HARDING LOEVNER

# GLOBAL EQUITY

2016 First Quarter Report

## COMPOSITE PERFORMANCE (%) FOR PERIODS ENDING MARCH 31, 2016[1]

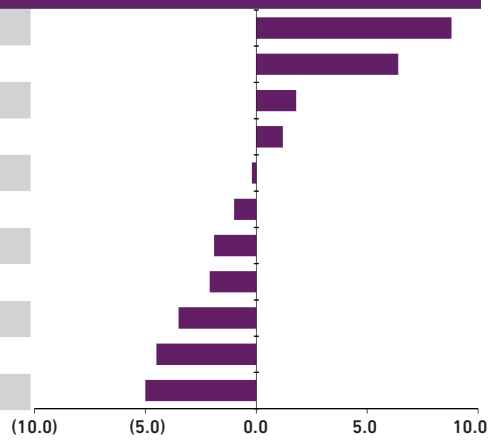
| | 3 MONTHS | 1 YEAR | 3 YEARS[2] | 5 YEARS[2] | 10 YEARS[2] | SINCE INCEPTION[2,3] |
|---|---|---|---|---|---|---|
| HL GLOBAL EQUITY (GROSS OF FEES) | 0.30 | -0.27 | 8.34 | 7.64 | 6.97 | 9.46 |
| HL GLOBAL EQUITY (NET OF FEES) | 0.18 | -0.73 | 7.85 | 7.18 | 6.51 | 8.79 |
| MSCI ALL COUNTRY WORLD INDEX[4,5] | 0.38 | -3.81 | 6.09 | 5.79 | 4.63 | 6.58 |
| MSCI WORLD INDEX[5,6] | -0.19 | -2.90 | 7.41 | 7.11 | 4.85 | 6.64 |

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1989; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

*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.*

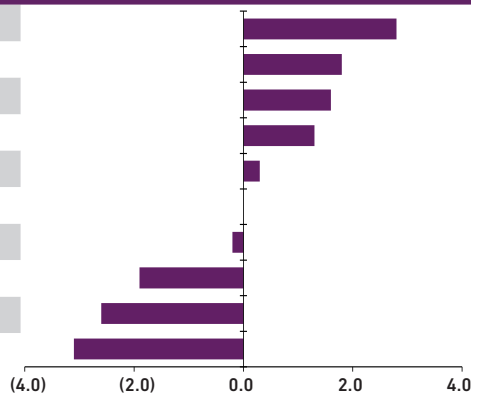
## SECTOR EXPOSURE (%)

| | HL GLOBAL | MSCI ACWI |
|---|---|---|
| INFO TECHNOLOGY | 23.8 | 15.0 |
| HEALTH CARE | 18.1 | 11.7 |
| CASH | 1.8 | – |
| INDUSTRIALS | 11.7 | 10.5 |
| ENERGY | 6.3 | 6.5 |
| CONS DISCRETIONARY | 11.9 | 12.9 |
| TELECOM SERVICES | 2.1 | 4.0 |
| MATERIALS | 2.7 | 4.8 |
| UTILITIES | 0.0 | 3.5 |
| CONS STAPLES | 6.2 | 10.7 |
| FINANCIALS | 15.4 | 20.4 |




## GEOGRAPHIC EXPOSURE (%)

| | HL GLOBAL | MSCI ACWI |
|---|---|---|
| JAPAN | 10.3 | 7.5 |
| CASH | 1.8 | – |
| EMERGING MARKETS | 11.8 | 10.2 |
| UNITED STATES | 54.5 | 53.2 |
| EUROPE EX-EMU | 11.7 | 11.4 |
| FRONTIER MARKETS[7] | 0.0 | – |
| MIDDLE EAST | 0.0 | 0.2 |
| PACIFIC EX-JAPAN | 2.1 | 4.0 |
| EUROPE EMU | 7.8 | 10.4 |
| CANADA | 0.0 | 3.1 |




[7]Includes countries with less-developed markets outside the Index.

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

*Source: Harding Loevner Global Equity Model; MSCI and S&P. MSCI Barra 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

Stocks declined steeply in the first half of the quarter and rebounded in the second.

Resource-oriented markets rose with oil and metal prices.

Both cyclical and non-cyclical sectors were strong in the quarter.

The cheapest companies based on our valuation metrics (heavily weighted toward Financials) underperformed.

## PORTFOLIO HIGHLIGHTS

We have slightly shifted our emphasis toward companies whose revenues are more dependent on growth of the global economic cycle.

We are increasingly sensitive to the price we pay for the quality and growth characteristics we seek.

The portfolio continues to hold large allocations in Health Care and IT.

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## MARKET REVIEW

Stocks declined steeply in the first half of the quarter, only to recover in the second, ultimately leading the benchmark, the MSCI All Country World Index, back to levels where it began the quarter. On the first day of the new year, data suggesting a slowing economy in China caused such extreme trading that a circuit breaker was tripped, halting trading on the Shanghai stock exchange, and triggering a decline in equity markets across the world. Anemic growth data around the world, not only in China, also affected commodity prices. These concerns peaked in February, after which stock and commodity prices experienced a sharp recovery. Oil, already battered in 2015, fell almost 30% through early February, but ultimately ended the quarter with a small net gain despite ongoing forecasts of global oversupply, while iron ore prices rose by nearly a quarter.

