International Equity

Quarterly Report | Second Quarter 2021

HARDING LOEVNER

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Ongoing, if uneven, economic recovery and progress against the pandemic resulted in another strong quarter for global equity markets, with positive returns across nearly all sectors and regions.

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From tech antitrust to climate change, regulatory risk has moved to the fore. We remain focused on how it affects the competitive structure of each industry—for worse or for better.

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Composite Performance

Total Return (%) — Periods Ending June 30, 2021[1]

	3 Months	YTD	1 Year	3 Years[2]	5 Years[2]	10 Years[2]	Since Inception[2,3]
HL International Equity (Gross of Fees)	5.58	6.68	35.18	12.40	13.78	8.92	8.97
HL International Equity (Net of Fees)	5.42	6.35	34.33	11.69	13.05	8.26	8.17
MSCI All Country World ex-US Index[4,5]	5.64	9.45	36.29	9.87	11.58	5.92	5.67
MSCI EAFE Index[5,6]	5.38	9.17	32.92	8.76	10.79	6.38	5.25

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: December 31, 1989; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

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

Portfolio Positioning (% Weight)

Sector	HL Intl	ACWI ex-US
Info Technology	20.4	12.9
Cons Staples	12.8	8.5
Health Care	13.4	9.3
Industrials	14.4	11.8
Cash	2.2	–
Materials	9.9	8.3
Energy	3.0	4.5
Utilities	1.0	3.0
Financials	16.3	18.6
Comm Services	4.2	6.7
Real Estate	0.0	2.6
Cons Discretionary	2.4	13.8

Geography	HL Intl	ACWI ex-US
Europe ex-EMU	25.7	19.2
Cash	2.2	–
Europe EMU	22.3	20.5
Other[1]	1.0	–
Pacific ex-Japan	8.2	7.3
Middle East	1.2	0.4
Frontier Markets[2]	0.0	–
Japan	12.6	14.3
Canada	1.9	7.0
Emerging Markets	24.9	31.3

[1]Includes companies classified in countries outside the index; [2]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.

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Market Review

International equity markets continued their upward march with positive returns across nearly all sectors and regions. An ongoing, if uneven, economic recovery paralleled the progress being notched against the pandemic. The US adult vaccination rate moved past 50% while developing economies (apart from China and a handful of others), with inadequate vaccine supplies and health care logistics, continued to struggle to get enough shots in arms. A third wave of positive COVID-19 cases in the UK pointed to the risk from proliferating variants that are harder to contain.

US fiscal policy remained center stage as the Biden administration segued from providing pandemic relief for affected individuals and businesses to announcing a bipartisan deal on a trillion-dollar commitment to infrastructure and social investments. Elsewhere, the EU approved an €800 billion (US$957 billion) recovery fund aimed at infrastructure investment and support for businesses. Some emerging markets, despite more limited fiscal wiggle room, are following suit, with India unveiling its own US$85 billion package at the end of June.

MSCI ACWI ex-US Index Performance (USD %)

Geography	2Q 2021	Trailing 12 Months
Canada	10.2	47.0
Emerging Markets	5.1	41.4
Europe EMU	7.1	38.3
Europe ex-EMU	8.4	33.1
Japan	-0.2	25.2
Middle East	5.1	22.5
Pacific ex-Japan	4.8	34.3
MSCI ACWI ex-US Index	5.6	36.3

Sector	2Q 2021	Trailing 12 Months
Communication Services	1.6	25.3
Consumer Discretionary	4.8	44.9
Consumer Staples	7.9	19.6
Energy	8.6	35.8
Financials	4.6	41.5
Health Care	10.0	15.7
Industrials	4.7	41.1
Information Technology	7.1	57.0
Materials	6.6	50.0
Real Estate	2.6	22.7
Utilities	-0.1	15.2

Source: FactSet (as of June 30, 2021). MSCI Inc. and S&P.

The resumption of more normal consumer and business activity has caused shortages and sharp price rises for many goods due to inventory liquidations last year. Corporate capital spending is also expected to underpin the global economy; economists project a rebound in global real investment that should vastly outpace the lethargic multi-year capex recovery following the global financial crisis. Much of this new investment is expected to come from spending on information technology (IT). *The Economist* projects 42% greater global IT spending in 2021 compared to 2019. Semiconductor makers like Taiwan-based **TSMC** are investing hundreds of billions of dollars both to meet new demand and to avoid a repeat of the current global microchip shortage that has rippled across many different supply chains.

Central banks in the developed world, however, have yet to begin to reverse easy monetary policies, despite a spike in inflation and rising economic growth forecasts, maintaining a belief that current price rises are a temporary phenomenon that can easily be addressed later if it persists. Global fixed income markets rallied as bond yields fell on the dual message of watchful guardian tomorrow and easy money today. Meanwhile, the boom in some commodities such as copper and lumber waned in June. Out of step with the rest (or one step ahead), the People's Bank of China did, delicately, begin the process of unwinding some of its pandemic-driven stimulus.

