HARDING LOEVNER

EMERGING MARKETS EQUITY

2016 Third Quarter Report

The Harding Loevner Emerging Markets Equity strategy is generally closed to new investors.

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDING SEPTEMBER 30, 2016[1]

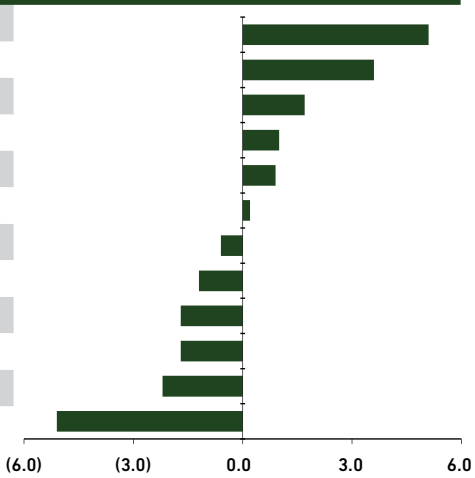
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL EMERGING MARKETS (GROSS OF FEES)	8.21	19.78	21.93	3.31	8.01	6.35	13.14
HL EMERGING MARKETS (NET OF FEES)	7.97	19.01	20.87	2.43	7.07	5.39	12.24
MSCI EMERGING MARKETS INDEX[4,5]	9.15	16.36	17.21	-0.21	3.39	4.28	9.11

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1998; [4]The Benchmark Index; [5]Gross of withholding taxes.

Please read the above performance in conjunction with the footnotes on page 11 of this report. Past performance does not guarantee future results. All performance and data shown are in US dollar terms, unless otherwise noted.

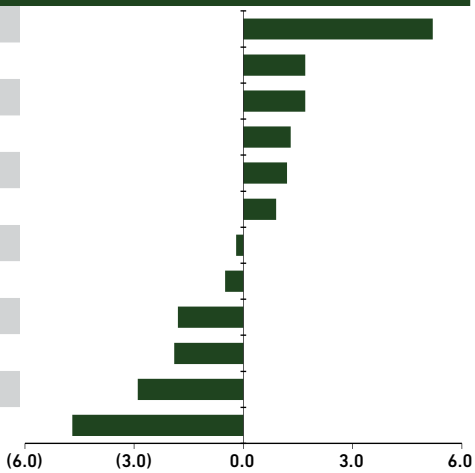
SECTOR EXPOSURE (%)

	HL EM	MSCI EM
FINANCIALS	28.8	23.7
CONS DISCRETIONARY	14.2	10.6
CASH	1.7	–
CONS STAPLES	8.9	7.9
HEALTH CARE	3.5	2.6
INDUSTRIALS	6.1	5.9
ENERGY	6.7	7.3
INFO TECHNOLOGY	22.7	23.9
TELECOM SERVICES	4.4	6.1
UTILITIES	1.2	2.9
REAL ESTATE	0.5	2.7
MATERIALS	1.3	6.4



GEOGRAPHIC EXPOSURE (%)

	HL EM	MSCI EM
DEVELOPED MARKET LISTED[6]	5.2	–
MEXICO	5.4	3.7
CASH	1.7	–
FRONTIER MARKETS[7]	1.3	–
RUSSIA	4.9	3.7
INDIA	9.4	8.5
BRAZIL	7.2	7.4
SMALL EMERGING MARKETS[8]	15.2	15.7
SOUTH AFRICA	5.3	7.1
TAIWAN	10.2	12.1
CHINA + HONG KONG[9]	24.1	27.0
SOUTH KOREA	10.1	14.8



[6]Emerging markets or frontier markets companies listed in developed markets, excluding Hong Kong; [7]Includes countries with less-developed markets outside the Index; [8]Includes the remaining emerging markets, which individually, comprise less than 5% of the Index; [9]The Harding Loevner Emerging Markets Model Portfolio's end weight in China is 17.5% and Hong Kong is 6.6%. The Benchmark does not include Hong Kong.

Sector and geographic allocations are supplemental information only and complement the fully compliant Emerging Markets Composite GIPS Presentation.

Source: Harding Loevner Emerging Markets 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

EMs offered strong returns as investors responded positively to improvements in the fundamentals of many emerging economies.

Currencies were stronger overall, enhancing EM performance in US dollars.

Investors' quest for growth has helped IT become the strongest sector this quarter and over the trailing 12 months.

China, South Korea, and Taiwan outperformed due to their large weights in IT companies.

PORTFOLIO HIGHLIGHTS

The portfolio invests in a number of internet-focused companies, including a new holding in a Latin American e-commerce business.

EM banks often enjoy good growth opportunities, but the banks we select also must have high-quality fundamentals to control risk.

We have a small weight in the new Real Estate sector due to our recent purchase of a UAE-based real estate developer and owner.

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MARKET REVIEW

In the third quarter, emerging markets (EMs) continued their positive trend this year and consolidated their recent outperformance of developed markets (DMs). The MSCI Emerging Markets Index returned 9.2% compared to a 5.0% return for the MSCI World Index. Year-to-date, EMs now lead DMs by over 10 percentage points.

The quarter was not marked by any central event or theme but characterized by a swelling momentum of improved sentiment and portfolio flows into EM assets, both bonds and equities. This investor action has been prompted by the continued stream of generally positive incremental inflections in fundamental indicators, including further narrowing in current account deficits of those countries more reliant on external financing and positive inflation dynamics. While global central bank policy remains accommodative, speculation of a pivot in the developed economies toward fiscal stimulus in lieu of further monetary stimulus has led to greater volatility in bond markets. However, the perception of lower risk and the attraction of higher yields offered by EM corporate and sovereign bonds has drawn flows into the asset class, perhaps best illustrated by the relentless decline in their yields. Moreover, following a five-year period of declining corporate profit margins across many EM industries, earnings expectations look set to inflect to a positive trend, which is increasingly being discounted in share prices.

