HARDING LOEVNER

GLOBAL EQUITY

2016 Second Quarter Report

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

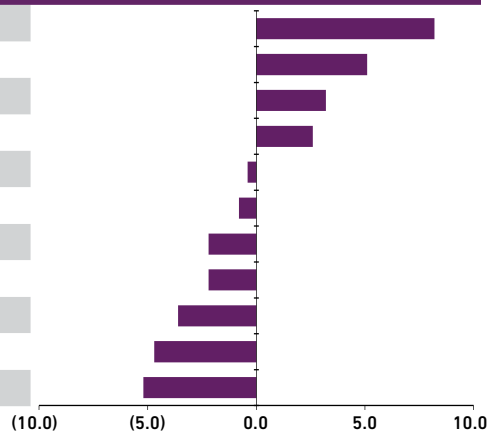
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY (GROSS OF FEES)	1.78	2.11	0.54	9.31	7.58	7.39	9.44
HL GLOBAL EQUITY (NET OF FEES)	1.66	1.86	0.07	8.81	7.12	6.93	8.77
MSCI ALL COUNTRY WORLD INDEX[4,5]	1.19	1.58	-3.17	6.59	5.95	4.81	6.56
MSCI WORLD INDEX[5,6]	1.21	1.02	-2.19	7.54	7.23	5.01	6.62

[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.

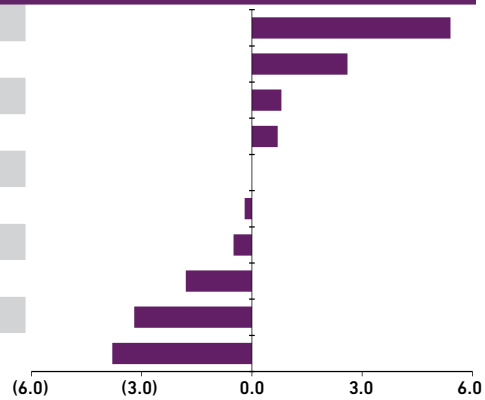
SECTOR EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
INFO TECHNOLOGY	23.1	14.9
HEALTH CARE	17.3	12.2
INDUSTRIALS	13.6	10.4
CASH	2.6	–
ENERGY	6.6	7.0
CONS DISCRETIONARY	11.5	12.3
MATERIALS	2.7	4.9
TELECOM SERVICES	1.8	4.0
UTILITIES	0.0	3.6
CONS STAPLES	6.3	11.0
FINANCIALS	14.5	19.7



GEOGRAPHIC EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
JAPAN	13.0	7.6
CASH	2.6	–
EMERGING MARKETS	11.3	10.5
EUROPE EX-EMU	11.9	11.2
FRONTIER MARKETS[7]	0.0	–
MIDDLE EAST	0.0	0.2
EUROPE EMU	9.2	9.7
PACIFIC EX-JAPAN	2.2	4.0
CANADA	0.0	3.2
UNITED STATES	49.8	53.6



[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 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.

TABLE OF CONTENTS

MARKET REVIEW

Currency markets experienced the biggest aftershock of the UK's vote to leave the European Union.

The Energy sector led market returns as oil and commodity prices rose.

Financials declined due to lower interest rates and flatter yield curves globally.

High quality outperformed low quality, but high growth lagged slow growth.

PORTFOLIO HIGHLIGHTS

Sustained zero or negative interest rates led to increased M&A activity within companies our analysts cover.

We increased our position in Japan and decreased our weight in the US.

We retained our underweight in Financials but added to our holdings in the sector on price weakness.

This page intentionally left blank.

MARKET REVIEW

Investors spent much of the quarter obsessing about the health of the world's largest economies, adapting to widening negative interest rate policies, and divining US Federal Reserve intentions with respect to interest rates as employment growth slowed and corporate investment remained sluggish. Merger and acquisition (M&A) activity resumed, as did IPOs, as markets stabilized after a volatile start to the year. However, volatility returned at the end of June, triggered by the shocking result of the British referendum on leaving the European Union (EU), resulting in the resignation of Prime Minister David Cameron, who had campaigned strongly to stay. Currency markets experienced the biggest aftershock of the historic Brexit vote. The British pound sterling fell 8% the first day, and then fell further to reach a 30-year low in anticipation of a UK recession and property collapse amidst Brexit confusion. Bank shares fell heavily as well. Fears spread immediately to the rest of the EU, which remains mired in economic stagnation and disinflation and will not be helped by renewed questions over the integrity of the single currency and the interlocking banking systems. Further from the madding crowd,[1] the Japanese yen appreciated sharply, causing consternation at the Bank of Japan (BoJ), whose prior efforts to weaken the currency were undone.