Amid continued robust equity returns, some of the more frenzied and speculative areas of the market began to cool. In the first quarter, IPOs of special purpose acquisition companies (SPACs) were the poster child for market excess. But activity in the space almost ground to a halt this quarter following comments by the SEC suggesting that heightened SPAC regulation is an agency priority. Even crypto-currency and other digital asset prices, which had soared over the last twelve months, fell sharply.

In China, where the Communist Party is celebrating its centennial, regulators flexed their muscles, introducing new proposals to rein in private tutoring and to curtail the country's large cryptocurrency mining sector, including measures to prohibit banks from transacting in them.

In contrast to the uniform rally in cheaper stocks of lower-quality and slower-growth companies that characterized markets since early November, performance was far more mixed across sectors and regions. Energy stocks outperformed as oil prices moved higher, but other cyclical sectors such as Industrials and Financials ceded market leadership to longer-duration growth sectors such as Health Care, IT, and Consumer Staples. The MSCI ACWI Growth Index outperformed its Value counterpart in the quarter (but still lags in the year to date.)

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, 2021 is available on page 9 of this report.

From a geographic perspective, non-US stocks lagged the US market, which boasted many strong IT and Health Care stocks, along with some large cap media companies. Canada was even stronger than the US, though, benefiting from the strong pull from the US for its exports of commodities and manufactured goods. Switzerland and Denmark lifted Europe outside the eurozone ahead of the index, while France and the Netherlands also boosted the eurozone ahead. Emerging Markets (EMs) slightly trailed the ex-US Index, dragged down by China, whose government took the recovery from the pandemic as an opportunity to rein in perceived excesses in parts of its economy. Japan was the weakest region, partially reacting along with other north Asian markets to a cooling China. In addition, Japan reinstated a state of emergency following a steep rise in COVID-19 infections from its low base, likely delaying its own economic recovery.

Performance and Attribution

The International Equity composite rose 5.6% in the quarter, essentially in line with the benchmark's gain.

Health Care contributed the most to relative performance, helped by strong share price appreciation of three Swiss companies. **Sonova Holding**, a hearing aid manufacturer, rebounded strongly from last year's lockdown effects as management raised earnings guidance for the full year and announced the acquisition of the consumer audio division of Sennheiser, which will allow it to face off against Bose or other consumer audio brands entering into the hearing aid market. Shares of contract drug manufacturer **Lonza** rose after aducanumab, an Alzheimer's drug from Biogen, received FDA approval—a surprising conclusion given its mixed clinical trial results. The move was expected to spur Biogen competitors to petition the agency for approval of their own similar Alzheimer's candidates, potentially increasing the volume of biologics manufacturing across the industry, which Lonza would benefit from. The nod also boosted the stock of one of those competitors, Swiss-based **Roche**.

Offsetting these gains were weak stocks in Industrials and IT. Our two Japanese machinery companies, **Komatsu** and **Kubota**, each gave up some of last quarter's strong gains as Japan reinstated a pandemic state of emergency. Our semiconductor holdings TSMC, **Samsung Electronics**, and Germany's **Infineon Technologies** lagged as investors looked through the favorable pricing dynamics of the current chip shortage to wonder whether the resulting expansion announcements could lead to oversupply, notwithstanding industry forecasts of burgeoning demand in the coming years.

Viewed geographically, our holdings in Europe helped the most. **Alfa Laval**, the Swedish maker of heat transfer and fluid separation machines, saw strong demand as the global industrial recovery gets underway. Inside the monetary union, cosmetic maker **L'Oréal** and software company **Dassault Systèmes**, both based in France, also performed strongly.

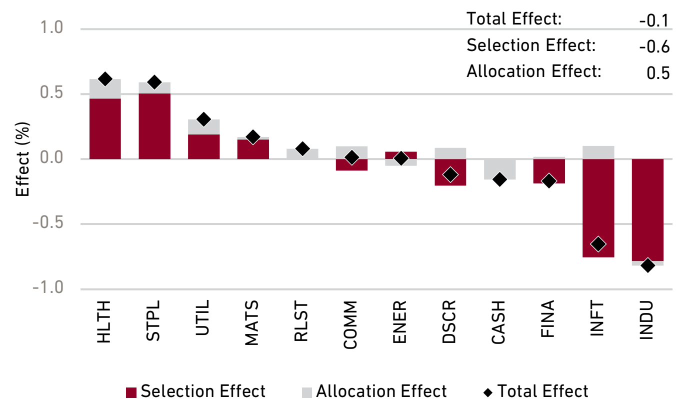
Japan, EMs, and Canada were the biggest detractors. Our underweight in the strongly performing Canadian market detracted, as did our position in **Canadian National Railway**, whose shares fell after the company entered a bidding war for rival Kansas City Southern.