MARKET PERFORMANCE (USD%)

REGION/COUNTRY	3Q 2016	TRAILING 12 MONTHS
LATIN AMERICA	5.4	29.0
BRAZIL	11.4	58.0
MEXICO	-2.2	-2.4
ASIA	10.6	17.3
CHINA	14.0	13.2
INDIA	5.9	6.1
SOUTH KOREA	11.0	21.9
TAIWAN	12.3	23.7
AFRICA	6.7	10.3
SOUTH AFRICA	6.4	10.4
EUROPE	4.7	9.4
RUSSIA	8.9	26.1
MSCI EM INDEX	9.2	17.2

SECTOR PERFORMANCE (USD%)
OF THE MSCI EM INDEX

SECTOR	3Q 2016	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	9.7	14.1
CONSUMER STAPLES	1.3	10.7
ENERGY	8.2	26.6
FINANCIALS	10.2	15.1
HEALTH CARE	1.9	4.0
INDUSTRIALS	4.9	1.5
INFORMATION TECHNOLOGY	16.2	33.1
MATERIALS	10.4	24.2
REAL ESTATE	6.3	14.8
TELECOM SERVICES	2.5	2.7
UTILITIES	1.0	9.8

Source: FactSet (as of September 30, 2016); MSCI Inc. and S&P.

EM returns were also supported by firming commodity prices and resilience in EM currencies. The price of oil, which had weakened considerably during most of the quarter, spiked in late September when a provisional accord was struck at an informal meeting between OPEC members to limit production levels. Although the details are yet to be confirmed, oil ended the month at US$48, pennies from where it began the quarter. EM currencies were stronger overall, measured by their positive contribution to the Index return, with strong appreciation in the South African rand where inflation has moderated.

Global asset allocators have a habit, some would say a systematic compulsion, to follow price momentum, especially when augmented with a relative valuation argument. With EMs looking more like an attractive destination—particularly compared to DMs where economic growth expectations have again been downgraded—they have taken up the baton as the momentum play in global equity markets as measured by 12-month relative returns. The momentum behind EM stock returns could be observed across sectors, especially Information Technology (IT), the quarter's top-performing sector, which, supported by rapid revenue and earnings growth, has also outperformed over the one- and three-year periods. Moreover, cyclical sectors such as Financials, Consumer Discretionary, and Materials outperformed more defensive Consumer Staples, Telecoms, and Utilities, a natural tendency of a strengthening market. Financials were boosted by a widespread re-rating in banking stocks, with the strongest returns from South Africa (20%) and South Korea (17%).

Asia was the strongest regional performer, led by markets in north Asia. In China, where currency-depreciation fears have moderated, the government reported reassuring second-quarter GDP growth of nearly 7%, and profits for the country's industrials firms jumped significantly, up double digits in both July and August. However, the outperformance of China, Taiwan, and South Korea was primarily linked to the strong returns from select IT shares; over 90% of the EM Index's IT weight resides in these markets. India underperformed the Index; the market sold off late in September after the government carried out surgical strikes in Pakistan-occupied Kashmir. This action overshadowed the momentous, and long-awaited, Goods and Services Tax (GST) being passed by lawmakers. The GST will simplify and unify India's complex and confusing tax system and, it is hoped, increase the country's economic growth rate by making it easier to start and run a business.

In Latin America, continued strength in Brazil was propelled by banking stocks (despite modest currency weakness) and also

a strong bounce in shares of oil giant Petrobras, the burden of whose debt-servicing costs may be reduced by cost cuts, a firmer currency, and new regulations. But Mexico's stock market and currency continued to suffer from the risk of a victory by Donald Trump in the US presidential election, with negative implications for trade, investment, and remittances. (The peso—down almost 5% this quarter—would appear to be investors' favorite hedge against a Trump presidency.)

In emerging Europe, continued strength in Russia, a beneficiary of more robust energy prices, was offset by a weak Turkey. In the latter, relative normalcy was restored fairly quickly following the failed coup attempt in early July; however, the subsequent widespread arrests, facilitated by a State of Emergency declared by President Recep Tayyip Erdoğan, have led to rising concern from the international community. Erdoğan's growing concentration of power is seen by many as a significant threat to Turkey's long-term development, a viewed shared by the credit-rating agency Moody's, which cited rising domestic political risk in announcing a downgrade of the country's sovereign bonds to "junk" status.

PERFORMANCE AND ATTRIBUTION

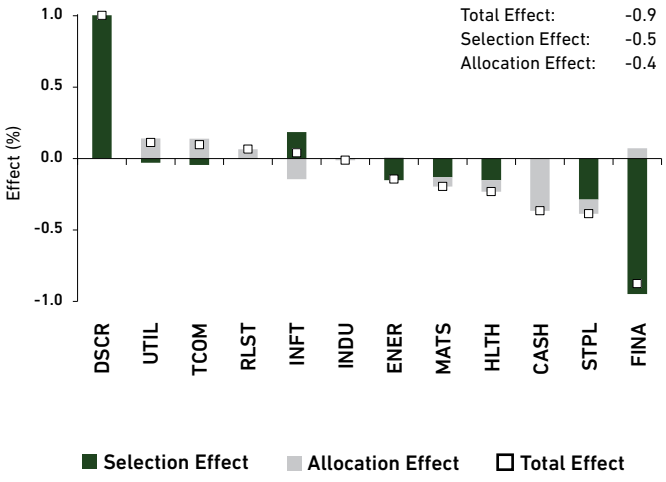
The EM composite returned 8.2% for the quarter, below that of the Index, which returned 9.2%. On a year-to-date basis, the composite remains ahead of the Index (19.8% versus 16.4%). The charts to the right illustrate performance attribution for the quarter by sector and region, respectively.