Monetary authorities reacted to poor growth and inflation data. The Bank of Japan reapplied aggressive stimulus measures in late January, including a move to negative interest rates. The European Central Bank followed, deepening its move into negative interest rate territory, joining other Scandinavian countries, and broadening its bond purchasing program to include corporate bonds. The US Federal Reserve, after raising expectations last year for several interest rate hikes in 2016, signaled a slower pace for hikes, with the result that the US dollar declined in the quarter against most major currencies, including both the yen and the euro, despite the interest penalty to hold the latter.

### MARKET PERFORMANCE (USD %)

| MARKET | 1Q 2016 | TRAILING 12 MONTHS |
|---|---|---|
| CANADA | 11.5 | -9.5 |
| EMERGING MARKETS | 5.7 | -11.9 |
| EUROPE EMU | -2.0 | -7.7 |
| EUROPE EX-EMU | -2.7 | -8.2 |
| JAPAN | -6.4 | -6.7 |
| MIDDLE EAST | -10.1 | -8.3 |
| PACIFIC EX-JAPAN | 1.8 | -10.1 |
| UNITED STATES | 1.0 | 0.9 |
| MSCI ACW INDEX | 0.4 | -3.8 |

### SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

| SECTOR | 1Q 2016 | TRAILING 12 MONTHS |
|---|---|---|
| CONSUMER DISCRETIONARY | -0.3 | -1.4 |
| CONSUMER STAPLES | 4.8 | 8.2 |
| ENERGY | 6.3 | -14.0 |
| FINANCIALS | -4.9 | -10.6 |
| HEALTH CARE | -6.5 | -7.9 |
| INDUSTRIALS | 3.6 | -1.5 |
| INFORMATION TECHNOLOGY | 1.6 | 2.4 |
| MATERIALS | 6.0 | -12.1 |
| TELECOM SERVICES | 7.0 | 3.6 |
| UTILITIES | 8.8 | 5.7 |

*Source: FactSet (as of March 31, 2016); MSCI Barra and S&P.*

Politics injected uncertainty into a number of markets this quarter. Despite the weak economic activity in Brazil, the real saw a sharp recovery in the quarter against the US dollar, primarily but unintuitively anticipating the potential defenestration of unpopular President Dilma Rousseff, as well as the sharp rebound in commodity prices, which could help a large part of the country's export sector. South Africa's president, Jacob Zuma, faced corruption inquiries, which did hamper the recovery in stocks and the rand, in contrast to Brazil. The election cycle in the US also weighed on Health Care stocks, as the focus of several presidential candidates on health care costs in the US has led to more scrutiny of companies that manufacture and sell high-cost drugs. In Britain, the "Brexit" debate caused weakness in the pound sterling, an exception to broad currency gains against the US dollar, as Prime Minister David Cameron set a June 23 date for a referendum on whether the UK should remain a member of the European Union.

**The US is one of the more resilient economies in the current environment and, as a result, one where monetary policy direction is toward normalization rather than more unorthodox stimulation.**

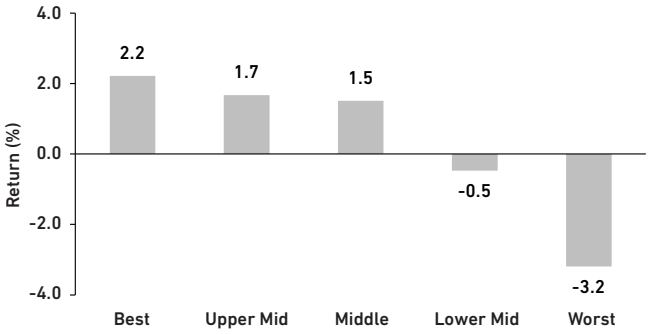
Among major regions, emerging markets (EMs) rose the most, notwithstanding declines in China and India. Indonesia, Russia, and South Africa saw sharp recoveries alongside improving oil and metals prices, and concurrently strengthening currencies. Brazil, another resource-rich market, rose even more dramatically with the impeachment boost to sentiment. Developed markets did not do as well, with Japan, as well as the eurozone and ex-EMU regions all posting declines despite strengthening currencies. Canada rose in line with other resource-oriented markets. The US market rose modestly.

Viewed by sector, non-cyclical sectors (Utilities, Telecom Services, and Consumer Staples) performed well, with the notable exception of Health Care. Cyclical sectors (Energy, Materials, and Industrials) were also strong, despite beginning the quarter with outsized declines. Financials were weak due to profitability worries as negative interest rates (and potentially deflation) spread into more economies. Health Care was the weakest sector, especially the biotech segment, which also happens to contain many of the most expensive stocks in the sector.

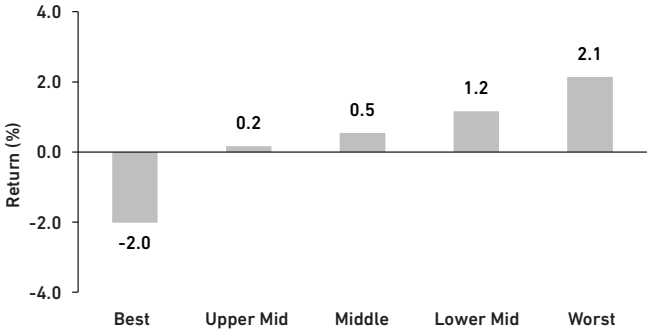
Returns to style factors exhibited a number of crosscurrents. Confusingly, high quality aided performance, whereas high growth hindered. And yet, there were significant exceptions to those overarching trends. Stocks of high-quality companies again outperformed those of lower-quality companies for the

Index as a whole, but Materials and Energy were an obvious exception—posting strong returns despite cyclically impaired quality metrics. In fact, within Materials, the lowest rungs of quality significantly outperformed the already-strong sector return. Working in opposite fashion, stocks of faster-growing companies on average underperformed those of slower-growing companies, partly attributable to strength in Energy and Materials, weakness in Health Care, and also to corrections in some of the high-flying, highly priced nifty companies in Consumer Discretionary and Information Technology (IT). However, Financials, *slow* growers of late due to both deleveraging and regulatory constraints, also generally performed poorly, except in EMs.

