HARDING LOEVNER

# GLOBAL EQUITY

2019 Year End Report

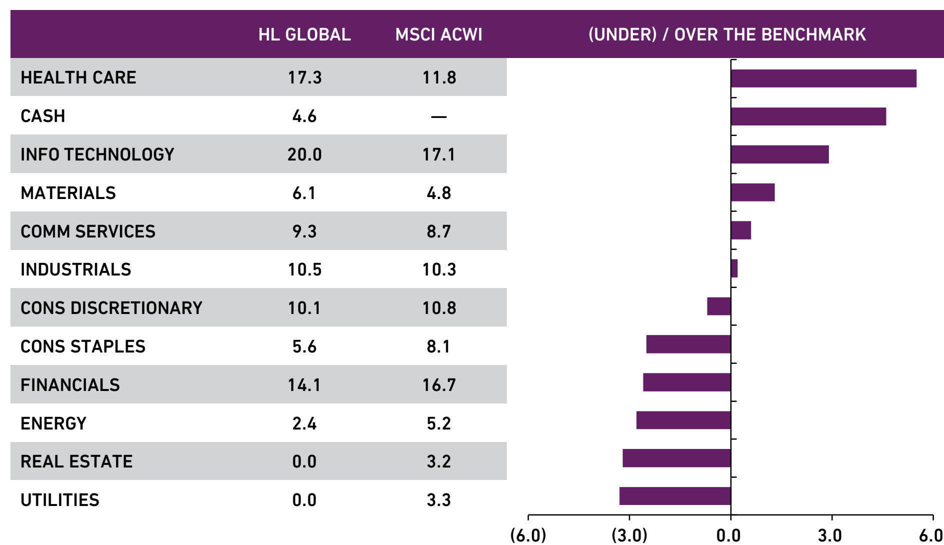
## COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED DECEMBER 31, 2019[1]

| | 3 MONTHS | 1 YEAR | 3 YEARS[2] | 5 YEARS[2] | 10 YEARS[2] | SINCE INCEPTION[2,3] |
|---|---|---|---|---|---|---|
| HL GLOBAL EQUITY (GROSS OF FEES) | 11.15 | 30.17 | 16.29 | 11.57 | 11.18 | 10.12 |
| HL GLOBAL EQUITY (NET OF FEES) | 11.04 | 29.64 | 15.78 | 11.07 | 10.71 | 9.46 |
| MSCI ALL COUNTRY WORLD INDEX[4,5] | 9.07 | 27.30 | 13.05 | 8.99 | 9.36 | 7.31 |
| MSCI WORLD INDEX[5,6] | 8.68 | 28.40 | 13.20 | 9.35 | 10.08 | 7.39 |

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1989; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

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

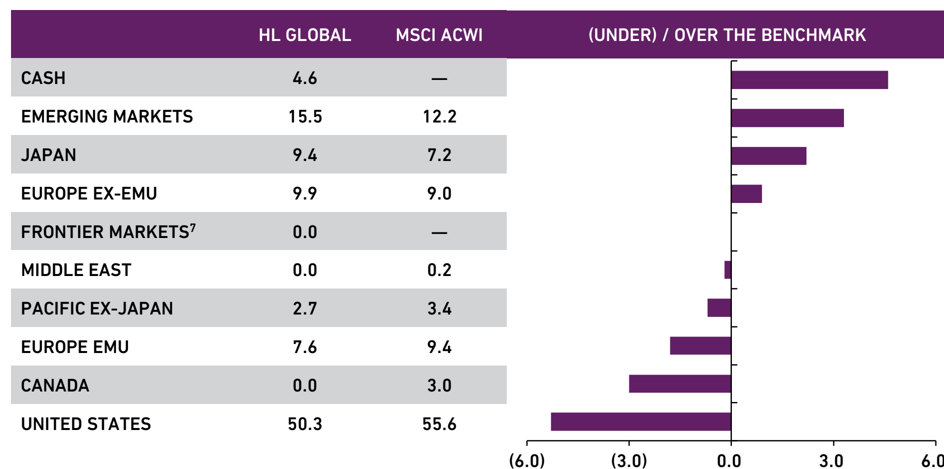
## SECTOR EXPOSURE (%)



| | HL GLOBAL | MSCI ACWI |
|---|---|---|
| HEALTH CARE | 17.3 | 11.8 |
| CASH | 4.6 | — |
| INFO TECHNOLOGY | 20.0 | 17.1 |
| MATERIALS | 6.1 | 4.8 |
| COMM SERVICES | 9.3 | 8.7 |
| INDUSTRIALS | 10.5 | 10.3 |
| CONS DISCRETIONARY | 10.1 | 10.8 |
| CONS STAPLES | 5.6 | 8.1 |
| FINANCIALS | 14.1 | 16.7 |
| ENERGY | 2.4 | 5.2 |
| REAL ESTATE | 0.0 | 3.2 |
| UTILITIES | 0.0 | 3.3 |



## GEOGRAPHIC EXPOSURE (%)



| | HL GLOBAL | MSCI ACWI |
|---|---|---|
| CASH | 4.6 | — |
| EMERGING MARKETS | 15.5 | 12.2 |
| JAPAN | 9.4 | 7.2 |
| EUROPE EX-EMU | 9.9 | 9.0 |
| FRONTIER MARKETS[7] | 0.0 | — |
| MIDDLE EAST | 0.0 | 0.2 |
| PACIFIC EX-JAPAN | 2.7 | 3.4 |
| EUROPE EMU | 7.6 | 9.4 |
| CANADA | 0.0 | 3.0 |
| UNITED STATES | 50.3 | 55.6 |



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

*Sector and geographic allocations are supplemental information only and complement the fully compliant Global Equity Composite GIPS Presentation.*

*Source: Harding Loevner Global 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 stock markets rose in the fourth quarter as fears of a downturn faded amid renewed central bank largesse and a de-escalation of US-China trade frictions. All sectors and regions finished in positive territory for both the quarter and the year.

