HARDING LOEVNER

INTERNATIONAL EQUITY RESEARCH

2020 Second Quarter Report

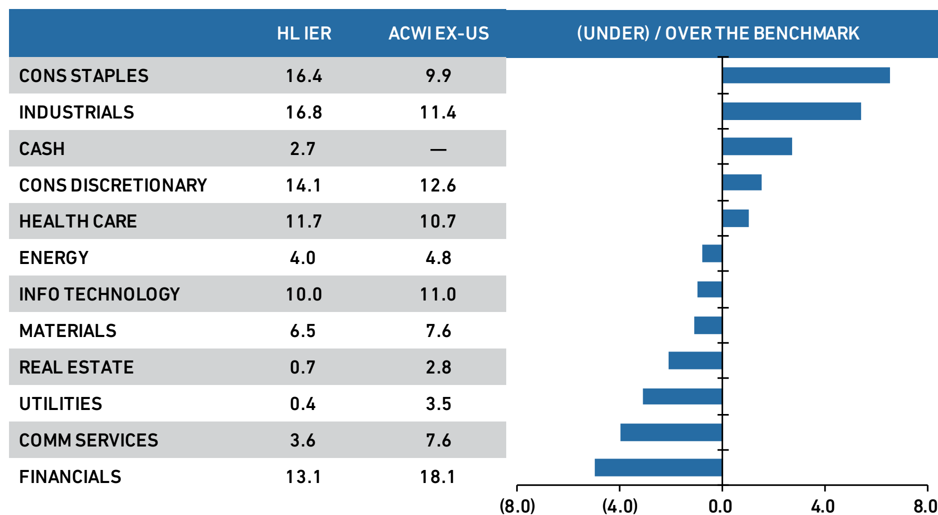
COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED JUNE 30, 2020[1]

	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	SINCE INCEPTION[2,3]
HL INTL EQUITY RESEARCH (GROSS OF FEES)	19.43	-8.53	-1.84	3.83	8.12
HL INTL EQUITY RESEARCH (NET OF FEES)	19.23	-8.85	-2.52	3.08	7.34
MSCI ALL COUNTRY WORLD EX-US INDEX[4,5]	16.30	-10.76	-4.39	1.61	5.29
MSCI EAFE INDEX[5,6]	15.08	-11.07	-4.73	1.29	4.23

[1]The Composite performance returns shown are preliminary; [2]Annualized returns; [3]Inception Date: December 31, 2015; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

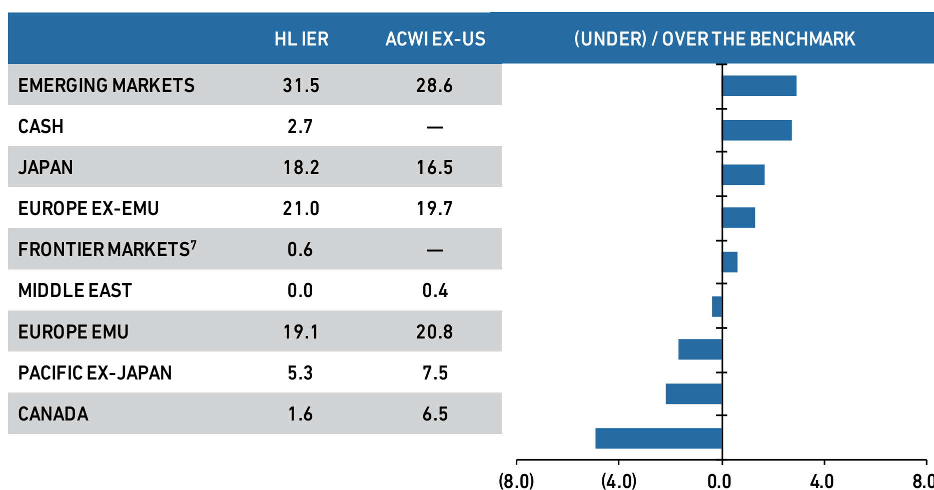
Please read the above performance in conjunction with the footnotes on the last page of this report. Past performance does not guarantee future results. All performance and data shown are in US dollar terms, unless otherwise noted.

