aim to build a portfolio of companies that is resilient to changes in the economic environment, knowing full well that we can't predict which environment they will face tomorrow. We are continuously questioning whether they have as defensible a competitive position, as resilient a business model, and as robust a balance sheet as we had previously thought. We seek to uncover unseen vulnerabilities to worsening or new threats. Such threats could be economic in nature, such as a reversion to persistent inflation following two generations of disinflation. They could be financial, such as a shift from negative to positive real interest rates. Or they could be geopolitical, including risks of widening military conflicts with potentially cataclysmic effects on the global economy.

This last one is no longer simply academic. The global economy has already been dramatically affected by the Ukrainian conflict, including by the still-unfolding energy crisis in Europe. Nancy Pelosi's August visit to Taiwan, coming as it did in the wake of the West's strikingly unified response to Russia's invasion of Ukraine, and China's military exercises launched in response offered stark reminders of China's long-term goal of taking back control of Taiwan on its own terms. The risk that Taiwan could be the fuse to ignite an armed conflict pitting the US and its allies against a confident China determined to achieve reunification is one that we may need to push higher up the list of risks we must build our portfolio to withstand. The esoteric concept of "de-globalization" comes into sharper focus when we imagine entire markets being lost to some of the world's most successful—and important—companies, or supply chains permanently severed (rather than temporarily interrupted, as with COVID-19) or assets—financial as well as physical—being seized or destroyed.

> The risk China will invade Taiwan seems low to us. Nevertheless, we don't presume to be experts in US-Sino relations. And even a low probability risk must be prepared for when the event can have catastrophic consequences.

We have viewed that risk as both low and distant in time, and still view it as low. Several factors (such as China's unsettled domestic economic situation and the unified Western response to and military debacle encountered by Russia in Ukraine) substantially reduce the likelihood of imminent invasion. Nevertheless, as Hallett and Bellord note, there is good reason we don't presume to be experts in US-Sino relations. And even a low probability risk must be considered when the event can have catastrophic consequences if preparations aren't made.

Beyond geopolitical risks, the threat from inflation remains at the fore. Few securities analysts working today are experienced in examining companies' resilience to persistent inflation, since for the last 40 years the trend in developed economies has been toward disinflation. We have a leg up since many of our analysts have covered companies in developing countries where inflation has been a persistent concern. Moreover, for at least the past 15 years our valuation models have explicitly incorporated inflation assumptions for every company we cover.

A further complication of analysis under inflationary conditions is that the growth of intangible assets has made it hard to parse the effects of today's inflation on sustainability of profits. In prior inflationary periods, what distinguished winners from losers was pricing power—that is, whether a company could pass higher input costs through to its customers without affecting its unit sales. Another important but secondary factor was whether companies were earning a high enough return to replenish their capital stock. With long asset lives for productive assets, companies would discover that high inflation rendered the replacement cost of assets they were retiring substantially higher than their original cost. Replacement costs could far outrun the cash set aside (or borrowed) for the purpose. Financial statements were not much help in discerning true profitability or cash flow sufficiency because accounting principles approximate replacement cost by using original cost-based depreciation charges.

Today, the value of intellectual property (IP), such as embedded research and development costs, plays a far larger role in fostering the profits of the most rapidly growing companies, and this secondary effect is more difficult to quantify, since there is too little visibility into the accounting inputs to those intangible costs. Also, compared with the ability to renew physical plant and equipment, the ability to renew IP is more vulnerable to the high employment mobility of younger, more educated digital workers. These contemporary twists mean that pricing power may no longer be the paramount measure of a company's inflation resilience; instead, its bargaining power over its IP suppliers (including its employees) has in some cases become more critical.

