

# HARDING LOEVNER FUNDS PLC (the “**Company**”)

## Sustainable Finance Disclosure Regulation Product-Level Website Disclosure 6 August 2024

The following is the product-level transparency disclosure in respect of The Harding Loevner Global Small Companies Equity Fund (the “**Fund**”), an Article 8 fund under Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (“**SFDR**”).

This disclosure is available at: <https://www.hardingloevner.com/ways-to-invest/ucits-funds/global-small-companies-equity-fund/>.

Entity-level website disclosure in respect of the Company (which also applies to the Fund as a sub-fund of the Company) is available at: <https://www.hardingloevner.com/ways-to-invest/ucits-funds/>.

Any words or terms not defined herein shall have the same meaning given to them in the Company’s Prospectus or any Supplement to the Prospectus, or in the entity-level website disclosure available at the link above.

### Summary

The Fund promotes Sustainability Characteristics, but does not have sustainable investment as its investment objective. “**E/S Characteristics**” means the environmental characteristic, energy transition management, and/or the social characteristic, social responsibility. The Fund’s Comparator Benchmark, the MSCI All Country World Small Cap Index, was not chosen for the purpose of achieving its Sustainability Characteristics.

The Fund seeks to meet its E/S Characteristics by referring to six (6) sustainability indicators, three (3) environmental and three (3) social, to measure whether the Fund’s investee companies promote one or both of the E/S Characteristics within the meaning of Article 8 of SFDR. The Fund will exclude investment in controversial weapons.

The Fund will invest a minimum of 50% of its assets in investments aligned with the promoted E/S Characteristics. The remaining proportion of the investments are (i) investments that meet the Fund’s overarching investment strategy but do not promote the E/S Characteristics and (ii) cash and cash equivalents, for liquidity and transitory flows (i.e., subscriptions and redemptions). Investee companies follow good governance practices in accordance with Article 8 of SFDR.

The promoted E/S Characteristics, and the 6 sustainability indicators used to measure their attainment, will be monitored throughout the life of the Fund. Performance against these indicators

is measured using third-party data sources from MSCI ESG Research LLC. The Investment Manager has selected 10 individual metrics to support the 6 sustainability indicators.

The Investment Manager uses data sourced from a third-party data provider, MSCI ESG Research LLC to ascertain whether investee companies have attained one or both of the E/S Characteristics. The Investment Manager strives to automate data acquisition to the fullest extent possible to minimize operational risk.

In order to report E/S Characteristics, the Investment Manager is, in some instances, reliant upon information and data which may be incomplete, inaccurate or unavailable. Limitations include varying degrees of disclosure and detail reported by investee companies; the limited amount of third party verification; the time lag for reported information; the differences in interpretation of company information by data providers; the varying degree of estimation among investee companies or data providers and the evolving measurement methodologies and best practices. The Investment Manager does not believe these limitations affect how the Sustainability Characteristics are promoted.

As part of the fundamental research process, analysts are required to establish “mileposts” for future business results that a company must achieve for the investment thesis and valuation to remain valid, and to monitor the investment thesis on an ongoing basis via those mileposts. The mileposts that analysts establish may trigger an investment review of covered companies. This review may lead to the analysts “un-rating” the company, thereby removing it from the pool of eligible investments.

#### No Sustainable Investment Objective

The Fund promotes Sustainability Characteristics but does not have sustainable investment as its investment objective.

#### Environmental or Social Characteristics of the Fund

The Fund promotes the environmental characteristic of energy transition management and/or the social characteristic of social responsibility (collectively defined in this Supplement as “**E/S Characteristics**”). “E/S Characteristics” means the environmental characteristic, energy transition management, and/or the social characteristic, social responsibility. For an investment by the Fund to be considered to be promoting E/S Characteristics, the company must follow good governance practices in accordance with Article 8 of SFDR.

#### Investment Strategy

The Fund seeks to achieve its objective by investing in equity and equity related securities of small companies.