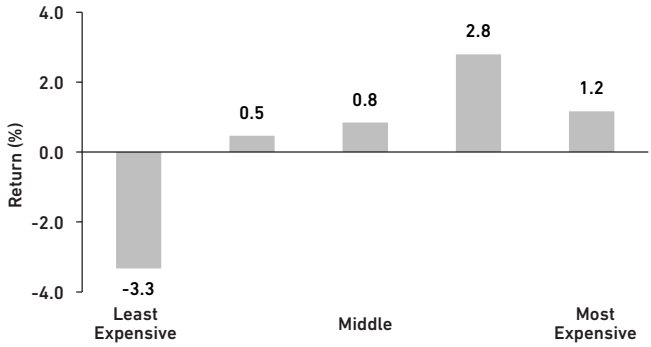
MSCI ACW INDEX PERFORMANCE BY QUALITY 1Q16




MSCI ACW INDEX PERFORMANCE BY GROWTH 1Q16




MSCI ACW INDEX PERFORMANCE BY VALUE 1Q16




*Source: FactSet. Data as of March 31, 2016; MSCI Barra and S&P.*
*The quality, growth, and value rankings are proprietary measures determined using objective data to rank companies on a number of factors that, in the case of quality, attempt to measure the stability, trend, and level of profitability, as well as balance sheet strength. In the case of growth, objective data is utilized to rank companies based on an assessment of historic growth of earnings, sales, and assets, as well as expected moves in earnings and profitability. In the case of value, stocks are ranked based on a combination of several objective valuation measures, including price ratios.*

The value index slightly outperformed the growth index in the full quarter, driven in part by resource-related stocks and resource-rich markets, benefiting from rising commodity prices. More intriguing, "value" also outperformed "growth" in the US, a market not particularly associated with commodities. It is, however, a market representing one of the more resilient economies in the current environment and, as a result, one where monetary policy direction is toward normalization rather than more unorthodox stimulation. In our own valuation metrics, the pattern was different: shares of the more expensive companies *out*performed in the quarter, whereas the very cheapest companies, which are heavily weighted toward (beaten-down) Financials, *under*performed.

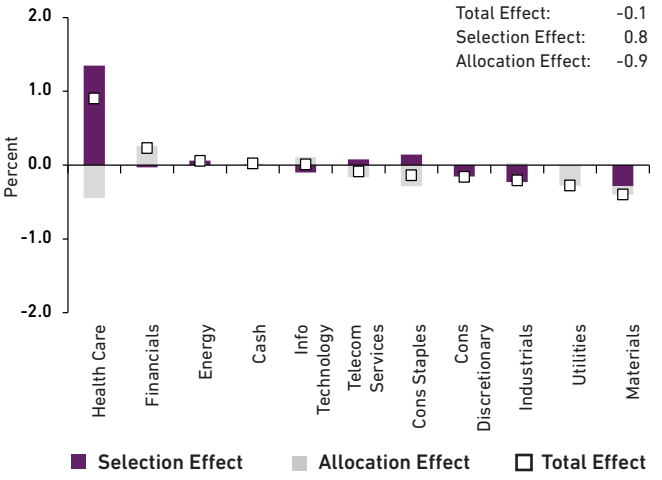
## PERFORMANCE AND ATTRIBUTION

The Global Equity composite rose 0.3% in the quarter, in line with its benchmark, the MSCI All Country World Index, which rose 0.4%. The following charts illustrate the sources of relative return by sector and region.

The portfolio enjoyed good stocks within the Health Care sector, led by **M3**, **Lonza Group**, **DaVita HealthCare Partners**, and **IMS Health**, but stocks in most other sectors were just behind the Index returns. Meanwhile, the portfolio's hefty weight in Health Care—the Index's worst sector—but light holdings in the other, strongly performing, non-cyclical sectors of Consumer Staples, Utilities, and Telecom Services, offset the limited benefit from stock selection. That said, Energy holdings

SECTOR PERFORMANCE ATTRIBUTION
FIRST QUARTER 2016

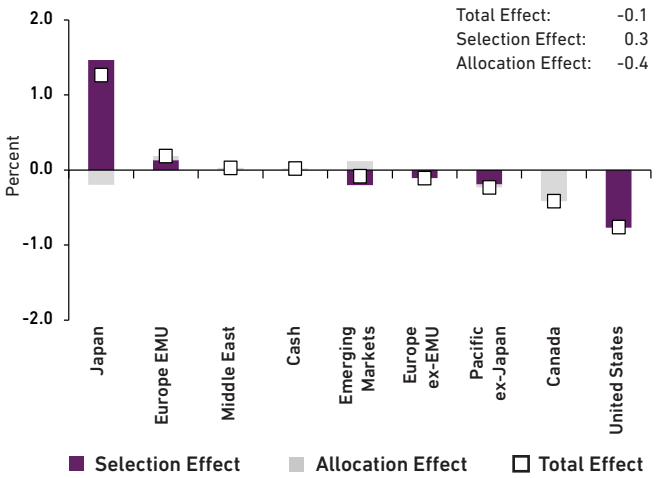
GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX




*Source: FactSet; Harding Loevner Global Equity Composite; MSCI Barra 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.*

**GEOGRAPHIC PERFORMANCE ATTRIBUTION**
**FIRST QUARTER 2016**

**GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX**




*Source: FactSet; Harding Loevner Global Equity Composite; MSCI Barra 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.*

returned slightly more than the Index. Within Financials, our EM banks performed well on balance, led by **Itau Unibanco** in Brazil, despite a drag from **ICICI Bank**, **American Express**, and **Lazard**.