If 40 years have passed since analysts needed to worry about inflation, it's only been a decade since analysts and portfolio managers last operated in an environment where they needed to take account of positive real interest rates. Although short-term rates are still far below headline inflation in most countries, in the developed world real yields on long sovereign bonds have tipped into positive territory. After a period during which there were almost no limits to the demand for borrowing for just about any purpose, however productive or not, positive real long-term interest rates should at least lead to a more efficient allocation of capital.

> The struggles of UK pensions to meet ensuant margin calls were the catalyst for the intervention by the Bank of England in its domestic bond market. Might similar vulnerabilities exist elsewhere waiting to be exposed?

The journey to sustained higher interest rates, if indeed that is where we are headed, is bound to be bumpy. The most concerning vulnerability exposed (so far) has been the weaknesses hidden in some underfunded UK corporate pension plans that had built up opaque and contorted derivative and collateral structures predicated on well-behaved long-term interest rates. Their struggles to meet ensuant margin calls were the catalyst for the intervention by the Bank of England in its domestic bond market. Might similar vulnerabilities exist elsewhere waiting to be exposed? As always, our preference for transparency and insistence on financial strength at our companies is designed to keep our portfolios relatively sheltered from this kind of distress.

Portfolio Highlights

No sector better encapsulates the challenges for companies inherent in the current economic environment than Industrials. The pandemic laid bare the vulnerability of global industrial supply chains to unforeseen disruption, and rising geopolitical risks are eroding the economic logic that drove their geographic expansion. Manufacturers already reeling from rising costs for labor, materials, energy, and transport are also vulnerable to shortages of critical inputs and the threat of slowing global growth. Such a confluence of challenges will test even the most insightful and capable management teams.

That said, recent data suggest just how fluid is the current environment. Even as concerns mount that inflation is becoming entrenched, costs of certain key inputs, such as steel, iron ore, aluminum, PVC resin, lumber, and trans-Pacific shipping, have fallen in US dollar terms between 20% and 70% year to date (albeit from historically very high prices). Although it's too early to draw any broad conclusions, we'll note simply that shortages are typically followed by gluts.

Supply chain near-shoring and increased adoption of automation to alleviate shortages of skilled workers are creating tailwinds for industrial equipment makers. Highly stimulative US government policies to promote clean energy, semiconductor, and biotechnology production domestically may hurt some China-based companies but could also create new markets for US-based firms in their own backyard. Many of our manufacturing-related and other types of industrial holdings are net beneficiaries of these emerging trends.

Rockwell Automation, a Milwaukee-based industrial automation company, struggled early in the year with component shortages that prevented it from clearing its overflowing order books and rising input costs. Uncertainty arising from the COVID-19 lockdowns in China and the war in Ukraine prompted management to warn in May of lower profits for the rest of the year. Behind the frustrations, however, were indications that the business outlook remained strong, as order volume continued to grow following price increases at the end of 2021. In the recent quarter, the company reported stronger results despite ongoing supply chain issues that hindered its ability to fulfill orders. To mitigate the risk of supply disruptions, Rockwell has been accumulating inventory and redesigning certain products. We believe Rockwell will see its revenues expand as its resilience improves and supply shortages recede.

John Deere also suffered supply chain challenges. It could not complete some machines as it waited for parts, and higher shipping costs cut into its margins. In the third quarter, production recovered. Revenue for its connected services Precision Ag unit increased 43% year over year, thanks to rising unit sales and a 15% price bump. Deere is the world's largest agricultural machinery manufacturer, with the largest customer base, the largest dealer network, and arguably the industry's most advanced technology stack. Deere has also amassed the industry's biggest agricultural data base. These powerful competitive advantages should help Deere to raise its margins as it targets a 40% share of revenues by the end of the decade from less cyclical, recurring sources such as software and maintenance services.

> Because of CoStar's essential role in price discovery, it is relatively insulated from the cyclicality of commercial real estate. It also has US$4.5 billion in cash, much of it earmarked for acquisitions.

