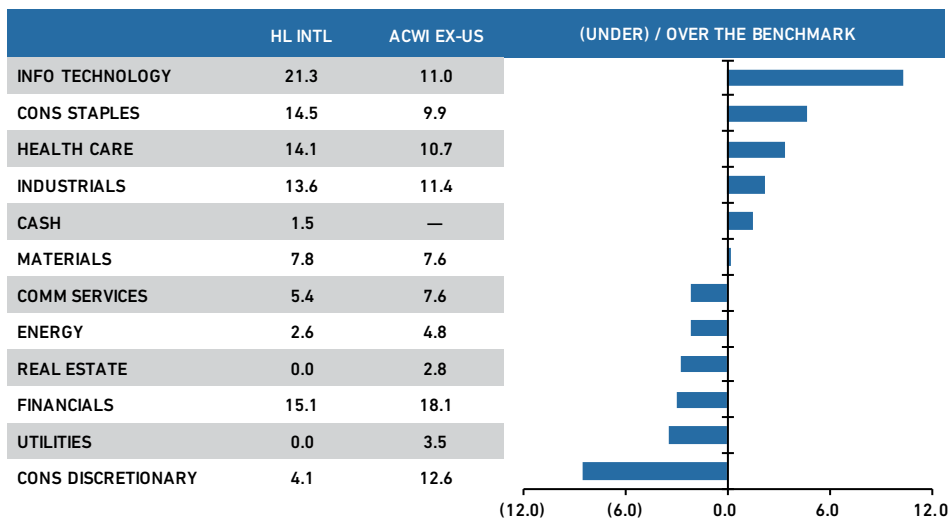
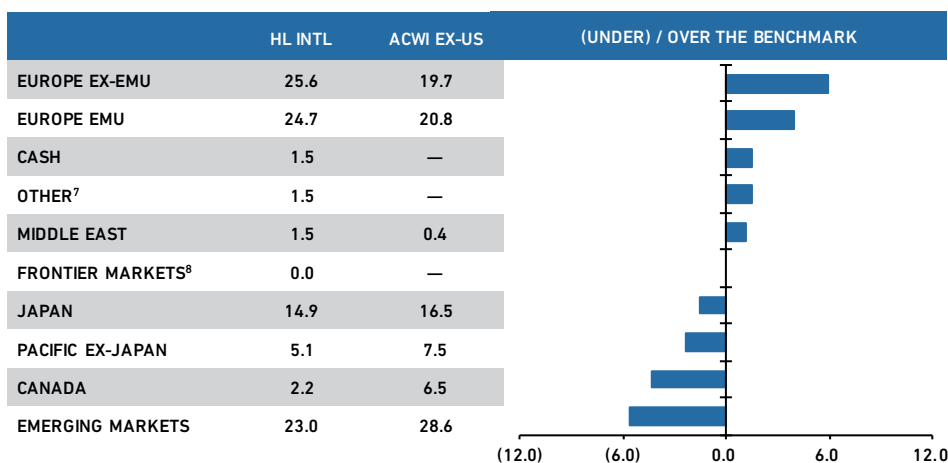


**COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED JUNE 30, 2020<sup>1</sup>**

|   | 3 MONTHS | YTD    | 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)                    | 18.82    | -4.05  | 3.49   | 5.47                 | 6.60                 | 8.68                  | 8.21                           |
| HL INTL EQUITY (NET OF FEES)                      | 18.63    | -4.35  | 2.83   | 4.79                 | 5.91                 | 8.01                  | 7.41                           |
| MSCI ALL COUNTRY WORLD EX-US INDEX <sup>4,5</sup> | 16.30    | -10.76 | -4.39  | 1.61                 | 2.74                 | 5.45                  | 4.79                           |
| MSCI EAFE INDEX <sup>5,6</sup>                    | 15.08    | -11.07 | -4.73  | 1.29                 | 2.54                 | 6.22                  | 4.45                           |

<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 markets rebounded sharply in the second quarter as countries emerged from COVID-19 lockdowns and economic data showed signs of a fledgling recovery.

**Performance and Attribution >**

Sources of relative return by region and sector.

**Perspective and Outlook >**

As the fastest-growing companies hit new highs, it is hard to tell whether the crisis has merely brought forward growth or expanded their addressable market.

**Portfolio Highlights >**


We continued to trim our overweight to the fastest-growing stocks and add to a diverse set of high-quality businesses trading at cheaper valuations.


**Portfolio Holdings >**

Information about the companies held in our portfolio.

**Portfolio Facts >**

Contributors, detractors, characteristics, and completed transactions.

**ONLINE SUPPLEMENTS**
 Watch the International Equity quarterly review

 View other reports at [hardingloevner.com/library](http://hardingloevner.com/library)

## MARKET REVIEW

International markets rebounded sharply in the second quarter following the precipitous COVID-induced decline in March. Though still elevated relative to the start of the year, equity market volatility fell considerably, and credit spreads narrowed. The market recovery was broad based, with all regions and sectors finishing in positive territory.

As countries emerged from lockdowns, new economic data showed signs of a fledgling recovery. Business activity remained weak, but many indicators—unemployment, consumer spending, and service and manufacturing surveys—bounced off the troughs witnessed in April. Despite record coronavirus cases in many countries, including the United States and much of Latin America, apparent progress on a vaccine further boosted sentiment.

Economies and stock markets continued to benefit from extraordinary fiscal and monetary support, especially in developed markets. Governments in aggregate introduced an additional US\$3 trillion in fiscal stimulus during the quarter to combat weak economic conditions, bumping up the total since the outbreak began to about US\$11 trillion, according to the International Monetary Fund (IMF). The US, Japan, and Europe boosted direct cash transfers to citizens and China dusted off its battle-tested financial-crisis playbook, funneling funds to local governments for infrastructure spending. As a result, global governmental debt as a percentage of global GDP is expected to surpass 100% for the first time ever.

