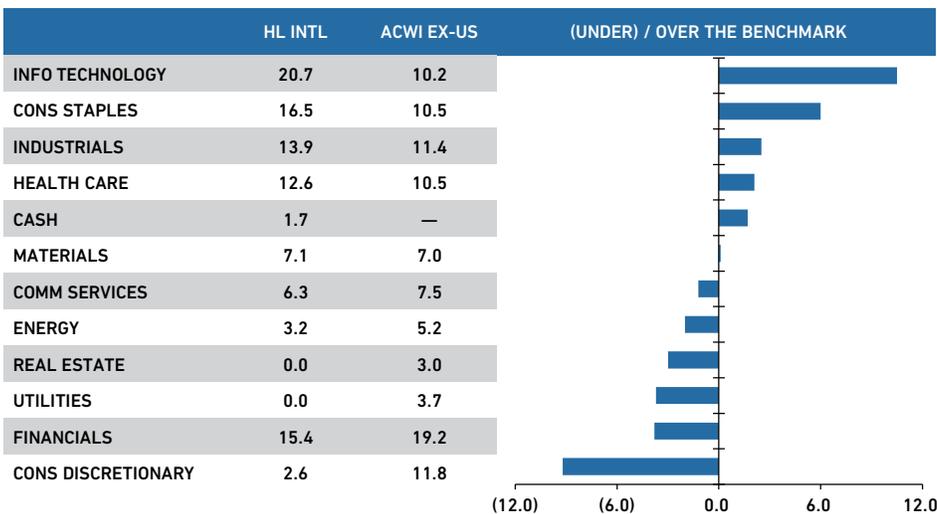
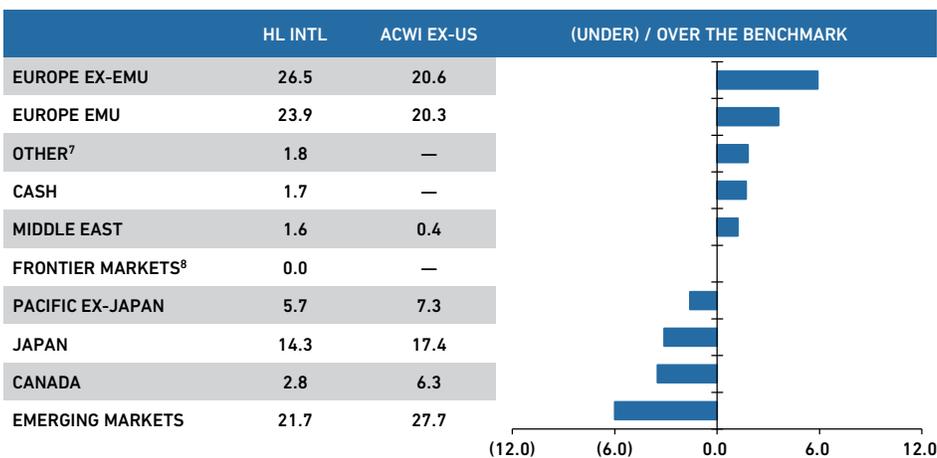


**COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED MARCH 31, 2020<sup>1</sup>**

	3 MONTHS	1 YEAR	3 YEARS <sup>2</sup>	5 YEARS <sup>2</sup>	10 YEARS <sup>2</sup>	SINCE INCEPTION <sup>2,3</sup>
HL INTL EQUITY (GROSS OF FEES)	-19.21	-8.63	1.80	3.09	5.94	7.66
HL INTL EQUITY (NET OF FEES)	-19.35	-9.21	1.14	2.42	5.29	6.87
MSCI ALL COUNTRY WORLD EX-US INDEX <sup>4,5</sup>	-23.26	-15.14	-1.48	-0.17	2.52	4.31
MSCI EAFE INDEX <sup>5,6</sup>	-22.72	-13.92	-1.33	-0.13	3.20	4.01

<sup>1</sup>The Composite performance returns shown are preliminary; <sup>2</sup>Annualized Returns; <sup>3</sup>Inception Date: December 31, 1989; <sup>4</sup>The Benchmark Index; <sup>5</sup>Gross of withholding taxes; <sup>6</sup>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 (%)**

**GEOGRAPHIC EXPOSURE (%)**


<sup>7</sup>Includes companies classified in countries outside the Index; <sup>8</sup>Includes countries with less-developed markets outside the Index.

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

Source: Harding Loevner International 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.

**WHAT'S INSIDE**
**Market Review >**

International equity markets plummeted in the first quarter as the coronavirus outbreak engulfed the planet.

**Performance and Attribution >**

Sources of relative return by region and sector.

**Perspective and Outlook >**

The stocks of high-quality, fast-growing companies have held their ground well in this market decline, which has compressed a bear market into (so far) just six weeks.

**Portfolio Highlights >**

Sometimes, when the storm is upon you, the least exciting aspect of your preparation reveals itself to be critical. We discuss the importance of financial strength to our preparations for unexpected events.

**Portfolio Holdings >**

Information about the companies held in our portfolio.

**Portfolio Facts >**

Contributors, detractors, characteristics, and completed transactions.

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## MARKET REVIEW

International markets fell savagely in the first quarter as the COVID-19 pandemic engulfed the planet. The size and speed of the equity market decline were unprecedented, with volatility reaching levels not seen since the global financial crisis. While markets recovered somewhat in the last two weeks of the quarter, equity markets nevertheless posted their worst quarter since 2008. All regions and sectors finished in negative territory.

The quarter began with the US killing of a top Iranian general, escalating tensions in the Middle East before investor attention was gripped by mushrooming outbreaks of a novel coronavirus in China. By mid-February, Chinese authorities locked down the entire province of Hubei, an area the size of Illinois but, at nearly 60 million people, four times its population. Within a month, the World Health Organization declared the outbreak a global pandemic. Although the respiratory disease spread first in Asia, the epicenter shifted rapidly to Europe and the United States. By quarter-end, the infection had spread to over 180 countries, and governments everywhere were struggling to contain the disease and its fallout. The ensuing travel restrictions, enforced business closures, and home confinements brought economic activity to a shuddering stop.

A severe global recession is now at hand. One data point from first-affected China—a 79% decline in nationwide auto sales in February—is a harbinger of the speed and depth of declines in economic activity we should expect elsewhere. Exacerbating the turmoil, Saudi Arabia decided to retaliate against Russia for its unwillingness to curb oil production, flooding the market with excess supplies of oil. A price war between two of the world's largest oil producers amid a collapse in demand pushed oil prices down to an 18-year low of just under US\$23 for Brent crude.