Investors' improving opinion of EMs this quarter manifested itself in an atypical combination of style effects. There was a monotonic positive relationship between growth (as defined by Harding Loevner's growth rank methodology) and return.[1] Yet there was also significant strength in the deepest value segments of the market, where the portfolio is generally underrepresented given our growth-oriented style.

From a sector perspective, we underperformed due to negative selection effects within Financials and Consumer Staples, which offset significant contributions from the portfolio's Consumer Discretionary holdings. In Financials, our exclusion of low-quality banks in China and South Korea was a headwind this quarter, as their low valuations grabbed investor interest. We saw positive contributions from **Itau Unibanco** and **Banco Bradesco** in Brazil, but these were offset by our bank holdings in Mexico (**GF Banorte**) and Eastern Europe (**Bank Pekao**). Poland's second largest bank, Pekao underperformed as its major shareholder, Italy's Unicredit, reportedly sold down 10% of its stake in the bank to boost its capital ratios. Negative contributions in Consumer Staples came mostly from three Asian companies: South Korea's **LG Household and Health Care**, **Dabur India**, and the Philippines's **Universal Robina**.

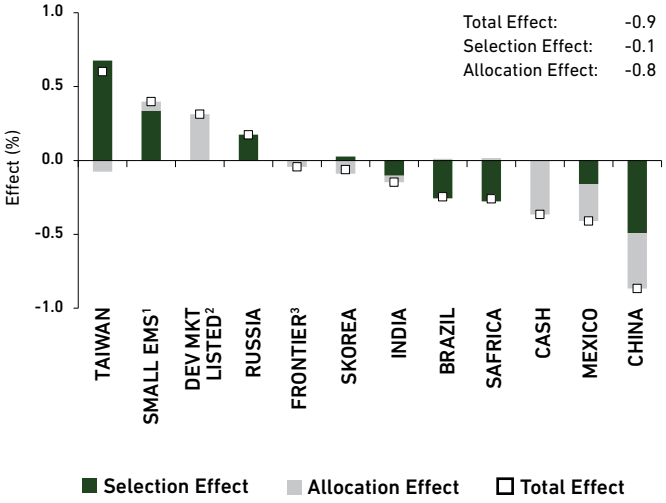
SECTOR PERFORMANCE ATTRIBUTION THIRD QUARTER 2016

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION THIRD QUARTER 2016

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



[1]Includes the remaining emerging markets, which individually, comprise less than 5% of the Index; [2]Emerging markets or frontier markets companies listed in developed markets; [3]Includes countries with less-developed markets outside the Index. Source: FactSet; Harding Loevner Emerging Markets 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 page 1 of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS presentation.

[1]The Harding Loevner Growth Rank is a proprietary measure determined using objective data to rank companies based on an assessment of historic growth of earnings, sales, and assets, as well as expected moves in earnings and profitability.

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 September 30, 2016 is available on page 9 of this report.

In Consumer Discretionary, **Maruti Suzuki**, an Indian car manufacturer, reported robust revenue growth driven by strong volumes and higher average selling prices thanks to its new models. **Shenzhou International**, China's largest exporter of knitted fabrics, enjoyed a resurgence in sales after concerns earlier in the year about excessive inventory levels in the US proved exaggerated. The company is benefiting from its investments in automation to offer high-quality and speedy production at lower costs for clients that must respond nimbly to rapid shifts in fashion. Also shares of **Sands China**, a Macau casino operator, performed strongly in response to further evidence of a turnaround in gaming revenues, which registered year-on-year growth not seen since the onset of China's crackdown on corruption. Sands China's long-awaited US$2.5 billion new property, the Parisian, opened its doors (and tables and shops) in mid-September.

By geography, our investments in Mexico were notable detractors, with weakness in the peso a primary factor in dragging down GF Banorte, although the bank posted creditable second-quarter operating results with net income rising 15% year-over-year. Stock selection was also weak in China, primarily due to our zero exposure to the country's Financials sector and to e-commerce giant Alibaba, a company we have shunned thus far due to corporate governance concerns. Relative returns were also hurt by South Africa's **Aspen Pharmacare**. Investors are increasingly concerned over the merits of the company's recent product portfolio changes, including selling slower-growing assets in Australia and South Africa and buying older manufacturing-intensive drugs from large multinational pharmaceutical companies such as GlaxoSmithKline and Merck. This strategy has risks, but we think Aspen's management has a strong operational track record and should achieve cost savings and growth for these newly acquired products in EMs.

A significant positive contribution to relative performance came from Taiwan's **Largan Precision**, a manufacturer of plastic lens sets for mobile phone cameras, which benefited from a positive outlook for the new iPhone 7 and the increasing adoption of dual cameras in leading smartphones.

