EMERGING MARKETS EQUITY

2018 Second Quarter Report

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

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED JUNE 30, 2018[1]

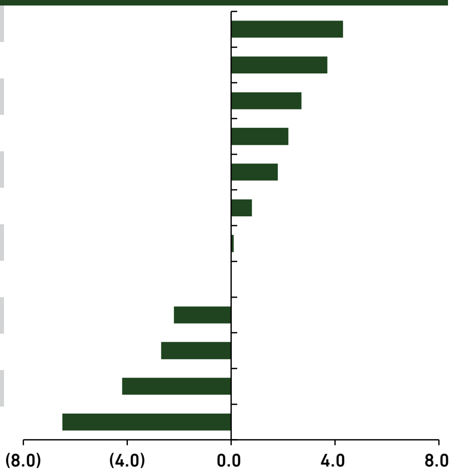
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL EMERGING MARKETS (GROSS OF FEES)	-6.66	-3.75	9.92	8.98	8.10	4.83	13.24
HL EMERGING MARKETS (NET OF FEES)	-6.87	-4.17	8.97	8.03	7.17	3.90	12.33
MSCI EMERGING MARKETS INDEX (GROSS)[4,5]	-7.86	-6.51	8.59	5.98	5.39	2.60	9.44

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

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

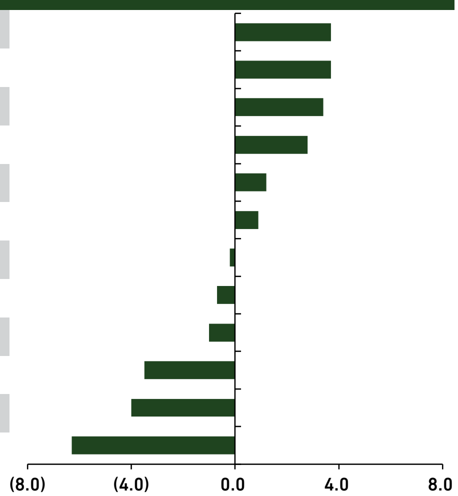
SECTOR EXPOSURE (%)

	HL EM	MSCI EM
FINANCIALS	27.1	22.8
CASH	3.7	–
INDUSTRIALS	7.9	5.2
HEALTH CARE	5.4	3.2
CONS DISCRETIONARY	11.6	9.8
CONS STAPLES	7.5	6.7
ENERGY	7.2	7.1
UTILITIES	2.4	2.4
REAL ESTATE	0.8	3.0
TELECOM SERVICES	1.6	4.3
INFO TECHNOLOGY	23.7	27.9
MATERIALS	1.1	7.6



GEOGRAPHIC EXPOSURE (%)

	HL EM	MSCI EM
CASH	3.7	–
DEVELOPED MARKET LISTED[6]	3.7	–
RUSSIA	6.9	3.5
FRONTIER MARKETS[7]	2.8	–
MEXICO	4.1	2.9
CHINA + HONG KONG[8]	33.6	32.7
BRAZIL	5.6	5.8
SOUTH AFRICA	5.9	6.6
SMALL EMERGING MARKETS[9]	12.7	13.7
TAIWAN	8.1	11.6
INDIA	4.6	8.6
SOUTH KOREA	8.3	14.6



[6]Emerging markets or frontier markets companies listed in developed markets, excluding Hong Kong; [7]Includes countries with less-developed markets outside the Index; [8]The Harding Loevner Emerging Markets Model Portfolio's end weight in China is 27.7% and Hong Kong is 5.9%. The Benchmark does not include Hong Kong; [9]Includes the remaining emerging markets, which individually, comprise less than 5% of the Index.

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

Source: Harding Loevner Emerging Markets Model; MSCI Inc. and S&P. MSCI Inc. and S&P do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.

WHAT'S INSIDE

ONLINE SUPPLEMENTS

Watch the Emerging Markets Equity quarterly review

View other reports at hardingloevner.com/library

This page intentionally left blank.

MARKET REVIEW

Emerging Markets (EMs) stocks fell 8% in the quarter, their sharpest decline in nearly three years, as global trade tensions escalated, US interest rates rose, the dollar strengthened, and investors grew concerned about the prospects for continued growth, notably in China. A collapse in investor confidence led to acute weakness in several EM currencies, including the Brazilian real and Turkish lira, which fell 15% and 14%, respectively, against the US dollar. Overall, currency movements accounted for over half of the MSCI EM Index's decline.