SECTOR EXPOSURE (%)



	HL IER	ACWI EX-US
CONS STAPLES	16.4	9.9
INDUSTRIALS	16.8	11.4
CASH	2.7	—
CONS DISCRETIONARY	14.1	12.6
HEALTH CARE	11.7	10.7
ENERGY	4.0	4.8
INFO TECHNOLOGY	10.0	11.0
MATERIALS	6.5	7.6
REAL ESTATE	0.7	2.8
UTILITIES	0.4	3.5
COMM SERVICES	3.6	7.6
FINANCIALS	13.1	18.1

GEOGRAPHIC EXPOSURE (%)



	HL IER	ACWI EX-US
EMERGING MARKETS	31.5	28.6
CASH	2.7	—
JAPAN	18.2	16.5
EUROPE EX-EMU	21.0	19.7
FRONTIER MARKETS[7]	0.6	—
MIDDLE EAST	0.0	0.4
EUROPE EMU	19.1	20.8
PACIFIC EX-JAPAN	5.3	7.5
CANADA	1.6	6.5

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

Source: Harding Loevner International Equity Research 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 ›

During this quarter, our analysts recommended buying 19 companies and selling 23, resulting in an increase in the number of our Consumer Discretionary, Industrials, and Health Care holdings.

Portfolio Holdings ›

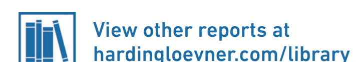
Information about the companies held in our portfolio.

Portfolio Facts ›

Contributors, detractors, and characteristics.

ONLINE SUPPLEMENTS

Watch the Intl Equity Research Quarterly Review



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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 quarter. 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

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.

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

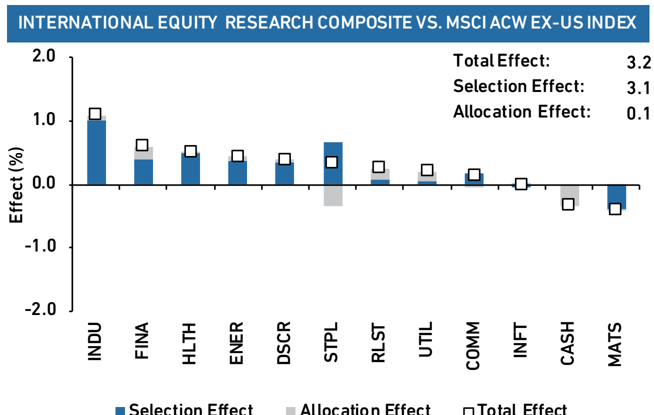
The International Equity Research composite returned 19.4% in the second quarter, compared to the 16.3% recorded by the MSCI ACWI-ex US Index. Year to date, the composite declined 8.5% compared to the 10.8% decline of the Index. The charts to the right attribute the quarter's performance by sector and region.

Outperformance in the second quarter was driven by good stock selection across both sectors and regions. Strong stock selection in Industrials contributed the most to performance. **Techtronic**, a Hong Kong-based global power tools manufacturer, maintained earnings guidance for the year after the reopening of its main manufacturing facilities in China, a surge in demand for DIY tools and outdoor products, growing usage of its e-commerce channel, and several new product launches—including a more powerful cordless version of its flagship Milwaukee line. In Consumer Staples, another strong contributor was **Alimentation Couche-Tard**, a Canadian-based operator of gas stations and convenience stores. Classified as an essential business across all the countries where it operates, the company has been able to stay open throughout the pandemic. While its fuel sales have declined, food staples sales have been strong.

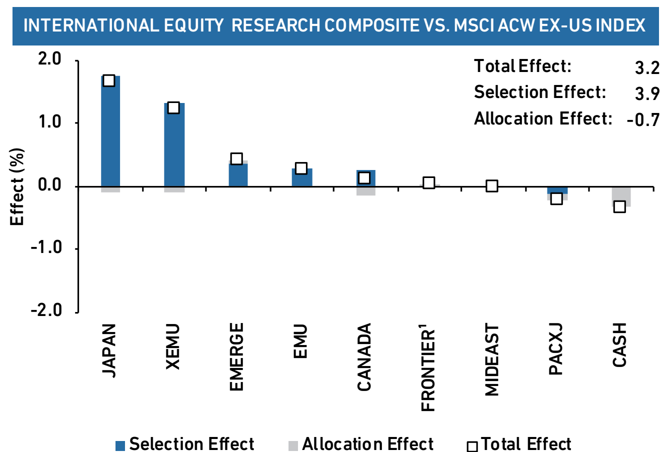
Materials was the Index's best-performing sector, but poor stock selection dragged on our returns. **Pidilite**, an Indian adhesives, sealants, and construction chemicals producer, and **Asian Paints**, India's leading paint manufacturer, were both hit by the country's deep pandemic-induced lockdowns that closed factories and slowed sales.

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 list of the 25 largest 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



[1]Includes countries with less-developed markets outside the Index. Source: FactSet; Harding Loevner International Equity Research 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.