Viewed geographically, performance was hurt by owning nothing in Canada, which rallied sharply in line with the rise in commodity and energy prices. Excellent stock selection in Japan, led by online medical information platform **M3** and new holding **Pigeon**, was offset by slightly lagging stocks in the US, a much larger market where our Financials holdings such as **SVB Financial Group**, **American Express**, and **Wells Fargo** were poor performers, as was **Amazon.com**. Our stocks in EMs, while additive to returns, lagged the Index slightly, hurt by ICICI Bank, which revealed a surge in non-performing loans (NPLs), and by **Yandex**, the Russian search engine.

## PERSPECTIVE AND OUTLOOK

This highly volatile quarter provided ample data to support almost any market perspective. In other words, we lament, as always: forecasting anything is difficult, especially the future! As a matter of both philosophy and practice, we maintain a high degree of skepticism about our own ability to make good macroeconomic forecasts. Instead, Harding Loevner's investment approach demands that we focus on identifying high-quality companies that can grow their earnings sustainably for long periods. It also demands that, once we have identified those companies, we value their stocks and buy them when they are priced to generate above-market returns.

*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 March 31, 2016 is available on page 9 of this report.*

We have repeatedly written about the emphasis in our portfolios on quality and growth. For the last several years we have believed that quality, as we define it (centered on financial strength, cash generation, and sustainability of profit margins), would be increasingly valuable in a world where corporate margins decline from all-time highs and where capital is not so widely available. We believed that earnings growth would become increasingly difficult to achieve and scarcity would merit higher valuation premiums in a world where increasing revenues would be difficult, given sluggish growth in overall demand and downward pressure on the prices of most goods and services.

**How scarce is revenue and profit growth in a low-growth, low-inflation world, and how pricey can stocks of companies that can deliver scarce growth become?**

We wrote twice last year about the increasing prices demanded for the very highest-quality companies, and consider that issue the most vexing problem we have in investing today: how scarce is revenue and profit growth in a low-growth, low-inflation world, and how pricey can stocks of companies that can deliver scarce growth become? Over the past 12 months, we have moved to respond incrementally to the widening divergence in valuations within the market, as outlined in our fourth quarter 2015 report. It's clear that some of those changes protected us from underperformance this quarter, notably the additions we made to Energy and EM holdings. Following the incremental changes we have made, we have shifted emphasis slightly, away from companies that enjoy non-cyclical (or consistent) growth to companies whose revenues are more dependent on the global economic cycle returning to more rapid growth. This does not reflect a change in our world view, or our investment approach, but does reflect a belief that we need to be increasingly sensitive to the price we are asked to pay for the extremes of quality and growth, and to have the strength and flexibility to accept a more balanced exposure to companies with more economic risk in their businesses. By accepting that high returns are more readily available in the stocks of companies whose revenues have more economic exposure, we think we will increase the chance of achieving the returns we seek.

That stocks with the characteristics we demand can offer higher long-term returns than the market comes as no surprise to us, nor, we hope, to our clients. But these characteristics, or "factors" in portfolio theory jargon, are increasingly *recognized* as sources of excess return. There is now a body of academic literature asserting that quality is a hitherto unacknowledged return factor (along with momentum, value, price volatility,

# INVESTMENT PROCESS CASE STUDY: VALEANT PHARMACEUTICALS

Few companies have received more media attention in the past year than Valeant Pharmaceuticals. Once an investor darling, the company's market capitalization has collapsed from over US$90 billion in August 2015 to less than US$9 billion at the end of March 2016.

Valeant is headquartered in Canada and therefore eligible for inclusion in both our Global and International Equity strategies. By mid-2015, we had responded to many investor inquiries about our failure to invest in Valeant, as its stock has risen approximately 75% from the start of year. It had posted industry-leading revenue growth for a number of years; was headed by a former McKinsey partner as CEO and a Goldman Sachs banker as CFO; and had an impressive shareholder base, including firms we hold in high esteem such as ValueAct Capital and Ruane, Cunniff & Goldfarb. Many investors regarded Valeant as, to use Michael Lewis's term, the "new-new thing": a health care company that eschewed research and development, assumed a low-tax domicile, and aggressively boosted drug prices of companies acquired using debt.

Opportunity cost matters; what we don't own for our clients can hurt them. Indeed, not owning Valeant detracted from the relative performance of our portfolio in the summer of 2015. Regardless of performance, Valeant has never met the fundamental quality and growth criteria required for all companies Harding Loevner will consider for investment.

The process of vetting a company that may be suitable for investment rests wholly in the hands of the analysts. Each analyst examines all of the companies in the sector or region they cover, and identifies companies that may meet our criteria. Approximately 85% of candidates are eliminated at this point, and further research reduces the pool to about 10% of the original universe. Each analyst shares their research on a company with other members of the team, and may incorporate colleagues' insights and opinions in the analysis. Ultimately, though, the analyst alone decides whether a company meets our criteria for potential investment by portfolio managers. All research, discussions, and decisions are documented by email and saved to our central research database that enables us to see what our thinking was at any given time.

