# HARDING LOEVNER FUNDS PLC

## Sustainable Finance Disclosure Directive Website Disclosure
## 17 June 2022

## The Harding Loevner Global Equity Fund
## The Harding Loevner International Equity Fund
## The Harding Loevner Emerging Markets Equity Fund
## The Harding Loevner Frontier Emerging Markets Fund
## The Harding Loevner Global Small Companies Equity Fund
## (together the "Article 6 Funds")
## The Harding Loevner Global Paris Aligned Equity Fund (the "Article 8 Fund")

## Introduction

The Sustainable Finance Disclosure Regulation (**SFDR**) requires certain EU regulated entities (including Harding Loevner Funds plc (the **Company**)) to disclose the following information on a public website:

- Information about our policies on the integration of sustainability risks into our investment decision making process;
- Information on whether we consider the principal adverse impact of our investment decisions on sustainability factors; and
- Information regarding the promotion of environmental or social characteristics for certain financial products.

The Company has appointed KBA Consulting Management Limited (the **Manager**) as its UCITS manager and the Manager has in turn delegated the day to day decision making for each Fund to Harding Loevner LP (**Harding Loevner**).

The information contained in this website disclosure is available at: https://www.hardingloevner.com/ways-to-invest/ucits-funds/.

Any words or terms not defined in this website statement shall have the same meaning given to them in the Prospectus or any Supplement to the Prospectus.

## Sustainability Risk Policy

*Objective and Scope*

This Sustainable Risk Policy (**Policy**) provides an overview of the approach to sustainability risk taken by Harding Loevner with respect to all Funds of the Company. Under SFDR, we are required to describe the manner in which sustainability risks are integrated into our investment decision-making processes.

Sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

Our approach to sustainability is always evolving as we develop our policies and processes and, as such, this Policy will continue to evolve over time and will be reviewed regularly and updated as appropriate.

*Our Approach to Sustainability Risk Integration*

Consideration of material risks arising from environmental, social, and corporate governance (ESG) factors is intrinsic to Harding Loevner's investment process.

At the outset of his or her work on a company, the responsible analyst completes a 14-point checklist designed to ensure Harding Loevner eliminates companies with poor governance from further consideration. The analyst also completes a 15-point environmental and social red flag checklist to determine if the company faces any severe risks in these areas that require closer analysis.

In accordance with its fiduciary responsibility to its clients, including the Company, Harding Loevner seeks to generate the best risk-adjusted returns possible. Companies that operate with disregard for their environment, for the societies in which they pursue their business, or for the principles of governance by which they should be supervised on behalf of shareholders put at risk their long-term cash flows and share price. Alternatively, companies may strengthen their competitive advantages and growth prospects through their ability to identify and mitigate material ESG risks or to take advantage of growth opportunities presented by changing regulations, technology, and consumer expectations.

Harding Loevner includes into its equity security evaluation an explicit consideration of ESG risk factors. For each company under coverage, the responsible Harding Loevner analyst evaluates various ESG factors. The analyst determines the net impact of each factor by assessing the extent to which it represents a risk that could threaten, or an opportunity that could support, the sustainability of the company's profitable growth. The net impacts of all the ESG factors are aggregated to determine an overall ESG score for the company. The scorecard provides a consistent framework for comparing companies' potential ESG risks and opportunities across all industries and geographies. ESG assessments may affect the analyst's long-term forecasts of growth, margins, capital intensity, or competitive position. In addition, a company's overall ESG score is an input into Harding Loevner's valuation model that influences the projected duration of future cash flow growth. Portfolio managers consider ESG factors among other factors affecting risk and expected returns in choosing among companies approved by analysts. Harding Loevner's integration of these ESG risks and opportunities as part of its investment process may diminish the impacts of Sustainability Risks on the returns, and improve the overall risk profile, of a Fund. Further, it may impact a Fund's performance, including relative to similar funds that do not consider such ESG risks and opportunities. Additionally, Harding Loevner's consideration of ESG risks and opportunities in connection with identifying and selecting investments may require subjective analysis and may be difficult if data about a particular company is limited. A company's ESG practices or Harding Loevner's assessment of such practices may change over time.

Analysts rely on their expertise to judge which ESG risks or opportunities are material to a company based on its business, where it operates, and any unique industry characteristics. They also have access to third-party ESG resources, such as MSCI ESG data (including company carbon emissions metrics), Bloomberg ESG data, the SASB Materiality Map, and Glass Lewis governance research, to help them identify and assess key ESG risks.

Portfolio managers also consider ESG factors among other factors affecting risk and expected returns in choosing among companies approved by analysts.

*Our Approach to Responsible Ownership*

Proxy voting and company engagement are other ways that we attempt to manage and mitigate ESG risks. Harding Loevner's analysts engage regularly with company managements in the course of their fundamental research and monitoring of qualified companies. Harding Loevner engages on a range of topics including company board composition/director election, climate change & energy transition, and human rights. When an analyst disagrees with certain business practices or management policies, he or she encourages a course correction by exercising Harding Loevner's influence as shareholders. If the analyst believes that management decisions or strategies will cause a company to no longer to meet our key investment criteria or result in unacceptably high investment (including ESG) risk, Harding Loevner will disinvest from the company.