Investors began 2019 in a pessimistic mood. Markets had just suffered their sharpest one-quarter decline in seven years, reacting to harbingers of recession: a flattening yield curve, declining inflation expectations, and weak commodity prices. As the year drew on, the US-China trade war took an increasing toll on trade volumes and on the confidence of US consumers facing higher prices.

Central banks and governments responded with fiscal and monetary support, retracing some normalizing steps of 2018. The People's Bank of China cut its bank reserve ratios three times over the course of the year, and lowered its short-term funding rate for the first time since 2015. Chinese state-owned banks were guided to increase their lending. The European Central Bank lowered the interest rate on the deposit facility in September and restarted asset purchases in November. In the fourth quarter, calling it insurance against recession, the US Federal Reserve again cut interest rates, almost completely reversing the rate increases of 2018. In December, Japan's government launched a large round of fiscal stimulus, the first since 2016, to combat the combined effects of a recent consumption tax hike, typhoon damage, and a slowing global economy. Not to be left out, the Bank of Japan revised its forward guidance, signaling it may take interest rates deeper into negative territory.

The trade war between the US and China witnessed something of a détente late in the year, with the two parties agreeing to a limited pull-back from their entrenched positions. In mid-December, days before new tariffs were to take effect, officials announced a "Phase One" trade agreement. The deal, hinted at in November, rolls back some US tariffs on Chinese goods while boosting Chinese purchases of US energy, manufactured goods, and agricultural products. The countries also agreed on enhanced protections for intellectual property. The developments bolstered investor sentiment toward China and Emerging Markets (EMs) generally. China's GDP growth, which appeared to falter at the end of 2018, stabilized by the end of 2019.

Large public equity offerings were floated on the tide of central bank liquidity. Saudi Aramco raised US$25 billion for 1.5% of its shares to become the largest publicly traded company in the world, and Chinese e-commerce giant **Alibaba** raised US$13 billion in a well-received secondary offering.

US markets were unfazed by impeachment, while in the UK politics were front and center. Its markets and currency rose after voters resoundingly rejected Labour Party leader Jeremy Corbyn and the socialist policies he embraced, handing the Tories the largest majority in the House of Commons since Margaret Thatcher's in 1987. Prime Minister Boris Johnson solidified his control of the fractious Tory party and put an end to the political stalemate over the UK's divorce from the EU, committing to "get Brexit done" on January 31. Its details and economic effects, short and long term, remain as murky as ever.

Despite the rebound in equity markets, there were signs of fragility in financial markets. In the US, spiking overnight interest rates in the collateralized lending market necessitated emergency intervention from the Fed in September. Meanwhile, President Donald Trump opened new fronts in the trade war by ordering new tariffs on steel and aluminum from Brazil and Argentina to counter "massive devaluation of their currencies." His administration also threatened tar-

### MARKET PERFORMANCE (USD %)

| MARKET | 4Q 2019 | TRAILING 12 MONTHS |
|---|---|---|
| CANADA | 5.1 | 28.5 |
| EMERGING MARKETS | 11.9 | 19.0 |
| EUROPE EMU | 8.2 | 24.2 |
| EUROPE EX-EMU | 9.6 | 25.0 |
| JAPAN | 7.7 | 20.1 |
| MIDDLE EAST | 7.4 | 9.9 |
| PACIFIC EX-JAPAN | 5.8 | 18.5 |
| UNITED STATES | 9.1 | 31.6 |
| MSCI ACW INDEX | 9.1 | 27.3 |

### SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

| SECTOR | 4Q 2019 | TRAILING 12 MONTHS |
|---|---|---|
| COMMUNICATION SERVICES | 8.4 | 25.0 |
| CONSUMER DISCRETIONARY | 8.2 | 28.2 |
| CONSUMER STAPLES | 2.7 | 22.4 |
| ENERGY | 6.0 | 13.8 |
| FINANCIALS | 9.1 | 24.1 |
| HEALTH CARE | 13.8 | 23.3 |
| INDUSTRIALS | 7.5 | 27.2 |
| INFORMATION TECHNOLOGY | 14.6 | 47.5 |
| MATERIALS | 9.4 | 20.7 |
| REAL ESTATE | 3.0 | 24.0 |
| UTILITIES | 2.4 | 22.0 |

*Source: FactSet (as of December 31, 2019). MSCI Inc. and S&P.*

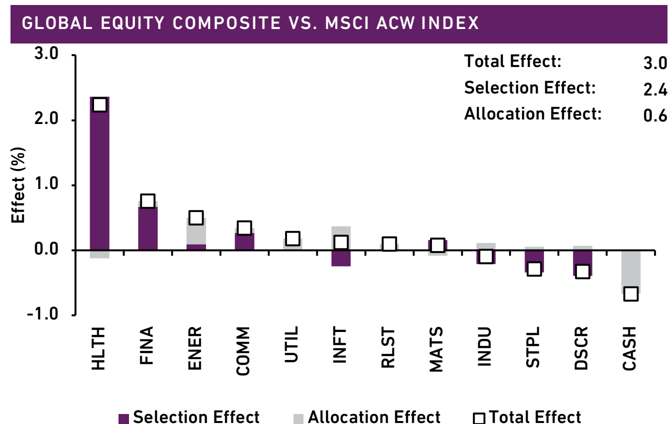
*Companies held in the portfolio during the year appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at December 31, 2019 is available on page 9 of this report.*

iffs on French agricultural and consumer products in retaliation for France's digital services tax aimed at Google, **Apple**, **Amazon.com**, and **Facebook**. In China, a shrinking current account surplus tightened monetary conditions domestically, threatening to undo policy easing. Chinese regulators, meanwhile, must still grapple with the hangover from reckless local government borrowing unleashed during the massive stimulus a decade ago. In May, the government seized control of Baoshang Bank, the first such takeover in more than 20 years, and later engineered bailouts for two other small provincial commercial banks. Central bankers in Japan and the eurozone, fearing an eventual downturn in their domestic economies, fretted about the limits of monetary policy and called for greater fiscal stimulus—rare behavior for the guardians of financial probity.