As Health Care analysts, Alec Walsh and I have always questioned the durability of Valeant's acquisition-fueled growth—a staggering US$27 billion spent over five years—and heavily leveraged balance sheet, which had ballooned from US$4 billion in 2010 to US$30 billion in 2015. Despite the near-universal praise for Valeant from Wall Street, we noted serious issues, including a heavy reliance on non-GAAP earnings measures; a CFO who also served on the Board of Directors; and a domineering leader with dual roles as both Chairman and CEO. Further warning signs—including several components of our corporate governance checklist—were also apparent, such as opaque accounting and corporate disclosure, and excessive management compensation.

Alec and I each decided to exclude Valeant from our research coverage in July 2014, as the company failed several components of our investment criteria: growth seemed unstainable; leverage was excessive; management was badly incentivized; and corporate governance was weak. Eventually our doubts about Valeant were reflected in the market, and the damage was significantly beyond our expectations—both in speed and magnitude. Valeant's CEO Mike Pearson was forced to resign over accounting irregularities, violation of the company's debt covenants, and threat of default. The Board of Directors now seems to agree with our initial assessment, writing last month, "[T]he Company has determined that the tone at the top of the organization and the performance-based environment at the company, where challenging targets were set and achieving those targets was a key performance expectation, may have been contributing factors resulting in the company's improper revenue recognition . . ."[1]

Patrick Todd, CFA
Health Care Analyst

*[1]United States Securities and Exchange Commission, Valeant Pharmaceuticals International, Inc. Form 8-K (March 2016).*

and market capitalization) that investors should incorporate in their portfolios. The investment industry, which in our experience, finds no bandwagon it won't jump on, has developed and marketed products that enable investors to access conveniently this "new" factor. These products fall under the heading of "smart beta," whereby portfolios and indexes are typically constructed using rules that are based on singular factors, such as quality. The resulting rush of money into the sector, along with the inevitable rush by active managers following a period of good returns, of course, mean that the return premium that formerly existed has now been much reduced as prices have risen.

What differentiates our investment process from a mechanical approach to delivering these factor returns? On one hand we are disciplined in our pursuit of companies that meet our criteria, employing a highly structured investment process that uses objective measures of quality but also emphasizes qualitative assessment based on fundamental research. On the other hand, we are able to consider those criteria in the context of the price the market demands we pay for them. We do not invest according to a formula that looks backwards for high returns and seeks to replicate them by investing in the same securities that generated them in the past. We think rules and structure are useful tools, but combining them with human judgment offers the best chance of achieving our investment goals.

**We have plenty of flexibility in our process to accommodate a shift toward more cheaply priced stocks that are somewhat less rarefied in quality and/or growth on objective measures, should portfolio managers choose to keep moving in that direction.**

The question remains, do we continue to move in the same direction after the sharp rebounds in the beaten-up sectors and regions? The debate is not settled between those of us who see the rebounds as short-covering rallies in "over-sold" stocks of companies, industries, or countries that still face secular difficulties, and thus lower growth and profitability continuing for some time, versus those who see the shift in the quarter toward more cyclical, more domicile risky stocks as the rational response to great premiums in the valuations of the most iconic companies relative to the rest of the market.

Whatever the outcome of that debate—and typically at Harding Loevner, this sort of question is answered implicitly, with incremental decisions about individual stocks—we have plenty of flexibility in our process to accommodate a shift toward more cheaply priced stocks that are somewhat less rarefied in quality and/or growth on objective measures, should portfolio managers choose to keep moving in that direction.

While we worry that the February turnaround in markets may also mark an inflection point where the highest-quality and highest-growth companies would no longer continue to be accorded continuously higher valuations by investors, we are reluctant to make any sort of top-down declarations about such overarching trends and market forces. On the other hand, you have seen where we have headed at the margin over the last year: adding to Energy, adding EMs, and adding to a number of individual companies that suffered price corrections. This quarter, in contrast to the *Sturm und Drang* in the markets, was one of a more reflective mode in the Global Equity strategy.

## PORTFOLIO STRUCTURE

So, what have we done this quarter? One answer is that we did less. Turnover was about 11% on an annualized basis, far below our five-year average of about 20%. We held our nerve, and did not sell any of our highest-growth companies, which continue to command high valuations, during the sell-off. But neither did we add further to Energy, Materials, or EM-domiciled companies at their cheapest moments. So the portfolio structure has changed only a little from year-end. In a different illustration of what we did not do—or more accurately, what we did and strive consistently to do—see the sidebar on Valeant Pharmaceuticals, a company much in the news this quarter, and much debated within Harding Loevner over the years.