Geographically, most of the outperformance came from strong stock selection in Japan and Europe ex-EMU. In Japan, **Chugai Pharmaceuticals**, creator and co-promotor (along with Swiss-based parent **Roche**) of the rheumatoid arthritis drug Actemra, showed promising results for its off-label use to treat severe cases of COVID-19 pneumonia. **Nomura Research Institute**, an information technology consulting group, reported strong full-year earnings. Even before the pandemic accelerated corporate digital transformation efforts, the company was seeing Japanese companies investing more in technology to combat labor shortages and stay competitive. In Europe, **Chr. Hansen**, a Danish-based natural food ingredients producer, benefited from strong eat-at-home demand for yogurt and other products made with its food cultures and enzymes.

For the year-to-date, strong stock selection in Japan was the main driver of outperformance, led by Chugai and Nomura

Research Institute. By sector, our underweights to the worst-performing sectors Energy, Financials, and Real Estate also helped. Good stocks in Materials were the other big first-half contributors, including Chr. Hansen and **Symrise**, a flavor-and-fragrance producer whose ingredients find their way into a wide range of foods and soap.

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. Under this reckoning, 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 amounts 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 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 supercharge 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 punchbowl. 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.[1] 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 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—primar-

[1]Long/Short portfolio.

ily directed toward 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

The International Equity Research portfolio's holdings are directly determined by analysts' recommendations among Harding Loevner's collection of researched companies. During this quarter, our analysts recommended buying 19 companies and selling 23. We had the most net upgrades in Consumer Staples and Consumer Discretionary and the most net downgrades in IT. We ended the quarter with 206 holdings in the portfolio.

By region, our exposure to European Monetary Union (EMU) increased during the quarter, while our exposure to Japan, Europe ex-EMU, and Canada reduced. By sector, our exposure to Consumer Discretionary, Industrials, and Health Care increased, while it came down in Financials, Materials, and IT. At quarter end, the portfolio was most overweight Consumer Staples and Industrials, and most underweight Financials and Communication Services. Our underweight in Energy has contracted in the last year even though our absolute exposure hasn't changed much.

In Consumer Discretionary, we purchased Finnish tire manufacturer **Nokian Tyres**, automaker **Maruti Suzuki**, and Chinese appliance maker **Gree Electric**, as their valuations looked attractive after recent share price declines. We initiated a purchase[2] of **China Duty Free** (formerly China International Travel Service), for whom a near-term decline in airport-based sales has been offset by an expansion in its addressable market. The shift comes from a loosening of regulations prompted by COVID-19 travel restrictions and part of an ongoing effort by the government to encourage duty-free shopping within China as an alternative to travelling to the West. Growing numbers of shoppers have flocked to duty-free malls on the southern island of Hainan. Purchasers were subject to quotas upon their return to the mainland, but those have now been substantially lifted. We also purchased **JD.com**, one of the two (with Alibaba) massive online retailers in China. The purchase was another byproduct of sweeping changes in Chinese shopping behavior since the pandemic, which our analyst believes could turbocharge growth at the company for years to come.

In Industrials, we purchased Swedish lock and home-entry system maker **Assa Abloy**, **Shanghai International Airport**, German-based **Brenntag**, and French-based aerospace company **Safran**. Brenntag is a leading chemical distributor that fills a unique niche connecting very large chemical suppliers to small customers, especially in Europe and US. Safran (through its joint venture with GE) produces the engines used on three quarters of the world's single-aisle commercial airplanes. Although COVID-19 has had a devastating impact on aerospace companies, our analyst saw it as an opportunity to initiate a position in a company with sufficient financial strength to survive a lengthy business downturn and be relatively well positioned to prosper in a rebound.

In Health Care, we initiated a purchase[3] of **Hangzhou Tigermed Consulting** and added to our position in **Bayer**. Hangzhou Tigermed provides clinical research services to both domestic Chinese and foreign companies for the development of pharmaceuticals and other healthcare products. It is well positioned to benefit from China's rapidly expanding patentable drug pipeline.

In IT, we sold Spanish-based travel technology provider **Amadeus** when our analyst grew concerned about the likely pace of recovery of business travel post-COVID-19. We also sold German semiconductor maker **Infineon Technologies**, Argentina-based IT services provider **Globant**, Chinese integrated circuit maker **Silergy**, and Chinese-based **Sunny Optical**, all due to valuation concerns after strong stock price appreciation.

In Financials, we sold India's **Kotak Mahindra Bank** and Indonesian-based **Bank Central Asia** after recent share price rebounds, in the context of pandemic-related asset-quality concerns. We also sold **Bank of Georgia** as its market cap has fallen below our threshold investable level.