Prospects for higher interest rates in the US had already faded due to tepid economic growth, but the uncertainty surrounding global trade and investment unleashed by the Brexit vote dashed any that remained. Despite this, the US stock market managed to lead all major markets with a gain of more than 2%, aided by a recovery in Health Care shares and increasing signs that excess supply is being reduced in the oil patch. Meanwhile, Europe and Japan continued to struggle to break the icy grip of deflation. Bond purchases by the BoJ and European Central Bank (ECB) in the service of quantitative easing and by investors flocking to safety after the Brexit vote drove bond yields to record lows across the globe. That said, commodity and energy prices rose, especially in local (European) currency terms, so input prices received a positive jolt.

MARKET PERFORMANCE (USD %)

MARKET	2Q 2016	TRAILING 12 MONTHS
CANADA	3.6	-5.5
EMERGING MARKETS	0.8	-11.7
EUROPE EMU	-4.7	-11.3
EUROPE EX-EMU	-0.1	-10.1
JAPAN	1.0	-8.6
MIDDLE EAST	-3.6	-10.6
PACIFIC EX-JAPAN	0.7	-6.6
UNITED STATES	2.6	3.2
MSCI ACW INDEX	1.2	-3.2

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

SECTOR	2Q 2016	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	-3.6	-5.9
CONSUMER STAPLES	3.9	12.9
ENERGY	9.7	-5.6
FINANCIALS	-1.4	-13.4
HEALTH CARE	5.6	-4.4
INDUSTRIALS	0.5	0.0
INFORMATION TECHNOLOGY	-1.6	1.6
MATERIALS	3.5	-8.6
TELECOM SERVICES	2.6	3.3
UTILITIES	4.4	13.1

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

European stock markets were weak, due not only to worries over the trade implications of the UK referendum, but also to the potential for other disgruntled EU members to follow in the decision to leave the EU. While the UK market overall rebounded from its low to end the quarter with only a small net decline from the end of March, there was a meaningful divergence between returns for the FTSE 100 (-3% in US dollar terms), whose members generate three-quarters of their revenue from abroad, and the domestically focused FTSE 250 (-11%). Germany and France, key trading partners of the UK, declined over expected harm to exports. Spain and Italy fell even more as investors focused on the rising strength of their anti-Europe populist parties, and the dependence of their teetering banks on continued access to eurozone financing.

Japan's stock market fell in yen terms, as poor consumer demand forced Japanese Prime Minister Shinzō Abe to delay a planned rise in consumption tax, but returns in US dollars were slightly positive thanks to the very strong yen. Emerging markets (EMs) had mixed returns, but many EM currencies continued their rebound, building on last quarter's gains. One important exception was the Chinese yuan, which resumed its depreciation against the US dollar, falling by the largest quarterly amount since its July 2005 de-pegging, this time without the angst of last year as investors focused on risks elsewhere; the yuan actually rose against most European currencies. China's stock market still managed a small gain in US dollar terms, with signs of economic stabilization there also supporting commodity prices. Brazil was particularly strong due to a combination of strengthening commodity prices and the consummated impeachment of President Dilma Rousseff, which ushered in the prospect of a more business-friendly government. Russia benefited from the further strong (26%) rise in oil prices.

Cyclical sectors Consumer Discretionary, Information Technology (IT), and Financials were the worst performers, with the uncertainty surrounding a potential Brexit only adding to investor concerns about global growth prospects. Banks suf-

[1]Thomas Hardy took this title of his 1874 novel from a line of Thomas Gray's 1751 poem *Elegy Written in a Country Churchyard*:

> *Far from the madding crowd's ignoble strife*
> *Their sober wishes never learn'd to stray;*
> *Along the cool sequester'd vale of life*
> *They kept the noiseless tenor of their way.*

Dare we equate the *ignoble strife* with Brexit?

fered as lower interest rates and flatter yield curves globally pressured net interest margins. Meanwhile, Energy led market gains, in conjunction with higher oil prices. Health Care, Consumer Staples, and Telecom Services were also strong performers as investors once again sought out non-cyclical sectors.

Returns to style factors were mixed this quarter. High quality offered no benefit, while strong growth actively correlated with worse performance. Furthermore, low growth helped; think not only Consumer Staples but also Energy and Telecom Services, all with relatively low growth in recent years. More expensive stocks outperformed lower-priced stocks yet again. The "growth" index outperformed the "value" index outside the US, but the reverse was true in the US, attributable to weakness in US IT shares and to surging Energy stocks.

PERFORMANCE AND ATTRIBUTION

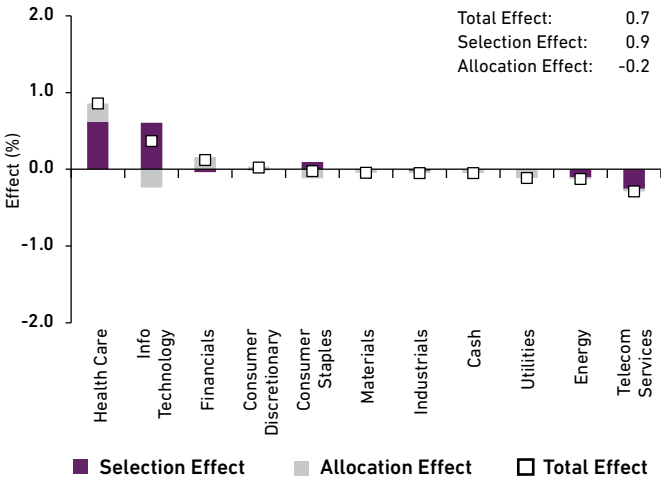
The Global Equity composite rose 1.8%, just ahead of the 1.2% rise of the MSCI All Country World Index. The following charts illustrate the sources of relative return by sector and region.