Financial conditions also remained highly accommodative across the world, with central banks keeping short-term interest rates anchored near zero in every major economy. The US Federal Reserve, having rejoined the near-zero club in March, promised to renew its membership, guiding for ultra-low rates through 2022 in anticipation of a slow and laborious recovery. The Fed also took the unusual step of purchasing corporate bonds directly, a step to which it committed in March to enhance bond market liquidity. It also ordered banks to limit dividends and suspend share buybacks to preserve capital until the cumulative effects of the pandemic on eventual loan losses are clearer. Both the European Central Bank and Bank of Japan expanded their lending packages for cash-strapped firms, whereas the People's Bank of China cut bank reserve requirements yet again and pumped funds into rural and regional lenders.

Currency effects showed a near uniform reversal of the flight to safety experienced in the first quarter. Nearly every major currency appreciated against the US dollar, though currencies of many commodity-exporting countries are still significantly negative for the half year. The British pound also remained negative for the half year as stalled Brexit negotiations continued to weigh on it.

While a nascent economic recovery seems underway, most cyclical sectors did not lead the market rally, nor did the pattern of sectoral gains exactly mirror the declines from the first quar-

## MARKET PERFORMANCE (USD %)

| MARKET               | 2Q 2020 | TRAILING 12 MONTHS |
|----------------------|---------|--------------------|
| CANADA               | 20.4    | -7.5               |
| EMERGING MARKETS     | 18.2    | -3.0               |
| EUROPE EMU           | 20.1    | -6.4               |
| EUROPE EX-EMU        | 11.1    | -6.3               |
| JAPAN                | 11.6    | 3.5                |
| MIDDLE EAST          | 20.1    | 1.9                |
| PACIFIC EX-JAPAN     | 20.2    | -12.6              |
| MSCI ACW EX-US INDEX | 16.3    | -4.4               |

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

| SECTOR                 | 2Q 2020 | TRAILING 12 MONTHS |
|------------------------|---------|--------------------|
| COMMUNICATION SERVICES | 18.1    | 5.4                |
| CONSUMER DISCRETIONARY | 20.0    | 0.9                |
| CONSUMER STAPLES       | 10.5    | -2.4               |
| ENERGY                 | 10.1    | -30.7              |
| FINANCIALS             | 11.5    | -19.6              |
| HEALTH CARE            | 16.6    | 20.9               |
| INDUSTRIALS            | 17.6    | -6.9               |
| INFORMATION TECHNOLOGY | 24.7    | 21.8               |
| MATERIALS              | 25.7    | -5.4               |
| REAL ESTATE            | 8.2     | -18.2              |
| UTILITIES              | 11.7    | 0.0                |

Source: FactSet (as of June 30, 2020); MSCI Inc. and S&P.

ter. Rather, investors maintained a preference for COVID-winners over challenged sectors like Financials, Energy, and Real Estate—and anything travel-related. Information Technology (IT) was again one of the top-performing sectors, with strong returns from both software and hardware stocks. IT has outperformed the overall market by a staggering 1400 basis points for the half year. Consumer Discretionary also did well, helped by e-commerce and food delivery companies in China. Materials stocks rose with the recovery in certain commodity metals. While the oil price war between Russia and Saudi Arabia eased, Energy underperformed, as the industry struggled with collapsing demand. Financials lagged again this quarter, weighed down by looming but as-yet-unknowable defaults, and with revenues depressed by the low interest rate environment.

By geography, Canada, the eurozone, and Pacific ex-Japan did the best of major regions, the latter led by Australia, which rebounded with the recovery in commodity prices. Hong Kong, reeling under a newly restrictive security law imposed and enforced by China, offset good Antipodean returns. China itself lagged the non-US index. Many Emerging Markets, in contrast, outperformed, partially rebounding from their savage declines of last quarter. Japan lagged, while Europe outside the eurozone was hurt by poor returns from the United Kingdom and Switzerland.

Like last quarter, style effects showed continued investor preference for growth. The group of highest-growing companies outperformed the slowest-growing by more than 1000 basis points. The effect of quality was much more mixed: while the cohort of highest-quality companies, specifically those with more consistent returns and low leverage, performed in-line with the Index, the lowest-quality group outperformed modestly. Expensive stocks once again outperformed the cheapest. The value index flashed a brief period of outperformance from mid-May through early June, only to retreat near the end of the quarter.

## ■ PERFORMANCE AND ATTRIBUTION

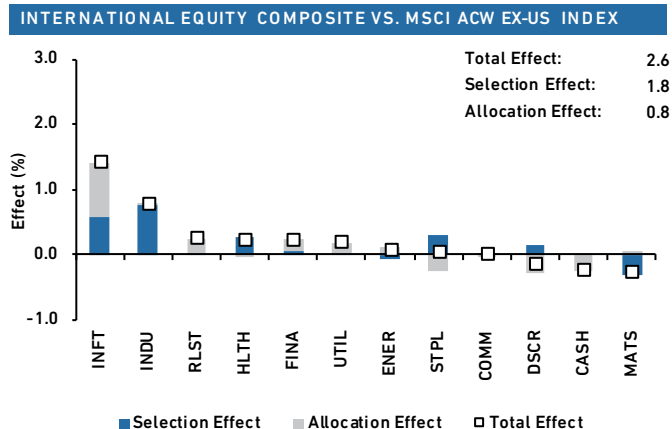
The International Equity composite rose 18.8% in the quarter, ahead of the benchmark's 16.3% gain. The charts on the right attribute the quarter's performance by sector and region.

Outperformance derived primarily from stock selection, with a boost from positive sector allocation. Our focus on high-quality growth companies once again helped our performance, as investors continued to favor faster-growing companies, especially in IT and Health Care, at the expense of lower-quality, slower-growth sectors such as Energy and Financials. A number of our top performing stocks from last quarter's decline continued to outperform in the rebound in the second quarter.