In EMs, our stock selection in east Asia hurt the most. TSMC and Samsung Electronics were two of the culprits here, along with China's Alibaba and Tencent, both of whom were hit with fines by Chinese regulators over alleged antitrust abuses. Hong Kong-based **Ping An Insurance** also suffered as investors reacted negatively to news that the company had agreed to acquire a majority stake in Peking University Founder Group, an insolvent state-controlled tech conglomerate.

Second Quarter 2021 Performance Attribution

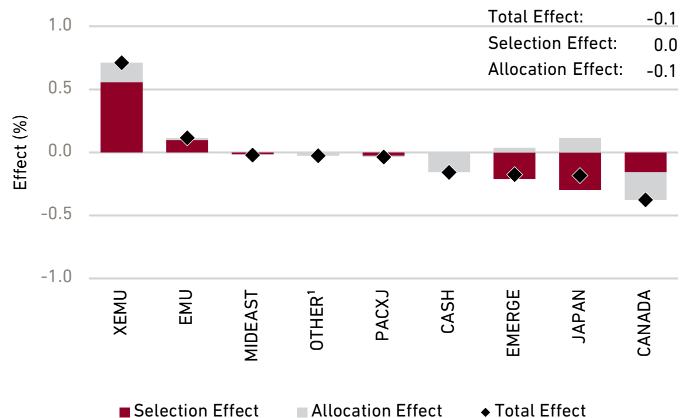
Sector

International Equity Composite vs. MSCI ACWI ex-US Index



Geography

International Equity Composite vs. MSCI ACWI ex-US Index



[1]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.

Perspective and Outlook

Regulation of the antitrust variety became an increasingly relevant issue worldwide this quarter following muscular interventions by regulators in Europe, Asia, and the US. The shift in regulatory headwinds is a development we take seriously, as any changes can swiftly re-shape entire industries and companies. However, it's also a phenomenon with which we're intimately familiar; we deal with regulatory threats routinely as an explicit factor in our industry analyses, our business assessments, and our projections of companies' growth and profitability.

In the US, there is growing concern that too much market power is concentrated in a handful of companies that dominate their respective industries; even the denizens of the University of Chicago, historically a bastion of free-market ideology, have begun to worry publicly about diminished competition in US markets for goods and services. Under the new presidential administration, antitrust regulators appear to be gearing up to take legal action against big technology firms in particular. The rising threat is epitomized by the bipartisan appointment of Lina Khan, a controversial legal scholar, to the FTC. Khan has argued for a new antitrust framework that counters market power in companies even if their product is free to consumers or has led to lower prices. In Europe, antitrust agencies are already further along in clamping down on the tech behemoths, pursuing active investigations into potential market abuses by Apple, Facebook, Google, and Amazon. In April, Chinese antitrust regulators sent a strong "kill one chicken to scare the monkeys" message to all companies tempted to abuse the market power derived from potent platform and network effects—imposing a US$2.8 billion fine on **Alibaba** and summoning 34 leading Chinese technology and e-commerce companies to inform them that they had one month to self-inspect and "completely rectify" any conflicts with recently updated regulations on online competition.

Antitrust is far from the only category of shifting regulatory risk facing many companies globally; environmental regulations also continue to ratchet up as the political and social consensus surrounding climate change solidifies. This is a particular headwind for the oil industry, which suffered a notable setback in May when a Dutch court ordered **Royal Dutch Shell**, generally considered one of the more progressive oil and gas producers in terms of transitioning toward greener energy sources, to ensure the net CO^2 emissions of all its products and operations are 45% lower by 2030. Though the company had the right to appeal, and it is not entirely clear how the Dutch court will enforce its decision (perhaps explaining the negligible impact on Royal Dutch's share price so far), if this judgment is a sign of things to come, it throws doubt on the viability of many global energy companies.

Our analysts incorporate the range of potential effects of existing and potential future regulations into their analysis of the competitive structure of each industry. We model regulations in terms of their impact on each of Harvard Business School professor Michael Porter's "Five Forces," our workhorse template for understanding business strategy.[1] We know, for instance, that the threat of new entrants can increase if the state nurtures them, and that the threat of substitution can be tilted by subsidies or prohibitions of alternative products. (See "Google It," on page 8 of our Global Equity Second Quarter Report, for how we incorporate the evolving regulatory environment into our updated assessments of Alphabet.)