Harding Loevner supports collective efforts to promote Responsible Investment as a signatory of the PRI and the UK Stewardship Code. As a supplement to its own Code of Ethics, Harding Loevner adheres to the CFA Institute's Code of Ethics and Standards of Professional Conduct.

## Consideration of Principal Adverse Impacts ("PAIs")

As summarized above, Harding Loevner clearly considers the potential material adverse impact of sustainability factors on its investment decisions. SFDR also requires that the Company explain whether it considers the principal adverse impacts of its investment decisions on sustainability factors.

Harding Loevner believes only companies that can create substantial long-term value are capable of producing meaningful "shared value" for the benefit of larger society as well as for shareholders and other direct stakeholders. Therefore its investment process, by its design, eschews companies pursuing short-term profits at the expense of long-term growth and stability by engaging in unsustainable business practices, including practices with negative externalities with respect to environmental and societal factors, which place them at greater risk of adverse public policy or marketplace changes.

Regarding PAIs as prescribed by SFDR, as at the date of this Statement, the final Level 2 Regulatory Technical Standards of SFDR (the **RTS**), which include the detailed disclosure requirements, are not yet in force. The RTS require extensive reporting of detailed impact metrics on specific sustainability factors. Harding Loevner considers the ability to review and consider these factors is constrained by the lack of available data from underlying investee companies and the investment management industry generally is working towards finding solutions to this in advance of the RTS entering into force.

Accordingly Harding Loevner does not necessarily identify, prioritise and action all of the adverse impacts as contemplated by SFDR and as set out in the RTS, but Harding Loevner will continue to review its policy on the consideration of principal adverse impacts as the availability of relevant data continues to evolve.

## Information regarding the Promotion of Environmental or Social Characteristics

The Harding Loevner Global Paris-Aligned Equity Fund (the **Fund**) is an Article 8 fund which promotes Sustainability Characteristics, as described further below. The Fund does not have sustainable investment as its investment objective. The Fund's benchmark, the MSCI All Country World Index, was not chosen for the purpose of achieving its Sustainability Characteristics. This website statement is the transparency disclosure in respect of such Article 8 fund.

"**Sustainability Characteristics**" means environmental characteristics including a reduction of carbon emissions and climate change mitigation.

*Promotion of Sustainability Characteristics*

Harding Loevner has determined that the Fund promotes Sustainability Characteristics by investing in companies that Harding Loevner believes will achieve 'net zero' carbon emissions before 2050, consistent with the Paris Agreement. For an investment by the Fund to be considered to be promoting Sustainability Characteristics, the company must follow good governance practices in accordance with Article 8 of SFDR.

The Fund seeks to achieve this through both the exclusion of fossil fuel companies from the portfolio, and through its screening of companies' carbon reduction practices, which must demonstrate a viable pathway to achieve carbon neutral status by 2050. Harding Loevner assesses this viability by examining the following factors in respect of each company, among others:

- Science Based Targets (SBTi) classifications
- Company-disclosed greenhouse gas (GHG) emission reduction targets
- Task Force on Climate-Related Financial Disclosures (TCFD)
- Climate Disclosure Project portal filings (being datasets on climate-related risks and opportunities, emissions, mitigation, adaptation, energy and water in cities, states and regions worldwide), or other relevant company disclosures
- Existing or projected carbon emissions data
- Global Industry Classification Standard (GICS) sub-industry classification and its respective carbon risk-profile

Harding Loevner uses publicly available information, its own data and insight, information from relevant industry groups, and third-party data providers to ascertain the carbon reduction practices of specific companies.

Through this screening process (which is in addition to the ESG Score assigned to the investee company, outlined above under “Our Approach to Sustainability Risk Integration”) Harding Loevner can identify and assess those companies which have committed to reducing their carbon emissions.

Through its own research, as well as engagements with company management, Harding Loevner monitors business practices on an ongoing basis. Consistent with the Company’s Shareholder Engagement Policy, Harding Loevner actively engages with companies and issuers with respect to their carbon emissions by, for example, arranging in-person meetings with senior management of companies to address issues relating to environmental policies and governance practices and exercises its voting rights in accordance with this aim. Harding Loevner may divest of any company which does not make demonstrative progress in aligning itself with the Paris Agreement and specifically with ‘net zero’ emission targets by 2050, or which does not engage with Harding Loevner in respect of the reduction of carbon emissions.

In addition to the adoption of the ESG criteria outlined above, the Fund applies additional criteria and does not invest in the following:

*Fossil Fuels*
The Fund is prohibited from investing in companies with evidence of owning fossil fuel reserves, as well as companies which derive at least 25% of its revenues (either reported or estimated) from oil-, gas-, or coal-related activities.

*Tobacco Producers*
The Fund is prohibited from investing in companies that manufacture tobacco products.

*Controversial, Assault-Style, and Nuclear Weapons*
The Fund is prohibited from investing in "controversial weapons", being companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

For the avoidance of doubt, this prohibition is extended to companies which produce nuclear weapons components.

The Fund is further prohibited from investing in companies that manufacture or retail automatic (“assault”) firearms.