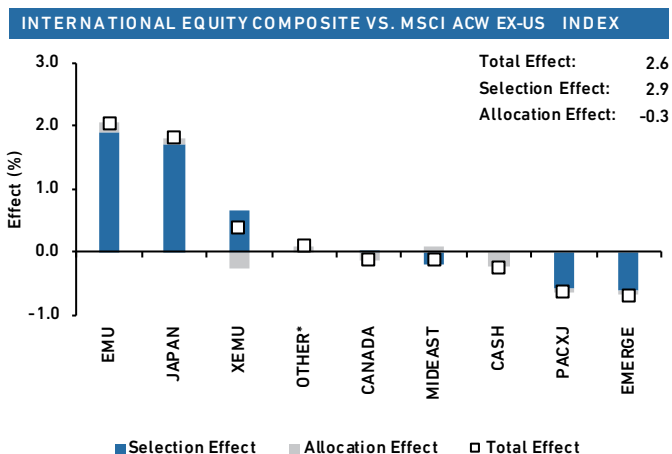
IT contributed the most to relative performance. In addition to our hefty weight in the sector, good stocks also helped, led by two European holdings: Dutch payment processor **Adyen**, newly bought last quarter, and German power management semi-conductor manufacturer **Infineon Technologies**. Within Industrials, compressor maker **Atlas Copco** and electric equipment company **Schneider Electric** once again helped relative performance. In Health Care, beneficiaries from COVID-19 including drug-maker **Chugai Pharmaceutical**, the producer of Actemra, and **Lonza**, whose manufacturing facilities would likely be used to produce any potential vaccine that gets approved, counteracted poor relative returns from Swiss pharmaceutical giant **Roche**. While our emphasis of non-cyclical Consumer Staples companies hurt in this strongly rebounding market, **L'Oréal** benefited from resilient demand for its luxury cosmetics, despite the challenging economic backdrop. Additionally, better revenue mix at convenience store operator **Alimentation Couche-Tard** lessened the impact of declining fuel demand.

*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 June 30, 2020 is available on page 9 of this report.*

## SECTOR PERFORMANCE ATTRIBUTION SECOND QUARTER 2020



## GEOGRAPHIC PERFORMANCE ATTRIBUTION SECOND 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.*

Viewed by geography, the good relative performance derived entirely from positive stock selection. Our holdings in the eurozone helped the most, including Adyen and Infineon, as well as French holdings Schneider Electric and L'Oréal. In non-eurozone Europe, our Swiss and Swedish stocks offset poor returns in the United Kingdom. Our Japanese stocks once again added to relative returns. In addition to further outperformance by Chugai, shares of machine vision equipment manufacturer **Keyence** performed well. Japanese furniture-maker and retailer **NITORI** also benefited from a surge in demand for home office set-ups for remote working.

Emerging Markets, especially China, detracted the most from relative returns. Outperformance from video game and social media platform **Tencent** was not enough to compensate for declines in the share prices of internet search company **Baidu**, whose online ad growth lagged competitors, and mobile

telecom operator **China Mobile**, where rapid growth in 5G subscribers was coupled with market concerns about future 5G pricing. Russia was the lone bright spot. Shares of oil producer **Lukoil** rebounded from March lows, and internet search firm **Yandex** not only rebounded, but eked out an all-time high on revealing that it had bought out the minorities of its e-commerce businesses from government-controlled banking giant Sberbank.

## ■ PERSPECTIVE AND OUTLOOK

The astounding rally in equity markets since the March 23 lows has opened a chasm between resurging prices for risky assets and a beleaguered global economy reeling from the ongoing pandemic. This disparity has bewildered many investors caught flat footed and provoked an outpouring of angst aimed squarely at the runup in prices. But share prices are not barometers of the current state of affairs. They are a discounting mechanism, a mechanism that invariably races ahead of current events, typically declining ahead of oncoming slowdowns and springing to life well before the first signs of recovery. Market bulls would argue prevailing asset prices are merely seeing across the valley of the current malaise and anticipating an imminent and inevitable turnaround. With lockdowns easing, fledgling signs of a pickup in demand, and burgeoning optimism about vaccines, investors have copious reasons for raising their gazes to the peaks beyond.

Such an optimistic view, however, ignores the outsized and equivocal role being played by government assistance in revitalizing risk appetites. Working hand in glove, fiscal and monetary authorities the world over have unleashed a torrent of aid in a bid to contain the crisis. Along with the customary fiscal stabilizers that kick-in automatically during downturns, interest rates have been slashed, asset purchase programs replenished, and outright financial grants extended further than at any other period outside of wartime. By some estimates, global central banks have injected close to US\$17 trillion of liquidity into the financial system, while global fiscal support, according to the IMF, currently foots to over US\$11 trillion, a figure that understates the total effect on spending once multipliers are taken into account.

But what's qualitatively different this time, and triggering added apprehension, is the vastly expanded role of the Federal Reserve Board (FRB) and other central banks in developed countries—i.e., monetary policy writ large. Behind the alphabet soup of liquidity facilities and market support programs is an unambiguous expansion of the major central banks' prerogatives and burdens. In addition to their traditional role of inflation guardian and lender of last resort, the central bank has been recast as fiscal partner to elected legislatures and investor of last resort, responsible not just for well-functioning markets but also for capping credit costs and curtailing investor losses. Although the Fed has not yet dipped its toe into buying equities, should it desire further tools for stimulus the precedent has already been set by the Bank of Japan and the Swiss

National Bank, along with the Hong Kong Monetary Authority, which bought stocks heavily all the way back in 1998.

Not since the Governorship of Marriner Eccles in the 1930's and 40's has US monetary policy found itself bound up so tightly with US fiscal objectives. According to the historian Trevor Jackson, "In terms of crisis governance, the United States is not a country with a central bank; it is a central bank with a country." Further extending its tendrils into every nook and cranny of the financial system, it added, for the first time, a cross section of corporate bonds to its balance sheet—including those issued by Apple, the antithesis of a struggling enterprise. By undertaking a massive expansion of its balance sheet without triggering inflation, the Fed is walking an increasingly frayed tightrope.

**Not since the Governorship of Marriner Eccles in the 1930's and 40's has US monetary policy found itself bound up so tightly with US fiscal objectives.**

When faced with colossal economic or political shocks, our response is stubbornly to follow the same script: we note the scale of the shock; attempt to assess the company- and industry-level implications; stop occasionally to think about how it ought to cause us to change our investment process, inevitably concluding that only incremental adjustment is warranted; and eventually (or, better, promptly) return to our knitting. That knitting consists of a resolutely bottom-up fundamental appraisal of the growth prospects for a select group of high-quality companies, and what they might be worth. The current episode would be no different, if it weren't for the difficulties we are having in that final piece—ascertaining what an excellent company might be worth. We have returned to our knitting, but there are faintly audible curses to be heard over the clatter of busy needles.