Founded in 1987 by its current CEO, Andrew Florance, CoStar tackled the problem of information asymmetry in the commercial real estate (CRE) market, where transaction data was dispersed among individual brokers, sellers, buyers, and landlords. It built a comprehensive database of commercial property data and transaction information, access to which it offers on a subscription basis. The service has lowered the cost of price discovery for smaller participants, leveling the playing field in this highly competitive industry and making itself indispensable to them. In addition to expanding its database to provide similar services in the US residential real estate market, CoStar is looking to expand its global CRE footprint. It has been building a property and transaction database in the UK for more than a decade and recently acquired CRE data businesses in Germany and in France. Because of CoStar's essential role in price discovery, it is relatively insulated from the cyclicality of the CRE market. With US$4.5 billion in cash, much of it earmarked for acquisitions, CoStar can take advantage of any compression in earnings multiples in a downturn to further consolidate its position.

As with the leadership of Rockwell and John Deere, CoStar's management has demonstrated ambition and an ability to execute on long-term plans. While no guarantee of success, a credible growth plan, experienced leadership, and substantial financial capacity make Costar a business with the formula to meet expectations even in the currently challenging environment.

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.

Macro Do's and Don'ts

By Edmund Bellord, Asset Allocation Strategist, and Simon Hallett, CFA, Vice Chairman

One of our more acid-tongued colleagues likes to observe that "just because we don't do macro, it doesn't mean the macro cannot do us." The observation is a challenge to our bottom-up investment philosophy and merits a response. What does his comment really mean? Is he correct?

By "not doing macro," he means that we try not to allow our judgments about macroeconomic variables—GDP growth, inflation, and real interest rates—or geopolitical events to dictate our views on individual companies. By "macro does us," he means that when the market's risk tolerance and underlying assumptions change because of unexpected shifts in the macroeconomic environment, the consequential price movements can dominate a portfolio's periodic absolute and relative returns. Although the injury may be only temporary, it is hard to avoid getting swept up in the general fervor. That's a problem if it leads to reflexive and hasty reactions. It is precisely to avoid getting whipsawed in this way that we devote much of our efforts to restraining our inherent behavioral biases. But even with the sturdiest of behavioral guardrails designed to curb our responsiveness, the sudden jump in portfolio volatility and tracking error feels no less jarring.

Our investment approach centers on analysis of the prospects for specific companies and the industries in which they operate. As a result, the portfolios we construct are a mosaic of company-centric views, with the final picture coming into focus only after all of the pieces are assembled. Sometimes our bottom-up investment process leads us to sidestep systemic issues. In the years before the Global Financial Crisis, for instance, we became disenchanted with the traditional banking industry. We didn't like how the increased price transparency that came with the migration of services online diminished banks' bargaining power over their borrowers and depositors, or how rising levels of consumer debt portended that growth could be weaker, and rivalry and risk-taking fiercer. That was enough to lead us largely to steer clear of banking stocks. Although in hindsight our portfolio positioning appeared to anticipate the subsequent dislocations, in fact we had no overarching view on systemic financial stability.

There is no question it would be nice to have clear foresight on GDP, inflation, and real rates. Like it or not, economic growth is the lifeblood of industrial economies, and, despite its ever-shifting relationship to equity returns, is closely associated with aggregate earnings. Similarly, inflation and real rates are both barometers and agents of economic transformation that always could and frequently do alter the path of economic growth. And there is strong reason to believe that macro-level dislocations are likely to be an order of magnitude greater than the mispricings that occur at the security level. Given the periodic importance of such dislocations, this raises the question: Why don't we attempt to shape our portfolios more explicitly by directly forecasting economic variables or geopolitical events? The question is particularly vexing given the current importance of the inflation outlook for equities.

> Tetlock's conclusion was that expert predictions about geopolitical crises were no better than guesses. The only contribution that expertise seemed consistently to confer was a perverse boost in confidence regarding one's (ineffective) forecasts.