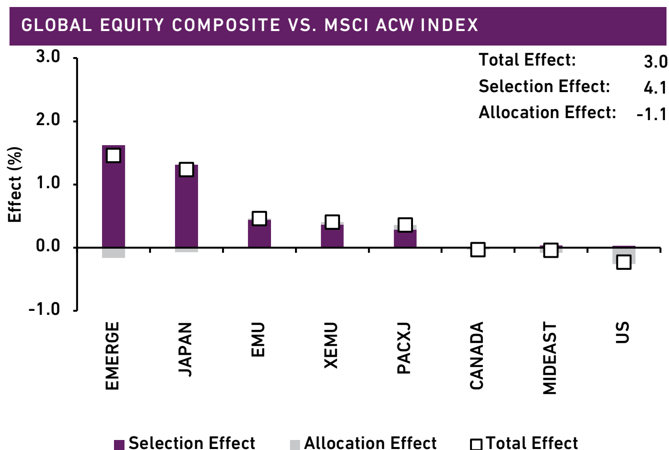
Cyclical sectors rebounded during the fourth quarter, with strong performance in Information Technology (IT), Materials, and Financials. IT performed the best, with strong returns in economically sensitive semiconductor stocks. Health Care also fared well, boosted by pharmaceutical and biotechnology stocks, as worries over a Medicare for All program in the US receded after detailed promotion by several Democratic presidential candidates failed to help them gain traction in polls. Most other non-cyclical sectors lagged, with Utilities and Consumer Staples the worst-performing, although still posting positive returns. By region, EMs rose the most, led by Asian IT stocks and Chinese e-commerce giant Alibaba.

By style, growth was consistently strong and rebounded quickly from its brief underperformance in the third quarter. Other style effects were mixed: stocks of low-quality companies fared just as well as those of higher-quality companies. And, unusually for a period when stocks of faster-growth companies performed best, investors showed a slight preference for less-expensive stocks. The year as a whole was marked by better returns for faster-growing and higher-quality companies, despite a brief rally in low-growth value stocks in September.

### SECTOR PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS




### GEOGRAPHIC PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS




*Source: FactSet; Harding Loevner Global 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.*

## PERFORMANCE AND ATTRIBUTION

The Global Equity composite rose 11.2% in the quarter, outperforming the benchmark's 9.1% gain. For the full year, the composite rose 30.2%, exceeding the index's 27.3% return. The charts on the right attribute the year's performance by sector and region.

The quarter's outperformance was almost entirely driven by strong stocks in Emerging Markets (primarily China) and the US. **AAC Technologies**, a Shenzhen-based smartphone components manufacturer that caused us so much pain last year, posted strong results as new phone models and the rollout of 5G wireless networks provided a shot in the arm to the smartphone market. Shares in all four of our Chinese e-commerce and internet companies outperformed, led by Alibaba and **Baidu**. The former's retail commerce business maintained its torrid pace of growth, while the latter's core search business showed signs of a rebound following a period of lackluster growth.

In the US, shares of graphics chip designer **NVIDIA** rose after revenues showed significant gains over the prior quarter due to improving demand. The stock prices of biopharma producers **Regeneron** and **Vertex Pharmaceuticals** rebounded significantly in the quarter. Sales of Regeneron's macular degeneration treatment Eylea exceeded expectations, while the FDA recently approved Vertex's potential-breakthrough therapy for cystic fibrosis.

Swiss stocks were a relative weak spot for the portfolio. Hearing aid maker **Sonova Holding**, reported weak margins

despite better-than-expected revenue growth, leaving investors questioning the company's cost structure. In addition, **Nestlé** shares cooled off after performing well in the first half of the year.

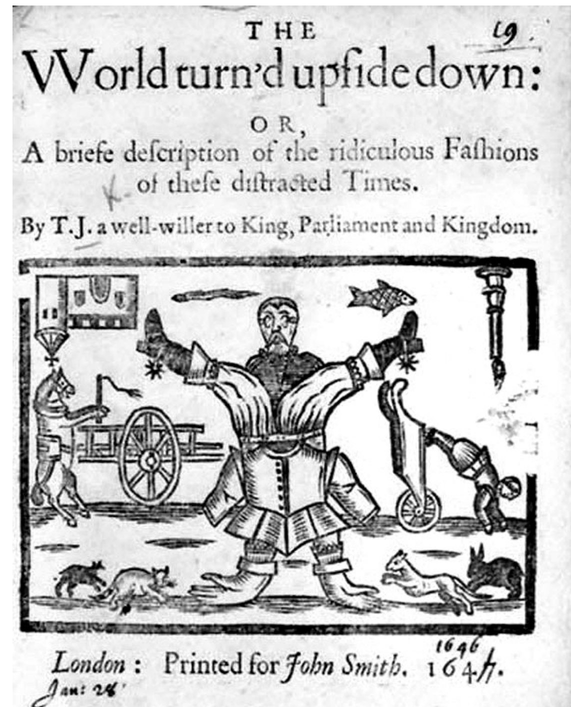
Viewed by sector, companies within Financials contributed the most to our relative performance, followed by Communication Services, Health Care, and IT. US-based **First Republic Bank** announced accelerating loan growth and posted a new record for loan originations. Shares of India's **ICICI Bank** rose following improvements in asset quality and rising optimism about the impact that digitalization will have on its profits. In Communication Services, shares in Russian internet search provider **Yandex** recovered from sharp losses as investors welcomed a restructuring plan that addresses threats from a new law limiting foreign ownership of internet firms without forcing foreign shareholders to divest. Baidu also bolstered returns in the sector, while Vertex and Regeneron drove outperformance in Health Care. AAC and NVIDIA led IT.

Industrials detracted from our results. Shares in risk analytics firm **Verisk** suffered after a court ordered it to pay damages in a patent infringement lawsuit. **Roper**, an operator of diverse technology businesses, underperformed. Several of its industrial units, including those providing pumps, flow meters, and electronic microscopes were hit by a cyclical slowdown in US corporate demand.