The Fund will invest in freely transferable equities and equity-related securities primarily in small companies based inside and outside the United States, including companies in emerging and frontier as well as developed markets. The Fund will have a global focus but in normal

circumstances will invest broadly in the following countries and regions: (1) Europe; (2) the Pacific Rim; (3) the United States, Canada, and Mexico; and (4) countries with emerging and frontier markets (such as China, India and Russia). The Fund will be highly diversified and therefore will not be concentrating on any specific regions, economic sectors, or currencies.

Companies considered to be small are those having a market capitalisation, at time of purchase, within the range of the market capitalisation of companies in the MSCI All Country World Small Cap Index (the “**Index**”). For reference, as of 31 December 2023, the range of market capitalisation of companies in the Index was \$74 million to \$28.6 billion.

The Fund will primarily invest in common stocks and other securities with equity characteristics, including but not limited to preferred stocks, warrants (not more than 5% of the Fund’s Net Asset Value), rights (which are issued by a company to allow holders to subscribe for additional securities issued by that company), convertible securities, Depository Receipts, equity-linked notes and participatory notes as more particularly set out in the section “Funds” in the Prospectus.

In addition, the Fund seeks to meet the E/S Characteristics by referring to six (6) sustainability indicators, three (3) environmental and three (3) social, to measure whether the Fund’s investee companies promote one or both of the E/S Characteristics within the meaning of Article 8 of SFDR. Performance against these indicators is measured using third-party data sourced from MSCI ESG Research LLC.

The three (3) environmental indicators used to measure the environmental characteristic of energy transition management are:

- the presence of science-based emissions reduction targets at the underlying investee company level; or
- a company’s management of climate-related risks and opportunities; or
- lower carbon emissions intensity relative to peers.

At least one of the foregoing indicators must be present for a company to promote energy transition management.

The three (3) social indicators used to measure the social characteristic of social responsibility are:

- effective human capital management, where diversity policies and programmes demonstrate evidence of an inclusive culture; and where a company’s management fosters employee engagement and satisfaction; or
- product safety, including product quality certifications, product testing and building and component oversight to identify companies whose products demonstrate competitive advantage through risk management; or
- data security measures, including privacy protection policies and procedures, training, and development to protect customers.

At least one of the foregoing indicators must be present for a company to promote social responsibility.

The Fund does not invest in the following:

### *Controversial Weapons*

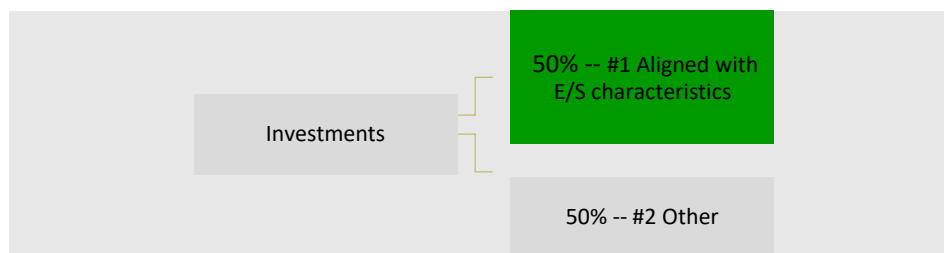
The Fund is prohibited from investing in "controversial weapons", being companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

### Policy to Assess Good Governance

Considerations of good governance are embedded in the Investment Manager's investment process. Companies that operate with a disregard for their environment, for the welfare of societies in which they conduct their business, or for the sound principles of governance by which the interests of their shareholders are protected put their financial results at long-term risk.

Upon commencing research on a company, the analyst reviews its governance using a 14-point elimination checklist to ensure companies with poor governance are eliminated from consideration. The analyst also completes a 16-point red flag checklist to determine if the company faces any severe risks that require closer analysis. The two checklists cover various topics including, among others, sound management structures, employee relations, remuneration of staff and tax compliance. Company information considered as part of these two checklists is supplemented by data from MSCI, as appropriate. If following completion of these two checklists, a company merits further investment consideration, the Investment Manager views the company as following good governance practices within the meaning of SFDR. The governance practices of the companies in which the Fund invests are monitored regularly.