The standard response typically trotted out is that forecasting is exceptionally hard, or as the Danish physicist Niels Bohr is alleged to have quipped, "Prediction is very difficult, especially about the future." Nowhere is this more true than with geopolitical events, which by all accounts appear to defy anyone's ability to anticipate them with anything approaching consistency. The political scientist Philip Tetlock tackled this issue head-on in a multidecade study described in his 2015 book, Super*forecasting: The Art and Science of Prediction*. Tetlock's conclusion was that expert predictions about geopolitical crises were no better than guesses. What's more, the only contribution that expertise seemed consistently to confer was a perverse boost in confidence regarding one's (ineffective) forecasts.

The record for macroeconomic forecasting is not quite as wretched; at least there are frameworks and models on which to hang one's thinking. But it's still one of those endeavors where you're doing very well if you're right a little more often than you're wrong. Even so, it is not as though the ground-level forecasting of cashflows, business prospects, and competitive forces is easy. So perhaps the real question is why we consider the latter sensible but the former a fool's errand, at least for fundamental equity investors such as us.

The answer in large part comes down to the size of the opportunity set, or the number of times you get to apply your investing edge. Even the most skilled forecasters, whatever their forecasting game, have but the tiniest of edges and so the surest way to increase their chances of success is to apply that minute edge as many times as possible. In a global investment universe, there are roughly 8,000 equity securities, each operating in its own industry and geography with their own sets of return drivers, compared with a relative handful of forecastable macroeconomic variables. Given equal forecasting skill, you are going to have a far higher likelihood of some overall success by applying that skill across many securities rather than over a few economic statistics. Even allowing for the fact that not every security's return is entirely idiosyncratic, there are still far more independent and durable drivers of individual security returns than there are of macroeconomic trends, which may allow you to get the micro right without so much as taking a swing at the macro.

Even if you were one of the few hyper-skilled and hyper-accurate macro forecasters, a portfolio of stocks would be a poor way to capitalize on views about inflation or economic growth. Although there's a relationship between the macroeconomy and stock returns, that relationship is neither simple nor determinate. In practical terms, stocks are a terribly inefficient way to express a view on macroeconomic variables. Better to bet on currencies, yields curves, and commodity prices directly, all of which are far more closely tethered to the outlook for growth, inflation, and real rates.

> It's not just that there are better, more precise, and more levered ways to express macroeconomic views. It's also that trying to do so with stocks risks erasing the hard-won company-level insights that are the linchpin of our portfolios.

And it's not just that there are better, more precise, and more levered ways to express such views. It's also that trying to do so with stocks risks erasing the hard-won company-level insights that are the linchpin of our portfolios. All the companies in which we invest have track records of successfully generating cash and reinvesting it wisely. In many cases these companies have survived wars, recessions, pandemics, inflation, deflation, and geopolitical shocks. Sacrificing those financially valuable fundamental attributes in a most likely vain attempt to time a particular economic cycle not only presupposes a preternatural ability to tie economic outcomes to individual security returns but also risks the long-term health of the portfolio.

We don't do macro, so by default we allow macro to do us. There are, though, ways in which we can protect against developments that result in sudden changes in risk aversion. One is to diversify—events that damage the outlook in one industry or part of the world may have no impact, or even a beneficial one, on stock prices elsewhere. That said, diversification cannot work during times of systemic crisis, when correlations between geographies, industries, sectors, and individual securities converge. That's where our reliance on a company's strength comes in. Two hallmarks of a company's quality are the ability of its management to prepare for a wide range of outcomes and whether it has the financial strength to survive the worst possible operating conditions.

Although we can't estimate the probability of market-moving events, we can think about the magnitude and *range* of potential outcomes so we may more fully understand our exposures and ensure we are sufficiently diversified to protect against them. For example, before Russia's invasion of Ukraine, many people thought about a range of outcomes that included war versus no war or disruption to energy supplies. But, given prior Western responses, few considered the potential for sanctions that would freeze all Russian assets and render them worthless, at least for the time being. Now, as we think about the financial market implications if China were to invade Taiwan, we must consider the possibility that our off-benchmark holdings in Chinese assets could be similarly impaired.