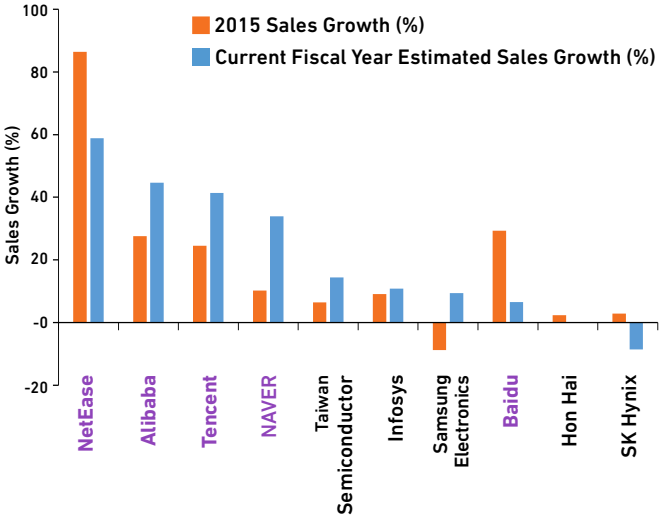
INVESTMENT PERSPECTIVES

Finding Growth in New Tech

In a world where growth has increasingly become a scarce commodity and as the nominal economic growth rates in EMs specifically have fallen significantly in recent years, investors are pursuing companies that are able to achieve rapid growth. This craving for growth is, we believe, the key motivation behind IT's leadership in recent quarters; the sector has contributed 40% of the Index's total return in the last 12 months. In many cases, IT companies—including large-cap names—are posting the most rapid growth rates among EM companies.

Among the fastest-growing companies in the EM tech landscape are what can be defined as "new tech"— companies that develop proprietary software and analyze "big data" to run new, disruptive businesses including e-commerce, online travel services, internet search, gaming, and social media. The rise of new-tech companies during the last decade has significantly changed the profile of the EM tech landscape, as they now rival for dominance more traditional IT names long associated with EM Asia, such as manufacturers and assemblers of PCs, semiconductors, and IT hardware ("old tech"). The sales growth of the new-tech EM leaders dwarfs that of the old-tech leaders, as can be seen below for the 10 largest IT companies by weight in the Index (new-tech companies are shown in purple). Why are many new-tech businesses demonstrating robust growth trends even as EM economies have slowed overall? Because the services these companies provide are typically substitutes for *existing* economic output. Retailing is being shifted from traditional stores to online, cinemas are losing share to online video, and flight and hotel bookings are being made through mobile apps rather than local travel agents.

SALES GROWTH OF THE 10 LARGEST IT SECTOR COMPANIES BY WEIGHT IN THE MSCI EMERGING MARKETS INDEX

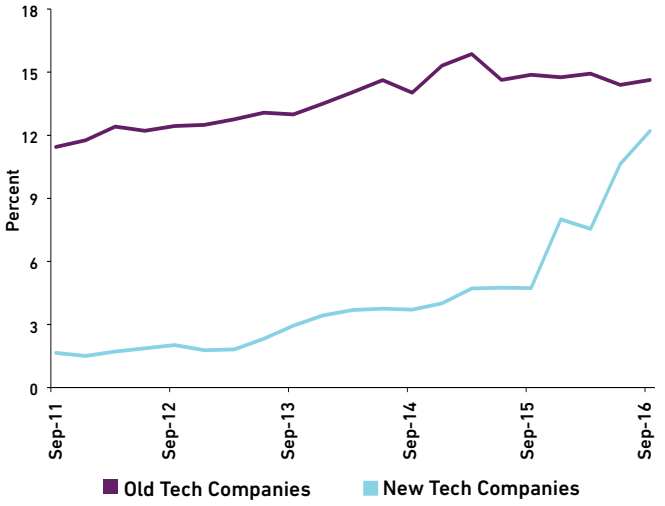


Source: MSCI Inc. and S&P, FactSet. Estimated sales growth in current fiscal year is based on consensus estimates obtained from FactSet.
New-tech ccompanies shown in purple.

Rapid sales growth has supported rich valuations, such that the market capitalization of new tech is now approaching that of old tech. In the following chart, new-tech companies include those in three sub-industries: *internet software and services, home entertainment software* (both found within the IT sector), and *internet and direct marketing retail* (found within Consumer Discretionary). We also include **Naspers**, a South African publishing company (also listed under Consumer Discretionary) that achieved one of the great investment coups of the new millennium as an early-stage investor of **Tencent**, the hugely successful Chinese social media and internet gaming company.[2] Naspers' US$34 million investment in 2001 now represents a roughly one-third stake in Tencent, whose market capitalization today is nearly US$260 billion.

[2]Andrew England, "Naspers Looks Beyond Tencent Success," *Financial Times* (June 27, 2015).

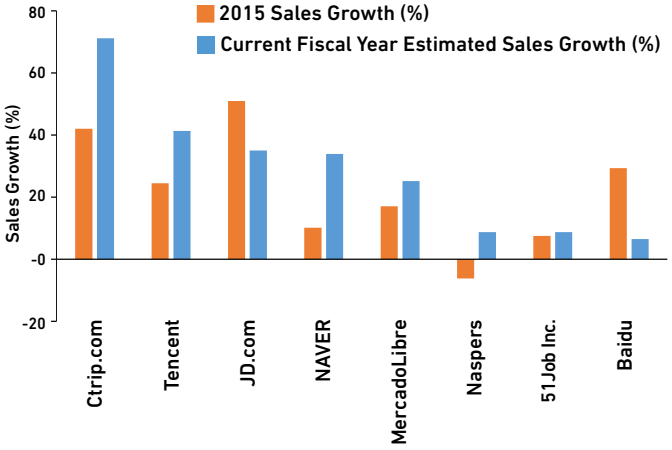
INTERNET-BASED ("NEW-TECH") COMPANIES AS A PERCENTAGE OF THE MSCI EMERGING MARKETS INDEX



Source: MSCI Inc., FactSet.