Regulatory influences may affect our view of Porter's competitive forces so negatively that it pushes us to avoid some industries entirely. Electric utilities, for example, are generally treated as regulated monopolies, due to the critical necessity of their product, the asset intensity of their physical infrastructure, and the typical absence of competitive alternatives. Their rates are controlled, and their investments are mandated by regulators with a view to providing reliable power to the residents and industries within reach of their grid. There is broad political support for this approach, and the consequence is to weaken severely the utilities' bargaining power over their customers. Environmental regulations targeted at reducing CO^2 emissions also have broad political support and, by requiring the use of specific energy sources, weaken the utilities' bargaining power over their suppliers. The effect of such regulations is to have hamstrung electric utilities to the point where, for the last five years, in aggregate, the global industry has earned a paltry 2% real cash flow return on invested capital ("CFROI"), a level far below its cost of capital and inadequate to fund or justify further capital investment—an example of why we, as investors, become concerned when we hear antitrust theorists or politicians advocate that large technology companies should be regulated like public utilities!

We cover no electric utilities and only a few companies in the broader Utilities sector; the exceptions are cases where we think regulators have good reason to allow adequate returns on invested capital. **ENN Energy**, a private-sector gas utility in China, is one. ENN earned a five-year average annual CFROI of about 11% (see the chart on the next page) while growing at a double-digit pace thanks to regulations pressing businesses and consumers to switch away from coal to natural gas as part of a key step in the transition toward the country's long-term goal of net carbon neutrality. Though ENN's gas sales are subject to controls on pricing and profits, it is allowed to collect a connection fee from residential users, a lucrative incentive intended to help fund expansion of the gas distribution network. Also, many local governments are promoting the development of communities and industrial parks with smaller carbon footprints. This is proving to be a boon for ENN's integrated energy business, which combines natural gas and renewable energy sources to meet customers' steam, cooling, heating, and electricity needs, and which saw its sales volumes grow 79% YoY this quarter.

[1]Of Porter's 15 books, his 2008 *Competitive Strategy: Techniques for Analyzing Industries and Competitors* is perhaps the best single source for explaining the principles we find so helpful in our own analysis.

In the US and Europe, open political debate tends to presage where new regulatory scrutiny is likely to fall, as well as the magnitude and scope of potential mandates, restrictions, or penalties. There are established legal processes by which companies can argue their side and courts to which they can appeal. In contrast, in less developed markets, regulatory action can come suddenly without warning, and allow companies no opportunity to argue their case or avenue for appeal. We have experienced this kind of seemingly arbitrary regulatory action in China in recent years: from the 2018 freezing of new video game approvals that harmed Tencent and NetEase; to the 11th-hour suspension of Ant Group's initial public offering due to financial regulatory reforms, and the forced seclusion of Jack Ma, founder of its parent company, Alibaba; to recent proposals to restrict the provision of supplementary tutoring. In each instance, investors (present party included) have suffered from the unpredictable regulatory change, a pattern of caprice we have come to accept as part of the price of admission to investing in some of the world's most attractive high-quality growing companies.

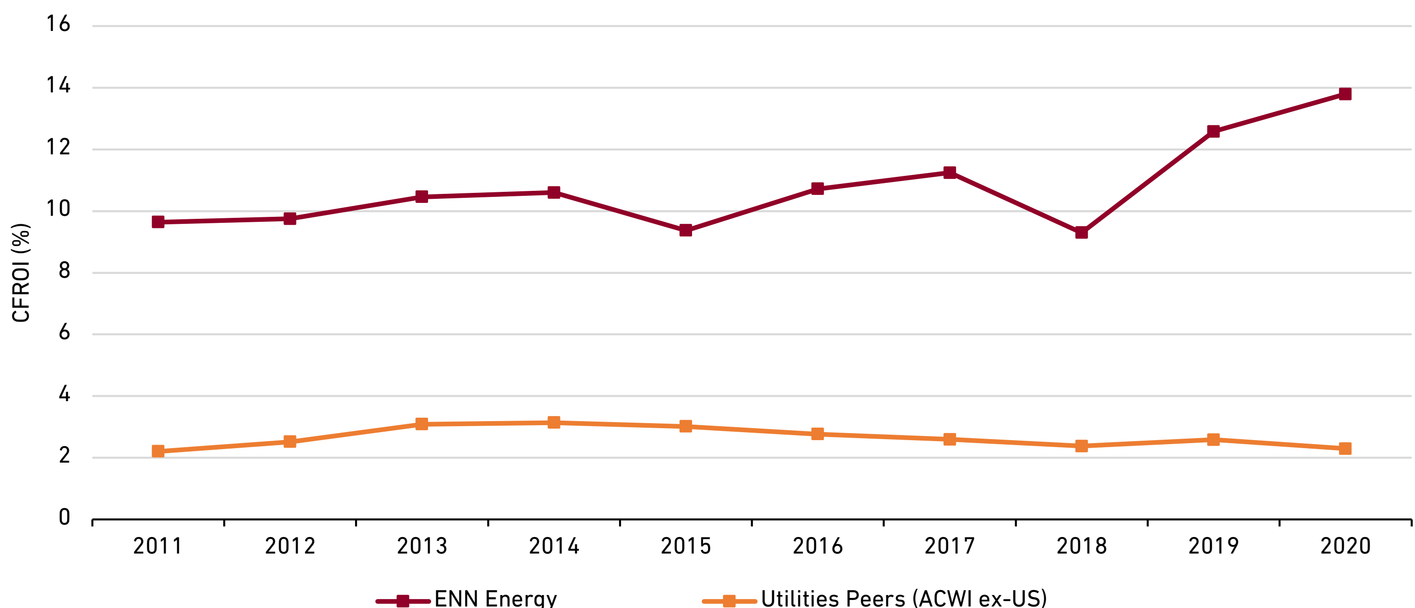
> We have come to accept the pattern of unpredictable regulatory change in China in recent years as part of the price of admission in investing in some of the world's most attractive high-quality growing companies.