In Materials, we sold Pakistani fertilizer maker **Engro** because it currently fails to meet our growth and financial strength criteria. We also reduced our positions in a pair of Danish companies after strong stock price performance caused the holdings to bump up against our maximum position size limits. One was the probiotics maker Chr. Hansen; the other, biotech firm **Novozymes**.

[2, 3]Trade completed just after quarter end.

In the EMU, in addition to Nokian Tyres, Safran, and Brenntag, we also purchased German-based seed manufacturer **KWS SAAT**. The company, the fourth-largest producer of seeds in the world (and the largest wholly focused on plant breeding), invests heavily in R&D tailoring seeds for specific markets. For example, it is the number one producer of seed for sugar beets, the source of 20% of the planet's sugar and increasingly seen as a healthier alternative to sugar cane. With steady cash flow provided by its established positions, the company can continue to expand its newer operations in South America, where long-term demand for seeds is being driven by population growth and rising incomes. In addition to Bayer, we also added to our EMU positions in Dutch chipmaker **ASML**, French-based internet holding company **Prosus**, and **Kering**, a French-based sustainability-focused luxury goods maker.

In Japan, we sold furniture and home accessories maker **NITORI** and ophthalmic equipment manufacturer **Nidec** after strong appreciation and trimmed comparison shopping website **Kakaku**.

In Europe ex-EMU, we sold **Nestlé**, **Kuehne + Nagel** after strong relative performance. In addition to Novozymes, we also trimmed a pair of UK-based companies: home emergency and repairs business **HomeServe**, and health and hygiene products maker **Reckitt Benckiser**. In Canada, we sold **Canadian National Railway** after strong relative performance and trimmed our position in **Imperial Oil**.

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 RESEARCH 25 LARGEST HOLDINGS (AS OF JUNE 30, 2020)

COMPANY	COUNTRY	SECTOR	END WT.(%)
CHUGAI PHARMACEUTICAL Pharma manufacturer	JAPAN	HEALTH CARE	1.2
RIO TINTO Mineral miner and processor	UNITED KINGDOM	MATERIALS	1.1
SHIONOGI Pharma manufacturer	JAPAN	HEALTH CARE	1.1
SYMRISE Fragrances and flavors manufacturer	GERMANY	MATERIALS	1.1
SHIMANO Bicycle component manufacturer	JAPAN	CONS DISCRETIONARY	1.1
AIR LIQUIDE Industrial gases producer	FRANCE	MATERIALS	1.1
SAP Enterprise software developer	GERMANY	INFO TECHNOLOGY	1.0
NOMURA RESEARCH INSTITUTE IT consultant	JAPAN	INFO TECHNOLOGY	1.0
KUBOTA Industrial and consumer equipment manufacturer	JAPAN	INDUSTRIALS	1.0
ALIMENTATION COUCHE-TARD Convenience stores operator	CANADA	CONS STAPLES	1.0
UNICHARM Consumer products manufacturer	JAPAN	CONS STAPLES	1.0
ALLIANZ Financial services and insurance provider	GERMANY	FINANCIALS	1.0
HENKEL Consumer products manufacturer	GERMANY	CONS STAPLES	1.0
ALCON Eye care products manufacturer	SWITZERLAND	HEALTH CARE	1.0
L'ORÉAL Cosmetics manufacturer	FRANCE	CONS STAPLES	1.0
NOVOZYMES Biotechnology producer	DENMARK	MATERIALS	0.9
SAFRAN Aerospace parts manufacturer	FRANCE	INDUSTRIALS	0.9
SE BANKEN Commercial bank	SWEDEN	FINANCIALS	0.9
ESSILORLUXOTTICA Eyewear manufacturer and retailer	FRANCE	CONS DISCRETIONARY	0.9
ABC-MART Footwear retailer	JAPAN	CONS DISCRETIONARY	0.9
SGS Quality assurance services	SWITZERLAND	INDUSTRIALS	0.9
ROCHE Pharma and diagnostic equipment manufacturer	SWITZERLAND	HEALTH CARE	0.9
ASM PACIFIC TECHNOLOGY Semiconductor eqpt manufacturer	HONG KONG	INFO TECHNOLOGY	0.9
ASSA ABLOY Security equipment manufacturer	SWEDEN	INDUSTRIALS	0.9
RINNAI Consumer appliances manufacturer	JAPAN	CONS DISCRETIONARY	0.9