While global equity markets gyrate violently, government bond yields in developed markets plumb new lows. As the health crisis morphs into a full-blown economic crisis, policymakers are grappling with how to respond. On the monetary front, central bankers have pulled out all the stops. The Bank of England pledged unlimited support to large company financings, the US Federal Reserve lowered short-term rates to near-zero and unveiled aggressive actions to keep credit flowing, and the European Central Bank expanded its asset purchase program, relaxing its asset eligibility requirements for both sovereign and corporate issuers. The People's Bank of China cut its reserve requirement ratio—twice—hoping to spur bank lending. On the fiscal front, governments have responded with massive spending plans, dwarfing the rescue programs from the global financial crisis. The United States passed a US\$2.2 trillion economic relief package, and European governments pledged hundreds of billions of euros to mitigate the sudden losses of personal and corporate incomes. Chinese officials committed to increase spending on infrastructure projects.

Currency effects were large in the quarter, as domestic demand for US dollar liquidity combined with overseas demand roiled money markets in many countries where companies or gov-

## MARKET PERFORMANCE (USD %)

MARKET	1Q 2020	TRAILING 12 MONTHS
CANADA	-27.4	-19.3
EMERGING MARKETS	-23.6	-17.3
EUROPE EMU	-26.7	-17.3
EUROPE EX-EMU	-21.6	-12.5
JAPAN	-16.6	-6.3
MIDDLE EAST	-18.0	-18.1
PACIFIC EX-JAPAN	-27.6	-23.5
MSCI ACW EX-US INDEX	-23.3	-15.1

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

SECTOR	1Q 2020	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-14.1	-9.6
CONSUMER DISCRETIONARY	-24.1	-12.5
CONSUMER STAPLES	-14.7	-9.5
ENERGY	-38.3	-36.6
FINANCIALS	-31.0	-24.5
HEALTH CARE	-8.9	5.1
INDUSTRIALS	-26.1	-16.6
INFORMATION TECHNOLOGY	-17.4	1.8
MATERIALS	-27.4	-22.4
REAL ESTATE	-27.5	-25.5
UTILITIES	-15.8	-8.4

Source: FactSet (as of March 31, 2020); MSCI Inc. and S&P.

ernments have incurred substantial dollar debts. Currencies of energy-exporting countries fell hard as market participants adjusted for worsened terms of trade. Only the perceived safe havens of the Swiss franc and the Japanese yen, along with the Hong Kong dollar, managed any appreciation against the US dollar, while several Emerging Markets currencies fell more than 20%. The euro and the yuan fell only slightly.

Consistent with the fraught economic backdrop, non-cyclical sectors outperformed in equity markets. Health Care performed best, with strong relative performance in Pharmaceutical and Biotechnology stocks since drug sales are typically less sensitive in recessions and may even see an uplift in the event of new treatments for COVID-19. Consumer Staples also outperformed, as demand for essential household products, unlike discretionary goods, is expected to remain stable in the face of consumers self-isolating. Utilities—again, facing stable demand—outperformed. Energy stocks fell in sympathy with the dramatic fall in oil prices. Materials and Financials performed poorly, anticipating the overall decline in economic activity and likely increase in defaults. Unexpectedly, Information Technology (IT), normally a cyclical sector, outperformed in the decline, a topic we address later in this report.

Viewed by geography, Asian markets were the most resilient. China performed the best of any major market despite being the

locus of the outbreak, perhaps reflecting the success of domestic containment efforts once the virus had been identified. Japan, Hong Kong, Taiwan, and New Zealand also held up better than most other markets. Countries heavily reliant on commodities and energy, such as Australia, Canada, Norway, Indonesia, Russia, and Brazil, performed the worst. Emerging Markets as a group performed in-line with developed markets, but almost solely due to the strong relative performance of China.

Style effects in the quarter showed a clear investor preference for safety, which accelerated through mid-March before easing slightly following the passage of the US stimulus package. High-quality companies, that is, those with more consistent returns and low leverage, outperformed those with more cyclical revenues and higher debt loads. Another pronounced effect was how much investors preferred growth companies: the cohort of the fastest-growing outperformed that of the slowest-growing by 1,050 basis points, keeping their high valuations. Value underperformed by a wide margin, hurt especially by poor returns from Financials and Energy.

## ■ PERFORMANCE AND ATTRIBUTION

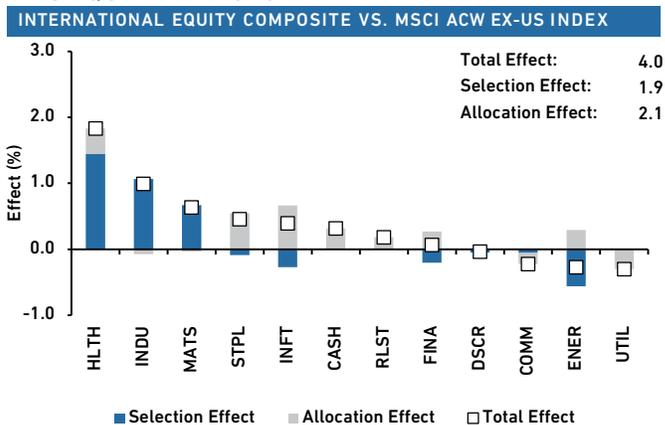
The International Equity composite fell 19.2% in the quarter, less than the benchmark's 23.3% loss.

Outperformance derived from both positive allocation and stock selection. Our emphasis on high-quality growth companies, skewing us toward opportunity-rich sectors like IT, Health Care, and Consumer Staples, and away from less fertile ones like Energy, Financials, and Real Estate, helped our performance. Good stocks in Health Care contributed the biggest relative gains. Two of our Pharmaceutical holdings, **Chugai** and **Roche**, benefited from news of potential use of their co-promoted drug Actemra to treat COVID-19 symptoms. Likewise, shares of contract drug manufacturer **Lonza** did well as it identified anti-viral uses for products in its less-heralded specialty ingredients business. Additionally, Japanese diagnostic company **Sysmex** noted a surge in demand for testing machines and reagents in newly built hospitals in China.