Our own holdings in new-tech companies, shown below, include 3 of the top 10 largest companies in the IT sector—Tencent, **NAVER** (South Korea's leader in internet search), and **Baidu** (China's internet search giant). We also hold a number of internet-focused companies classified in other sectors: Naspers, **Ctrip.com**, a Chinese online travel services company, and **JD.com**, a large Chinese e-commerce company, are all classified in Consumer Discretionary; and **51Job Inc.**, an online job-search platform in China, is classified in Industrials.

SALES GROWTH OF THE NEW-TECH COMPANIES HELD IN THE HL EMERGING MARKETS MODEL PORTFOLIO



Source: FactSet, Harding Loevner Emerging Markets Model.

Another new-tech holding in the portfolio, which we purchased this quarter, is **MercadoLibre** (MELI), a NYSE-listed e-commerce company founded in Argentina in 1999. MELI controls a leading online marketplace that operates in 17 Latin American countries and has over six million sellers, including retailers, branded manufacturers, and individuals. The platform primarily lists new merchandise at fixed prices. MELI's key differentiator is its progressive emphasis on offering a suite of new services that both enhance the shopping experience for users and provide new sources of revenue. These services include interest-free financing via its Mercado Pago payment platform and faster shipping via Mercado Envios. By improving the user experience and instituting a seller-friendly commission structure (in many countries where it operates there are no up-front listing fees), MELI has accelerated its already impressive growth in new users and listings volume and achieved better conversion rates. Even in a market as difficult as Brazil, where the economy has been in recession and retail sales overall have declined over the past 12 months, MELI's powerful platform has spurred over 60% growth in local-currency revenue. The company has net cash on its balance sheet and generates strong cash flow from operations.

EM Banks and Big Data

One common feature of new-tech companies is their use of big data to power and improve their businesses. But e-commerce companies are not the only ones moving in this direction; we observe many of our EM banks using big data to make better lending decisions, lower costs, and, of paramount importance in this accident-prone industry, to manage risks more effectively. Portfolio-owned companies that we see as forerunners in this trend include Itau Unibanco of Brazil, Banorte of Mexico, **Standard Bank** of South Africa, and **Sberbank** of Russia.

In Brazil, for example, Itau's huge banking business (with assets of about US$415 billion) and ownership of a leading provider (with a 40% market share) of credit card processing services allow Itau to "see" what it estimates is nearly one-third of all formal financial transactions in Brazil. This is a lot of data! The company has developed processes to mine this data effectively to enable better decisions on how to sell banking products and manage risk. For example, if one customer misses a payment to another customer, the bank finds out why, and how this was resolved. Who should have paid? Was it a company, and, if so, what do its finances look like? With whom does it do business and who else does it pay for services?

Itau is also taking full advantage of the data available from recent improvements in Brazil's credit rating regulations. Prior to 2012, Brazil had only negative credit scoring, which provided limited information on consumers' credit histories. Banks could only see when borrowers were behind on their loans. In 2012, however, Brazil adopted a system similar to the US approach that provides both positive and negative credit scoring.[3] Now Itau can see the full range of borrowing behavior across the financial system and spot consumers who are attractive potential customers based on their past reliability in paying off loans. By mapping the flow of funds, Itau can also better identify signs of potential trouble before it happens.

[3]The benefits of making positive credit information available in Brazil are discussed in Eduardo Urdapilleta and Constantinos Stephanou, "Banking in Brazil: Structure, Performance, Drivers, and Policy Implications," *World Bank Policy Research Working Paper*, (January 2009): 20, 24.

THE SEARCH FOR QUALITY AMONG EM BANKS

We identify high-quality, growing businesses by assessing companies across all industries and regions on four key criteria: their competitive advantages, the quality of their managements, their financial strength, and their long-term growth prospects. One advantage of EM banks is that the low penetration of financial services in many developing countries provides ample scope for them to grow. However, relatively few EM banks meet our quality criteria. Specifically, for us to consider any bank for investment it must surpass its peers in the areas of credit risk management, capital and liquidity, and quality of senior management.

We view the ability to manage credit risk effectively as the most important aspect of bank quality. A bank's record of net charge-offs and non-performing loans, particularly during weak stages in the business cycle, is indicative of its credit risk management prowess. For example, **Sberbank**—the largest bank in Russia with assets of over US$400 billion—has succeeded in containing credit losses throughout numerous business cycles, due to its conservative approach and efficient use of client data in underwriting loans. Today it boasts an overdue loan percentage that is currently around 3%, well below the average for Russian banks of 5–6% (with some as high as 9%).[4] Sberbank is the portfolio's largest Financials holding.

Second, we think a good bank's capital and liquidity should exceed regulatory minimums so that they do not constrain the bank's ability to grow assets. Such cushions also guard against systemic and macro shocks, which are all too frequent in emerging and frontier markets. We assess liquidity by looking at the bank's funding structure, including how closely the terms of assets and liabilities match, the percentage of high-quality deposits (current and savings accounts) in liabilities, and the loan-to-deposit ratio. In banks operating across borders, we want to see that they are funded locally and have minimal currency mismatches. Sberbank, again, has a conservative loan-to-deposit ratio of 88%, while its Capital Adequacy Ratio of 12% comfortably exceeds the central bank required minimum of 8%.