**M3's efforts to entice more drug companies to use its recruiting service for clinical trial participants paid off.**

For the full year, good stock selection drove our relative returns. By geography, strong EM stocks were joined by strong Japanese performers, particularly online medical information service provider **M3** and optical sensor specialist **Keyence**. M3's efforts to entice more drug companies to use its recruiting service for clinical trial participants paid off; its shares were also buoyed by the announcement that they would be added to the Nikkei 225 Index. Viewed by sector, Health Care stocks were the largest contributors to relative returns, led by M3 and two contract drug manufacturers: China's **Wuxi Biologics** and Switzerland's **Lonza Group**. Our IT holdings couldn't match the torrid IT benchmark, with **PayPal**, **Cognizant**, and **Check Point** dragging down our relative performance. In a year in which markets rose significantly, holding cash detracted from returns; our average cash, at 3% of the portfolio, was a material negative.

## PERSPECTIVE AND OUTLOOK



THE

World turn'd upſide down:

OR,

A briefe deſcription of the ridiculous Faſhions of theſe diſtracted Times.

By T. J. a well-willer to King, Parliament and Kingdom.

London: Printed for John Smith. 1646.

**"Yet let's be content, and the times lament, you see the world turn'd upside down."**
*— English ballad*

A decade of monetary stimulus has turned many of the rules of investing on their head. Short-term interest rates, controlled by central banks, are now set firmly below zero in Japan and every European money market except Britain. The global stock of fixed-income securities with negative yields remained above US$11 trillion in December, in spite of declining pessimism about the global economy and the rebound of cyclical securities. The Dutch might have it the worst: 10-year government bonds currently yield -0.14%, but the Dutch consumer price index is currently at 2.7%, making the total real erosion, er… yield, a whopping -2.8% per year. In the US, bonds sport a comparatively generous (but still stingy by old standards) 1.8% nominal yield, but inflation is currently high enough to offset all of that. The world is upside down when savers must pay borrowers for the privilege of lending to them, as happened this summer with mortgage loans in Denmark.

Denied the prospect of positive yields (and perhaps only dimly recognizing the dreadful negative real yields, after inflation), investors are reaching for current investment income in every manner possible. This has been a bonanza for thinly capitalized issuers of speculative debt, who are on target to issue US$270 billion of high-yield/junk paper in 2019 alone. Investors have also embraced equities as a source of income. Stocks yielding more than government bonds make them a tempting alternative. It's not crazy to eschew bonds yielding zero and own stocks with a dividend yield of 3% (the yield of the MSCI All Country

World ex-US Index), especially when those dividends are growing 5% or more. The world is upside down when investors are pursuing stocks for income but bonds for capital gains.

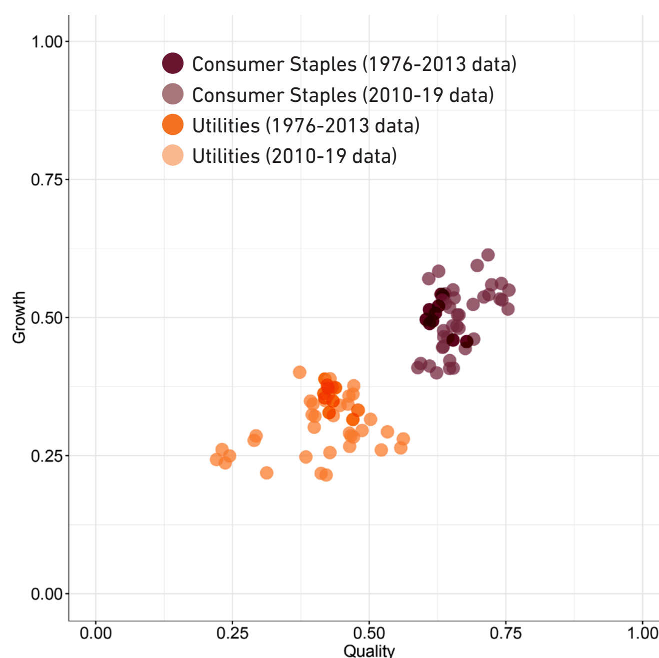
This thirst for yield has encouraged the pursuit of "low volatility" equity strategies (and stock funds), which seek to mimic the stability of bonds while delivering both dividend income and a total return approximating the broader market. They do not promise a higher return but rather a smoother ride to the same destination. We take a keen interest in this phenomenon because it competes with us for high-quality companies—whose emphasis in our portfolios is the deliberate bias that has tended to produce less volatile returns than the typical growth-stock oriented portfolio.

There are several possible behavioral explanations for better returns from high-quality companies that have more stable stock prices than average: human investors crave excitement more than dullness, tend to extrapolate current trends, and are overconfident in their ability to spot changes of trends. That leaves boring, well-diversified, consistently growing companies relatively neglected, to the benefit of those investors willing to invest patiently. Both the underlying consistency and the neglect could lead their share prices to be less volatile than average. Put another way, because investors have less fear of a complete loss of capital from higher-quality companies, the stocks of such companies may fall less than average in a downturn and be among the first to rebound. But note the essential difference in approach: we're identifying solid business fundamentals first, with lower stock-price volatility as a potential fringe benefit. The difference in approach from that of low-volatility strategies, whose starting point is the price action itself, becomes apparent when you compare the quality and growth financial metrics of two sectors that feature prominently in low-volatility portfolios, Utilities and Consumer Staples.

Comparing the two sectors on our quality and growth rankings over the past 40-odd years, Consumer Staples has been more profitable than Utilities and more stable, while also consistently growing faster. It is thus no accident that our portfolios have invariably featured far more Staples than Utilities. Nevertheless, the broad and, in some sense, indiscriminate pursuit of stable yield is also part of the explanation for the rising prices of the fundamentally high-quality companies we favor, due to the overlap of high quality with low price volatility. Their rising prices make our job of building well-priced portfolios more challenging.