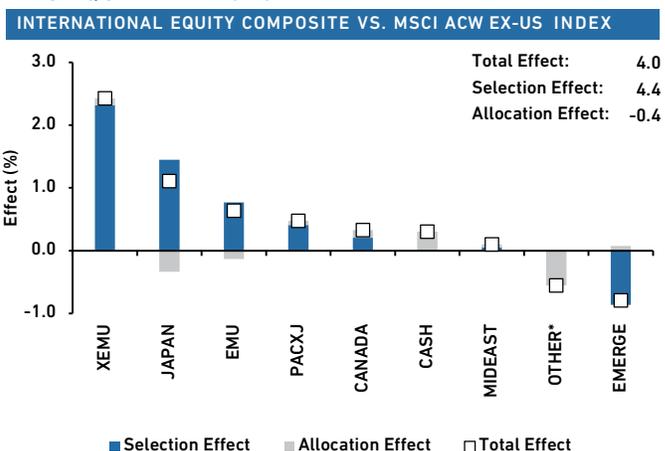
Good stocks in Industrials also helped, especially two of our European holdings, Swedish compressor maker **Atlas Copco** and French electric equipment company **Schneider Electric**. Solid relative returns from industrial gas stocks **Linde** and **Air Liquide** within Materials were negated by a poor one from **Sasol**, whose revenues are strongly tied to oil prices, and whose nearly completed petrochemical complex in Louisiana

*Companies held in the portfolio during 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. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at March 31, 2020 is available on page 9 of this report.*

## SECTOR PERFORMANCE ATTRIBUTION FIRST QUARTER 2020



## GEOGRAPHIC PERFORMANCE ATTRIBUTION FIRST QUARTER 2020



\*Includes companies classified in countries outside the Index. Source: FactSet; Harding Loevner International 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.

is now unlikely ever to produce sufficient cash flow to pay off the debt amassed to build it. And while our underweight in Energy, the worst-performing sector, helped, a fall in oil-field services company **Schlumberger**, which will be hurt by declining petroleum capex, offset the benefit.

Viewed by geography, the portfolio had strong stock selection in every region except Emerging Markets. Within Europe outside the eurozone, our Swiss stocks—including Roche, Lonza, and packaged-food purveyor **Nestlé**—contributed the most. In the eurozone, French cosmetics company L'Oréal and German software firm **SAP** both outperformed. Japanese stocks also added to relative returns. In addition to outperformance by Chugai and Sysmex, **Unicharm** was helped by viral demand for its disposable hygiene products such as masks, cleaning sheets, and wet tissues. Our holdings in Emerging Markets were mixed. Our underweight to China, the top-performing country, and the underperformance of insurer **Ping An** and search firm **Baidu**, hurt the most. We also had poor returns from Indian

Financials **ICICI Bank** and **HDFC Bank** and from South Africa-based Sasol. Good returns from IT holdings in EM—South Korea’s **Samsung Electronics** and **TSMC**—provided some offset.

## ■ PERSPECTIVE AND OUTLOOK

Since early March, the focus of our investment team has been on the following:

1. Reviewing all portfolio holdings or followed companies for newly heightened risks to the investment thesis from the market environment, either in their business model or in their financial structure.
2. Deploying modest cash reserves into companies we strongly admire, but whose shares have seemed far too highly priced until now.
3. Examining our existing holdings for evidence of price dislocations, instances where share prices have either over or under reacted relative to our understanding of their longer-term prospects. Mispricing due to the short-term urgency of others’ behavior can offer rich opportunities for investors with a long-term investment horizon.
4. Divining in what ways companies and individuals may behave differently after the coronavirus is overcome (if they do.) We cannot recall a bear market that has not witnessed a change in the kinds of stocks to lead the market, usually because a different set of companies is seen to be (revealed to be?) delivering essential products or services, because individuals or companies are demanding them. Alternatively, nothing may change in economic behavior but share prices may reach extremes of pessimism that imply wrongly that behavior will change—another form of opportunity for astute investors with a suitably long horizon.

The stocks of high-quality, fast-growing companies have held their ground well in this market decline, which has compressed a bear market into (so far) just six weeks. The resilience of quality has come widely to be expected, leading us to fear that, because of the growth in their popularity, shares of high-quality companies might not be as stable in “the next downturn” as in prior episodes. That has not been the case in this one, so far. But the resilience of *growth* stocks is one of the marvels of this decline. In the US (the stock market for which we have the longest data series), the IT sector, for example, has underperformed the broader market in all but one bear market since 1926. This time, Global IT fell only 14%, which is one-third less than the overall global stock market. Non-US IT fell six percentage points less than the All Country World ex-US Index. It is unheard of for IT to rival the performance of the non-cyclical and traditionally “defensive” sectors of Consumer Staples or Utilities in down markets, yet it has done so this time. This anomaly makes perfect sense, however, considering how companies and individuals have responded to the pandemic in ways

that accelerate the trends that were already fueling the growth of companies that exploit the internet as a mode of commerce.

The most obvious of these trends is the increasing share of online spending at the expense of brick-and-mortar shops and malls. Online retailers Alibaba, Amazon, and eBay, along with grocers that were prescient to build online ordering and fulfillment infrastructure, have provided a lifeline to hundreds of millions who find themselves unable to leave their homes. This mass migration to online shopping will not reverse when the pandemic subsides, so long-term growth in customers will have been drawn forward for the companies best able to ramp up during the crisis. Their gain in market share from traditional retailers will be sustained, especially as many smaller ones may not survive, further increasing the economies of scale enjoyed by the largest e-commerce players.

Likewise, online or contactless payments mechanisms, already a healthy growth area, will record broadening acceptance and usage, with exchange of currency and coin increasingly avoided as a point of viral transmission risk. Companies who provide secure online networks or otherwise enable online or contactless payment functions are growing stronger even as the economy lapses into a coma.

Online communications and employee productivity are undergoing an acid-test of mass remote working. This has stimulated explosive, but temporary, demand for the latest devices, but probably also sustained demand for upgraded software, cloud computing services, and IT consulting services by companies finally recognizing the need to catch up to their more forward-looking, digitally sophisticated peers.

On the losing side, wanderlust and trust of strangers have sustained a mighty blow from which they will take time to recover. The collateral victim of this is the travel industry, including online travel facilitators—exceptions to the general resilience of online businesses. Likewise, we’d guess that the “sharing” economy will be slow to recover from a deep swoon in customer usage: trusting that your Uber driver (and their prior passengers), or the previous occupants of your rented home via Airbnb are not virus-carriers seems a way off, to our mind.