**Once again, we have returned to our knitting, but there are faintly audible curses to be heard over the clatter of busy needles.**

We have consistently tried to be clear-eyed and disciplined about distinguishing between a company and its shares. The fundamental attributes of great businesses, those with strong competitive positions, attractive growth prospects, sound finances, and able managements, tend to persist through time. Their shares, however, are more fickle, tending to reflect the insecurities and enthusiasms of other investors, connected to the company's true underlying value only by the stories being told about its future, which are greatly affected by the moods of the storyteller and his audience. We were fortunate to recognize some years ago that, in an environment of scarce growth and low interest rates, companies consistently delivering strong organic revenue growth and profits to match would be highly

prized by investors. Those low interest rates would allow investors to discount the profits from distant growth back into the present only modestly diminished by the passage of time.

At the moment, however, investors are confronted by dramatically increased uncertainty about how and when the global economy can recover from the ravages of the global pandemic, and in addition whether the prospects for any given company, assuming it survives to the other side of the chasm, will be radically altered once it is reached. The pandemic has been a boon for companies such as Amazon.com and [Alibaba](#), which have provided the home delivery lifeline for hundreds of millions of consumers under lockdown. Likewise, the social media platform giants Tencent and Facebook have enabled increased interactions by people starved for diversion or human connection during isolation, while PayPal and MasterCard (along with AliPay and WeChatPay or Adyen) have accelerated the demise of physical cash transactions.

The problem in trying to value these rapidly growing companies is that we can't really know whether the crisis has merely brought forward their future growth (which was arguably already embedded in investor expectations and thus in the stock price), or whether it has also expanded their addressable market, thereby extending the duration of their rapid growth. The market's view is clear: it is apparent that one of the lesser-known effects of COVID-19 is to super-charge the embedded growth expectations for the largest and fastest-growing companies. Rising to new highs this quarter, the stock prices of these companies continue to stand near the extremes of valuation relative to all other stocks that we highlighted last quarter, even as the entire market has rebounded. So far into the future is the profit growth that some stock prices discount today that our tolerance of high prices begins to feel more like an embrace of fundamental uncertainty: the uncertainty of whether we can even begin to properly analyze the growth dynamics or competitive forces that result from new technologies, new business models, or changes in government regulation or taxation not yet on our radar.

That fog of uncertainty is infused with the biggest serving of monetary stimulus ever ladled out from the proverbial punch-bowl. While we are certain that such stimulus is the right course of action by governments aimed at preserving their citizens and the business enterprises and other institutions that make up their economies, we are much less sure that the double-barreled fiscal and monetary blunderbuss just fired will not ricochet to wound investors, especially growth investors, on the far side of the pandemic.

Muscular market interventions are likely to suffer from diminishing returns and there is a distinct possibility that the near-term achievement of higher asset prices has been purchased at the cost of weaker longer-term growth—specifically, a diminished prospect for creative destruction. Within every economic crisis is a silver lining as the business downturn accelerates the demise of marginal businesses and industries. This paves the way for new business models to emerge from the wreckage.

Creative destruction clears out the redundant capital and frees up skilled labor, thereby opening the way for new growth vectors, like a forest fire clearing the underbrush for new seedlings to grow from the ashes. The 1930's were devastating but also coincided with the fastest growth in productivity in the nation's history. But, for this process to proceed, companies that are no longer viable in a post-crisis world must eventually be allowed to fail and the workers redirected toward the new faster growing spheres. The danger is that prolonged and possibly misdirected government support, designed as a bridge to a non-existent future that looks like the past, might interfere with this painful but ultimately salutatory transition and, in so doing, reduce the longer-term prospects for prosperity.

Another conceivable consequence of central bank largesse is the convergence between growth, quality and momentum investment styles. Most objective metrics of quality typically include measures of corporate profitability, which is more readily achieved when growth avenues are available, and it's not unusual to see growth and quality styles move together in the stock market. But the ongoing, sustained outperformance of growth investing has led to a greater overlap between the quality-and-growth nexus with portfolios based purely on stock price momentum. Of course, this is nothing exceptional since the mechanical rules underlying momentum portfolios simply overweight the most recent outperformers, of which growth-and-quality companies currently make up a disproportionate share. We typically ignore the overlap between different investment styles, as the ebb and flow of relative style performance is best viewed as creating opportunity for stock selection. But momentum has an unfortunate and, in our view, unsatisfactory longer-term history. Despite a passable overall track record, momentum investing tends occasionally to suffer a spectacular wipeout, wherein multiple years of outperformance are given back in the space of weeks if not days. The last of these occurred in April 2009, when a winner-minus-loser momentum portfolio made up of US stocks fell over 45% in a single month while the broad market climbed 10% over the same period.<sup>1</sup> Presently, the concern is that momentum crashes seem to occur most frequently after a large market decline, during times of higher than usual uncertainty and when volatility is high—conditions that are too similar to the present environment to be easily dismissed. Although central bank policy of ultra-low interest rates may be the proximate cause, momentum's intrinsic instability makes us nervous that a reckoning may come before current policy has run its course.

So far, the world's various central banks and government spending programs seem to have fulfilled their mission in calming markets, stabilizing credit institutions, and underpinning the economy. Asset prices are flirting with their previous all-time highs, and business activity is beginning the process of recovery. But there is still a long way to go on the latter, and the longer-term economic picture continues to deteriorate. On the

---

<sup>1</sup>Long/Short portfolio.



present course, should the virus continue to frustrate containment efforts or recovery prove elusive, in the absence of any alternatives it seems likely that authorities will stick to their playbook of liquidity provision and income transfers. Unlike the global financial crisis, where emergency liquidity—primarily directed towards banks to repair their balance sheets—was contained within the financial sector, in the current episode liquidity has been spread far more widely. Under such a scenario, and with the decline in global trade further pressuring aggregate supply, could we see a jump in inflation? Given how low it is today, it wouldn't take much of a jump to spook markets. The last time US monetary policy was similarly entwined with government spending plans, it took a dramatic increase in inflation ignited by the Korean War for the Federal Reserve finally to put its foot down. After an acquiescent monetary policy that lasted throughout the Great Depression and World War II, and a mere three years after the departure of Marriner Eccles, the Federal Reserve, aghast at what it viewed as the carelessness of the Treasury in stoking inflation, demanded its independence. President Truman caved and signed the Treasury accords splitting the role of debt management from monetary policy, an agreement that is still technically in force today.