We should note that in addition to incorporating country-level regulatory considerations into our Porter forces assessments and growth forecasts, we also use country-level risk differentials to adjust the discount rates we use in our valuation models—and on this score China only falls to the middle of the pack. We require higher risk premia to be reflected in discount rates for companies operating in countries with higher legal, governance, and regulatory risks or weak governmental finances (which often lead to a grasping regulatory hand). To assess comparative country risk, we use third-party measures of political stability, rule of law, corruption, and openness of markets from the World Bank's Worldwide Governance Indicators and the Heritage Foundation's Index of Economic Freedom, and sovereign credit ratings from ratings agencies. Together, these risk adjustments lead to country-level real (i.e., after subtracting inflation) discount rates as high as 8% for Venezuela, 6.2% for China, and as low as 5.2% for Switzerland and Singapore.

Our monitoring of regulatory risks faced by industries and companies along with our country-level real discount rate premiums tend to tilt us toward markets with lower risk exposure, and away from more vulnerable ones. But predicting which industries, countries, or companies may face unfavorable regulatory change is a hugely imprecise task. These differences in discount rates may not account sufficiently for the capriciousness of regulators. Therefore, our portfolio investment guidelines constrain industry, country, and individual security weights to ensure a high level of diversification and thereby limit the potential impact of regulatory (as well as other) shocks that we fail to foresee. The recent unforeseen shifts in China's regulation of fintech and e-commerce illustrate how limiting our holding in a single country or company—such as Alibaba—can mitigate our exposure.

Lest we leave the impression that regulation and regulatory changes provide only risk and not their own form of opportunity, consider the global automotive industry, where environmental

Real Cash Flow Return on Investment of ENN vs. Utilities Peers



Source: HOLT as of June 30, 2021. Cash Flow Return on Investment is defined as an approximation of the economic return, or an estimate of the average real internal rate of return, earned by a firm on the portfolio of projects that constitute its operating assets. The metric is real, or inflation-adjusted. The portfolio holdings identified above do not represent all of the securities held in the portfolio. It should not be assumed that investment in the securities identified has been or will be profitable.

regulations such as emissions and fuel-efficiency standards have increased manufacturing costs, but have also sparked innovation, providing potential growth opportunities for innovative suppliers able to walk the tight rope between regulatory mandates and market preferences. Likewise, the entire Health Care sector faces perennial regulatory pressure as governments implement various methods of constraining the prices of medical treatments. It is just over a decade since we sold nearly half of our Health Care holdings in a single quarter out of reasonable fear that the Obama Administration would create a powerful health care entity that could control pricing and volume of drug sales in the US, crushing the profitability of pharma companies operating there, so we have been alert to the regulatory risks entailed in that industry. But Health Care is currently one of our largest sector weights, significantly greater than the index weight. The pharmaceutical industry enjoys key benefits bestowed by legal and regulatory frameworks—patent protection for new drugs (which keeps rivalry at bay), safety regulations (which raises the bar for less-experienced new entrants), and government funding of drugs for large portions of the population—that have kept returns to investing in research, development, and drug manufacturing high for many decades. This regulatory framework, though altered from time to time, has been effective at sustaining innovation in drug development, to the benefit of many patients not only within the US, but throughout the world. It also underpins the long-term growth of many of our Health Care holdings.

Portfolio Highlights

In recent decades, thanks to a deeper understanding of underlying biological mechanisms, drug development has progressed in leaps and bounds as research into new compounds has evolved beyond a trial-and-error approach. Whereas traditional methods screened large numbers of drug candidates in a scattershot search for desirable therapeutic effects, researchers now look for compounds that bind only with specific targets. New techniques for microscopic analysis that produce biochemical maps with far more detail than previously possible are converging with a reduction in the cost of gene sequencing to usher in a new era, in which many of the treatments we receive will increasingly be more precise, personalized, and effective than they are today.