Brazil's stock market declined the most in the quarter, plummeting 26% in dollar terms. A nationwide strike by truckers over high diesel prices paralyzed Latin America's largest economy and its resolution raised questions about the strength of the government's commitment to fiscal reforms. It was provoked by a rise in diesel prices due to higher oil prices globally and depreciation of the Brazilian real. In reaction, truckers blocked major roadways for 10 days in May, idling factories and leaving store shelves bare. President Michel Temer ended the strike by agreeing to implement fuel subsidies—a capitulation reminiscent of the free-spending ways of prior administrations. Investors were also concerned that not one business-friendly candidate has received more than 10% support in early polls for October's presidential election.

Elsewhere in Latin America, Colombia posted a positive return as it continued to benefit from higher oil prices. Mexico was also a relative outperformer, despite fractious NAFTA negotiations and consternation among business leaders that populist Andrés Manual López Obrador (aka AMLO) would likely (and did) win July's presidential election. By the quarter's end the stock market appeared more sanguine about the outcome, rationalizing perhaps that AMLO could not be much worse than the current administration.

China rose for most of the quarter, but erased its gains in June, as signs appeared that its government's clampdown on unregulated lending ("shadow banking") is leading to tighter credit conditions and hurting growth. In May, retail sales rose about 9%, which would be considered rapid for almost any other country but was the smallest increase for China since 2003. Industrial production and infrastructure investment also weakened. It faces a larger threat to its growth in Donald Trump, who, citing China's unfair trading practices, continued to ratchet up trade sanctions against the world's largest exporter. His administration imposed tariffs on US$50 billion worth of Chinese imports and announced additional levies on US$200 billion worth of goods. Efforts to negotiate have thus far gone nowhere, with Trump calling China's response "unacceptable" and Chinese officials accusing the US of acting erratically.[1]

In China, signs appeared that its government's clampdown on unregulated lending ("shadow banking") is leading to tighter credit conditions and hurting growth.

India's market, buoyed by Information Technology (IT) software and services and Consumer Staples, ended nearly flat. Investors were more optimistic that the new Goods and Servic-

MARKET PERFORMANCE (USD %)

REGION/COUNTRY	2Q 2018	TRAILING 12 MONTHS
AFRICA	-11.5	7.1
SOUTH AFRICA	-11.6	7.2
ASIA	-5.8	10.4
CHINA	-3.4	21.4
INDIA	-0.6	6.5
SOUTH KOREA	-9.1	3.9
TAIWAN	-6.1	4.7
EUROPE	-10.0	7.1
RUSSIA	-5.8	27.1
LATIN AMERICA	-17.7	0.2
BRAZIL	-26.4	0.0
MEXICO	-3.5	-9.1
MIDDLE EAST	-0.5	-1.6
MSCI EM INDEX	-7.9	8.6

SECTOR PERFORMANCE (USD %)
OF THE MSCI EM INDEX

SECTOR	2Q 2018	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	-7.1	0.0
CONSUMER STAPLES	-6.1	3.7
ENERGY	-4.6	25.5
FINANCIALS	-12.6	6.0
HEALTH CARE	-5.0	22.5
INDUSTRIALS	-11.1	-6.0
INFORMATION TECHNOLOGY	-5.0	15.6
MATERIALS	-5.4	14.5
REAL ESTATE	-11.2	5.9
TELECOM SERVICES	-9.5	-6.9
UTILITIES	-8.0	2.4

Source: FactSet (as of June 30, 2018). MSCI Inc. and S&P.

[1]Ana Swanson, Keith Bradsher, and Katie Rogers, "Trump Threatens Tariffs on $200 billion in China Goods, Escalating Fight," *The New York Times*, June 18, 2018; *The Associated Press*, "China Says Trump Hurts Credibility with Tariffs," May 30, 2018.

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, 2018 is available on page 9 of this report.

es Tax—a unified taxation system that replaced a complicated mix of national and states taxes last year—is lowering business costs. The country's Financials sector, however, remains in need of reform as it struggles with mounting bad loans and fraud investigations. Concerns over trade weighed heavily on markets in Southeast Asia; Thailand (-15%) and Indonesia (-12%) were the worst.