The prospect of a burst of inflation may seem like a distant concern in a world still mired in a deflationary shock. So far at least, the efforts to avert a disorderly collapse in financial markets during the pandemic have been a success. A necessary first step to avoid a more damaging economic slowdown. The true cost of that success however may only be revealed slowly over the coming quarters and years.

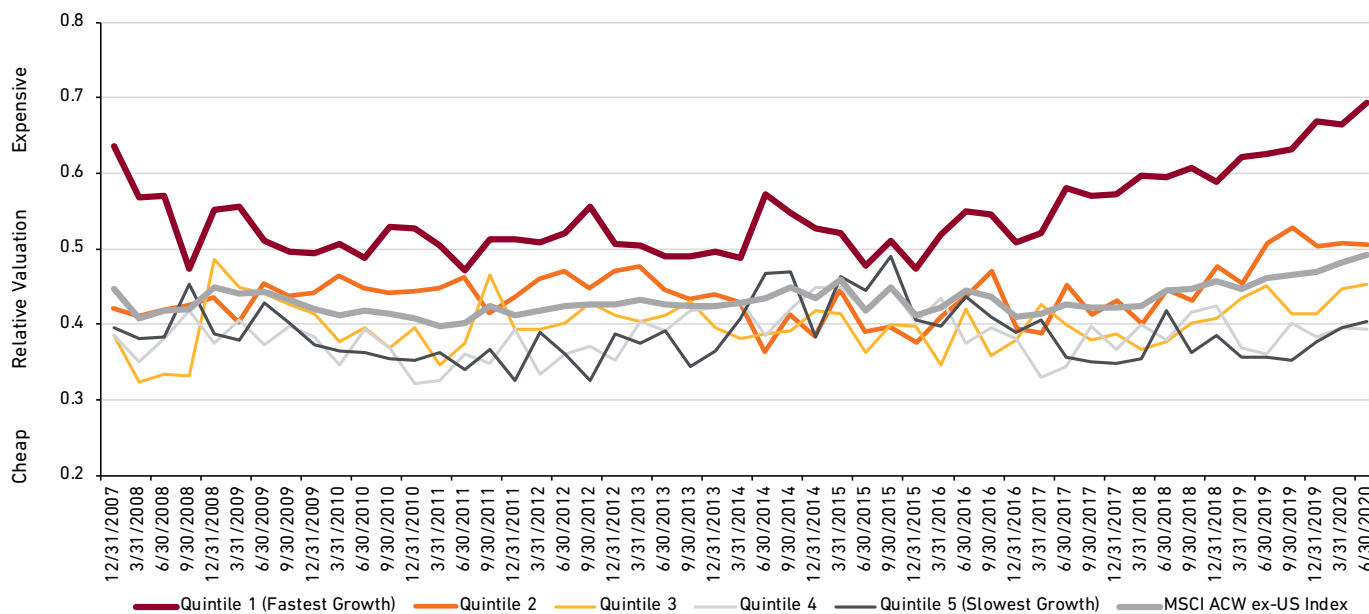
## ■ PORTFOLIO HIGHLIGHTS

Last quarter, we highlighted the wide disparities in valuation commanded by the fastest-growing companies across nearly all markets and noted the conundrum we are wrestling with daily: the intensifying trade-off between our dedication to investing in growing, high-quality businesses and our appreciation that the price paid for their shares will significantly influence the return earned on the investment. (At least in the medium term, if not in either the short run or the long run. See our letter from 1Q18 addressing the latter.) The chart immediately below shows how, over the past four years, companies in the fastest-growing quintile of the ACW ex-US Index have grown their valuation premium over the rest of the Index constituents, based on our composite of traditional valuation metrics. This year, that elite group has reached the highest valuation premium that we have seen in the past twelve years.

Consistent readers of these quarterly missives will recall that we have worried aloud about the rising valuations of shares in the kind of companies we most admire. The valuation of our portfolio, too, has markedly increased, prompting the question of whether all the handwringing was just that, without follow-through in actions. The next chart on the following page shows that we have, in fact, moderated our exposure to the fastest-growing, most highly valued companies: our overweighting of the speediest quintile declined by fifteen percentage points since mid-2017.

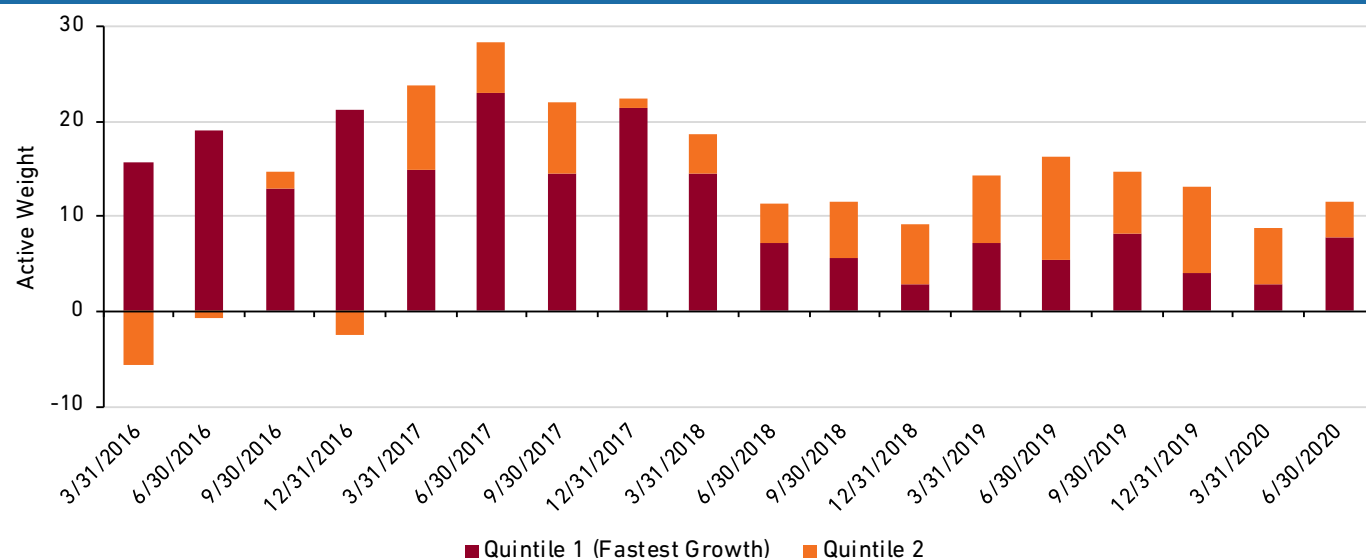
While still maintaining an overweight to the fastest growing stocks, it is less than when such stocks had lower valuations.