By and large, though, most of yesterday’s fast-growing companies seem destined to be tomorrow’s as well, provided they don’t need constant access to more capital. But the high prices the market has afforded to the stocks of the fastest growing businesses, driven by the relative performance of growth stocks this quarter combined with all the performance that has come before, mean that valuation premium afforded to the priciest stocks is now larger than at almost any time in the last century. The first chart on the next page illustrates the valuation spread between the most expensive 20% of US stocks and the rest of the market expressed as units of standard deviation relative to its long-term trend. Relative valuations for expensive stocks typically swing between plus or minus one or two standard deviations but on rare occasions rise to great peaks often associated with general market dislocations.

The same disparity in valuations extends around the globe, to varying degrees, with the exception of China, shown in the second chart.

And the phenomenon is repeated within sectors even in those sectors with heightened risk to profitability such as Energy and Financials, as the third chart of the US industry group spreads over 70 years illustrates.

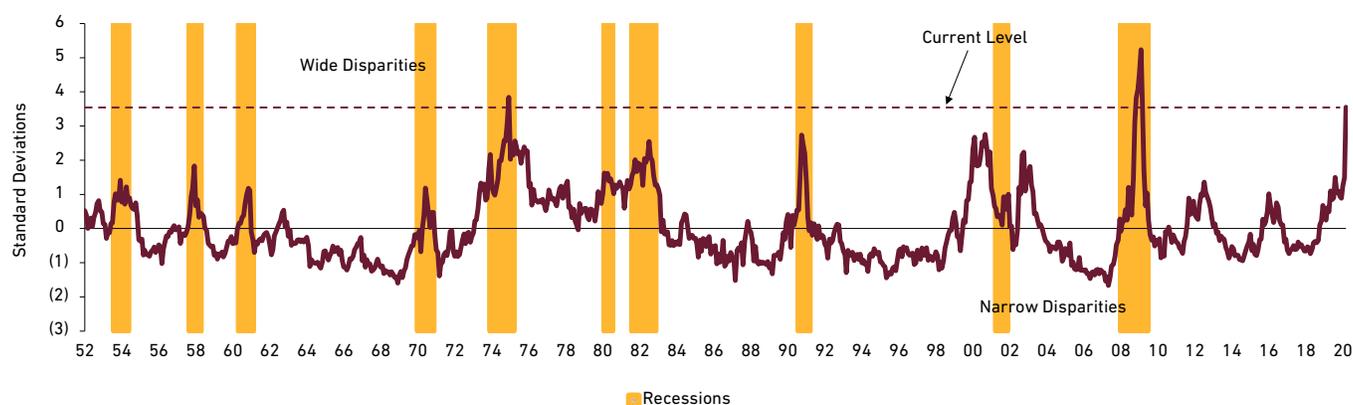
This causes us to worry about the future relative performance potential of our favorite companies' shares. Value-oriented strategies have been the better performers following prior episodes of anything approaching this sort of extreme in valuation spreads. We are wrestling with a conundrum: cheaper stocks are cheap for a reason; their issuers have not grown much, are financially leveraged, or operate in industries with poor competitive structures that hamstringing their ability to generate at-

tractive returns on capital—in a nutshell, companies of poor quality that are unlikely to grow.

Even though we are unwilling to reach to the bottom of the quality- or growth-barrel to fill our portfolios, we have been pruning, and continue incrementally to prune, some of the most richly priced shares in our portfolio, and reinvesting the proceeds in companies that, albeit not the raciest, enjoy sturdy finances and respectable long-term growth outlooks. During the quarter we bought at least one new company whose strong growth prospects seem undiminished but whose shares were more cheaply priced than before; an objective observer will note that they nevertheless still sport high prices.

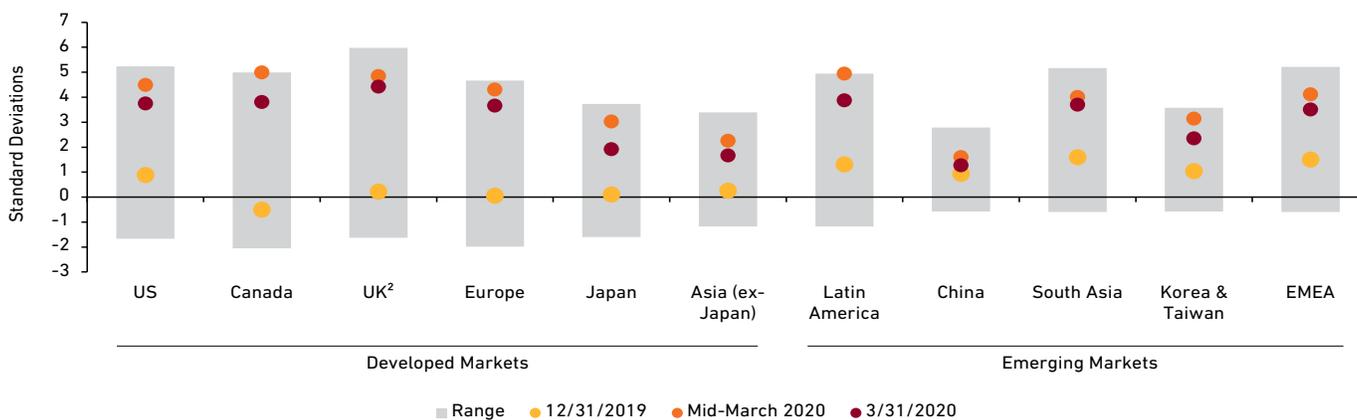
We have mis-analyzed the Energy industry. We dismissed concerns about petroleum reserves ultimately becoming “stranded” (stemming from fossil fuel bans or carbon taxes) as being