### Proportion of Investments



The planned asset allocation is that the Fund shall invest a minimum of 50% of its assets in investments that are aligned with one or both of the promoted E/S Characteristics (Category #1, above).

The remaining proportion of up to 50% of the Fund's assets (Category #2, above), are (i) investments that meet the Fund's overarching investment strategy but do not promote the E/S

Characteristics; and (ii) cash and cash equivalents, for liquidity and transitory flows (i.e., subscriptions and redemptions), as discussed further below.

### Monitoring of Environmental or Social Characteristics

As outlined above, the Investment Manager refers to 6 sustainability indicators, 3 environmental and 3 social, to measure whether the Fund's investee companies promote one or both of the E/S Characteristics within the meaning of Article 8 of SFDR. Performance against these indicators is measured using third-party data sourced from MSCI ESG Research LLC.

### Methodologies for Environmental or Social Characteristics

The Investment Manager has selected 10 individual metrics to support six sustainability indicators identified above, which in turn underpin the Fund's two E/S Characteristics.

The individual metrics can be grouped as follows:

- five metrics (SBTi approved emissions reduction targets, diversity workforce policy, employee satisfaction survey, the absence of discrimination or diversity controversies, and data security training) are binary (i.e., the attribute is either present or absent);
- three metrics (climate change theme, product safety and quality, and privacy and data security) are based on scores sourced from MSCI's ESG Ratings Key Issue Framework which will require an individual company score to be in the equivalent of a "leader" category on a 0 – 10 scale; and
- two metrics (carbon emissions intensity and carbon intensity 3-year trend) involve a peer relative comparison (either at a point in time demonstrating a materially lower carbon intensity versus its Global Industry Classification Standard (GICS) Sector peer group, or at least 10% or more below the industry peer median over a three-year trend).

For some of the sustainability indicators, a single metric is sufficient to demonstrate the presence of the relevant sustainability indicator, while for others, multiple or combined metrics must be met as listed above (e.g., to meet the human capital management sustainability indicator, an investee company must have a diversity policy, demonstrate the absence of controversies and actively monitor employee satisfaction).

### Data Sources and Processing

The Investment Manager uses data sourced from a third-party data provider, MSCI ESG Research LLC, to ascertain whether investee companies have attained one or both of the E/S Characteristics. Data inputs are both qualitative and quantitative, and are received both manually and, where possible, in an automated fashion. The Investment Manager strives to automate data acquisition to the fullest extent possible to minimize operational risk.

The Investment Manager takes a number of steps to ensure and improve data quality:

- Data quality checks begin at the point the Investment Manager assesses a third-party vendor for services. The Investment Manager conducts a detailed vendor management due diligence process on all third-party data providers, including ESG data providers. This involves, among other things, qualitative and quantitative analysis to ensure suitability of fit with our investible universe and relevant technical requirements. As part of the due diligence process, the Investment Manager undertakes reasonable efforts to vet each provider's research methodologies and ensures these methodologies are well-documented and available upon request from the provider.
- The vendor management due diligence process is overseen by the Investment Manager's Enterprise Risk Management Committee, which is comprised of the Head of IT and Co-Deputy Director of Research, Chief Executive Officer, Chief Compliance Officer and General Counsel, Chief Operating Officer and Chief Financial Officer.
- The Investment Manager's in-depth, fundamental company research on each company places an important check on the quality of third-party data. The Investment Manager encourages research analysts to raise for consideration potential data quality or methodology limitations that may arise with respect to the use of third-party data providers.
- If differences exist between company research and third-party data sources, discrepancies are escalated to the source vendor as required or appropriate.

#### Limitations to Methodologies and Data

In order to report E/S Characteristics, the Investment Manager is, in some instances, reliant upon information and data which may be incomplete, inaccurate or unavailable. Limitations to the methodologies and data sources include, among other things:

- the varying degree of disclosure and level of detail reported by investee companies, both to data providers and through their own company disclosure;
- the limited amount of auditor assurance or other third-party verification of company information;
- the time lag for company information that is reported;
- differences in the interpretation of company information by data providers;
- the varying degree of estimation among investee companies or data providers; and
- evolving measurement methodologies and best practices.