The portfolio enjoyed impressive relative performance in Japan, where **M3** and **Keyence**, two multinational companies exhibiting very high growth and return on capital, far surpassed the market return. We also had good stock selection in Europe, both inside and outside the eurozone. Our UK holdings, all multinationals, combined for less weight than the benchmark and collectively outperformed the UK market despite a drag from **WPP**, whose earnings prospects seem dimmed by growth fears in both the UK and Europe after the British vote to leave the EU. We were underweight in the eurozone, the worst-performing region in the Index, and our holdings there outperformed, in part due to having just a single eurozone holding in Financials, the region's worst-performing sector. Those good results were offset by our US holdings, which lagged the US market and made up just under half the portfolio. We suffered poor performance within US Financials, especially from **Lazard**, reflecting diminished expectations for M&A advisory, as well as from **SVB Financial Group** and **Signature Bank**, both of which had priced in higher US interest rate earnings, prospects for which have faded (again). **Nike** and **Alphabet** also hurt returns, with emerging competitors weighing on valuations. US Health Care also hurt, mostly because we owned almost none of the Index-heavyweight "Big Pharma" companies that were strong performers in the quarter. Our holdings in EMs lagged the Index slightly, held back by declines in **América Móvil**, **Baidu**, **Magnit**, **Garanti Bank**, and **Sasol**. **Itau Unibanco** partly offset those declines, building on last quarter's strong surge.

Viewed by sector, good stock selection overall in Health Care (driven by M3) and also in IT (Keyence, **F5**, **Yandex**, **Tencent**, and **Cognex**) was mostly offset by laggard holdings in Financials, especially **BBVA** and Lazard, and in Telecom Services, where América Móvil lagged the strong sector returns. Sasol, in South Africa, hurt Energy stock selection, after it revealed cost overruns in its ethylene refinery project in Louisiana. Within Consumer Discretionary, very strong performance from **Amazon.com** was offset by poor performance from Nike and WPP.

SECTOR PERFORMANCE ATTRIBUTION SECOND QUARTER 2016

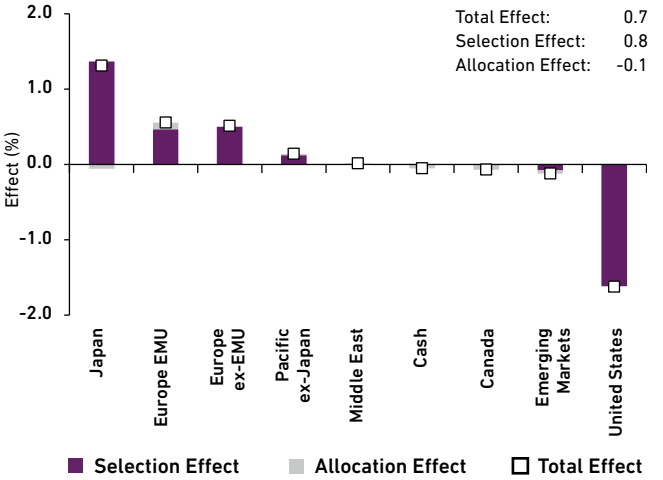
GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX



Source: FactSet; Harding Loevner Global Equity Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on the first page of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS presentation.

GEOGRAPHIC PERFORMANCE ATTRIBUTION SECOND QUARTER 2016

GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX



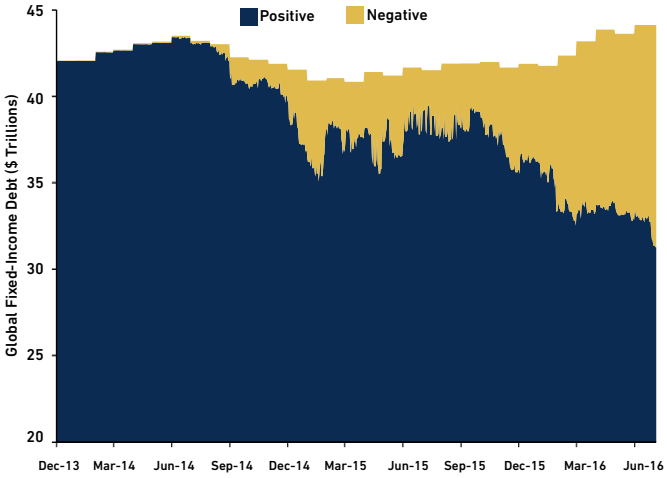
Source: FactSet; Harding Loevner Global Equity Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on the first page of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS presentation.