In keeping with the pattern of adding to companies with battered stock prices, we increased holdings in Financials by adding to SVB Financial Group and made a new purchase of **Signature Bank**, both in the US, whose share prices had fallen but where we judge the businesses to be robust and revenue and earnings growth prospects to remain bright. In contrast to those additions to US banks, we sold India's ICICI Bank after its reported NPL surge following a review by the Reserve Bank of India (RBI), an operating development that violated a milepost set by the Harding Loevner analyst to monitor progress of the investment thesis. In our process, a milepost violation is grounds for review of the thesis, but can be considered sufficient grounds for sale. In this case, with further RBI reviews ongoing for other lending sectors, it seemed prudent to step aside until the shape and scale of the credit cycle unfolding is clearer. We also trimmed our holding in recently purchased Itau Unibanco after the price soared from late January lows, propelled not only by rebounding commodity prices that buoyed Brazilian shares, but also by potentially culminating developments in Brazil's corruption scandals that might reach the office of the President, who is deeply unpopular with the business and investor community, and possibly lead to her exit from office. If long experience has taught us anything, it's that Brazil can be enormously volatile on emotional reactions, so upward spikes on evanescent developments can lead routinely to reversals into gloom and despair. Despite our admiration for the long-term resilience of Itau's business, we suspect we'll have an opportunity to add back shares at lower prices.

Those transactions within Financials have the counter-trend effect of reducing our weight in EMs, and increasing our weight

in the US. The portfolio retains its bias against Financials relative to the Index, and within the sector it is skewed toward US and EM holdings and away from Japanese and European ones. However, our weight in EM, which began the quarter about a third greater than the Index weight, ended the quarter with a smaller overweight relative to the Index, at approximately 12% of the portfolio.

We sold **Trimble Navigation**, the satellite positioning software provider, after a strong rally in the shares, offsetting partially the increase in US holdings. We bought a new holding in Pigeon, the Japanese maker of infant care products including bottles and nursing care items, whose earlier expansion into China and the rest of Asia has afforded its premium-quality brand an expanding growth opportunity. The portfolio begins the new quarter overweight Japan, where we have more than a tenth of the portfolio.

**In our process, a milepost violation is grounds for review of the thesis, but can be considered sufficient grounds for sale.**

The portfolio continues to hold large allocations in both Health Care and IT, where we find many high-quality, growing companies. Scattered across not only IT but also Health Care, Consumer Discretionary, and Industrials, we continue to hold the baker's dozen "online business model" companies we wrote about in the third quarter of last year. This quarter, the returns from those stocks were muted, but still additive to relative returns, due primarily to the non-US holdings; the US-focused ones suffered in line with the performance of the fastest-growing, highest-priced cohort in that market. We still like their significantly faster growth achievements, and prospects for more of the same, in a world where more and more value is changing hands online.

## GLOBAL EQUITY HOLDINGS (AS OF MARCH 31, 2016)

| SECTOR/COMPANY/DESCRIPTION | COUNTRY | END WT.(%) |
|---|---|---|
| CONSUMER DISCRETIONARY | | |
| AMAZON.COM Online retailer | US | 1.9 |
| CTRIP.COM Travel agent | China | 1.2 |
| NIKE Global athletic footwear and apparel | US | 3.8 |
| PRICELINE Online travel search services | US | 2.4 |
| STANLEY ELECTRIC Auto lighting and LED packaging | Japan | 1.1 |
| WPP Advertising and marketing services | UK | 1.6 |
| CONSUMER STAPLES | | |
| COLGATE PALMOLIVE Household products | US | 1.7 |
| L'ORÉAL Beauty and personal care products | France | 1.0 |
| MAGNIT Discount supermarket operator | Russia | 0.7 |
| NESTLÉ Food company | Switzerland | 1.5 |
| PIGEON Baby care goods | Japan | 1.2 |
| ENERGY | | |
| EXXON MOBIL Integrated oil and gas company | US | 1.3 |
| SASOL Refined product and chemicals group | South Africa | 1.0 |
| SCHLUMBERGER Oilfield services company | US | 3.1 |
| TENARIS Steel pipe manufacturer | Italy | 0.9 |
| FINANCIALS | | |
| AIA GROUP Life insurance | Hong Kong | 2.1 |
| AMERICAN EXPRESS Consumer finance and payments | US | 1.3 |
| BANK CENTRAL ASIA Commercial bank | Indonesia | 0.9 |
| BBVA Commercial bank | Spain | 0.7 |
| FIRST REPUBLIC BANK Private banking & wealth management | US | 2.2 |
| GARANTI BANK Commercial bank | Turkey | 0.9 |
| ITAU UNIBANCO Commercial bank | Brazil | 0.9 |
| LAZARD Financial advisory and asset management | US | 1.0 |
| SIGNATURE BANK Commercial bank | US | 1.0 |
| SVB FINANCIAL GROUP Commercial bank | US | 2.6 |
| WELLS FARGO Commercial bank | US | 1.7 |
| HEALTH CARE | | |
| ABBOTT LABS Health care and nutrition products | US | 1.0 |
| ABBVIE Biopharmaceutical company | US | 1.2 |
| ABCAM Research antibody manufacturer/distributor | UK | 0.5 |
| DAVITA HEALTHCARE PARTNERS Dialysis & medical services | US | 1.9 |
| ELEKTA Radiation therapy equipment | Sweden | 1.2 |
| ESSILOR INTERNATIONAL Ophthalmic lens manufacturer | France | 1.1 |
| GRIFOLS Biopharmaceutical and diagnostics | Spain | 1.0 |
| IMS HEALTH Information services provider | US | 1.9 |
| LONZA GROUP Biopharmaceuticals/pharma manufacturing | Switzerland | 1.5 |
| M3 Medical information services | Japan | 2.8 |
| ROCHE HOLDING Pharma and diagnostic equipment | Switzerland | 1.2 |
| SHIRE Prescription medication developer | UK | 0.7 |
| SONOVA HOLDING Hearing aid manufacturer | Switzerland | 1.0 |
| WATERS Analytic instruments for life sciences | US | 1.2 |