The types of drugs are also expanding, beyond traditional small-molecule drugs to next-generation formats such as "biologic" drugs, in particular a sub-category called monoclonal antibodies (mAb). These mAbs, roughly 1,000x larger than small molecule drugs, are too complex to be synthesized chemically and thus need to be produced biologically from specially engineered cells. Biologic drugs have great therapeutic and commercial potential in oncology and autoimmune diseases, areas with large patient populations with unmet needs. Of the top 30 global blockbuster drugs in 2020, over two thirds were new biologics. Avastin, one of the first oncology drugs developed via this new pathway over a decade ago by Genentech, has given its Swiss parent, Roche, a strong head start in new drug discovery. The company is also collaborating on drug discovery with its Japanese affiliate **Chugai Pharmaceutical**, which has independently developed its own bi-specific antibody technology to develop Hemlibra, a treatment for hemophilia.

Roche's complementary strength in clinical diagnostics helps it to identify which patients may be more responsive to treatment by these newer, targeted therapies. The company expects synergies between its drug and diagnostic businesses to lead to faster development and faster approval of efficacious treatments. Japanese hematology specialist **Sysmex**, meanwhile, is pioneering easier and earlier diagnosis of certain cancers and potentially even Alzheimer's disease with its "liquid biopsy" process, which identifies genetic markers of the diseases in blood plasma samples. Beyond the expected rebound in the normal array of testing that was displaced by COVID-19, where the company dominates the supply of testing equipment and reagents, we see extended growth opportunities from diagnostic innovations such as this one.

A significant drawback of biologics, however, is the demanding and highly complex manufacturing process with the attendant exacting regulatory scrutiny. Many smaller biopharma companies with promising drug candidates simply don't have the capital or know-how to manufacture large-molecule drugs themselves. As a result, small- and mid-sized biotech companies, and even some large ones, often outsource development and commercial production to contract development & manufacturing organizations (CDMOs), such as Lonza and a handful of other specialists who focus solely on the physical drug-making. Outsourcing speeds up the development process by leveraging manufacturing expertise and reduces the need for capital expenditure.

> Although innovation is more frequently seen as an engine of growth, it can also be a threat to incumbent businesses. We allocate a significant portion of the portfolio to companies where regulation is both light and quite stable, and where innovative competition is less fierce.

Although innovation is more frequently seen as an engine of growth, it can also be a threat to incumbent businesses whose outsized margins have persisted from earlier days. Innovation can spark competition from new entrants or create substitutes for existing products that customers will no longer prize the way they used to. To assess these risks, we use the same analytical framework as we do for regulatory risks. This prompts us to allocate a significant portion of the portfolio to companies where regulation is both light and quite stable, and where innovative competition is less fierce. Cosmetics, food and beverage, and personal care companies exhibit some of the most stable profitability profiles of all. We value them for their predictability through economic cycles along with their

robust financial strength. While innovative new products are important to maintain consumer engagement, change tends to happen gradually in these industries, and regulators likewise see little to tempt them to interfere in ways that threaten industry profitability, despite initiatives at the margin aimed at suspected harmful ingredients such as trans fats or excessive sugar. Last year, as the pandemic swept the globe, shares of **Nestlé**, L'Oréal, **Unicharm**, and **Unilever** held up very well; few investors doubted that their products, comprising a small but habitual portion of consumer budgets, would remain a staple of everyday life. As a result, these holdings provide an important function for the portfolio, even if their growth prospects are more modest than other alternatives. When innovation has sparked new products in food or household products, we've identified suppliers of key ingredients to both incumbents and challengers alike, such as **Symrise**—a leading supplier of food and fragrance ingredients for packaged food or cosmetic companies—and **Novozymes**, whose enzymes drive new product innovations for detergent makers. Because their customers are staples purveyors, their profitability tends to be similarly more stable than average, while potentially growing faster as they gain new customers or create new products.