So, what do we do about it? We certainly aren't going to try to parse Chinese troop movements or overturn our investment theses on the dozens of companies, not only in China but also throughout the global supply chain, that could be impacted by what at this point must still be considered a very low-probability event. On the other hand, thinking long and hard about the potential risks to supply lines, revenues, or the corporate structures of portfolio companies and what further levels of diversification might be in order is very much in our wheelhouse.

Global Developed Markets Equity Holdings (as of September 30, 2022)

Communication Services	Market	End Wt. (%)
Alphabet (Internet products and services)	US	3.7
CD Projekt (Video game developer)	Poland	0.2
Meta Platforms (Virtual reality and social network)	US	2.0
Netflix (Entertainment provider)	US	0.8
Pinterest (Social network)	US	1.3
Tencent (Internet and IT services)	China	0.3
Consumer Discretionary		
Amazon.com (E-commerce retailer)	US	2.8
Etsy (E-commerce retailer)	US	0.8
Kering (Luxury goods manufacturer)	France	0.9
Lululemon (Athletic footwear and apparel retailer)	US	1.2
MercadoLibre (E-commerce retailer)	US	0.4
Nike (Athletic footwear and apparel retailer)	US	1.6
Consumer Staples		
Hello Fresh (Food delivery services)	Germany	0.4
L'Oréal (Cosmetics manufacturer)	France	2.3
Energy		
Schlumberger (Oilfield services)	US	1.5
Financials		
AIA Group (Insurance provider)	Hong Kong	1.6
Bank Central Asia (Commercial bank)	Indonesia	0.7
CME Group (Derivatives exchange and trading services)	US	1.5
DBS Group (Commercial bank)	Singapore	1.5
First Republic Bank (Private bank and wealth manager)	US	3.1
HDFC Bank (Commercial bank)	India	1.0
SVB Financial Group (Commercial bank)	US	2.7
Tradeweb (Electronic financial trading services)	US	1.2
XP (Broker dealer and financial services)	Brazil	0.3
Health Care		
Abcam (Life science services)	UK	1.6
Alcon (Eye care products manufacturer)	Switzerland	1.5
Align Technology (Orthodontics products manufacturer)	US	0.9
Chugai Pharmaceutical (Pharma manufacturer)	Japan	1.0
Danaher (Diversified science and tech. products and svcs.)	US	1.3
Edwards Lifesciences (Medical device manufacturer)	US	1.1
Genmab (Biotechnology producer)	Denmark	1.4
Illumina (Life science products and services)	US	1.5
Intuitive Surgical (Medical equipment manufacturer)	US	1.1
IQVIA (Health care services)	US	0.9
Lonza (Life science products manufacturer)	Switzerland	1.1
Roche (Pharma and diagnostic equipment manufacturer)	Switzerland	1.3
Thermo Fisher Scientific (Health care products & svcs.)	US	1.8
UnitedHealth Group (Health care support services)	US	2.6
Vertex Pharmaceuticals (Pharma manufacturer)	US	3.9
WuXi AppTec (Biopharma manufacturer)	China	0.4
WuXi Biologics (Biopharma manufacturer)	China	0.4