Negative bond yields present us with additional challenges because they directly feed investors' equity discount rates, and thus the price they are willing to pay for future earnings and dividends. (Our own valuation models do not start with market yields of risk-free bonds, but rather with a stable estimate of what we imagine is the long-term cost of capital.) Ultra-low risk-free rates feeding through to equity discount rates mean higher prices for earnings in the distant future, where most of the value of a growth business lies. With many of the fastest-growing companies emerging from the ranks of new technology-enabled business models, the willingness to tolerate higher prices is a more significant factor in the last couple of years than at any time since the TMT bubble of 1999–2000. The key difference this time is that, unlike in that egregious episode, many, if not most, of the companies with the highest prices are actually delivering prodigious revenue accompanied by robust profits (though we note with trepidation that the number of IPOs of loss-making companies in the US in 2019 matched the previous record of 1999).

**GLOBAL CONSUMER STAPLES VS UTILITIES SECTORS: QUALITY VS GROWTH RANK (1976-2019)**




*Source: Harding Loevner, HOLT database.*

Very low discount rates for equities bring with them a feature from the bond market: duration arithmetic. The more distant the cash flows, the greater the impact on today's fair price from a given change in the discount rate. Moreover, the lower the starting discount rate, the greater the change in fair price for any given variation in the discount rate. The implication for long-duration growth stocks from this vantage point of low discount rates? Fluctuations in the discount rate will cause larger price changes than we're accustomed to: even a small further decline in the discount rate will be magnified in the appreciation of growth stocks, while a rise will be reflected in substantial stock price declines. Said another way, growth stocks are subject not only to greater surges but also more frequent bouts of skittishness than in accustomed environments; that phenomenon has been manifest in the performance of our portfolios, which no longer react less erratically than the index in the way we could rely on in earlier years. The increased relative volatility has been an additional challenge for us in building portfolios.

We have stayed squarely focused on identifying companies with reliable profitability, sound finances, and strong management, along with bright growth prospects; but we continue to wrestle with what we must pay for such companies. We pursue strong quality characteristics in the businesses we follow, not low volatility for its own sake, because the former is more persistent than the latter. We pursue faster growth, so all else being equal, our portfolio will benefit from better-than-average earnings growth over time. High-quality companies have gained popularity, and their stocks subject to price-insensitive (passive) buying, becoming more highly priced as a result. Stocks of faster-growing businesses have become more highly priced still, and simultaneously more volatile as sentiment drives changes in the market's discount rate. Our response to higher prices, as is usual for most things at Harding Loevner, has been incremental. Despite tolerance for seemingly stretched valuation in a period of ultra-low interest rates, and ample appreciation of the approximate nature of valuation, we continue, at the margin, to reduce holdings of the most expensive stocks in our portfolio.

We were struck by two developments in capital markets this quarter. The first is related to the fuzzy border between public stock markets and private equity/venture capital markets. The past decade has seen an explosion in both the number and the size of companies that have chosen to remain private rather than list on public stock exchanges. In part, that has been due to the lesser capital needs of their business models, many of which rely on software and intellectual property rather than on fixed assets. With a limited need for outside capital, they have chosen to forego the hassle of public reporting requirements and the attendant indignities of securities regulations. What capital they needed has been increasingly supplied by institutions, whom we suspect were more than happy to avoid the unforgiving mark-to-market transparency inherent in publicly traded securities.

In this upside-down world where private companies have broadly achieved higher valuations than public companies, the latter's historical liquidity premium is now a discount. Managements seize the opportunity to bypass the scrutiny of motivated analysts poring over required public market disclosures, but that avoidance is unlikely to benefit them in the long run. Hence, we were delighted when WeWork's bid to raise public capital was greeted by ferocious and unrelenting scrutiny enabled by such disclosures. The sunlight revealed grotesque disparities between the company's hype and reality, along with enormous feather-bedding by its founder and management. We view WeWork's denouement as not only a consequential victory for public markets, but also a reminder of the value of an active approach to investing, value reaped (or, rather, preserved) by the discerning investors themselves as well as by passive investors who were spared the unwitting commitment of their savings to the next chapter of this monstrous scam.

The second noteworthy development was the listing and secondary offering of shares in Alibaba on the Hong Kong Stock Exchange (HKEx). Alibaba chose New York over Hong Kong for its initial public offering in 2014 for two reasons: the greater liquidity of US capital markets and the stricter listing requirements of HKEx that it refused to water down for Alibaba. Alibaba also had a peculiar corporate structure, with the Cayman Islands-registered company listed in New York tied to the underlying business in China by the thread of a legal agreement with a single person, the company's founder and then-CEO Jack Ma. As a result of its shares not trading on any Chinese stock exchange, outside of its senior managers, Alibaba has had essentially no Chinese shareholders. Today, just five years later, Alibaba has modified the structure to replace the sole person with a legal entity (a partnership). By achieving a listing in Hong Kong, China's largest company opened a clear path (via Shanghai-HK Connect) for Chinese investors to own its shares, and easily raised US$13 billion of additional capital. All of these developments are unalloyed positives for Alibaba shareholders. If there is a negative to be found, it is for the US, whose current inhospitality to Chinese companies is painfully short-sighted. Alibaba's possible emigration shows US capital markets to be an inessential and potentially unattractive home for ambitious and successful global (not just Chinese) companies. It's a dubious distinction for a country so dependent on foreign capital to fund its yawning deficits.

## PORTFOLIO HIGHLIGHTS

The portfolio reflects our continuing struggle to balance our process-driven insistence on high-quality growth companies with our increasing concerns about the price risk arising from elevated valuations for these businesses. Our largest overweight position remains in Health Care, a sector characterized by rapid technological advances and rising regulatory risk, but enjoying strong and recurrent consumer demand underpinned by favorable demographic trends globally. As noted, the sector was the single largest source of outperformance during the year. In it we have found a diversity of high-quality growth businesses at reasonable valuations. That said, valuations for the most innovative and rapidly growing health care companies can easily become excessive in the current low-rate environment, as investors extrapolate today's success into limitless future growth. For example, this year we sold two-thirds of our investment in online medical information pioneer M3 and the entirety of Wuxi Biologics, China's leading provider of outsourced pharmaceuticals when their shares came to trade at over 100 times trailing 12-month earnings, more than double our estimates of fair value.