The Investment Manager does not believe these limitations affect how the E/S Characteristics are promoted. The Investment Manager expects investee companies and third-party data providers to

continue to refine and improve data quality, given regulatory disclosure requirements as well as commercial expectations.

### Due Diligence

As part of the fundamental research process, analysts are required to establish “mileposts” for future business results that a company must achieve for the investment thesis and valuation to remain valid, and to monitor the investment thesis on an ongoing basis via those mileposts. These mileposts provide analysts with a record of their expectations for the business and form the basis of ongoing review of the company’s progress.

The mileposts that analysts establish may trigger an investment review of covered companies. If a company regularly fails to meet mileposts, the analyst will re-evaluate their investment thesis and will also face questions about the durability of the operating performance from portfolio managers. This review may lead to the analysts “un-rating” the company, thereby removing it from the firm’s pool of eligible investments. Analysts may also adjust a company’s rating in response to significant share-price movements or major new developments in business performance. They will also notify the entire investment team of any significant developments regarding each company on their coverage list.

Portfolio managers pay close attention to analysts’ stock ratings and milestone updates for portfolio companies and will question analysts on salient points. When considering a sale of a position, portfolio managers consult with the analyst to discuss the long-term investment case for the company.

### Engagement Policies

The Investment Manager’s analysts engage regularly with company managements to discuss the potential impact of a variety of risks and opportunities for growth as competitive industry dynamics inevitably evolve. Through its frequent engagements with companies, the Investment Manager seeks to promote high standards of corporate behaviour and to encourage companies to adopt the best business practices that foster sustainable growth.

Analysts commonly engage with company management as part of the initial research process, and as a matter of course in the ongoing monitoring of qualified companies under coverage. In some instances, analysts have specific requests for company action; in others, analysts engage to explore a particular issue and better understand its impact on a company. The Investment Manager engages on a range of topics including a company’s approach to navigating climate change and energy transition, human capital management, and cybersecurity.

In addition to the engagement to which all covered companies are subjected, the Investment Manager further screens all portfolio holdings and engages with those that have insufficient sustainability disclosure as well as those that fail to fully consider the impacts of select material social and environmental risks, including climate change and energy transition. As part of these engagements, the Investment Manager seeks to help raise the company’s awareness of emergent sustainability issues, regulatory developments, and disclosure frameworks.

The Investment Manager seeks to use its voting power to promote high standards of corporate governance, including the provision of adequate disclosure of company policies, activities, and returns, as well as fair and equitable treatment of shareholders. The Investment Manager aims to vote in favor of management proposals that it believes will benefit shareholders. The Investment Manager supports company boards in aligning management with shareholder returns through remuneration policies. In addition, The Investment Manager supports board independence, including in the composition of individual committees as well as the board overall. The Investment Manager demands that firms maintain adequate disclosures, provide clear information in financial reporting, and offer regular access to shareholders. If a company proposes a policy that the Investment Manager believe will damage long-term shareholder value, the Investment Manager will vote against it.

The analyst responsible for a company determines how to vote on proposals in accordance with the foregoing principles. To support analysts' independent consideration of proposals, the Investment Manager obtains research and recommendations from Glass Lewis, a third party that provides corporate governance voting recommendations. The Investment Manager subscribes to these recommendations but maintains discretion over the voting process and considers each proposal on its merits, including in the context of the issuer, industry, and country or countries in which its business is conducted. It may determine in certain instances to refrain from voting if, after evaluating all relevant factors, voting is not in the best interest of clients. Complex or controversial issues are subjected to internal debate by the investment team, with the ultimate decision remaining with the responsible analyst.

#### Designated Reference Benchmark

No reference benchmark has been designated for the purpose of attaining the Sustainability Characteristics.