Finally, any assessment of bank quality must take into account management's ability to manage risk and allocate capital effectively. We particularly need to understand how well a bank's managers have steered it during difficult times, the rationale and success of any mergers and acquisitions they have undertaken, and whether the strategic goals they are pursuing would either undermine or reinforce financial stability. Sberbank's managers have succeeded in maintaining profitability while guiding the company through a difficult recession. Their conservative approach to managing capital and liquidity led them to tighten conditions on Sberbank's unsecured lending well before other lenders ran into trouble. In addition, they have made significant progress in reducing costs and improving efficiency, difficult tasks in a shrinking economy.

We also work to recognize which measures do not necessarily indicate quality in a bank. Rapid growth, for example, can sometimes reflect excessive risk taking, foretelling problems down the road. US subprime lenders and securitizers grew their balance sheets and fee income streams rapidly before the financial crisis revealed the foolishness of the bets they were making. Many Central and Eastern European banks made numerous Swiss franc–denominated mortgage loans, only to see them sour when exchange rates moved against the borrowers, thereby endangering the health of their entire banking systems. Neither does high profitability automatically equate to quality. Some banks have above-average profitability because they have not adequately reserved against the high risks of their loan books. Credit card and other unsecured lenders earn strong returns during benign times, for example, but they often run into trouble when the cycle turns.

Bryan Lloyd, CFA
Financials Analyst

[4]Sberbank Investor Presentation, September 2016.

As Brazil's recession deepened over the past 12 months, Itau has experienced only a modest increase in non-performing domestic loans non-performing loans, from about 4% in second quarter 2015 to 5% in second quarter 2016. Historically, Itau has shown that it is adept at managing credit risk—one of the hallmarks of a quality bank as discussed in this report by Financials analyst Bryan Lloyd. We believe Itau's effective use of data has contributed to its record of successful risk management.

PORTFOLIO HIGHLIGHTS

The main change we made to the portfolio's structure this quarter was to increase our weight in IT, and specifically to the software and services industry. Our purchase of MELI was accompanied by an addition to our position in China's Tencent and the re-purchase of NAVER, the South Korean internet search provider that we held previously but sold in 2015. Our renewed embrace of NAVER follows management's efforts to improve the profitability of its South Korean search business as well as of Line, its online social media platform that offers a popular texting app (its features include thousands of cartoon "stickers" available for purchase to add to texts) as well as high-quality voice and video calling. Line has more room to grow in its four key Asian markets (Japan, Taiwan, Indonesia, and Thailand) where it is already successful, but we were skeptical of NAVER's efforts to extend Line to other markets. However, more recently NAVER has dialed back these costly global expansion plans in favor of revitalizing Line's service offerings in its core markets, which has increased both customer engagement and the rate of revenue growth.

The addition to Tencent was offset by a reduction in Naspers, reflecting our preference for direct exposure to the most profitable and dominant part of Naspers' portfolio of internet investments. We also added to the portfolio's holding in JD.com, the Chinese e-commerce company, taking advantage of weakness in the shares following our initial purchase earlier in the year. Recent earnings results indicate the company has been increasing its overall profitability and free cash flow generation.

Though we made no significant changes to our investments in Financials this quarter, our overweight to the sector nonetheless increased by a couple percentage points as a result of a decision by MSCI to carve real estate companies out of it, effective September 1. The new eleventh industrial sector, Real Estate, is newly listed on the front page of this report.

Coincidentally, we purchased **Emaar Properties**, a UAE-based real-estate developer of residential communities, shopping malls, and theme parks. With significant land holdings in downtown Dubai—a regional hub for business, transportation, and tourism that is considered a safe haven among the Gulf countries—Emaar is well positioned to take advantage of strong demand for new properties. The company enjoys the competitive advantage of being 30% owned by the Dubai government, which granted Emaar substantial land for free and gives it preferential participation in government-sponsored development projects. Another attraction of Emaar, particularly relative to typical real estate developers, is that over one-third of earnings comes from rental income generated by the hotels and malls it owns. This rental income provides a dependable source of recurring cash flow, bolstering financial strength and reducing risk relative to this deeply cyclical industry. We believed the stock was undervalued as occupancy rates at Emaar's commercial properties have remained healthy while the shares had fallen more than 30% from their highs reached prior to the slump in oil prices that began in 2014.

We also sold the balance of our shares in two Chinese Consumer Staples companies: **Want Want**, a snacks and confections maker, and **Tingyi Holding**, a producer of instant noodles and beverages. In both instances, their profit growth had been disappointing and their shares looked expensive against our reduced future growth expectations.