But we also took the opportunity to add to several existing health care holdings on share price declines that we judged to be transient. We added to Vertex Pharmaceuticals as investors worried about potential regulatory restrictions on drug pricing in the US. We think the risk to Vertex's long-term earnings is low given the absence of alternatives to its cystic fibrosis treatments and other innovative "orphan" therapies in its develop-

ment pipeline. We added to UK-based **Abcam**, a leading manufacturer of proteins, such as antibodies, used as research tools by medical scientists seeking to understand the cause of disease. Its share price fell sharply after its profit margin came under pressure from management's step-up in long-term investments. We expect these investments to extend Abcam's growth—something that we think justifies a higher, not lower, share price.

The portfolio retains its modest overweight in IT. Our largest single active weight overall remains PayPal. Its shares have been stellar in the four years since their spin-off from eBay, but lagged the sector in 2019. The company has expanded its addressable market, overcoming its former dependency on eBay customers. We see it extending its share of global payments further as more of the world transitions to electronic payments. Our purchase of NVIDIA last year, just before a profit warning, was inopportune. But like PayPal, we think NVIDIA is led with exceptional foresight and skill. The company's strong research and new product development, illustrated by the opportunities coming out of its CUDA software development platform, keep it at the forefront of large and expanding markets for accelerated computing, such as gaming, artificial intelligence, and autonomous transport.

Despite a natural bias against Financials, a sector where neither quality nor growth abounds, the portfolio retained a full weight in banks during 2019. We continue to emphasize banks operating in EMs, which typically feature less financial intermediation, and where agile firms can deploy digital technologies to expand their reach and drive improvement in operating efficiency. We hold two US banks that demonstrate strong quality and growth: First Republic Bank, which specializes in personal banking and wealth management, and **SVB Financial Group**, parent of Silicon Valley Bank, which serves the venture capital industry, including offering financing for early stage life sciences and IT companies.

We sold our holding in Amazon.com, a company we've owned for nine years (except for a year-long hiatus around 2014). The company commands a unique set of competitive advantages, and we hold its management in very high regard. That said, we are not confident that Amazon, at its current size and degree of complexity, can sustain revenue growth of nearly 20% while also expanding operating margins by six percentage points over coming years—an achievement that our analysis suggests is anticipated in today's share price. We worry about increased competition from Microsoft Azure in cloud services, and from competitors outside the US in e-commerce that have made inroads in that core business in markets where Amazon has no domestic incumbent lead. An additional concern is the capital expenditure that would be required should Amazon choose to expand its same-day delivery initiative in markets outside the US. We will keep a close eye on Amazon and might return to it if those concerns prove unfounded, or if its valuation adjusts to embrace them.

We also sold **IPG Photonics** during the quarter. IPG is the dominant global leader in fiber laser technologies used for advanced and precision materials processing. Its management, too, has distinguished itself in adapting to change. A recovery in its share price eliminated its undervaluation in our base case scenario, and we were worried about the US company's business in China, which accounts for about a third of revenue. We saw customer orders deferred due to US-China trade frictions, and are concerned by the emergence of a credible Chinese competitor, whose rapid scale-up threatens IPG's high profit margins.

New purchases in the quarter included **Network International**, the leading payments processing company in the Middle East and Africa. The company, founded in 1994, is based in Dubai and was listed on the London Stock Exchange in April 2019. Network covers the entire payments chain from merchant acquisition (providing equipment to allow merchants to accept credit and debit card and mobile payments) to payments processing (enabling banks to outsource the processing of transactions on the cards they issue). Network's growth is a function of rising transaction volumes as it signs up ever more merchants who are presented with ever more digital payments. The company operates the largest and most modern payments network in the most under-penetrated regions for digital payments. MasterCard is a key strategic partner of Network International and owns 10% of the company.

## GLOBAL EQUITY HOLDINGS (AS OF DECEMBER 31, 2019)

| SECTOR/COMPANY/DESCRIPTION | COUNTRY | END WT (%) |
|---|---|---|
| **COMMUNICATION SERVICES** | | |
| **ALPHABET** Internet products and services | US | 2.9 |
| **BAIDU** Internet products and services | China | 1.6 |
| **DISNEY** Diversified media and entertainment provider | US | 1.2 |
| **FACEBOOK** Social network | US | 1.2 |
| **NETEASE** Gaming and internet services | China | 1.0 |
| **YANDEX** Internet products and services | Russia | 1.5 |
| **CONSUMER DISCRETIONARY** | | |
| **ALIBABA** E-commerce retailer | China | 1.9 |
| **BOOKING HOLDINGS** Online travel services | US | 2.7 |
| **EBAY** E-commerce retailer | US | 0.8 |
| **ESSILORLUXOTTICA** Eyewear manufacturer and retailer | France | 1.5 |
| **NIKE** Athletic footwear and apparel retailer | US | 1.9 |
| **TRIP.COM GROUP** Online travel services | China | 1.3 |
| **CONSUMER STAPLES** | | |
| **COLGATE PALMOLIVE** Consumer products manufacturer | US | 1.6 |
| **L'ORÉAL** Cosmetics manufacturer | France | 1.1 |
| **NESTLÉ** Foods manufacturer | Switzerland | 1.3 |
| **SHISEIDO** Consumer products manufacturer | Japan | 0.8 |
| **WALGREENS BOOTS ALLIANCE** Drugstores operator | US | 0.8 |
| **ENERGY** | | |
| **EXXONMOBIL** Oil and gas producer | US | 1.1 |
| **SCHLUMBERGER** Oilfield services | US | 1.3 |
| **FINANCIALS** | | |
| **AIA GROUP** Insurance provider | Hong Kong | 2.7 |
| **BANK CENTRAL ASIA** Commercial bank | Indonesia | 1.7 |
| **BBVA** Commercial bank | Spain | 0.7 |
| **FIRST REPUBLIC BANK** Private bank and wealth manager | US | 2.7 |
| **HDFC BANK** Commercial bank | India | 1.0 |
| **ICICI BANK** Commercial bank | India | 1.9 |
| **ITAÚ UNIBANCO** Commercial bank | Brazil | 1.0 |
| **STANDARD CHARTERED** Commercial bank | UK | 1.2 |
| **SVB FINANCIAL GROUP** Commercial bank | US | 1.1 |
| **HEALTH CARE** | | |
| **ABBOTT LABS** Health care products manufacturer | US | 1.3 |
| **ABCAM** Life science services | UK | 1.4 |
| **ALCON** Eye care products manufacturer | Switzerland | 0.9 |
| **ILLUMINA** Life science products and services | US | 0.9 |
| **LONZA** Life science products developer | Switzerland | 2.2 |
| **M3** Medical information services | Japan | 1.8 |
| **REGENERON** Biopharma manufacturer | US | 1.5 |