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

PERSPECTIVES AND OUTLOOK

"We live in unusual times" is a truism, but consider this chart:

PERCENTAGE OF BONDS GLOBALLY WITH NEGATIVE YIELDS



Source: BofA Merrill Lynch Global Research; Using the BofAML global fixed income GFIM. Used with permission.

Nearly a third of outstanding bonds globally now have negative yields, including US$12 trillion worth of government bonds and US$1 trillion of corporate bonds.[2] An economist might turn to their mathematical models and say that the zero point on nominal interest rates is irrelevant, insofar as real yields (those that are adjusted for inflation) are what matter, and it is commonplace to experience negative real yields from time to time. In the real world, though, apparently strange behaviors begin to appear when nominal interest rates turn negative. Among the related stories of recent months that caught our interest are one about homeowners in Denmark being paid interest by the bank holding their mortgage, while policy makers there fret over the creation of a housing bubble; another of a German bank building new vaults to store massive amounts of currency to avoid charges from the Bundesbank for holding its cash reserves; and a drumbeat of worrisome accounts of how ultra-low interest rates necessarily arithmetically balloon the calculated obligations of pension funds, just at a time when the expected returns on their investments are also ultra low.

We asked three of our analysts to describe what they believe are some of the implications of sustained zero or negative interest rates. Bryan Lloyd, CFA covers companies in the Financials sector, Anix Vyas, CFA covers Industrials and Materials companies, and Yoko Sakai, CFA looks at companies in all sectors in Japan—where slow rates of economic growth, and very low rates of interest, have been the norm for approaching 30 years.

It has long been our view that in the current market environment, quality would, as usual, be a relatively stable feature of our opportunity set, but growth would, in aggregate, be modest, and fast growth would be confined to those few companies able to invent new products or find new markets for old. This environment has helped the stocks of the kinds of companies we seek enjoy fairly steady increases in valuation in the last few years. In recent quarterly reports, we have begun to question whether those increases in valuation mean that returns from such stocks will henceforth be even more modest than the returns to be expected from the market as a whole.

The Upside Down World of Negative Interest Rates

Bryan Lloyd, CFA

Over the past several years, we have moved from a low interest rate environment to a zero interest rate environment, and now in some economies to a negative interest rate environment. In the eurozone, the intended consequence of flooding the market with cash is for excess liquidity to drive lending and kick-start GDP growth. Many criticize the banks for hoarding cash and refusing to lend, but the problem has been the lack of loan demand. Corporations and retail customers have repaired their balance sheets since the crisis, and many can fund their near-term needs internally. Furthermore, lack of clarity from central banks and endogenous shocks, such as Brexit, do little to spur investment confidence and stimulate "animal spirits," which have been dormant for so long.

Financial services companies around the world are struggling to cope with the continued downward movement in rates. Quantitative easing pushes rates lower and adds additional liquidity to the system, which in turn is reinvested in bonds through bank and insurance company balance sheets. Bank profits are facing a perfect storm. Low or negative interest rates generally compress net interest rate margins as the decline in asset yields outpaces lower funding costs. The problem is exacerbated with negative interest rates since banks are unlikely to charge their retail customers for deposits—the "zero bound" problem. Banks are struggling to avoid losing money on new deposits. Some have begun turning away deposits from their corporate customers or charging them for deposits deemed excess to operating needs. Banks across the world are swimming in cash and, without loan growth, they have no choice but to buy additional sovereign and corporate debt. Ironically, strong levels of liquidity are bad for capital adequacy, too. Since new regulatory standards apply a capital charge to all assets, inflows of cash require holding more capital. Counterintuitively, the world we now live in is a world where excess liquidity, instead of providing a margin of safety, is a bad thing.

Elsewhere, life insurance companies with many policies that guarantee minimum rates of return are struggling to meet their payout requirements as portfolio yields decline. To guard against this, insurers like Allianz have been shifting their investment portfolios toward higher

[2]Fitch Ratings, *Fitch: Negative-Yielding Sovereign Debt Grew to $10.4 Trn in May* (June 2016).

yielding and less liquid (i.e., riskier) alternative assets, including infrastructure, renewable energy, and private equity.

However, there is some light at the end of this low-growth tunnel. According to the ECB's April 2016 Bank Lending Survey, demand for corporate loans has increased in eight of the last nine quarters based on eurozone survey data. Demand over the last year has been evenly divided between working capital and fixed investment.[3] These positive indicators for loan demand are not impacting bank balance sheets just yet, as existing loans are still being repaid. Germany appears to be leading the improvement in demand, yet the country's biggest lenders are still posting loan balance declines.