| SECTOR/COMPANY/DESCRIPTION | COUNTRY | END WT.(%) |
|---|---|---|
| INDUSTRIALS | | |
| 3M COMPANY Diversified industrial conglomerate | US | 1.5 |
| ATLAS COPCO Industrial compressors & mining equipment | Sweden | 1.0 |
| FANUC Industrial robots, controls, machine tools | Japan | 0.9 |
| MAKITA Power tool manufacturer | Japan | 1.3 |
| MONOTARO Online distributor of maintenance supplies | Japan | 1.2 |
| ROPER Niche industrial business conglomerate | US | 2.8 |
| ROTORK Electric actuator maker | UK | 0.7 |
| VERISK Risk analytics | US | 2.4 |
| INFORMATION TECHNOLOGY | | |
| ALPHABET Internet search and multimedia | US | 3.1 |
| ARM HOLDINGS Semiconductor chip designer | UK | 0.8 |
| BAIDU Internet search provider | China | 1.8 |
| COGNEX Electrical components manufacturer | US | 1.1 |
| DASSAULT SYSTÈMES CAD/CAM software designer | France | 1.1 |
| F5 NETWORKS Network technology | US | 1.8 |
| FACEBOOK Social network | US | 1.5 |
| IPG PHOTONICS High performance fiber lasers/amplifiers | US | 1.4 |
| KAKAKU.COM Price comparison website | Japan | 0.7 |
| KEYENCE Sensor and measurement equipment | Japan | 1.1 |
| MASTERCARD Global payments | US | 2.0 |
| MICROSOFT Software company | US | 1.3 |
| PAYPAL Electronic payment solutions | US | 1.7 |
| RED HAT Software and services | US | 1.0 |
| SALESFORCE.COM Cloud-computing software company | US | 1.1 |
| TENCENT Internet, mobile, and telecom provider | China | 1.1 |
| YANDEX Russian search engine | Russia | 1.1 |
| MATERIALS | | |
| AIR LIQUIDE Industrial gas company | France | 1.2 |
| LINDE Industrial gases and engineering | Germany | 0.7 |
| MONSANTO Seed, genomics, and agricultural products | US | 0.9 |
| TELECOM SERVICES | | |
| AMÉRICA MÓVIL Cellular phone operator | Mexico | 1.2 |
| MTN GROUP Cellular phone operator | South Africa | 0.8 |
| UTILITIES | | |
| No holdings | | |
| CASH | | 1.8 |

*Model Portfolio holdings are supplemental information only and complement the fully compliant Global Equity Composite GIPS Presentation. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of portfolio holdings for the past year contact Harding Loevner.*

## 1Q16 CONTRIBUTORS TO ABSOLUTE RETURN (%)

| LARGEST CONTRIBUTORS | SECTOR | WEIGHT | CONTRIBUTION |
|---|---|---|---|
| M3 | HLTH | 2.7 | 0.52 |
| ITAU UNIBANCO | FINA | 1.0 | 0.35 |
| SCHLUMBERGER | ENER | 3.1 | 0.26 |
| PIGEON | STPL | 0.7 | 0.25 |
| COGNEX | INFT | 1.0 | 0.19 |

## LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

| LARGEST CONTRIBUTORS | SECTOR | WEIGHT | CONTRIBUTION |
|---|---|---|---|
| ALPHABET | INFT | 2.8 | 0.89 |
| NIKE | DSCR | 3.6 | 0.80 |
| AMAZON.COM | DSCR | 1.7 | 0.65 |
| M3 | HLTH | 1.7 | 0.56 |
| FACEBOOK | INFT | 1.2 | 0.42 |

## 1Q16 DETRACTORS FROM ABSOLUTE RETURN (%)

| LARGEST DETRACTORS | SECTOR | WEIGHT | CONTRIBUTION |
|---|---|---|---|
| ICICI BANK | FINA | 0.7 | -0.53 |
| AMAZON.COM | DSCR | 1.9 | -0.28 |
| SVB FINANCIAL GROUP | FINA | 2.4 | -0.24 |
| WELLS FARGO | FINA | 1.8 | -0.22 |
| AMERICAN EXPRESS | FINA | 1.4 | -0.21 |

## LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

| LARGEST DETRACTORS | SECTOR | WEIGHT | CONTRIBUTION |
|---|---|---|---|
| ICICI BANK | FINA | 1.5 | -1.03 |
| MTN GROUP | TCOM | 0.9 | -0.63 |
| SVB FINANCIAL GROUP | FINA | 2.2 | -0.43 |
| BORGWARNER | DSCR | 0.6 | -0.41 |
| AMERICAN EXPRESS | FINA | 1.5 | -0.39 |