Industrials	Market	End Wt. (%)
Ametek (Electronic instruments manufacturer)	US	1.6
Atlas Copco (Industrial equipment manufacturer)	Sweden	1.1
CoStar (Real estate information services)	US	1.2
Epiroc (Industrial equipment manufacturer)	Sweden	1.1
John Deere (Industrial equipment manufacturer)	US	3.0
MISUMI Group (Machinery-parts supplier)	Japan	0.8
Rockwell Automation (Manufacturing IT provider)	US	1.5
Schneider Electric (Energy management products)	France	3.1
Spirax-Sarco (Industrial components manufacturer)	UK	1.0
VAT Group (Vacuum valve manufacturer)	Switzerland	0.8
Verisk (Risk analytics and assessment services)	US	1.0
Information Technology		
Accenture (Professional services consultant)	US	1.8
Adobe (Software developer)	US	1.1
Adyen (Payment processing services)	Netherlands	1.4
Apple (Consumer electronics and software developer)	US	1.5
Applied Materials (Semiconductor & display eqpt. mfr.)	US	1.1
ASML (Semiconductor equipment manufacturer)	Netherlands	1.6
Broadcom (Semiconductor manufacturer)	US	1.1
Hexagon (CAD and measurement technology provider)	Sweden	2.1
Keyence (Sensor and measurement eqpt. mfr.)	Japan	1.1
Microsoft (Consumer electronics & software developer)	US	2.7
NVIDIA (Semiconductor chip designer)	US	0.7
PayPal (Electronic payment services)	US	1.3
salesforce.com (Customer relationship mgmt. software)	US	1.2
SAP (Enterprise software developer)	Germany	0.5
Synopsys (Chip-design software developer)	US	2.1
The Trade Desk (Digital advertising mgmt. svcs.)	US	1.1
TSMC (Semiconductor manufacturer)	Taiwan	0.6
Materials		
No Holdings		
Real Estate		
Country Garden Services (Residential property mgr.)	China	0.2
Utilities		
No Holdings		
Cash		3.0

Model Portfolio holdings are supplemental information only and complement the fully compliant Global Developed Markets 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.

3Q22 Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL GDM	Avg. Weight MSCI World	Effect
Vertex Pharmaceuticals	HLTH	3.4	0.1	0.39
John Deere	INDU	2.8	0.2	0.38
The Trade Desk	INFT	1.0	<0.1	0.31
Pinterest	COMM	1.1	<0.1	0.31
Etsy	DSCR	0.7	<0.1	0.27

Last 12 Mos. Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL GDM	Avg. Weight MSCI World	Effect
Vertex Pharmaceuticals	HLTH	2.5	0.1	1.26
Schlumberger	ENER	1.5	0.1	0.55
UnitedHealth Group	HLTH	2.2	0.8	0.51
John Deere	INDU	2.8	0.2	0.40
DBS Group	FINA	1.5	0.1	0.32

3Q22 Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL GDM	Avg. Weight MSCI World	Effect
SVB Financial Group	FINA	2.6	<0.1	-0.33
Tesla*	DSCR	–	1.4	-0.30
Alcon	HLTH	1.9	0.1	-0.23
Apple	INFT	1.5	5.0	-0.23
Nike	DSCR	1.9	0.3	-0.22

Last 12 Mos. Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL GDM	Avg. Weight MSCI World	Effect
SVB Financial Group	FINA	3.2	0.1	-1.02
Align Technology	HLTH	1.3	0.1	-0.85
Hello Fresh	STPL	0.6	<0.1	-0.76
Meta Platforms	COMM	2.4	1.0	-0.76
PayPal	INFT	1.1	0.3	-0.75

*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 GDM	MSCI World
Profit Margin[1] (%)	18.9	16.3
Return on Assets[1] (%)	9.9	9.0
Return on Equity[1] (%)	22.5	21.1
Debt/Equity Ratio[1] (%)	42.4	72.9
Std. Dev. of 5 Year ROE[1] (%)	4.8	7.2
Sales Growth[1,2] (%)	13.5	8.1
Earnings Growth[1,2] (%)	20.1	17.0
Cash Flow Growth[1,2] (%)	17.9	13.3
Dividend Growth[1,2] (%)	9.9	8.2
Size and Turnover	**HL GDM**	**MSCI World**
Wtd. Median Mkt. Cap. (US $B)	65.4	80.9
Wtd. Avg. Mkt. Cap. (US $B)	247.5	333.3
Turnover[3] (Annual %)	29.2	–