Rising US interest rates and the strengthening dollar fall especially heavily on EMs with high debt or current-account deficits that they must finance. Turkey, for example, has relied heavily on borrowing money cheaply from foreigners to fuel its economic growth. As the lira loses value against the major creditor currencies, servicing that debt becomes more expensive and, though further borrowing is essential, higher dollar-benchmark interest rates and eroding creditworthiness make it even more costly. Lenders and equity investors are repulsed by the erratic, unorthodox policies of the increasingly authoritarian president, Recep Tayyip Erdoğan, whose expressed economic views include that higher interest rates *cause* inflation. Erdoğan was reelected to another five-year term at the end of June.

Rising US interest rates and the strengthening dollar fall especially heavily on EMs with high debt or current-account deficits that they must finance.

In Europe, Turkey's market declined the most, falling nearly 26% in dollars. Russia fell sharply in April, when the US imposed sanctions on Russian oligarchs, government officials, and their associated companies, for the first time barring US investors from holding or trading the shares of certain listed companies in the secondary market. It subsequently recovered to end the quarter down only 6% after Trump abruptly canceled plans for additional sanctions.

All sectors were negative this quarter. Financials declined the most, primarily due to currency weakness, with the largest negative contributions from Brazilian and South African banks. Real Estate was the second-worst sector: Chinese property developers, constituting about half of the EM sector, gave back some of last year's gains on deteriorating prospects as monetary conditions tightened, despite sustained housing sales volumes and prices. Industrials were also weak as confidence in the outlook for global EM growth waned.

Energy was the best-performing sector. Crude oil prices were supported by tight supplies and an agreement by OPEC members in June to boost production only moderately. IT stocks were boosted by strong earnings reports from giants **Baidu** and **Alibaba**, along with a revival in revenues for Indian IT services companies. Health Care outperformed but not uniformly: Chinese pharmaceutical companies continued to gain on prospective benefits from government policies that accelerate the approval process for high-quality drugs. Their rise and that of Indian generics companies outweighed weakness among South Korean pharmaceuticals.

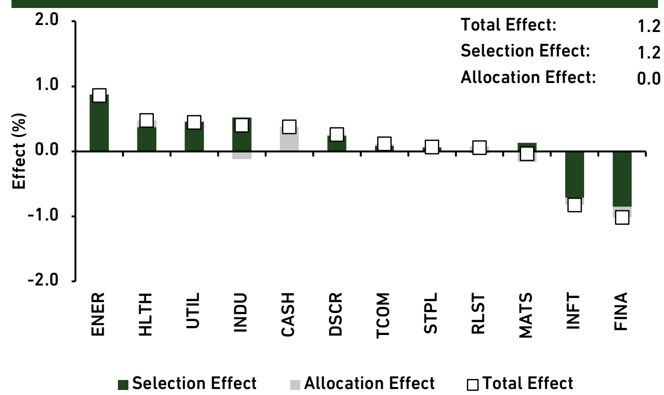
Rising concerns over the sustainability of global growth heightened demand for growth stocks, which continued to outperform. The fastest-growing stocks as defined by our proprietary methodology fell only about 3%, less than half the benchmark index's decline. A market preference for high-quality companies was less evident.

PERFORMANCE AND ATTRIBUTION

The Emerging Markets composite fell 6.7% during the quarter, less than the 7.9% decline of its benchmark, the MSCI EM Index. The charts below attribute the quarter's performance by sector and region.

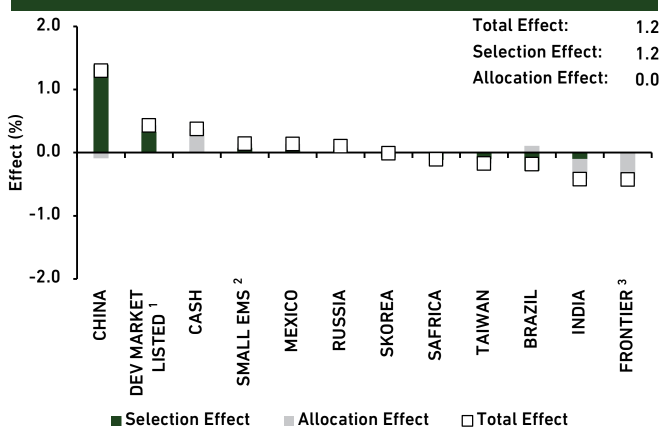
SECTOR PERFORMANCE ATTRIBUTION
SECOND QUARTER 2018

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION
SECOND QUARTER 2018

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



[1]Emerging markets or frontier markets companies listed in developed markets; [2]Includes countries with less-developed markets outside the Index; [3]Includes the remaining emerging markets, which individually, comprise less than 5% of the Index. Source: FactSet; Harding Loevner Emerging Markets Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on page 1 of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS presentation.