| SECTOR/COMPANY/DESCRIPTION | COUNTRY | END WT (%) |
|---|---|---|
| **SONOVA HOLDING** Hearing aids manufacturer | Switzerland | 1.1 |
| **SYSMEX** Clinical laboratory equipment manufacturer | Japan | 1.1 |
| **UNITEDHEALTH GROUP** Health care products and services | US | 0.9 |
| **VERTEX PHARMACEUTICALS** Pharma manufacturer | US | 2.9 |
| **WATERS** Analytical instruments manufacturer | US | 1.3 |
| **INDUSTRIALS** | | |
| **3M COMPANY** Diversified product manufacturer | US | 0.6 |
| **FANUC** Industrial robot manufacturer | Japan | 0.6 |
| **KONE** Elevator and escalator manufacturer | Finland | 1.0 |
| **KUBOTA** Industrial and consumer equipment manufacturer | Japan | 1.0 |
| **MAKITA** Power tool manufacturer | Japan | 0.9 |
| **MONOTARO** Factory materials supplier | Japan | 0.5 |
| **NIDEC** Electric motor manufacturer | Japan | 0.9 |
| **ROPER** Diversified technology businesses operator | US | 2.7 |
| **VERISK** Risk analytics and assessment services | US | 2.3 |
| **INFORMATION TECHNOLOGY** | | |
| **AAC TECHNOLOGIES** Smartphone components manufacturer | China | 1.1 |
| **APPLE** Consumer electronics and software developer | US | 2.2 |
| **COGNEX** Machine vision systems manufacturer | US | 0.8 |
| **COGNIZANT** IT consultant | US | 0.7 |
| **KEYENCE** Sensor and measurement equipment manufacturer | Japan | 1.7 |
| **MASTERCARD** Electronic payment services | US | 2.3 |
| **MICROSOFT** Consumer electronics and software developer | US | 1.4 |
| **NETWORK INTERNATIONAL** Electronic payment services | UK | 1.2 |
| **NVIDIA** Semiconductor chip designer | US | 1.7 |
| **PAYPAL** Electronic payment services | US | 4.0 |
| **SALESFORCE.COM** Customer relationship management software | US | 1.0 |
| **SAMSUNG ELECTRONICS** Electronics manufacturer | South Korea | 1.0 |
| **WORKDAY** Enterprise resource planning software | US | 0.9 |
| **MATERIALS** | | |
| **AIR LIQUIDE** Industrial gases producer | France | 1.1 |
| **CHR. HANSEN** Natural ingredients developer | Denmark | 0.6 |
| **LINDE** Industrial gases supplier and engineer | US | 1.7 |
| **SASOL** Energy and chemical technology developer | South Africa | 0.5 |
| **SYMRISE** Fragrances and flavors manufacturer | Germany | 2.2 |
| **REAL ESTATE** | | |
| No Holdings | | |
| **UTILITIES** | | |
| No Holdings | | |
| **CASH** | | 4.6 |

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

### 4Q19 CONTRIBUTORS TO ABSOLUTE RETURN (%)

| LARGEST CONTRIBUTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|---|---|---|---|
| VERTEX PHARMACEUTICALS | HLTH | 2.9 | 0.78 |
| APPLE | INFT | 2.1 | 0.61 |
| FIRST REPUBLIC BANK | FINA | 2.7 | 0.56 |
| NVIDIA | INFT | 1.6 | 0.50 |
| AAC TECHNOLOGIES | INFT | 0.9 | 0.49 |

### LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

| LARGEST CONTRIBUTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|---|---|---|---|
| M3 | HLTH | 2.0 | 1.69 |
| APPLE | INFT | 1.8 | 1.27 |
| PAYPAL | INFT | 4.4 | 1.26 |
| MASTERCARD | INFT | 2.4 | 1.21 |
| ROPER | INDU | 3.2 | 1.17 |

### 4Q19 DETRACTORS FROM ABSOLUTE RETURN (%)

| LARGEST DETRACTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|---|---|---|---|
| VERISK | INDU | 2.4 | -0.16 |
| SHISEIDO | STPL | 0.9 | -0.10 |
| EBAY | DSCR | 0.9 | -0.08 |
| COLGATE PALMOLIVE | STPL | 1.4 | -0.06 |
| CHR. HANSEN | MATS | 0.7 | -0.05 |

### LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

| LARGEST DETRACTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|---|---|---|---|
| SASOL | MATS | 0.6 | -0.21 |
| WALGREENS BOOTS ALLIANCE | STPL | 0.9 | -0.13 |
| TELEVISA | COMM | 0.2 | -0.12 |
| SHISEIDO | STPL | 0.3 | -0.11 |
| TRIP.COM GROUP | DSCR | 0.5 | -0.11 |