### US LARGE CAP STOCKS VALUATION SPREADS THE TOP QUINTILE COMPARED TO THE AVERAGE: 1952 THROUGH LATE-MARCH 2020



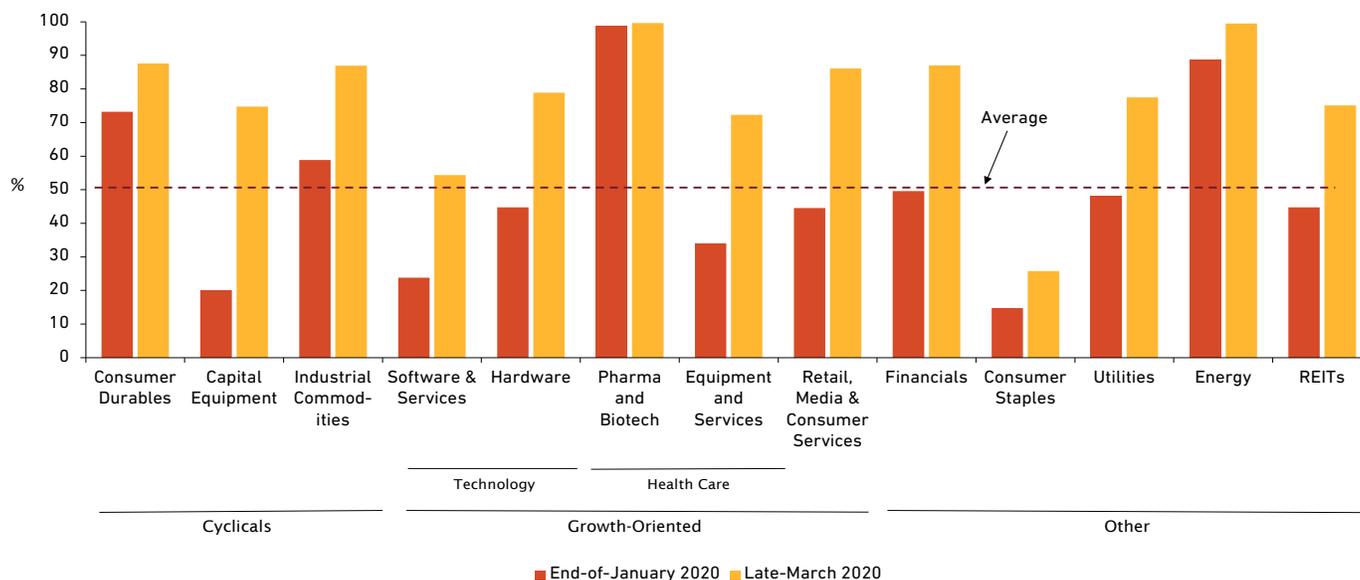
Source: National Bureau of Economic Research, Empirical Research Partners Analysis.

### THE WORLD - VALUATION SPREADS BY REGION THE TOP QUINTILE COMPARED TO THE AVERAGE HISTORICAL RANGE, DECEMBER 2019 AND CURRENT LEVEL: 1987 THROUGH MARCH 2020<sup>1</sup>



Source: Empirical Research Partners Analysis.  
<sup>1</sup>US data since 1926. Japan and emerging markets regional data since 1997.  
<sup>2</sup>UK data based on the largest 350 companies.

**INTRA-SECTORAL VALUATION SPREADS<sup>1</sup>**  
**CURRENT READINGS COMPARED TO LONG-TERM HISTORY PERCENTILES (1=NARROWEST; 100=WIDEST) 1952 THROUGH LATE-MARCH 2020**



Source: Empirical Research Partners Analysis.

<sup>1</sup>Based on an analysis of a 1,500 stock universe. Framework varies across sectors depending on what's efficacious.

just a version of sunk costs, with no implication for cash flows except in the very long term. That meant we overlooked a key feature of the forces shaping competition in this industry. We failed to anticipate that the mere *prospect* of stranded assets would cause rival oil-producing countries to alter their strategies. If some reserves are eventually going to be shut in by reduced demand, low-cost producers will aim to make sure it's not their reserves that are shut in. Better, therefore, to take out the high-cost producers sooner rather than later. That is the rational explanation of what OPEC members have done by scotching their agreement. The pandemic has temporarily crushed demand just as supply discipline has been abrogated.

Looking forward, the questions for us have become: Will there be excess, or instead insufficient, supply to meet resumed demand on the far side of the COVID-19 recession, given the closure of access to capital markets for a large swath of the high cost and debt-dependent producers in this combined oil price and high-yield swoon? How much exploration and production capex was being made, and how much will no longer get spent? We're unsure, but this much is clear: the breakdown of the OPEC-led cartel has done more to raise the cost of capital for the Energy industry than all the Extinction Rebellion and 350.org protests combined. The question remains whether this higher cost of capital will deliver what the rarely considered logic demands: higher returns on capital for those who remain in the business.

Another marvel of this bear market has been the astonishing outperformance of Chinese shares, especially those traded primarily on the domestic Shanghai and Shenzhen exchanges, relative not only to the rest of Emerging Markets, but relative even to the US market. While there may be some effect from lower financialization (read: derivative engineering) in Chinese markets, the prohibition of short-selling, and maybe even some

muscular jawboning by their regulators, we think China's out-performance is for the most part based on solid grounds. Despite being the first victim of the coronavirus, with no one's example to learn from, Chinese authorities acted ferociously once they realized the scale and virulence of the disease, to the great benefit of their overall society. We in the West can easily overlook the daunting problems faced by the Chinese, given the sheer size of their migrant workforce (at nearly 300 million, roughly the equivalent of the entire US population), most of whom travel from their workplaces to the towns and provinces from which they hail every Lunar New Year. Containing the coronavirus within a single province for the most part is a huge achievement for the Chinese government, even though it required brutal quarantine measures along with pervasive electronic monitoring of individuals, and will have come at a large, but temporary, cost to their industrial production. Our China analyst, Jingyi Li, writes persuasively nearby about that achievement.

Our view is that the comparison of how China has managed the pandemic (so far) with how the West—especially the US, which had the same early chances as South Korea first to contain and then to mitigate the spread of the virus—has done so will enhance its standing in the eyes of many, in spite of the authoritarian measures it has employed. Its economy is likely to recover faster, and its political influence with other countries will expand, especially in those places that are benefiting from Chinese medical and technical aid. The US, on the other hand, will have shown a poor ability to protect its own people, and will have squandered the political and economic opportunity to help its allies and desired friends abroad. Moreover, this comparison, and the existential chaos of the pandemic crisis itself, may lead more countries to view authoritarian political structures with less suspicion, a dark portent for our post-crisis world.

This quarter, the focus around the world is on the effective containment and mitigation of the coronavirus. My central observation as a China analyst, without buying into specific reported casualty figures and always suspicious of Chinese government propaganda, is that China has managed to contain the COVID-19 virus relatively quickly and is already taking steps to restart its economy. The relative effectiveness of China in this crisis has surprised me.

National solidarity and popular tenacity, combined with its centralized and authoritarian political system and its economic prowess, are the key reasons why China was able to contain the COVID-19 virus relatively quickly, in spite of an early cover-up and egregious missteps.