Risk and Valuation	HL GDM	MSCI World
Alpha[2] (%)	0.87	–
Beta[2]	1.04	–
R-Squared[2]	0.91	–
Active Share[3] (%)	84	–
Standard Deviation[2] (%)	18.89	17.35
Sharpe Ratio[2]	0.30	0.27
Tracking Error[2] (%)	5.7	–
Information Ratio[2]	0.16	–
Up/Down Capture[2]	109/104	–
Price/Earnings[4]	24.5	15.4
Price/Cash Flow[4]	18.7	10.6
Price/Book[4]	4.2	2.5
Dividend Yield[5] (%)	0.9	2.3

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner Global Developed Markets Equity Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: October 5, 2022, based on the latest available data in FactSet on this date.); Harding Loevner Global Developed Markets Equity Model, based on the underlying holdings; MSCI Inc.

Completed Portfolio Transactions

Positions Established	Market	Sector
WuXi AppTec	China	HLTH

Positions Sold	Market	Sector
Xero	Australia	INFT

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. 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 Developed Markets Equity Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

Global Developed Markets Equity Composite Performance (as of September 30, 2022)

	HL Global Developed Markets Equity Gross (%)	HL Global Developed Markets Equity Net (%)	MSCI World[1] (%)	MSCI ACWI[2] (%)	HL Global Developed Markets Equity 3-yr. Std. Deviation[3] (%)	MSCI World 3-yr. Std. Deviation[3] (%)	MSCI ACWI 3-yr. Std. Deviation[3] (%)	Internal Dispersion[4] (%)	No. of Accounts	Composite Assets ($M)	Firm Assets ($M)
2022 YTD[5]	-34.48	-34.69	-25.13	-25.34	21.45	19.66	19.13	N.A.[6]	5	1,718	44,705
2021	22.44	21.97	22.35	19.04	16.38	17.05	16.83	1.8	5	3,251	75,084
2020	35.09	34.55	16.50	16.82	17.94	18.26	18.12	N.M.[7]	5	3,140	74,496
2019	30.60	30.07	28.40	27.30	12.28	11.13	11.21	N.M.	5	2,431	64,306
2018	-8.79	-9.16	-8.20	-8.93	11.53	10.39	10.48	N.M.	4	1,688	49,892
2017	30.93	30.41	23.07	24.62	10.66	10.24	10.37	1.1	7	3,933	54,003
2016	7.59	7.14	8.15	8.48	10.91	10.94	11.07	0.6	7	3,092	38,996
2015	5.94	5.48	-0.32	-1.84	+	+	+	N.M.	7	2,903	33,296
2014	7.49	7.04	5.50	4.71	+	+	+	N.M.	5	2,138	35,005
2013[8]	7.49	7.48	8.11	7.42	+	+	+	N.A.	3	1,540	33,142

[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]The 2022 YTD performance returns and assets shown are preliminary; [6]N.A.–Internal dispersion less than a 12-month period; [7]N.M.–Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year; [8]2013 represents the partial year October 1, 2013 to December 31, 2013 +Less than 36 months of return data.

The Global Developed Markets Equity Composite contains fully discretionary, fee-paying accounts investing in US and non-US equity and equity-equivalent securities and cash reserves, and is measured against the MSCI World 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. As of October 1, 2022, the World Equity Composite was renamed Global Developed Markets Equity Composite. 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 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. 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. 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, 2022.

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 Developed Markets Equity Composite has been examined for the periods October 1, 2013 through June 30, 2022. 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.

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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 Global Developed Markets Equity accounts is 1.00% annually of the market value for the first $20 million; 0.50% for the next $80 million; 0.45% for the next $150 million; 0.40% for the next $250 million; above $500 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 Global Developed Markets Equity Composite was created on September 30, 2013 and the performance inception date is October 1, 2013.