International Equity Holdings (as of June 30, 2021)

	Country	End Wt. (%)
Communication Services		
Telkom Indonesia (Telecom services)	Indonesia	1.0
Tencent (Internet and IT services)	China	2.4
Yandex (Internet products and services)	Russia	0.9
Consumer Discretionary		
Alibaba (E-commerce retailer)	China	1.5
NITORI (Home-furnishings retailer)	Japan	0.9
Consumer Staples		
Ambev (Alcoholic beverages manufacturer)	Brazil	1.2
Couche-Tard (Convenience stores operator)	Canada	1.0
Diageo (Alcoholic beverages manufacturer)	UK	1.1
FEMSA (Beverages manufacturer and retail operator)	Mexico	1.1
L'Oréal (Cosmetics manufacturer)	France	3.4
Nestlé (Foods manufacturer)	Switzerland	1.9
Unicharm (Consumer products manufacturer)	Japan	1.8
Unilever (Foods and consumer products producer)	UK	1.2
Energy		
Lukoil (Oil and gas producer)	Russia	1.8
Royal Dutch Shell (Oil and gas producer)	UK	1.2
Financials		
AIA Group (Insurance provider)	Hong Kong	3.0
Allianz (Financial services and insurance provider)	Germany	2.4
BBVA (Commercial bank)	Spain	1.4
DBS Group (Commercial bank)	Singapore	2.3
HDFC Bank (Commercial bank)	India	1.2
ICICI Bank (Commercial bank)	India	1.5
Itaú Unibanco (Commercial bank)	Brazil	1.5
Ping An Insurance (Insurance provider)	China	1.2
SE Banken (Commercial bank)	Sweden	1.1
Standard Chartered (Commercial bank)	UK	0.7
Health Care		
Alcon (Eye care products manufacturer)	Switzerland	1.3
Chugai Pharmaceutical (Pharma manufacturer)	Japan	1.5
CSPC Pharmaceutical Group (Pharma manufacturer)	China	1.1

Health Care	Country	End Wt. (%)
Lonza (Life science products manufacturer)	Switzerland	2.1
Roche (Pharma and diagnostic equipment manufacturer)	Switzerland	2.8
Shionogi (Pharma manufacturer)	Japan	1.2
Sonova Holding (Hearing aids manufacturer)	Switzerland	1.7
Sysmex (Clinical laboratory equipment manufacturer)	Japan	1.6
Industrials		
Alfa Laval (Industrial equipment manufacturer)	Sweden	1.5
Atlas Copco (Industrial equipment manufacturer)	Sweden	3.5
Canadian National Railway (Railway operator)	Canada	0.9
Epiroc (Industrial equipment manufacturer)	Sweden	1.5
Fanuc (Industrial robot manufacturer)	Japan	0.9
Komatsu (Industrial equipment manufacturer)	Japan	1.2
Kubota (Industrial and consumer equipment manufacturer)	Japan	1.5
Schneider Electric (Energy management products)	France	2.5
SGS (Quality assurance services)	Switzerland	0.9
Information Technology		
Adyen (Payment processing services)	Netherlands	3.0
Check Point (Cybersecurity software developer)	Israel	1.2
Dassault Systèmes (Design and engineering software developer)	France	1.3
Infineon Technologies (Semiconductor manufacturer)	Germany	3.9
Keyence (Sensor and measurement equipment manufacturer)	Japan	2.0
Samsung Electronics (Electronics manufacturer)	South Korea	3.8
SAP (Enterprise software developer)	Germany	1.5
TSMC (Semiconductor manufacturer)	Taiwan	3.7
Materials		
Air Liquide (Industrial gases producer)	France	1.0
BHP (Mineral miner and processor)	Australia	2.9
Fuchs Petrolub (Lubricants manufacturer)	Germany	0.4
Linde (Industrial gases supplier and engineer)	US	1.0
Novozymes (Biotechnology producer)	Denmark	1.0
Rio Tinto (Mineral miner and processor)	UK	2.2
Symrise (Fragrances and flavors manufacturer)	Germany	1.5
Real Estate		
No Holdings		
Utilities		
ENN Energy (Gas pipeline operator)	China	1.0
Cash		2.2

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.

2Q21 Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL Intl	Avg. Weight ACWI ex-US	Effect
Sonova Holding	HLTH	1.5	0.1	0.45
Lonza	HLTH	1.9	0.2	0.34
L'Oréal	STPL	3.3	0.4	0.32
Ambev	STPL	1.1	0.1	0.19
Alfa Laval	INDU	1.5	<0.1	0.18

Last 12 Mos. Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL Intl	Avg. Weight ACWI ex-US	Effect
TSMC	INFT	4.1	1.8	1.95
Infineon Technologies	INFT	3.8	0.2	1.00
Adyen	INFT	2.8	0.2	0.64
Samsung Electronics	INFT	3.6	1.4	0.58
Sonova Holding	HLTH	1.4	0.1	0.50

2Q21 Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL Intl	Avg. Weight ACWI ex-US	Effect
Infineon Technologies	INFT	4.2	0.2	-0.47
Komatsu	INDU	1.4	0.1	-0.35
Ping An Insurance	FINA	1.5	0.3	-0.27
Kubota	INDU	1.8	0.1	-0.26
Samsung Electronics	INFT	3.9	1.5	-0.19