Three Arrows: Not a Magic Bullet

Yoko Sakai, CFA

Abenomics, the economic policy launched by the current Japanese Prime Minister Shinzō Abe, effectively began in late 2012. When he officially announced his "three arrows" in the beginning of 2013, we reviewed them carefully. We could see how the first arrow, the BoJ's monetary policy, could influence the foreign exchange rate to benefit exporters, provided other countries didn't try the same thing in a round of competitive devaluations. We understood that the government was using its fiscal policy, the second arrow, to stimulate the economy. Neither of these two arrows, we thought, however, could create durable growth. After all, Japanese monetary policy had kept interest rates at or near zero for more than a decade without generating sustained growth in the economy, and we had lived through the "bridges to nowhere" years of fiscal stimulus in the 1990s, also with little effect. We were also very skeptical of the third arrow, the government's growth strategy. In our third quarter 2013 report, we reiterated our philosophy of investing in high-quality companies that can continue to grow regardless of Abenomics. We held onto our investments in the domestically oriented companies in the belief that their competitive advantages would allow them to overcome worsening terms of trade for imports through their stronger bargaining powers against both suppliers and customers.

The BoJ's adoption of NIRP (negative interest rate policy) in February came as a surprise, and both we and the BoJ were taken aback when the yen strengthened rather than weakened in response. NIRP may have been an inevitable extension of the BoJ's easing policy, but it led to confusion among Japanese businesses. Banks that, up to that point, had been considering raising wages, shelved the idea. It was clear that, with little growth opportunities for most of the Japanese companies, not even negative interest rates could encourage borrowing. And now, with Brexit, the Japanese yen is even stronger against all currencies. Within Japan, the proportion of bonds trading at negative yields rose to 79% of the JP Morgan Japan Government Bond Index, adding more fuel to what has been a multi-year growth equity rally.[4]

In the beginning of Abenomics, we endured the underperformance in Japan as it went through what we considered a "junk" rally (from fourth quarter 2012 to second quarter 2013). Over time, as the paint of Abenomics peeled off, it became evident that businesses were lacking growth beyond the currency exchange boost that helped many exporters when Abe took office. Almost three years later, as the global economy slows down, growth looks even scarcer, and our portfolio of durable-growth companies is enjoying the best outperformance I can recall in Japan. This proves to us that we were right to stick to our philosophy. Today, the market is willing to pay much more for durable-growth companies, and, as a result, we now face a different challenge: what is the appropriate discount rate?

Zero Rates = Acquisition Fuel

Anix Vyas, CFA

Successfully rating a company is a balancing act between objectively weighing the fundamentals of the business, comparing our estimate of fair value to the current share price, and subjectively assessing macroeconomic, political, and other risks. One risk that I am increasingly incorporating into my ratings rubric is the impact of low—and now negative—interest rates on my companies. Low interest rates reduce the hurdle for M&A transactions to be "earnings accretive" rather than dilutive—even though lower rates might worsen returns on invested capital. With no end in sight to such zero interest rate policies, factoring in this risk seems prudent. **Air Liquide**'s recent purchase of Airgas is an example of a company under my coverage leveraging its strong balance sheet and stable cash flows to buy an attractive US business that stands to improve Air Liquide's capacity utilization and US client density. The purchase price was high, but the cost of financing was very low. Monitoring and assessing the pursuit of such inorganic growth is par for the course when covering high-quality growing companies, which tend to generate more cash than needed for internal growth.

More surprising, however, is the number of high-quality growth companies we follow that have become takeover targets—surprising because, despite their shares normally trading at lofty prices, they are attracting bids that imply even richer valuations than they already sport. Portfolio holdings under my coverage that have disappeared via takeover in the last 24 months include Sigma Aldrich (acquired by Germany's Merck KGaA in 2014),

[3]European Central Bank, *The Euro Area Bank Lending Survey* (April 2016).

[4]JP Morgan, *Negative Yield Index Monitor* (June 30, 2016).

Precision Castparts (acquired by Berkshire Hathaway in 2015), and prospectively **Monsanto**, which has been approached by German life sciences giant Bayer.

Increased M&A activity due to low interest rates is not unique to companies in Materials and Industrials. Several companies we follow in IT have also become targets over recent quarters, including LinkedIn, Demandware, and Sandisk. Five companies we follow in Health Care also received takeover bids over the past 24 months, including Allergan, **Shire**, Baxalta, Pall Corporation, and in the quarter just ended, **FEI**.

The level of M&A activity is surely due to a combination of factors including an unwillingness to expand capacity via new investment because either management teams share investors' general pessimism about global growth or they are worried about technological disruption of their businesses. Managements are nonetheless incentivized to grow their companies, or at least improve profitability, and there can be no doubt they are being spurred on by the unprecedented low borrowing costs fostered by central banks. So the risk is really about the extent to which low rates change management behavior, both at companies under our research and at companies we do not follow closely, and what that implies for stock prices. While this increased M&A activity clearly impacts portfolio turnover and complicates judgments I make about the stocks of companies under my coverage, it changes little in our investment process. Analysts will continue to seek to uncover strong and growing companies with few corporate governance blemishes that might thwart receiving or achieving full value. But assessing what is fair, versus what is full or even outrageous value becomes trickier, given shifting probabilities of takeover premiums being paid.