EMERGING MARKETS HOLDINGS (AS OF SEPTEMBER 30, 2016)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
CONSUMER DISCRETIONARY		
ARCELIK White goods producer	Turkey	0.6
ASTRA INTERNATIONAL Conglomerate, auto mfg. & distrib	Indonesia	1.4
CTRIP.COM Travel agent	China	1.6
ECLAT TEXTILE Technology-based textile company	Taiwan	0.5
HANKOOK TIRE Tire manufacturer	South Korea	1.7
JD.COM eCommerce company	China	0.9
MARUTI SUZUKI Automobile manufacturer	India	1.6
NASPERS Media, internet, pay TV company	South Africa	0.8
SANDS CHINA Integrated resorts and casinos operator	Hong Kong	2.2
SHENZHOU INTERNATIONAL Textile manufacturer	China	1.1
TELEVISA Media, broadcasting, and entertainment	Mexico	1.7
CONSUMER STAPLES		
AMBEV Brazil's dominant brewer	Brazil	1.3
AMOREPACIFIC Cosmetics company	South Korea	0.6
COCA-COLA HBC 28-Country Coke bottler	UK	1.3
DABUR INDIA Personal care and household products	India	0.9
EAST AFRICAN BREWERIES Beverage manufacturer	Kenya	0.4
FEMSA Beer and soft drinks producer	Mexico	0.6
LG HOUSEHOLD & HEALTH CARE Personal care & cosmetics	South Korea	1.3
MASSMART HOLDING Food and general retailer	South Africa	0.4
MHP Integrated poultry producer	Ukraine	0.4
PÃO DE AÇÚCAR Brazilian foods retailer	Brazil	1.2
UNIVERSAL ROBINA Branded consumer foods	Philippines	0.6
ENERGY		
CNOOC Oil and gas producer	China	2.0
LUKOIL Integrated oil and gas company	Russia	2.0
NOSTRUM OIL & GAS Kazakhstani oil and gas company	UK	0.3
SASOL Refined product and chemicals group	South Africa	1.0
TENARIS Steel pipe manufacturer	Italy	1.3
FINANCIALS		
AIA GROUP Life insurance	Hong Kong	2.8
AXIS BANK Commercial bank	India	2.1
BANCO BRADESCO Commercial bank	Brazil	1.4
BANCO SANTANDER CHILE Commercial bank	Chile	0.9
BANCOLOMBIA Commercial bank	Colombia	1.1
BANK OF GEORGIA Commercial bank	UK	1.4
BANK PEKAO Commercial bank	Poland	1.2
BANK RAKYAT Commercial bank	Indonesia	1.7
BM&F BOVESPA Clearing house and stock exchange	Brazil	0.8
COMMERCIAL INTERNATIONAL BANK Commercial bank	Egypt	0.3
CREDICORP Commercial bank	Peru	1.1
DISCOVERY HOLDINGS Health and life insurance	South Africa	0.9
GARANTI BANK Commercial bank	Turkey	0.3
GF BANORTE Commercial bank	Mexico	1.7
HDFC CORP. Financial conglomerate	India	1.6
HONG KONG EXCHANGES Clearing house & exchange	Hong Kong	0.8
ITAU UNIBANCO Commercial bank	Brazil	1.6
KOMERČNÍ BANKA Commercial bank	Czech Rep.	1.1
QATAR NATIONAL BANK Retail and corporate bank	Qatar	0.8
SBERBANK Commercial bank	Russia	2.9
SIAM COMMERCIAL BANK Commercial bank	Thailand	1.6
STANDARD BANK Commercial bank	South Africa	0.8
HEALTH CARE		
ASPEN PHARMACARE Pharma manufacturer & distributor	South Africa	1.4
GEDEON RICHTER Branded-generic pharmaceuticals	Hungary	1.3
SINO BIOPHARMACEUTICAL Drug developer & mfg.	China	0.7
INDUSTRIALS		
51JOB INC. Online job ads	China	1.3
AIRTAC Pneumatic component manufacturer	Taiwan	0.5
ASUR Airport operator	Mexico	1.3
CHINA MERCHANTS Container terminal operator	China	1.1
DP WORLD Container terminal operator	UAE	0.8
HIWIN TECHNOLOGIES Linear motion products producer	Taiwan	0.5
JIANGSU EXPRESSWAY Toll road operator	China	0.6
INFORMATION TECHNOLOGY		
ADVANTECH Manufacturer & marketer of industrial PCs	Taiwan	1.3
ASM PACIFIC TECHNOLOGY Semiconductor equipment	Hong Kong	0.8
BAIDU Internet search provider	China	0.9
CIELO Credit and debit card processor	Brazil	0.9
HON HAI PRECISION Electronics mfg. services provider	Taiwan	0.6
LARGAN PRECISION Lens module of smartphone camera	Taiwan	2.3
MERCADOLIBRE Online trading site	US	0.9
NAVER Internet search and portal provider	South Korea	0.8
SAMSUNG ELECTRONICS Electronic devices & components	South Korea	5.6
TAIWAN SEMICONDUCTOR Semiconductor chip foundry	Taiwan	4.5
TENCENT Internet, mobile, and telecom provider	China	4.1
MATERIALS		
AMBUJA CEMENTS Cement manufacturer	India	1.3
REAL ESTATE		
EMAAR PROPERTIES Real estate developer	UAE	0.5
TELECOM SERVICES		
BHARTI AIRTEL Integrated telecom services	India	1.1
BHARTI INFRATEL Telecom tower infrastructure provider	India	0.8
CHINA MOBILE Mobile telecom company	China	1.9
SAFARICOM Mobile network operator	Kenya	0.5
UTILITIES		
ENN ENERGY Natural gas distributor	China	1.2
CASH		1.7

Model Portfolio holdings are supplemental information only and complement the fully compliant Emerging Markets 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.