Collectivism is deeply rooted in the Chinese culture. Often in its history, when the nation has faced an existential threat, individual citizens are called upon to make sacrifices to defeat a common enemy. The bureaucracy, which dates to China's imperial era, serves as a far-reaching apparatus for the interest of the whole society as much as for that of the ruling class. It not only coordinates the actions of the nation at large but also provides structure at the local level while preserving local civic autonomy.

The whole nation was put on high alert, once the new virus was confirmed in January as a pathogen similar to 2003's SARS. The COVID-19 outbreak was at the beginning of the Chinese New Year, when hundreds of millions of migrant workers from rural areas go back to their hometowns. Given that community spread was already happening, and the massive migration was imminent, the government ordered a draconian lockdown: first, of the city of Wuhan, with over 11 million residents, and then of the whole province of Hubei, which has nearly 60 million residents. In the following days, over 200 cities in China issued similar orders.

Even the most authoritarian government imaginable could not force hundreds of millions of people to jail themselves at home. Such a large-scale lockdown was only possible with the genuine support of the public.

As it has often done with natural disasters, the central government called on the whole nation for help.

In addition to the national response, each county of Hubei was paired with a less-impacted province. The central government left a large portion of assistance work to the best judgement of the aid-giving province and the receiving county. With a remarkable spirit of solidarity, the provinces outside Hubei—while still fighting outbreaks in their own areas—sent over 20,000 doctors and health care workers to Wuhan and its province.

At the community level, volunteers stepped up to help the most vulnerable members of their communities. Individual donations were sent directly to the hospitals in response to their pleas for protective gear. Each community came up with social-distancing measures suitable for their local situations. Neighbors organized food delivery to households in self-isolation and even provided homemade food and private transportation to the health care workers and their families.

The whole-society effort was supported and amplified by the country's technological and industrial capabilities.

On January 11, just days after China and the World Health Organization (WHO) announced the discovery of the virus, Chinese scientists isolated the new virus, sequenced its genome and shared their findings with the global community. The scientists also established—at record speed—diagnostic tools and key transmission characteristics. Fourteen makeshift hospitals were built in Wuhan in a matter of days.

As the physical movement of people and goods ground to a halt, China's virtual economy accelerated. Online services provided by companies such as Alibaba and Tencent became the backbones for business and social interaction. Alibaba and Tencent rolled out a "health code," a computer-readable color-coded QR code function on their widely used apps. Linked to each user's identity, the health code indicates the user's risk level and travel histories. It allowed community checkpoints to screen visitors more quickly and enabled public health officials to do transmission tracking more rigorously than ever.

Additionally, independent developers on Alibaba's and Tencent's platforms quickly built thousands of "mini programs" to help the public cope with confinement. Households started buying groceries on mobile apps. Office workers also used apps to work from home and videoconference with their colleagues. Students took courses online, and the general public stayed informed and entertained thanks to their smartphones.

Life has begun to normalize week by week, as the pandemic gets under control. In the near term, China must cope with the enormous human and economic losses while staying vigilant against any reoccurrence of the virus. Over the longer term, changes will likely be even more profound. The adoption of the "New Economy" is likely to accelerate and run deeper. Politically, President Xi Jinping may capitalize on the crisis and national pride to justify the political system. On the world stage, China may finally succeed in expanding its influence and fill the void left by US's abdication. At least, China can earn some grudging respect, if not goodwill and friendship, from many countries around the world.

## ■ PORTFOLIO HIGHLIGHTS

To survive crises, advance preparation is crucial. Preparation is intrinsic to our investment philosophy. We invest only in companies meeting, in our judgment, four essential criteria: they possess competitive advantage, they can generate sustainable superior long-term growth, they have superior financial strength to support that growth and withstand difficult economic and credit environments, and they have management with the foresight and dynamism to apply these strengths to changing challenges and opportunities for the benefit of shareholders.

Sometimes, when the storm is upon you, the least exciting aspect of your preparation reveals itself to be critical. We think the most immediately important preparation our approach provides is our insistence on financial strength. By not compromising on our commitment to strong balance sheets when times are good, we reduce losses arising from financial distress when the tide of easy credit and low borrowing costs inevitably recedes. We can therefore place greater confidence on our estimates of the long-term value of our companies, for if a company is to enjoy the growth of economic recovery it must first survive the transient shock. Currently, the debt to equity ratio of our portfolio companies is meaningfully lower than that of the benchmark (44% vs 57%) while the typical interest coverage ratio of our companies is nearly twice as high (19x vs 10x); these are but two of the dimensions of financial strength that we consider. When a company no longer meets our standard for financial strength, we sell it, as we did our shrunken stake in Sasol this quarter.

The sectors we emphasize and de-emphasize relative to the benchmark index remained the same during the quarter: Our substantial holdings in IT and Industrials typically offer us higher but potentially more volatile prospective growth, while the earnings of our large holdings of Consumer Staples and Health Care companies tend to follow steadier, less economically sensitive trajectories. We remain underweight the Consumer Discretionary, Financials, and Energy sectors and continue to have no holdings in the Utilities or Real Estate sectors.

IT remains our largest sector weight, at roughly double the 10% weight in the index, a sector characterized by above average growth, profitability, and balance sheet strength, though we should note that our IT companies have varying exposures to economic cycles and trade, ranging from more economically sensitive chipmakers, to potentially less-sensitive software providers. We bought a new holding in payments processor **Adyen**, a company whose rapid growth owes to its newer payment platform, which gives it a technological edge over larger, more established competitors. By integrating global online and point-of-sale transaction processing, Adyen offers businesses superior analytical insights into their customers' behavior. We expect it to continue gaining market share for years to come.

Even though we bought no new positions in the sector this quarter, Consumer Staples holdings have grown to become our second-largest sector weight and, at more than one-sixth of the portfolio, its highest level in the past ten years. We wrote in our

1Q19 letter about our moves to increase our weight in Staples, seeking companies with steady growth potential coupled with less economically sensitive business models, while helping diversify our portfolio and moderate overall portfolio volatility. Global staples producers such as Nestlé, Unilever, and Unicharm appear unlikely to face significant declines in demand for their products even in a recession. But we observe that a couple of our holdings, including those of spirits maker **Diageo** and Brazilian brewer **Ambev**, sit closer to the border of Consumer Discretionary, with demand for their products being somewhat sensitive to the state of the economy. In the near term, demand for these “social lubricants” is temporarily being hurt by social distancing measures.