VALUATION RANK OF MSCI ACW EX-US INDEX BY GROWTH QUINTILES



Source: FactSet; MSCI Inc. and S&P. Data as of June 30, 2020.

## HL INTERNATIONAL EQUITY PORTFOLIO ACTIVE WEIGHT IN THE TOP TWO GROWTH QUINTILES



Source: FactSet; Harding Loevner International Equity Model; MSCI Inc. and S&P. Data as of June 30, 2020.

The preceding charts divide the Index and Harding Loevner's International Equity Portfolio into quintiles according to Harding Loevner's Growth and Value rankings, which are proprietary measures determined using objective data. Growth rankings are based on historical growth of earnings, sales, and assets, as well as expected changes in earnings and profitability. Value rankings are based on several valuation measures, including price ratios.

To be clear, avoiding some of those valuation risks has come at a cost. With their valuations rising continually, that cohort of the fastest-growing stocks has outperformed strongly in recent years, as it did once again this quarter.

The premium valuations for quality-growth stocks as mentioned earlier are possibly explained by momentum factors currently favored by the quantitative models of non-fundamental investors. The prices of such stocks may be lifted above our estimates of what their fundamental prospects can justify, while stocks associated with out-of-favor factors may be dragged below long-term fundamental valuations. Both kinds of mispricing represent opportunities for disciplined fundamental investors to add value. For these reasons it is more important than ever to value these companies based on their individual business prospects, and to continue to weigh valuation carefully in making judgments about whether to own them.

We own some companies within the top quintile of growth whose share prices first appear rich based on static valuation ratios but on deeper analysis are justified by their growth trajectories. One example is Dutch-listed global payments processor Adyen, purchased in the first quarter. Though it trades at a triple-digit trailing earnings multiple, its share trades around our estimate of its fair value. We think its superior technology platform and customer value proposition will lead to rapid market share gains and allow it to achieve annualized earnings growth of over 30% for the next ten years. **Dassault Systèmes**, Chugai Pharmaceutical, and Keyence are other examples of fast-growing companies we have continued to hold even as their share prices, and earnings multiples, have risen steadily.

Beyond the top growth echelon, we own a diverse set of high-quality but less rapidly growing businesses. We are still able to find businesses with strong balance sheets and positive long-term growth prospects that trade at cheap valuations. However, invariably there are compensating risks we must accept, such as business cyclicality (for example, heavy equipment manufacturers **Komatsu** and **Kubota**) and exposure to commodity price volatility (**Rio Tinto** and all of our Energy stocks). Now, COVID-related exposure presents a new risk factor that weighs on the valuations of some stocks.

During the quarter we did not sell any stocks on the sole basis of overvaluation. However, in the case of **Amadeus**, when a richly valued stock suffers a significant reduction in growth prospects, it behooves us to act. While the price of this travel-related stock declined significantly in the COVID-inspired selloff, its valuation remained elevated. With most of its revenue directly tied to airline passenger volumes and ticket prices, Amadeus's earnings weakness is likely, in our view, to persist for years since we expect global airline passenger volumes to remain below 2019 levels through 2023. Further, we think Amadeus' margins will be pressured by airline restructurings and a weaker business mix skewed toward budget travel and away from high-priced international business class flights.

Practicing the proverb that it pays to be greedy when others are fearful, we trimmed some of our economically defensive stocks that outperformed through March's market panic, and redeployed the proceeds into what appeared to us to be more battered shares that could rebound as fears recede. We trimmed Roche, Chugai Pharmaceutical and **Linde** late in the first quarter and continued that trend in April, trimming

**Nestlé** and **Canadian National Railway**. These transactions funded additions to existing Latin American investments such as **Itaú Unibanco**, a Brazilian bank that has weathered difficult economic times in the past, growing its earnings from cycle to cycle. We also increased our position in Mexico's **FEMSA**, which, in addition to stakes in soft drink and beer bottlers, owns the OXXO convenience store chain, which we see as its key long-term growth driver. We bought **Alcon**, the Swiss-listed global leader in vision care and ophthalmic surgical tools, as a new position after its share price fell on concerns for 2020 earnings due to the worldwide COVID-related suspension of elective surgeries. We think the market overreacted to what will likely be a deferral of surgical-related revenue from this year into next, and thus were able to acquire a high-quality business on more attractive terms.

We upgraded the growth prospects of our Chinese holdings, eliminating Baidu, which is struggling to grow amidst the COVID-19 crisis and which we surmise will continue to struggle in the years ahead. While its core internet search business had stabilized, alternative channels are better positioned to capture growth in online advertising, and Baidu's targeted growth areas like news feed and short video are facing increased competition. We purchased a new position in Alibaba, China's largest e-commerce facilitator with additional growth prospects in cloud services, commercial applications, and financial technology. As COVID-19 shut down traditional retailing, we witnessed 22% revenue growth for Alibaba. We have resolved our past concerns related to Alibaba's ownership and corporate governance structures, having observed over five years of fair treatment of shareholders and good communication, and seen that the strength of its management team extends beyond its founder, Jack Ma. We also added to our holding in Tencent, whose WeChat social media ecosystem continues to drive its growth, supplemented by its online games and electronic payments businesses.