Our focus on growing businesses contributed to outperformance in the quarter, while our preference for quality had a less pronounced, but still helpful, impact. Stock selection was strong in Energy, Industrials, Utilities, and Health Care, offsetting weak results in Financials and IT. Sector allocation (excluding cash) modestly detracted due to our overweight in Financials and underweight in Materials. Our small (~3.5%) cash exposure contributed to our outperformance of a declining market.

In Energy, returns were boosted by Chinese oil producer **CNOOC**, whose cash flows improved due to higher crude prices. The Russian gas company **Novatek** also contributed as its new Siberian liquefied natural gas (LNG) project came online and investors began to appreciate the magnitude of the growth prospects for its LNG exports. Industrial company **51job Inc.**, China's leading online job search portal, reported accelerating revenue and margin expansion for the first quarter. The company has shifted its focus from expanding the number of users to extracting more revenue from each current user by enhancing premium features and raising prices. **ENN Energy**, a Chinese natural-gas distribution company and our only Utilities holding, reported higher volumes thanks to China's ongoing shift from coal to gas. In Health Care, **CSPC Pharmaceutical Group** and **Sino Biopharmaceutical** continued to benefit from China's streamlining of its regulatory framework.

In Financials, we lagged the index due to our higher exposure to banks in the weakest markets for the sector. Our Brazilian bank holdings **Itaú Unibanco** and **Banco Bradesco** were the greatest detractors. Their share prices in US dollars suffered from the falling currency, downward revisions to economic growth expectations, and rising political uncertainty ahead of elections. The underlying business fundamentals of these banks remained strong, however, with their first-quarter reports showing year-over-year increases in net income and continued solid returns on equity. In Russia, **Sberbank** declined sharply in April as the ruble weakened and the US issued new

CHINA EQUITY MARKET REFORMS
BY JINGYI LI

Chinese policy makers have long been concerned that bank loans play too large a role in the financial system. Direct financing, through debt and equity markets, accounts for only approximately 40% of total financing in China, compared with over 80% in the US and 65–75% in other developed countries. Hence the government has introduced numerous experiments and reforms over the years to open its capital markets more widely to foreign investors. Foreign investors have been allowed to buy and sell yuan-denominated shares of mainland companies (A-shares) traded in Shanghai since 2014 and in Shenzhen since 2016 through "Stock Connect" conduits at the Hong Kong Stock Exchange. In the last year, policy makers have announced numerous changes that reaffirm their commitment to expanding foreign access to China's domestic bourses, untangling archaic listing rules, and raising the quality of investable companies.

On June 6, the China Securities Regulatory Commission issued a series of long-discussed rules designed to improve the quality of companies on China's domestic exchanges, in part by luring home strong Chinese companies that are listed elsewhere. One change allows businesses already trading in Hong Kong or the US—such as the tech giants Alibaba and Baidu—to have secondary listings in Shanghai or Shenzhen (so-called China Depositary Receipts, sort of the inverse of ADRs). The new rules also remove the requirement that companies have a three-year record of sizable profits before their initial public offerings, so that innovative-but-unprofitable companies can also apply for A-share listings.

Another initiative is expected to improve the governance of Hong Kong-listed entities with Chinese holding companies (often state-owned enterprises) as key shareholders. These holding companies were previously not allowed to sell their stakes, so they were not incentivized to create shareholder value. In April, regulators announced a pilot program that converts previously non-tradeable equity held by major shareholders into ordinary shares that can be freely traded on the secondary market. The long-overdue move should help align the interests of large shareholders with those of minority investors.