### PORTFOLIO CHARACTERISTICS

| QUALITY & GROWTH | HL GLOBAL | MSCI ACWI |
|---|---|---|
| PROFIT MARGIN[1] (%) | 18.0 | 13.6 |
| RETURN ON ASSETS[1] (%) | 10.5 | 7.2 |
| RETURN ON EQUITY[1] (%) | 17.0 | 16.1 |
| DEBT/EQUITY RATIO[1] (%) | 31.3 | 81.1 |
| STD DEV OF 5 YEAR ROE[1] (%) | 3.9 | 4.4 |
| SALES GROWTH[1,2] (%) | 10.4 | 4.4 |
| EARNINGS GROWTH[1,2] (%) | 12.4 | 10.6 |
| CASH FLOW GROWTH[1,2] (%) | 13.6 | 8.8 |
| DIVIDEND GROWTH[1,2] (%) | 10.4 | 8.4 |
| **SIZE & TURNOVER** | **HL GLOBAL** | **MSCI ACWI** |
| WTD MEDIAN MKT CAP (US $B) | 52.4 | 65.0 |
| WTD AVG MKT CAP (US $B) | 157.5 | 189.7 |
| TURNOVER[3] (ANNUAL %) | 22.9 | — |

| RISK AND VALUATION | HL GLOBAL | MSCI ACWI |
|---|---|---|
| ALPHA[2] (%) | 1.93 | — |
| BETA[2] | 1.06 | — |
| R-SQUARED[2] | 0.95 | — |
| ACTIVE SHARE[3] (%) | 88 | — |
| STANDARD DEVIATION[2] (%) | 12.70 | 11.68 |
| SHARPE RATIO[2] | 0.83 | 0.68 |
| TRACKING ERROR[2] (%) | 2.9 | — |
| INFORMATION RATIO[2] | 0.88 | — |
| UP/DOWN CAPTURE[2] | 111/97 | — |
| PRICE/EARNINGS[4] | 28.9 | 19.0 |
| PRICE/CASH FLOW[4] | 21.4 | 12.0 |
| PRICE/BOOK[4] | 4.0 | 2.4 |
| DIVIDEND YIELD[5] (%) | 1.0 | 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 Equity Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: January 7, 2020); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Inc.

### COMPLETED PORTFOLIO TRANSACTIONS

| POSITIONS ESTABLISHED | COUNTRY | SECTOR |
|---|---|---|
| NETWORK INTERNATIONAL | UK | INFT |
| SALESFORCE.COM | US | INFT |
| WORKDAY | US | INFT |

| POSITIONS SOLD | COUNTRY | SECTOR |
|---|---|---|
| AMAZON.COM | US | DSCR |
| CHECK POINT | ISRAEL | INFT |
| GRIFOLS | SPAIN | HLTH |
| IPG PHOTONICS | US | INFT |
| NASPERS | SOUTH AFRICA | DSCR |
| PROSUS | NETHERLANDS | DSCR |

*The portfolio is actively managed therefore holdings identified above do not represent all of the securities held in the portfolio and holdings may not be current. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and contribution of all holdings during the quarter and the last 12 months. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall 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 Equity Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.*

## GLOBAL EQUITY COMPOSITE PERFORMANCE (AS OF DECEMBER 31, 2019)

| | HL GLOBAL EQUITY GROSS (%) | HL GLOBAL EQUITY NET (%) | MSCI ACWI[1] (%) | MSCI WORLD[2] (%) | HL GLOBAL EQUITY 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 | COMPOSITE ASSETS ($M) | FIRM ASSETS (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019[5] | 30.17 | 29.64 | 27.30 | 28.40 | 12.56 | 11.21 | 11.13 | 0.2 | 29 | 14,139 | 21.99 |
| 2018 | -9.35 | -9.75 | -8.93 | -8.20 | 11.85 | 10.48 | 10.39 | 0.2 | 30 | 10,752 | 21.39 |
| 2017 | 33.26 | 32.66 | 24.62 | 23.07 | 11.16 | 10.37 | 10.24 | 0.2 | 27 | 8,946 | 16.57 |
| 2016 | 7.13 | 6.62 | 8.48 | 8.15 | 11.37 | 11.07 | 10.94 | 0.1 | 29 | 7,976 | 20.45 |
| 2015 | 2.65 | 2.18 | -1.84 | -0.32 | 11.16 | 10.78 | 10.80 | 0.5 | 28 | 7,927 | 23.81 |
| 2014 | 6.91 | 6.43 | 4.71 | 5.50 | 10.82 | 10.48 | 10.21 | 0.3 | 31 | 9,961 | 28.46 |
| 2013 | 21.64 | 21.12 | 23.44 | 27.37 | 13.92 | 13.92 | 13.52 | 0.5 | 32 | 11,165 | 33.69 |
| 2012 | 18.44 | 17.98 | 16.80 | 16.54 | 16.49 | 17.11 | 16.72 | 0.1 | 25 | 9,071 | 40.03 |
| 2011 | -6.96 | -7.31 | -6.86 | -5.02 | 19.03 | 20.59 | 20.16 | 0.2 | 13 | 5,316 | 39.10 |
| 2010 | 16.54 | 16.16 | 13.21 | 12.34 | 22.85 | 24.51 | 23.74 | N.M.[6] | 6 | 2,879 | 26.15 |
| 2009 | 42.85 | 42.42 | 35.41 | 30.79 | 20.82 | 22.37 | 21.44 | N.M. | 4 | 1,463 | 22.86 |

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the Composite and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]The 2019 performance returns and assets shown are preliminary; [6]N.M.-Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year.

The Global 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 All Country 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. 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 49 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 Indices.

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 September 30, 2019.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Global Equity Composite has been examined for the periods December 1, 1989 through September 30, 2019. The verification and performance examination reports are available upon request.

Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. The firm maintains a complete list and description of composites, which is 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. Past performance does not guarantee future results. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 Equity accounts is 1.00% annually of the market value up to $20 million; 0.50% of amounts from $20 million to $100 million; 0.45% of amounts from $100 million to $250 million; above $250 million on 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 Equity Composite was created on November 30, 1989.

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