PORTFOLIO HIGHLIGHTS

The most significant changes in portfolio structure this quarter were a shift to an underweight position in the US for the first time in seven years and a further increase in our overweight position in Japan. There were no meaningful shifts by sector weights. We remain overweight in areas where we find the most attractive combination of business quality, growth, and valuation: IT, specifically software and services, and Health Care. We hold a near-benchmark weight in Energy, having nearly eliminated a longstanding underweight last year. We retain a significant underweight in Financials, the largest sector in the Index, as growth prospects are bleak in the absence of stronger loan demand, especially in the eurozone and Japan with the grinding effects of NIRP on net interest margins. Meanwhile, balance sheet quality across the sector is often opaque, adding to our caution, and disruptive technologies are gathering force. That said, we will continue to add to our preferred Financials holdings on price weakness as we believe they offer structurally superior growth prospects in comparison to industry peers. For example, we added to BBVA at the end of the quarter, after the Brexit woes and local Spanish developments had driven its share price down, despite the attractions of its large Latin American businesses, especially its dominant and growing Bancomer subsidiary in Mexico. But we sold **American Express** as we fear that changes in payments technology and consequently in industry structure (new entrants, rising rivalry) are undermining the historical competitive advantage of the company's "closed loop" network (whereby the company earns fees all along the underlying transaction flow). Further, competitors have eroded American Express's traditional lead in customer reward and loyalty programs, which have been important tools for capturing and retaining profitable customers. As a result, we have reduced our revenue growth and margin forecasts for American Express as it resorts to cutting prices to compete.

We bought a new holding in Japan's **Kubota** amidst concerns over the negative effects of the strong yen. Kubota is the world's leading manufacturer of small-size industrial diesel engines. The company also makes agricultural and construction machinery equipped with these engines and is the market leader in rice-farming equipment across Asia. Kubota is also especially strong in sales of small- and mid-sized tractors in North America, where it has attained market leadership with a roughly 35% share. The company is launching new, more powerful products to address dry-field farming, a market about four times larger than wet-field (such as rice) farming. Kubota's earnings will be hurt by the strong yen, but we believe the market is far too negative on the impact on the company's earnings structure, leaving its shares attractively priced today for long-term investors.

Our increased emphasis in Japan does not reflect a rosy view of economic and political trends in the country, nor a blind-faith embrace of the country's negative interest rate policy. Rather, Japan has been in a ZIRP (zero interest rate policy)—and now NIRP—environment for decades, and yet we have added very large amounts of relative return via stock picking. We are confident in our bottom-up process of identifying other companies that can succeed in Japan's difficult environment. Our existing holdings there have swelled by outperforming the market and we continue to find new investment opportunities amidst considerable share price volatility. Likewise, our other portfolio changes reflect a bottom-up assessment of the competitive strengths and growth prospects of individual companies and the risks to those attributes (including M&A risks), combined with a temporary opportunity afforded by share price volatility to exit or enter a new holding. That has meant having less invested in the US today than previously, and we ended the quarter with just half of the portfolio invested in US companies.

We sold **DaVita HealthCare Partners**, a large operator focused on dialysis for kidney care, because its HealthCare Partners (HCP) business has not performed as expected, undermining its valuation. HCP is a physicians group designed to grow profitably under the new US health care reimbursement regime, which emphasizes quality of patient outcomes over quantity of patient procedures. DaVita acquired HCP in 2012, hoping

to build a growth leg to complement the steady, slow-growth, and cash-generative nature of the kidney-care business. But the strong bargaining power of the heavyweight buyers (insurance companies and Medicare) has crimped HCP's sales growth and margins below DaVita's (and our) expectations.

Though we patiently observed DaVita's progress with HCP, we are not waiting around to see what happens with another M&A adventure: **IMS Health** announced a merger with clinical research firm Quintiles Transnational. We were attracted to IMS's dominant information databases and associated analytical and software services, which sold into hundreds of health care enterprises trying to raise productivity and improve the quality of outcomes in line with the new direction across US health care. We struggle to understand the rationale for the merger—especially in the acknowledged absence of expected synergies, as Quintiles will not be integrated into IMS but will instead remain separately managed. Wary of the rising bargaining power of the payors (the buyer) across US health care, we fear there are shifting currents under the surface of IMS's business that are propelling management's abrupt change of direction that we can't yet see. Risks of poor management vision or poor execution here outweigh any benefits that we can perceive. We sold IMS in the quarter.

We began initiating a new position in FEI, the world's leading maker of electron microscopes, but were thwarted in our purpose by the company's agreed takeover by Thermo Fisher Scientific. We sold the small holding, with a short-term gain.

We bought **AmerisourceBergen**, the market leader in the highly consolidated drug wholesale distribution industry in the US. We believe barriers to entry in this industry are high (large capital costs to achieve distribution scale) and US demographic trends augur well for long-term demand for pharmaceuticals. The company's share price has been hit by political furor over pricing for particular high-priced specialty drugs, creating an attractive entry point for investment, as we believe the company's earnings will prove resilient given the breadth and scale of its product distribution, its growing generic drug portfolio, and its demonstrated ability to manage costs.