## Management Update

At the end of this year, as the natural next step in a long-planned succession, Ferrill Roll, CFA, who has shared Chief Investment Officer responsibilities with Simon Hallett, CFA, since 2016, will become sole CIO. Simon will continue to contribute actively to Harding Loevner and our clients by engaging in the thought leadership activities he relishes, exploring and educating internal and external audiences on vital investment questions. He will remain a partner of Harding Loevner and continue to advise us on strategic matters as vice chairman of the firm's Executive Committee.



## INTERNATIONAL EQUITY HOLDINGS (AS OF JUNE 30, 2020)

| SECTOR/COMPANY/DESCRIPTION                           | COUNTRY     | END WT (%) |
|--|-------------|------------|
| <b>COMMUNICATION SERVICES</b>                        |             |            |
| CHINA MOBILE Mobile telecom services                 | China       | 1.1        |
| TENCENT Internet and IT services                     | China       | 2.8        |
| YANDEX Internet products and services                | Russia      | 1.5        |
| <b>CONSUMER DISCRETIONARY</b>                        |             |            |
| ADIDAS Athletic footwear and apparel retailer        | Germany     | 1.5        |
| ALIBABA E-commerce retailer                          | China       | 1.4        |
| NITORI Home-furnishings retailer                     | Japan       | 1.3        |
| <b>CONSUMER STAPLES</b>                              |             |            |
| ALIMENTATION COUCHE-TARD Convenience stores operator | Canada      | 1.1        |
| AMBEV Alcoholic beverages manufacturer               | Brazil      | 1.3        |
| DIAGEO Alcoholic beverages manufacturer              | UK          | 1.5        |
| FEMSA Beverages manufacturer and retail operator     | Mexico      | 1.1        |
| L'ORÉAL Cosmetics manufacturer                       | France      | 3.3        |
| NESTLÉ Foods manufacturer                            | Switzerland | 2.3        |
| UNICHARM Consumer products manufacturer              | Japan       | 2.5        |
| UNILEVER Foods and consumer products producer        | UK          | 1.5        |
| <b>ENERGY</b>  |             |            |
| LUKOIL Oil and gas producer                          | Russia      | 1.4        |
| ROYAL DUTCH SHELL Oil and gas producer               | UK          | 1.2        |
| <b>FINANCIALS</b>                                    |             |            |
| AIA GROUP Insurance provider                         | Hong Kong   | 3.0        |
| ALLIANZ Financial services and insurance provider    | Germany     | 2.6        |
| BBVA Commercial bank                                 | Spain       | 1.4        |
| DBS GROUP Commercial bank                            | Singapore   | 2.1        |
| HDFC BANK Commercial bank                            | India       | 1.0        |
| ICICI BANK Commercial bank                           | India       | 1.1        |
| ITAÚ UNIBANCO Commercial bank                        | Brazil      | 1.6        |
| PING AN INSURANCE Insurance provider                 | China       | 1.6        |
| STANDARD CHARTERED Commercial bank                   | UK          | 0.7        |
| <b>HEALTH CARE</b>                                   |             |            |
| ALCON Eye care products manufacturer                 | Switzerland | 1.4        |
| CHUGAI PHARMACEUTICAL Pharma manufacturer            | Japan       | 2.7        |
| LONZA Life science products developer                | Switzerland | 2.7        |
| ROCHE Pharma and diagnostic equipment manufacturer   | Switzerland | 3.4        |

| SECTOR/COMPANY/DESCRIPTION                                  | COUNTRY     | END WT (%) |
|---|-------------|------------|
| SHIONOGI Pharma manufacturer                                | Japan       | 1.1        |
| SONOVA HOLDING Hearing aids manufacturer                    | Switzerland | 1.2        |
| SYSMEX Clinical laboratory equipment manufacturer           | Japan       | 1.4        |
| <b>INDUSTRIALS</b>  |             |            |
| ALFA LAVAL Industrial equipment manufacturer                | Sweden      | 1.3        |
| ATLAS COPCO Industrial equipment manufacturer               | Sweden      | 3.2        |
| CANADIAN NATIONAL RAILWAY Railway operator                  | Canada      | 1.0        |
| EPIROC Industrial equipment manufacturer                    | Sweden      | 1.1        |
| FANUC Industrial robot manufacturer                         | Japan       | 0.9        |
| KOMATSU Industrial equipment manufacturer                   | Japan       | 1.3        |
| KUBOTA Industrial and consumer equipment manufacturer       | Japan       | 1.5        |
| SCHNEIDER ELECTRIC Energy management services               | France      | 2.3        |
| SGS Quality assurance services                              | Switzerland | 0.9        |
| <b>INFORMATION TECHNOLOGY</b>                               |             |            |
| ADYEN Payment processing services                           | Netherlands | 2.4        |
| CHECK POINT Cybersecurity software developer                | Israel      | 1.5        |
| DASSAULT SYSTÈMES Design and engineering software developer | France      | 1.7        |
| INFINEON TECHNOLOGIES Semiconductor manufacturer            | Germany     | 3.1        |
| KEYENCE Sensor and measurement equipment manufacturer       | Japan       | 2.3        |
| SAMSUNG ELECTRONICS Electronics manufacturer                | South Korea | 3.1        |
| SAP Enterprise software developer                           | Germany     | 3.3        |
| TSMC Semiconductor manufacturer                             | Taiwan      | 4.1        |
| <b>MATERIALS</b>  |             |            |
| AIR LIQUIDE Industrial gases producer                       | France      | 1.0        |
| 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          | 2.0        |
| SYMRISE Fragrances and flavors manufacturer                 | Germany     | 1.7        |
| <b>REAL ESTATE</b>  |             |            |
| No Holdings   |             |            |
| <b>UTILITIES</b>  |             |            |
| No Holdings   |             |            |
| CASH  |             | 1.5        |

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.