Our holdings in the Financials sector are significant, but less than the sector's 19% weight in the index, a gap that widened in the quarter. We sold **HSBC** early in the quarter, observing that the company had fallen behind the growth mileposts that we had set for it and concluding it was unlikely to grow in the next several years, given its plans to shrink its footprint outside of Asia. Even following the sale, our Financials remain heavily skewed toward Asian economies, with two large insurance holdings (AIA Group and Ping An) and three banks (**DBS Group**, **Standard Chartered**, and ICICI) operating there primarily.

Our Health Care sector weight rose modestly to roughly one-eighth of the portfolio mainly through outperformance, but also partly due to completing our purchase, initiated last quarter, of **Shionogi**, a Japanese pharmaceutical company focused on innovative treatments for infectious diseases. Our overweight to the sector has moderated in recent years, as we sold some positions over concerns regarding their valuations and risks to growth.

Consumer Discretionary remains our largest underweight relative to the index's 12% weight. We are watching closely whether the global downturn provides long-term investment opportunities at more reasonable prices than we've seen in recent years. We bought **NITORI**, Japan's largest home furnishing retailer, which has a long track record of market share gains supported by low cost internal sourcing.

Our modest overweight to Industrials increased due to the outperformance of our industrial companies and our decision to opportunistically add to Schneider Electric and **Komatsu** during the market selloff as their valuations became more attractive.

Our geographic positions are, of course, determined indirectly by where we find and choose to hold high-quality growing companies at reasonable valuations. Our largest absolute weight and relative overweight are in Europe ex-EMU, where Swiss multinationals, valued for their long-term focus on growth markets and for their financial strength, have long been emphasized in the portfolio. We remain underweight Emerging Markets and Japan, but our underweight of Japan narrowed in the quarter, partly through our Japanese holdings' outperformance of the Japan index. We sold advertising agency **Dentsu** after it failed to meet our growth targets, while buying two new Japanese holdings, NITORI and Shionogi.

**INTERNATIONAL EQUITY HOLDINGS (AS OF MARCH 31, 2020)**

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
<b>COMMUNICATION SERVICES</b>		
BAIDU Internet products and services	China	2.3
CHINA MOBILE Mobile telecom services	China	1.5
TENCENT Internet and IT services	China	1.3
YANDEX Internet products and services	Russia	1.2
<b>CONSUMER DISCRETIONARY</b>		
ADIDAS Athletic footwear and apparel retailer	Germany	1.5
NITORI Home-furnishings retailer	Japan	1.0
<b>CONSUMER STAPLES</b>		
ALIMENTATION COUCHE-TARD Convenience stores operator	Canada	1.0
AMBEV Alcoholic beverages manufacturer	Brazil	1.3
DIAGEO Alcoholic beverages manufacturer	UK	1.7
FEMSA Beverages manufacturer and retail operator	Mexico	0.7
L'ORÉAL Cosmetics manufacturer	France	3.2
NESTLÉ Foods manufacturer	Switzerland	4.3
UNICHARM Consumer products manufacturer	Japan	2.7
UNILEVER Foods and consumer products producer	UK	1.7
<b>ENERGY</b>		
LUKOIL Oil and gas producer	Russia	1.3
ROYAL DUTCH SHELL Oil and gas producer	UK	1.6
SCHLUMBERGER Oilfield services	US	0.3
<b>FINANCIALS</b>		
AIA GROUP Insurance provider	Hong Kong	3.5
ALLIANZ Financial services and insurance provider	Germany	2.6
BBVA Commercial bank	Spain	1.5
DBS GROUP Commercial bank	Singapore	2.1
HDFC BANK Commercial bank	India	1.0
ICICI BANK Commercial bank	India	1.2
ITAÚ UNIBANCO Commercial bank	Brazil	0.7
PING AN INSURANCE Insurance provider	China	1.9
STANDARD CHARTERED Commercial bank	UK	0.9
<b>HEALTH CARE</b>		
CHUGAI PHARMACEUTICAL Pharma manufacturer	Japan	2.4
LONZA Life science products developer	Switzerland	2.5
ROCHE Pharma and diagnostic equipment manufacturer	Switzerland	3.8
SHIONOGI Pharma manufacturer	Japan	1.0

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.3
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.6
<b>INDUSTRIALS</b>		
ALFA LAVAL Industrial equipment manufacturer	Sweden	1.2
ATLAS COPCO Industrial equipment manufacturer	Sweden	3.0
CANADIAN NATIONAL RAILWAY Railway operator	Canada	1.8
EPIROC Industrial equipment manufacturer	Sweden	1.0
FANUC Industrial robot manufacturer	Japan	0.8
KOMATSU Industrial equipment manufacturer	Japan	1.2
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.5
SCHNEIDER ELECTRIC Energy management services	France	2.2
SGS Quality assurance services	Switzerland	1.1
<b>INFORMATION TECHNOLOGY</b>		
ADYEN Payment processing services	Netherlands	1.7
AMADEUS Global distribution systems operator	Spain	1.0
CHECK POINT Cybersecurity software developer	Israel	1.6
DASSAULT SYSTÈMES Design and engineering software developer	France	1.7
INFINEON TECHNOLOGIES Semiconductor manufacturer	Germany	2.3
KEYENCE Sensor and measurement equipment manufacturer	Japan	2.1
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	3.2
SAP Enterprise software developer	Germany	3.1
TSMC Semiconductor manufacturer	Taiwan	4.1
<b>MATERIALS</b>		
AIR LIQUIDE Industrial gases producer	France	1.1
FUCHS PETROLUB Lubricants manufacturer	Germany	0.5
LINDE Industrial gases supplier and engineer	US	1.5
NOVOZYMES Biotechnology producer	Denmark	1.0
RIO TINTO Mineral miner and processor	UK	1.4
SYMRISE Fragrances and flavors manufacturer	Germany	1.6
<b>REAL ESTATE</b>		
No Holdings		
<b>UTILITIES</b>		
No Holdings		
<b>CASH</b>		1.7

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

## 1Q20 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
CHUGAI PHARMACEUTICAL	HLTH	2.2	0.43
UNICHARM	STPL	2.1	0.29
LONZA	HLTH	2.1	0.25
SYSMEX	HLTH	1.3	0.14
ROCHE	HLTH	4.1	0.06