Lastly, we also bought **Luxottica**, the Milan-based global leader in designing and manufacturing prescription spectacles and sunglass frames. The company's market share in frames is three to four times that of its nearest rival. Over the years, Luxottica has used its strong manufacturing cash flow to integrate forward into eyeglass retailing, acquiring LensCrafters and Sunglass Hut, and to buy recognized consumer brands, including Ray Ban and Oakley—moves that have sometimes disconcerted skeptical investors. At the same time, Luxottica developed its wholesale business, supplying the thousands of small independent opticians that make up roughly half the global eyewear retail market. Luxottica shares have underperformed in the last year as the company has increased investment in global distribution and e-commerce, at the short-term expense of its margins, and the company's founder, chairman, and majority owner has re-inserted himself into an executive role in the company. Though we are usually leery of such intervention by aging founders, having watched Mr. Del Vecchio confound his critics over nearly two decades, we support his program aimed at streamlining operations and re-establishing a longer-term management perspective. The eyewear and eye care industry is set to benefit from positive demographic trends and rising penetration rates in EMs as health and beauty spending rises with incomes. Moreover, the industry has a benign competitive structure, with just a few global competitors who, in the face of favorable long-term growth prospects, are focused on innovation rather than on price cutting.

We are pleased to announce that Harding Loevner has named Ferrill Roll, CFA the firm's Co-Chief Investment Officer effective August 1, 2016. Ferrill will work alongside our current CIO, Simon Hallett, CFA, who has served in this role since 2003. Ferrill's appointment will enhance the capabilities and effectiveness of our CIO role, particularly in the areas of risk management and investment professional development. He has 20 years of experience at Harding Loevner and serves as a co-lead portfolio manager of our Global Equity and International Equity strategies as well as a Financials sector analyst. As Co-CIO, Ferrill will also continue to serve as a PM and analyst. For further information, please contact Harding Loevner.

GLOBAL EQUITY HOLDINGS (AS OF JUNE 30, 2016)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
CONSUMER DISCRETIONARY		
AMAZON.COM Online retailer	US	2.2
CTRIP.COM Travel agent	China	1.1
LUXOTTICA Eyeglass frames and sunglasses designer	Italy	0.9
NIKE Global athletic footwear and apparel	US	3.3
PRICELINE Online travel search services	US	2.2
STANLEY ELECTRIC Auto lighting and LED packaging	Japan	0.3
WPP Advertising and marketing services	UK	1.4
CONSUMER STAPLES		
COLGATE PALMOLIVE Household products	US	1.8
L'ORÉAL Beauty and personal care products	France	1.1
MAGNIT Discount supermarket operator	Russia	0.6
NESTLÉ Food company	Switzerland	1.5
PIGEON Baby care goods	Japan	1.3
ENERGY		
EXXON MOBIL Integrated oil and gas company	US	1.5
SASOL Refined product and chemicals group	South Africa	0.9
SCHLUMBERGER Oilfield services company	US	3.2
TENARIS Steel pipe manufacturer	Italy	1.0
FINANCIALS		
AIA GROUP Life insurance	Hong Kong	2.2
BANK CENTRAL ASIA Commercial bank	Indonesia	1.1
BBVA Commercial bank	Spain	1.2
FIRST REPUBLIC BANK Private banking & wealth management	US	2.3
GARANTI BANK Commercial bank	Turkey	0.8
ITAU UNIBANCO Commercial bank	Brazil	1.0
LAZARD Financial advisory and asset management	US	0.9
SIGNATURE BANK Commercial bank	US	0.9
SVB FINANCIAL GROUP Commercial bank	US	2.4
WELLS FARGO Commercial bank	US	1.6
HEALTH CARE		
ABBOTT LABS Health care and nutrition products	US	0.9
ABBVIE Biopharmaceutical company	US	1.3
ABCAM Research antibody manufacturer/distributor	UK	0.7
AMERISOURCEBERGEN Pharmaceutical company	US	0.9
ELEKTA Radiation therapy equipment	Sweden	1.2
ESSILOR INTERNATIONAL Ophthalmic lens manufacturer	France	1.2
GRIFOLS Biopharmaceutical and diagnostics	Spain	1.0
LONZA GROUP Biopharmaceuticals/pharma manufacturing	Switzerland	1.4
M3 Medical information services	Japan	3.8
REGENERON Biotech company	US	0.5
ROCHE HOLDING Pharma and diagnostic equipment	Switzerland	1.2
SHIRE Prescription medication developer	UK	0.8
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
KUBOTA Farming and construction machinery	Japan	1.8
MAKITA Power tool manufacturer	Japan	1.4
MONOTARO Online distributor of maintenance supplies	Japan	1.3
ROPER Niche industrial business conglomerate	US	2.5
ROTORK Electric actuator maker	UK	0.8
VERISK Risk analytics	US	2.4
INFORMATION TECHNOLOGY		
ALPHABET Internet search and multimedia	US	3.6
ARM HOLDINGS Semiconductor chip designer	UK	0.9
BAIDU Internet search provider	China	1.1
COGNEX Electrical components manufacturer	US	1.2
DASSAULT SYSTÈMES CAD/CAM software designer	France	1.1
F5 NETWORKS Network technology	US	1.9
FACEBOOK Social network	US	1.5
IPG PHOTONICS High performance fiber lasers/amplifiers	US	1.2
KAKAKU.COM Price comparison website	Japan	0.8
KEYENCE Sensor and measurement equipment	Japan	1.3
MASTERCARD Global payments	US	1.1
MICROSOFT Software company	US	0.7
PAYPAL Electronic payment solutions	US	1.8
RED HAT Software and services	US	1.0
SALESFORCE.COM Cloud-computing software company	US	1.2
TENCENT Internet, mobile, and telecom provider	China	1.2
YANDEX Russian search engine	Russia	1.6
MATERIALS		
AIR LIQUIDE Industrial gas company	France	1.1
LINDE Industrial gases and engineering	Germany	0.7
MONSANTO Seed, genomics, and agricultural products	US	1.0
TELECOM SERVICES		
AMÉRICA MÓVIL Cellular phone operator	Mexico	1.0
MTN GROUP Cellular phone operator	South Africa	0.9
UTILITIES		
No holdings		
CASH		2.6