Last 12 Mos. Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL Intl	Avg. Weight ACWI ex-US	Effect
Chugai Pharmaceutical	HLTH	2.0	0.1	-1.37
SAP	INFT	2.4	0.6	-0.86
Unicharm	STPL	2.2	0.1	-0.72
Roche	HLTH	2.8	1.0	-0.52
Shionogi	HLTH	0.9	0.1	-0.52

Portfolio Characteristics

Quality and Growth	HL Intl	ACWI ex-US
Profit Margin[1] (%)	12.7	10.5
Return On Assets[1] (%)	7.8	4.8
Return On Equity[1] (%)	13.1	10.9
Debt/Equity Ratio[1] (%)	42.4	60.7
Std. Dev. of 5 Year ROE[1] (%)	3.2	3.9
Sales Growth[1,2] (%)	4.4	4.2
Earnings Growth[1,2] (%)	8.6	5.9
Cash Flow Growth[1,2] (%)	9.3	9.0
Dividend Growth[1,2] (%)	7.1	6.4
Size and Turnover	**HL Intl**	**ACWI ex-US**
Wtd. Median Mkt. Cap (US $B)	72.0	48.4
Wtd. Avg. Mkt. Cap (US $B)	145.7	106.5
Turnover[3] (Annual %)	14.9	–

Size and Valuation	HL Intl	ACWI ex-US
Alpha[2] (%)	2.45	–
Beta[2]	0.96	–
R-Squared[2]	0.94	–
Active Share[3] (%)	85	–
Standard Deviation[2] (%)	14.36	14.46
Sharpe Ratio[2]	0.88	0.72
Tracking Error[2] (%)	3.6	–
Information Ratio[2]	0.61	–
Up/Down Capture[2]	103/93	–
Price/Earnings[4]	25.8	18.6
Price/Cash Flow[4]	17.5	11.5
Price/Book[4]	3.1	2.0
Dividend Yield[5] (%)	1.7	2.2

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner International Equity Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: July 5, 2021, 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
SE Banken	Sweden	Financials
Telkom Indonesia	Indonesia	Comm Services

Positions Sold	Country	Sector
There were no completed sales this quarter.		

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 relative 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 relative performance over the period. Contributors and detractors exclude cash and securities in the Composite not held in the Model Portfolio. Quarterly data is not annualized. Portfolio attribution and characteristics are supplemental information only and complement the fully compliant 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, 2021)

	HL Intl Equity Gross (%)	HL Intl Equity Net (%)	MSCI ACWI ex-US[1] (%)	MSCI EAFE[2] (%)	HL Intl Equity 3-yr. Std Deviation[3] (%)	MSCI ACWI ex-US 3-yr. Std Deviation[3] (%)	MSCI EAFE 3-yr. Std Deviation[3] (%)	Internal Dispersion[4] (%)	No. of Accounts	Composite Assets ($M)	Firm Assets ($M)
2021 YTD[5]	6.68	6.35	9.45	9.17	17.14	17.35	17.48	N.A.[6]	35	28,219	77,155
2020	21.58	20.81	11.13	8.28	17.55	17.92	17.87	0.2	37	26,325	74,496
2019	26.29	25.49	22.13	22.66	12.00	11.33	10.80	0.2	37	22,085	64,306
2018	-13.26	-13.82	-13.78	-13.36	11.79	11.40	11.27	0.2	39	16,908	49,892
2017	30.86	30.00	27.77	25.62	12.45	11.88	11.85	0.2	36	15,777	54,003
2016	6.18	5.49	5.01	1.51	13.28	12.53	12.48	0.1	40	10,316	38,996
2015	-0.46	-1.06	-5.25	-0.39	12.83	12.13	12.47	0.1	41	8,115	33,296
2014	-0.12	-0.68	-3.44	-4.48	11.98	12.78	12.99	0.2	43	9,495	35,005
2013	15.99	15.35	15.78	23.29	14.91	16.20	16.22	0.4	44	9,504	33,142
2012	19.97	19.36	17.39	17.90	17.61	19.22	19.32	0.6	40	6,644	22,658
2011	-8.30	-8.91	-13.33	-11.73	21.13	22.74	22.45	0.5	36	2,468	13,597

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the composite, gross of fees, and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]The 2021 YTD performance returns and assets shown are preliminary; [6]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 49 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, 2021. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The International Equity Composite has had a performance examination for the periods January 1, 1990 through March 31, 2021. 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. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross of foreign withholding taxes on dividends, interest income and capital gains. Past performance does not guarantee future results. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate 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; 0.40% of amounts from $250 million to $500 million; above $500 million on request. The management fee schedule and total expense ratio for the International Equity Collective Investment Fund, which is included in the composite, are 0.67% on all assets and 0.72%, respectively. 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 and the performance inception date is January 1, 1990.

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