## 1Q20 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
INFINEON TECHNOLOGIES	INFT	2.8	-1.07
BBVA	FINA	2.0	-0.94
ICICI BANK	FINA	1.6	-0.90
ALLIANZ	FINA	2.9	-0.90
AMBEV	STPL	1.3	-0.89

## PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL INTL	ACWI EX-US
PROFIT MARGIN <sup>1</sup> (%)	13.6	11.2
RETURN ON ASSETS <sup>1</sup> (%)	9.2	5.5
RETURN ON EQUITY <sup>1</sup> (%)	15.1	12.3
DEBT/EQUITY RATIO <sup>1</sup> (%)	44.4	57.3
STD DEV OF 5 YEAR ROE <sup>1</sup> (%)	2.9	3.1
SALES GROWTH <sup>1,2</sup> (%)	3.8	2.2
EARNINGS GROWTH <sup>1,2</sup> (%)	6.6	7.2
CASH FLOW GROWTH <sup>1,2</sup> (%)	8.2	7.8
DIVIDEND GROWTH <sup>1,2</sup> (%)	6.1	5.9
SIZE & TURNOVER	HL INTL	ACWI EX-US
WTD MEDIAN MKT CAP (US \$B)	50.2	30.0
WTD AVG MKT CAP (US \$B)	93.1	72.9
TURNOVER <sup>3</sup> (ANNUAL %)	16.7	—

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

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
CHUGAI PHARMACEUTICAL	HLTH	1.7	0.88
M3	HLTH	1.0	0.61
ROCHE	HLTH	3.5	0.60
ATLAS COPCO	INDU	2.6	0.57
LONZA	HLTH	1.8	0.52

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

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SCHLUMBERGER	ENER	1.2	-0.92
BBVA	FINA	2.2	-0.91
BAIDU	COMM	1.5	-0.80
AMBEV	STPL	1.5	-0.78
DBS GROUP	FINA	2.6	-0.70

RISK AND VALUATION	HL INTL	ACWI EX-US
ALPHA <sup>2</sup> (%)	3.27	—
BETA <sup>2</sup>	0.97	—
R-SQUARED <sup>2</sup>	0.94	—
ACTIVE SHARE <sup>3</sup> (%)	86	—
STANDARD DEVIATION <sup>2</sup> (%)	14.36	14.39
SHARPE RATIO <sup>2</sup>	0.14	-0.09
TRACKING ERROR <sup>2</sup> (%)	3.5	—
INFORMATION RATIO <sup>2</sup>	0.94	—
UP/DOWN CAPTURE <sup>2</sup>	105/90	—
PRICE/EARNINGS <sup>4</sup>	17.6	12.9
PRICE/CASH FLOW <sup>4</sup>	11.8	7.3
PRICE/BOOK <sup>4</sup>	2.2	1.4
DIVIDEND YIELD <sup>5</sup> (%)	2.7	3.8

<sup>1</sup>Weighted median; <sup>2</sup>Trailing five years, annualized; <sup>3</sup>Five-year average; <sup>4</sup>Weighted harmonic mean; <sup>5</sup>Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner International Equity Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: April 3, 2020); Harding Loevner International Equity Model, based on the underlying holdings; MSCI Inc.

## COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
ADYEN	NETHERLANDS	INFT
NITORI	JAPAN	DSCR
SHIONOGI	JAPAN	HLTH

POSITIONS SOLD	COUNTRY	SECTOR
DENTSU	JAPAN	COMM
HSBC	UK	FINA
SASOL	SOUTH AFRICA	MATS
SCHLUMBERGER	US	ENER

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

## INTERNATIONAL EQUITY COMPOSITE PERFORMANCE (AS OF MARCH 31, 2020)

	HL INTL EQUITY GROSS (%)	HL INTL EQUITY NET (%)	MSCI ACWI EX-US <sup>1</sup> (%)	MSCI EAFE <sup>2</sup> (%)	HL INTL EQUITY 3-YR STD DEVIATION <sup>3</sup> (%)	MSCI ACWI EX- US 3-YR STD DEVIATION <sup>3</sup> (%)	MSCI EAFE 3-YR STD DEVIATION <sup>3</sup> (%)	INTERNAL DISPERSION <sup>4</sup> (%)	NO. OF ACCOUNTS	COMPOSITE ASSETS (\$M)	FIRM ASSETS (%)
2020 YTD <sup>5</sup>	-19.25	-19.38	-23.26	-22.72	14.34	14.92	14.36	N.A. <sup>6</sup>	38	18,229	35.96
2019	26.29	25.49	22.13	22.66	12.00	11.33	10.80	0.2	37	22,085	34.34
2018	-13.26	-13.82	-13.78	-13.36	11.79	11.40	11.27	0.2	39	16,908	33.64
2017	30.86	30.00	27.77	25.62	12.45	11.88	11.85	0.2	36	15,777	29.21
2016	6.18	5.49	5.01	1.51	13.28	12.53	12.48	0.1	40	10,316	26.45
2015	-0.46	-1.06	-5.25	-0.39	12.83	12.13	12.47	0.1	41	8,115	24.37
2014	-0.12	-0.68	-3.44	-4.48	11.98	12.78	12.99	0.2	43	9,495	27.12
2013	15.99	15.35	15.78	23.29	14.91	16.20	16.22	0.4	44	9,504	28.68
2012	19.97	19.36	17.39	17.90	17.61	19.22	19.32	0.6	40	6,644	29.32
2011	-8.30	-8.91	-13.33	-11.73	21.13	22.74	22.45	0.5	36	2,468	18.15
2010	18.38	17.56	11.60	8.21	25.88	27.33	26.28	0.5	26	1,646	14.95

<sup>1</sup>Benchmark Index; <sup>2</sup>Supplemental Index; <sup>3</sup>Variability of the composite and the Index returns over the preceding 36-month period, annualized; <sup>4</sup>Asset-weighted standard deviation (gross of fees); <sup>5</sup>The 2020 YTD performance returns and assets shown are preliminary; <sup>6</sup>N.A.—Internal dispersion less than a 12-month period.

The International Equity Composite contains fully discretionary, fee-paying accounts investing in non-US equity and equity-equivalent securities and cash reserves and is measured against the MSCI All Country World ex-US 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 ex-US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. The Index consists of 48 developed and emerging market countries. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The Index consists of 21 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 December 31, 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 International Equity Composite has been examined for the periods January 1, 1990 through December 31, 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 International 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 International Equity Composite was created on December 31, 1989.

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