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.

2Q16 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
M3	HLTH	3.3	1.07
YANDEX	INFT	1.4	0.47
AMAZON.COM	DSCR	2.1	0.39
KEYENCE	INFT	1.2	0.26
SCHLUMBERGER	ENER	3.1	0.24

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
M3	HLTH	2.3	1.70
AMAZON.COM	DSCR	1.9	0.86
ALPHABET	INFT	3.1	0.70
YANDEX	INFT	1.1	0.51
MONOTARO	INDU	1.1	0.40

2Q16 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
NIKE	DSCR	3.5	-0.38
ALPHABET	INFT	3.2	-0.27
KUBOTA	INDU	1.2	-0.27
AMÉRICA MÓVIL	TCOM	1.1	-0.26
IPG PHOTONICS	INFT	1.3	-0.24

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
ICICI BANK	FINA	1.2	-1.11
SVB FINANCIAL	FINA	2.3	-0.87
LAZARD	FINA	1.0	-0.62
MTN GROUP	TCOM	0.9	-0.53
AMÉRICA MÓVIL	TCOM	0.9	-0.48

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GLOBAL	MSCI ACWI
PROFIT MARGIN[1] (%)	16.0	11.0
RETURN ON ASSETS[1] (%)	8.8	5.5
RETURN ON EQUITY[1] (%)	15.2	13.7
DEBT/EQUITY RATIO[1] (%)	47.3	68.8
STD DEV OF 5 YEAR ROE[1] (%)	3.9	4.1
SALES GROWTH[1,2] (%)	10.5	4.1
EARNINGS GROWTH[1,2] (%)	11.7	7.7
CASH FLOW GROWTH[1,2] (%)	12.1	5.8
DIVIDEND GROWTH[1,2] (%)	14.2	8.5
SIZE & TURNOVER	**HL GLOBAL**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	28.2	43.1
WTD AVG MKT CAP (US $B)	81.0	94.1
TURNOVER[3] (ANNUAL %)	21.1	–

RISK & VALUATION	HL GLOBAL	MSCI ACWI
ALPHA[2] (%)	1.66	–
BETA[2]	0.99	1.00
R-SQUARED[2]	0.96	1.00
ACTIVE SHARE[3] (%)	83	–
STANDARD DEVIATION[2] (%)	13.56	13.43
SHARPE RATIO[2]	0.56	0.44
TRACKING ERROR[2]	2.9	–
INFORMATION RATIO[2]	0.57	–
UP/DOWN CAPTURE[2]	105/96	–
PRICE/EARNINGS[4]	23.8	17.1
PRICE/CASH FLOW[4]	18.2	10.9
PRICE/BOOK[4]	3.4	2.0
DIVIDEND YIELD[5] (%)	1.4	2.6

[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 Inc. Source (other characteristics): FactSet (Run Date: July 6, 2016); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
AMERISOURCEBERGEN	UNITED STATES	HLTH
FEI	UNITED STATES	INFT
KUBOTA	JAPAN	INDU
LUXOTTICA	ITALY	DSCR

POSITIONS SOLD	COUNTRY	SECTOR
AMERICAN EXPRESS	UNITED STATES	FINA
DAVITA HEALTHCARE PARTNERS	UNITED STATES	HLTH
FEI	UNITED STATES	INFT
IMS HEALTH	UNITED STATES	HLTH

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 JUNE 30, 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]	2.11	1.86	1.58	1.02	12.19	11.66	11.55	N.A.[6]	28	7,741	20.95
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 March 31, 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 Global Equity Composite has been examined for the periods December 1, 1989 through March 31, 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 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.

This page intentionally left blank.