## PORTFOLIO CHARACTERISTICS

| QUALITY & GROWTH | HL GLOBAL | MSCI ACWI |
|---|---|---|
| PROFIT MARGIN[1] (%) | 16.0 | 11.0 |
| RETURN ON ASSETS[1] (%) | 8.2 | 5.6 |
| RETURN ON EQUITY[1] (%) | 15.3 | 14.0 |
| DEBT/EQUITY RATIO[1] (%) | 53.3 | 68.0 |
| STD DEV OF 5 YEAR ROE[1] (%) | 4.1 | 4.1 |
| SALES GROWTH[1,2] (%) | 8.6 | 2.8 |
| EARNINGS GROWTH[1,2] (%) | 9.1 | 6.4 |
| CASH FLOW GROWTH[1,2] (%) | 13.8 | 5.2 |
| DIVIDEND GROWTH[1,2] (%) | 14.8 | 8.9 |
| **SIZE & TURNOVER** | **HL GLOBAL** | **MSCI ACWI** |
| WTD MEDIAN MKT CAP (US $B) | 30.6 | 43.0 |
| WTD AVG MKT CAP (US $B) | 79.2 | 93.9 |
| TURNOVER[3] (ANNUAL %) | 20.1 | – |

| RISK & VALUATION | HL GLOBAL | MSCI ACWI |
|---|---|---|
| ALPHA[2] (%) | 1.90 | – |
| BETA[2] | 0.98 | 1.00 |
| R-SQUARED[2] | 0.96 | 1.00 |
| ACTIVE SHARE[3] (%) | 89 | – |
| STANDARD DEVIATION[2] (%) | 12.99 | 13.02 |
| SHARPE RATIO[2] | 0.58 | 0.44 |
| TRACKING ERROR[2] | 2.7 | – |
| INFORMATION RATIO[2] | 0.68 | – |
| UP/DOWN CAPTURE[2] | 107/90 | – |
| PRICE/EARNINGS[4] | 23.6 | 17.0 |
| PRICE/CASH FLOW[4] | 17.9 | 10.7 |
| PRICE/BOOK[4] | 3.5 | 2.0 |
| DIVIDEND YIELD[5] (%) | 1.4 | 2.7 |

[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 Global Equity Composite, based on the Composite returns; MSCI Barra. Source (other characteristics): FactSet (Run Date: April 7, 2016); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Barra.

## COMPLETED PORTFOLIO TRANSACTIONS

| POSITIONS ESTABLISHED | COUNTRY | SECTOR |
|---|---|---|
| PIGEON | JAPAN | STPL |
| SIGNATURE BANK | UNITED STATES | FINA |

| POSITIONS SOLD | COUNTRY | SECTOR |
|---|---|---|
| ABC-MART | JAPAN | DSCR |
| ICICI BANK | INDIA | FINA |
| TRIMBLE NAVIGATION | UNITED STATES | INFT |

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

## GLOBAL EQUITY COMPOSITE PERFORMANCE (AS OF MARCH 31, 2016)

| | HL GLOBAL EQUITY GROSS (%) | HL GLOBAL EQUITY NET (%) | MSCI ACWI[1] (%) | MSCI WORLD[2] (%) | HL GLOBAL EQUITY 3-YR STD DEVIATION[3] (%) | MSCI ACWI 3-YR STD DEVIATION[3] (%) | MSCI WORLD 3-YR STD DEVIATION[3] (%) | INTERNAL DISPERSION[4] | NO. OF ACCOUNTS | COMPOSITE ASSETS ($M) | FIRM ASSETS (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 YTD[5] | 0.30 | 0.18 | 0.38 | -0.19 | 12.31 | 11.88 | 11.73 | N.A.[6] | 27 | 7,669 | 21.59 |
| 2015 | 2.65 | 2.18 | -1.84 | -0.32 | 11.16 | 10.78 | 10.80 | 0.5 | 28 | 7,927 | 23.81 |
| 2014 | 6.91 | 6.43 | 4.71 | 5.50 | 10.82 | 10.48 | 10.21 | 0.3 | 31 | 9,961 | 28.46 |
| 2013 | 21.64 | 21.12 | 23.44 | 27.37 | 13.92 | 13.92 | 13.52 | 0.5 | 32 | 11,165 | 33.69 |
| 2012 | 18.44 | 17.98 | 16.80 | 16.54 | 16.49 | 17.11 | 16.72 | 0.1 | 25 | 9,071 | 40.03 |
| 2011 | -6.96 | -7.31 | -6.86 | -5.02 | 19.03 | 20.59 | 20.16 | 0.2 | 13 | 5,316 | 39.10 |
| 2010 | 16.54 | 16.16 | 13.21 | 12.34 | 22.85 | 24.51 | 23.74 | N.M.[7] | 6 | 2,879 | 26.15 |
| 2009 | 42.85 | 42.42 | 35.41 | 30.79 | 20.82 | 22.37 | 21.44 | N.M. | 4 | 1,463 | 22.86 |
| 2008 | -37.98 | -38.27 | -41.84 | -40.33 | 17.07 | 17.98 | 17.03 | N.M. | 3 | 118 | 3.61 |
| 2007 | 17.62 | 16.92 | 12.18 | 9.57 | 8.72 | 8.64 | 8.09 | N.M. | 3 | 124 | 1.95 |
| 2006 | 19.24 | 18.59 | 21.53 | 20.65 | 9.25 | 8.11 | 7.62 | N.M. | 2 | 102 | 2.16 |

[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 2016 YTD performance returns and assets shown are preliminary; [6]N.A.–Internal dispersion is 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.

The Global Equity Composite contains fully discretionary, fee paying global equity accounts investing in US and non-US equity and equity-equivalent securities with the objective of long-term capital appreciation. For comparison purposes, the Composite is measured against the MSCI All Country World 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 All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 46 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 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 by Ashland Partners & Company, LLP for the period November 1, 1989 through December 31, 2015.

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 Global Equity Composite has been examined for the periods December 1, 1989 through December 31, 2015. 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 Global Equity accounts is 1.00% annually of the market value up to $20 million; 0.50% of amounts from $20 million to $100 million; 0.45% of amounts from $100 million to $250 million; 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 Global Equity Composite was created on November 30, 1989.

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