3Q16 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
TENCENT	INFT	3.8	0.73
SAMSUNG ELECTRONICS	INFT	4.3	0.67
LARGAN PRECISION	INFT	2.2	0.65
TAIWAN SEMICONDUCTOR	INFT	3.9	0.59
SANDS CHINA	DSCR	1.8	0.45

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
SAMSUNG ELECTRONICS	INFT	4.5	2.03
TAIWAN SEMICONDUCTOR	INFT	3.7	1.85
TENCENT	INFT	3.1	1.66
SBERBANK	FINA	2.3	1.62
BANCO BRADESCO	FINA	1.3	1.29

3Q16 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
LG HOUSEHOLD & HLTH CARE	STPL	1.4	-0.17
BHARTI AIRTEL	TCOM	1.2	-0.16
ASUR	INDU	1.5	-0.13
UNIVERSAL ROBINA	STPL	0.7	-0.13
DABUR INDIA	STPL	1.1	-0.11

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
NOSTRUM OIL & GAS	ENER	0.4	-0.43
DISCOVERY HOLDINGS	FINA	1.3	-0.41
JARIR MARKETING	DSCR	0.5	-0.39
MAGNIT	STPL	0.8	-0.35
SINO BIOPHARMACEUTICAL	HLTH	0.9	-0.28

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL EM	MSCI EM
PROFIT MARGIN[1] (%)	15.6	13.5
RETURN ON ASSETS[1] (%)	7.1	6.7
RETURN ON EQUITY[1] (%)	15.9	14.7
DEBT/EQUITY RATIO[1] (%)	46.9	48.8
STD DEV OF 5 YEAR ROE[1] (%)	3.5	3.8
SALES GROWTH[1,2] (%)	9.9	7.7
EARNINGS GROWTH[1,2] (%)	13.2	10.6
CASH FLOW GROWTH[1,2] (%)	13.0	11.1
DIVIDEND GROWTH[1,2] (%)	5.9	5.9
SIZE & TURNOVER	**HL EM**	**MSCI EM**
WTD MEDIAN MKT CAP (US $B)	19.4	19.1
WTD AVG MKT CAP (US $B)	53.8	60.0
TURNOVER[3] (ANNUAL %)	23.8	–

RISK & VALUATION	HL EM	MSCI EM
ALPHA[2] (%)	4.79	–
BETA[2]	0.89	1.00
R-SQUARED[2]	0.95	1.00
ACTIVE SHARE[3] (%)	74	–
STANDARD DEVIATION[2] (%)	15.76	17.19
SHARPE RATIO[2]	0.50	0.19
TRACKING ERROR (%)[2]	4.1	–
INFORMATION RATIO[2]	1.1	–
UP/DOWN CAPTURE[2]	98/81	–
PRICE/EARNINGS[4]	17.6	13.6
PRICE/CASH FLOW[4]	11.1	8.8
PRICE/BOOK[4]	2.2	1.6
DIVIDEND YIELD[5] (%)	2.1	2.5

[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 Emerging Markets Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: October 5, 2016); Harding Loevner Emerging Markets Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
EMAAR PROPERTIES	UAE	RLST
MERCADOLIBRE	US	INFT
NAVER	SOUTH KOREA	INFT
SAFARICOM	KENYA	TCOM

POSITIONS SOLD	COUNTRY	SECTOR
EL PUERTO DE LIVERPOOL	MEXICO	DSCR
JARIR MARKETING	SAUDI ARABIA	DSCR
TINGYI HOLDING	CHINA	STPL
WANT WANT	CHINA	STPL

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

EMERGING MARKETS COMPOSITE PERFORMANCE (AS OF SEPTEMBER 30, 2016)

	HL EM GROSS (%)	HL EM NET (%)	MSCI EM INDEX[1] (%)	HL EM 3-YR STD DEVIATION[2] (%)	MSCI EM INDEX 3-YR STD DEVIATION[2] (%)	INTERNAL DISPERSION[3] (%)	NO. OF ACCOUNTS	COMPOSITE ASSETS ($M)	FIRM ASSETS (%)
2016 YTD[4]	19.78	19.01	16.36	15.10	16.14	N.A.[5]	21	13,570	33.49
2015	-12.85	-13.59	-14.60	13.61	14.04	1.2	20	9,670	29.04
2014	0.74	-0.11	-1.82	14.06	14.99	0.5	14	8,212	23.46
2013	5.74	4.80	-2.27	17.56	19.03	0.6	12	5,649	17.04
2012	23.92	22.79	18.63	20.15	21.49	0.4	10	3,772	16.65
2011	-15.55	-16.36	-18.17	24.72	25.76	0.5	9	3,136	23.06
2010	22.22	21.06	19.20	31.54	32.59	0.1	7	3,881	35.25
2009	68.45	66.95	79.02	30.92	32.35	0.2	6	2,716	42.44
2008	-52.01	-52.46	-53.18	27.61	28.68	0.4	6	1,545	47.31
2007	38.81	37.55	39.78	17.78	18.11	N.M.[6]	5	3,443	54.17
2006	30.96	29.72	32.59	17.51	17.32	N.M.	5	2,233	47.31

[1]Benchmark Index; [2]Variability of the composite and the Index returns over the preceding 36-month period, annualized; [3]Asset-weighted standard deviation (gross of fees); [4]The 2016 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion less than a 12-month period; [6]N.M.–Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year.

The Emerging Markets Composite contains fully discretionary, fee-paying emerging markets accounts investing in non-US equity and equity equivalent securities of companies domiciled predominantly in emerging markets countries with the objective of long-term capital appreciation. For comparison purposes, the Composite is measured against the MSCI Emerging Markets Index (gross of withholding taxes). 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 Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Index consists of 23 emerging market countries. You cannot invest directly in this Index.

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 by Ashland Partners & Company, LLP for the period November 1, 1989 through June 30, 2016.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Emerging Markets Composite has been examined for the periods December 1, 1998 through June 30, 2016. The verification and performance examination reports are available upon request.

Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. The firm maintains a complete list and description of composites, which is available upon request.

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Emerging Markets Equity accounts is 1.25% annually of the market value up to $20 million; 0.90% of amounts from $20 million to $100 million; above $100 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 Emerging Markets Composite was created on November 30, 1998.

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