## 2Q20 CONTRIBUTORS TO ABSOLUTE RETURN (%)

| LARGEST CONTRIBUTORS  | SECTOR | AVG. WT. | CONTRIBUTION |
|-----------------------|--------|----------|--------------|
| INFINEON TECHNOLOGIES | INFT   | 2.8      | 1.43         |
| ADYEN                 | INFT   | 2.0      | 1.19         |
| CHUGAI PHARMACEUTICAL | HLTH   | 2.5      | 0.92         |
| SAP                   | INFT   | 3.1      | 0.84         |
| TSMC                  | INFT   | 4.2      | 0.80         |

## 2Q20 DETRACTORS FROM ABSOLUTE RETURN (%)

| LARGEST DETRACTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|--------------------|--------|----------|--------------|
| ROYAL DUTCH SHELL  | ENER   | 1.5      | -0.13        |
| CHINA MOBILE       | COMM   | 1.4      | -0.09        |
| AMADEUS            | INFT   | 0.4      | -0.07        |
| BAIDU              | COMM   | 0.8      | -0.06        |
| STANDARD CHARTERED | FINA   | 0.8      | -0.04        |

## PORTFOLIO CHARACTERISTICS

| QUALITY & GROWTH                       | HL INTL | ACWI EX-US |
|--|---------|------------|
| PROFIT MARGIN <sup>1</sup> (%)         | 12.6    | 10.8       |
| RETURN ON ASSETS <sup>1</sup> (%)      | 9.2     | 5.3        |
| RETURN ON EQUITY <sup>1</sup> (%)      | 13.8    | 12.0       |
| DEBT/EQUITY RATIO <sup>1</sup> (%)     | 41.6    | 60.2       |
| STD DEV OF 5 YEAR ROE <sup>1</sup> (%) | 2.9     | 3.3        |
| SALES GROWTH <sup>1,2</sup> (%)        | 4.5     | 2.4        |
| EARNINGS GROWTH <sup>1,2</sup> (%)     | 6.6     | 6.6        |
| CASH FLOW GROWTH <sup>1,2</sup> (%)    | 8.8     | 8.5        |
| DIVIDEND GROWTH <sup>1,2</sup> (%)     | 6.1     | 5.5        |
| SIZE & TURNOVER                        | HL INTL | ACWI EX-US |
| WTD MEDIAN MKT CAP (US \$B)            | 62.6    | 34.4       |
| WTD AVG MKT CAP (US \$B)               | 114.3   | 83.1       |
| TURNOVER <sup>3</sup> (ANNUAL %)       | 16.8    | —          |

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

| LARGEST CONTRIBUTORS  | SECTOR | AVG. WT. | CONTRIBUTION |
|-----------------------|--------|----------|--------------|
| CHUGAI PHARMACEUTICAL | HLTH   | 2.0      | 2.04         |
| TSMC                  | INFT   | 3.9      | 1.46         |
| LONZA                 | HLTH   | 2.1      | 1.14         |
| ADYEN                 | INFT   | 0.6      | 1.12         |
| ATLAS COPCO           | INDU   | 2.8      | 1.03         |

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

| LARGEST DETRACTORS | SECTOR | AVG. WT. | CONTRIBUTION |
|--------------------|--------|----------|--------------|
| SCHLUMBERGER       | ENER   | 0.9      | -1.02        |
| BBVA               | FINA   | 1.9      | -0.92        |
| AMBEV              | STPL   | 1.4      | -0.91        |
| ROYAL DUTCH SHELL  | ENER   | 1.4      | -0.78        |
| AMADEUS            | INFT   | 1.2      | -0.76        |

| RISK AND VALUATION                  | HL INTL | ACWI EX-US |
|-------------------------------------|---------|------------|
| ALPHA <sup>2</sup> (%)              | 3.88    | —          |
| BETA <sup>2</sup>                   | 0.97    | —          |
| R-SQUARED <sup>2</sup>              | 0.94    | —          |
| ACTIVE SHARE <sup>3</sup> (%)       | 86      | —          |
| STANDARD DEVIATION <sup>2</sup> (%) | 14.77   | 14.73      |
| SHARPE RATIO <sup>2</sup>           | 0.37    | 0.11       |
| TRACKING ERROR <sup>2</sup> (%)     | 3.7     | —          |
| INFORMATION RATIO <sup>2</sup>      | 1.05    | —          |
| UP/DOWN CAPTURE <sup>2</sup>        | 108/90  | —          |
| PRICE/EARNINGS <sup>4</sup>         | 20.6    | 15.8       |
| PRICE/CASH FLOW <sup>4</sup>        | 14.1    | 8.9        |
| PRICE/BOOK <sup>4</sup>             | 2.6     | 1.6        |
| DIVIDEND YIELD <sup>5</sup> (%)     | 2.2     | 3.1        |

<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: July 5, 2020, based on the latest available data in FactSet on this date.); Harding Loevner International Equity Model, based on the underlying holdings; MSCI Inc.

## COMPLETED PORTFOLIO TRANSACTIONS

| POSITIONS ESTABLISHED | COUNTRY     | SECTOR |
|-----------------------|-------------|--------|
| ALCON                 | SWITZERLAND | HLTH   |
| ALIBABA               | CHINA       | DSCR   |

| POSITIONS SOLD | COUNTRY | SECTOR |
|----------------|---------|--------|
| AMADEUS        | SPAIN   | INFT   |
| BAIDU          | CHINA   | COMM   |

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 JUNE 30, 2020)

|                       | HL INTL<br>EQUITY<br>GROSS<br>(%) | HL INTL<br>EQUITY<br>NET<br>(%) | MSCI<br>ACWI<br>EX-US <sup>1</sup><br>(%) | MSCI<br>EAFE <sup>2</sup><br>(%) | HL INTL EQUITY<br>3-YR STD<br>DEVIATION <sup>3</sup><br>(%) | MSCI ACWI EX-<br>US 3-YR STD<br>DEVIATION <sup>3</sup><br>(%) | MSCI EAFE<br>3-YR STD<br>DEVIATION <sup>3</sup><br>(%) | INTERNAL<br>DISPERSION <sup>4</sup><br>(%) | NO. OF<br>ACCOUNTS | COMPOSITE<br>ASSETS<br>(\$M) | FIRM<br>ASSETS<br>(%) |
|-----------------------|-----------------------------------|---------------------------------|---|----------------------------------|---|---|--|--|--------------------|------------------------------|-----------------------|
| 2020 YTD <sup>5</sup> | -4.05                             | -4.35                           | -10.76                                    | -11.07                           | 15.12   | 15.71   | 14.94  | N.A. <sup>6</sup>                          | 38                 | 20,797                       | 35.04                 |
| 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 March 31, 2020.

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 March 31, 2020. 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.

*This page intentionally left blank.*