Model Portfolio holdings are supplemental information only and complement the fully compliant International Equity Research 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
IMPERIAL OIL	ENER	0.8	0.40
CHUGAI PHARMACEUTICAL	HLTH	1.1	0.39
TECHTRONIC INDUSTRIES	INDU	0.8	0.39
SHIMANO	DSCR	1.0	0.35
ALIMENTATION COUCHE-TARD	STPL	1.0	0.33

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
CHUGAI PHARMACEUTICAL	HLTH	0.8	0.84
NOMURA RESEARCH INSTITUTE	INFT	1.0	0.64
ASML	INFT	0.8	0.49
TECHTRONIC INDUSTRIES	INDU	0.8	0.38
UNICHARM	STPL	1.0	0.36

2Q20 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
COMPASS GROUP	DSCR	0.7	-0.09
CHINA TOWER	COMM	0.3	-0.07
CLICKS GROUP	STPL	0.3	-0.06
SAFRAN	INDU	0.1	-0.06
BDO UNIBANK	FINA	0.3	-0.02

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ANHEUSER-BUSCH INBEV	STPL	0.6	-0.66
BANCO SANTANDER	FINA	0.9	-0.59
ROYAL DUTCH SHELL	ENER	0.8	-0.54
COMPASS GROUP	DSCR	0.9	-0.50
AMADEUS	INFT	0.9	-0.39

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL IER	ACWI EX-US
PROFIT MARGIN[1] (%)	11.6	10.8
RETURN ON ASSETS[1] (%)	8.0	5.3
RETURN ON EQUITY[1] (%)	15.1	12.0
DEBT/EQUITY RATIO[1] (%)	41.6	60.2
STD DEV OF 5 YEAR ROE[1] (%)	2.9	3.3
SALES GROWTH[1,2] (%)	4.8	2.4
EARNINGS GROWTH[1,2] (%)	7.5	6.6
CASH FLOW GROWTH[1,2] (%)	10.5	8.5
DIVIDEND GROWTH[1,2] (%)	6.7	5.5
SIZE & TURNOVER	**HL IER**	**ACWI EX-US**
WTD MEDIAN MKT CAP (US $B)	18.7	34.4
WTD AVG MKT CAP (US $B)	39.8	83.1
TURNOVER[3] (ANNUAL %)	44.0	—

RISK & VALUATION	HL IER	ACWI EX-US
ALPHA[4] (%)	2.22	—
BETA[4]	1.00	—
R-SQUARED[4]	0.97	—
ACTIVE SHARE[3] (%)	82	—
STANDARD DEVIATION[4] (%)	15.86	15.71
SHARPE RATIO[4]	0.13	-0.01
TRACKING ERROR[4] (%)	2.6	—
INFORMATION RATIO[4]	0.84	—
UP/DOWN CAPTURE[4]	104/95	—
PRICE/EARNINGS[5]	19.5	15.8
PRICE/CASH FLOW[5]	14.2	8.9
PRICE/BOOK[5]	2.4	1.6
DIVIDEND YIELD[6] (%)	2.2	3.1

[1]Weighted median; [2]Trailing five years, annualized; [3]Three-year average; [4]Trailing three years annualized; [5]Weighted harmonic mean; [6]Weighted mean. Source: FactSet (Run date: July 5, 2020, based on the latest available data in FactSet on this date.); Harding Loevner International Equity Research Model, based on the underlying holdings; MSCI Inc.

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

INTERNATIONAL EQUITY RESEARCH COMPOSITE PERFORMANCE (AS OF JUNE 30, 2020)

	INTL EQUITY RESEARCH GROSS (%)	INTL EQUITY RESEARCH NET (%)	MSCI ACWI EX-US[1] (%)	MSCI EAFE[2] (%)	INTL EQUITY RESEARCH 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 (%)
2020 YTD[5]	-8.53	-8.85	-10.76	-11.07	15.87	15.71	14.94	N.A.[6]	1	19	0.03
2019	24.06	23.20	22.13	22.66	11.18	11.33	10.8	N.M.[7]	1	20	0.03
2018	-12.08	-12.74	-13.78	-13.36	11.45	11.40	11.27	N.M.	1	10	0.02
2017	30.59	29.64	27.77	25.62	+	+	+	N.M.	1	11	0.02
2016	9.09	8.28	5.01	1.51	+	+	+	N.M.	1	8	0.02

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the Composite and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]The 2020 YTD performance returns and assets shown are preliminary; [6]N.A.–Internal dispersion less than a 12-month period; [7]N.M.–Information is not statistically significant due to an insufficient number of portfolios in the composite for the entire year; +Less than 36 months of return data.

The International Equity Research 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. Verification does not ensure the accuracy of any composite presentation. The verification 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 Research 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 Research Composite was created on December 31, 2015.

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