China has also made progress on easing capital controls. On May 1, regulators quadrupled the daily trading limit of the Stock Connect programs. In June, they removed all restrictions on how much money qualified foreign institutional investors can repatriate. Restrictions on foreign ownership of banks, insurance companies, and asset management companies were also relaxed.

On June 1, the index provider MSCI started including A-shares in its Emerging Market (EM) indexes after years of refusing to do so out of concerns over beneficial ownership and the difficulty of moving money into and out of China. MSCI is proceeding with caution: A-share companies initially make up just 0.8% of the MSCI EM Index, a tiny fraction of what their market capitalization would imply. Their index weight is expected to grow substantially as long as reforms continue.

These developments are encouraging signs that China's equity market is not only growing bigger but also becoming more open, competitive, and mature. Harding Loevner's analysts now follow more businesses in China than in any other country outside of the US. Thousands of companies are newly available for us to research and potentially qualify for inclusion in our portfolios. Though we expect relatively few to meet our investment criteria in the near term, our hope is that, over time, China's increasing integration into the global financial system and improvements in its standards of corporate governance will lead to more opportunities for our clients and all investors.

sanctions against Russia. The bank has loans outstanding to a few of the sanctioned companies, representing about 2% of its assets. Other countries where our Financials holdings suffered heavy declines included South Africa, Indonesia, Thailand, and Turkey.

By region, holdings in China added the most to relative returns. In addition to the companies previously discussed, another contributor was textile manufacturer **Shenzhou International**, which is improving its efficiency by increasing the level of automation in its operations, expanding its Vietnamese factory, and upgrading its production facilities at its Ningbo, China headquarters. These investments are expected to further strengthen Shenzhou's competitive position by accelerating the development and delivery of products to key global clients such as Nike.

In India, both our underweight and poor stock selection detracted, as we lacked exposure to the relatively strong-performing Indian IT services and Consumer Staples companies. Our off-benchmark exposure to frontier markets also hurt, with Argentina's **Banco Macro** falling sharply as the peso plummeted due to fears of runaway inflation. Shares of Panama's **Copa Holdings**, the parent company of airlines with routes across the Americas, fell in tandem with weaker Latin American markets.

PERSPECTIVE AND OUTLOOK

At the start of 2018, investors cheered the return of synchronized global growth: in 2017, all 45 OECD economies expanded simultaneously for the first time since the global financial crisis. Six months later, the mood has darkened, with much of the concern focused on China. Risks to growth in the world's second-largest economy appear to be rising amid government policies to reduce the country's reliance on debt and cool the property market. An escalating trade war with the US also threatens the world's largest exporter. If China stumbles, other EMs that have benefited from the country's demand will follow. Global economic growth will become increasingly dependent on growth in the US, which is running out of available labor and where the Federal Reserve is raising interest rates.

Economic expansion, of course, helps businesses' revenues and profits. But it isn't the only source of a company's potential growth. Some industries expand faster than others, and some businesses grow faster than the rest of their industry. Companies that have competitive advantages like strong bargaining power over suppliers, differentiated products with pricing power over customers, and strong management teams tend to sustain faster growth. Some companies are innovative, deploying technology creatively to take advantage of changes in their industries—or even to refashion those industries. These competitive qualities do not immunize companies from the ill effects of economic malaise, but they do help them better to withstand it and better to position themselves to resume fast growth in a more favorable environment in the future.

Ultimately, a company's ability to generate free cash flow over time is what matters for long-term returns to owners of its equity. Our research process is designed to uncover resilient companies that can sustain cash-flow growth in a variety of environments. In recent years, we have owned fast-growing Chinese IT, e-commerce, and health care businesses. But we have also found durable growth in industries and geographies as diverse and challenging as retailing in Mexico, energy in Russia, and telecommunications in Kenya. Amid the challenging economies and industries in which they operate, these companies are enhancing their competitive positions, tapping into new growth opportunities, and generating cash.

Walmart de México

Selling groceries and household goods is difficult everywhere due to intense competition and low profit margins. The retail business is especially competitive in Mexico, with the industry dominated by traditional markets (*tianguis*), in which merchants hawk produce and other staples from small stands. Large standalone stores offering a wide selection of products are also fighting for market share in this crowded competitive landscape. Among them is **Walmart de México** (Walmex), which is using technology and management lessons from its US parent Walmart to reshape retailing in Mexico. The company has been consistently growing faster than its peers; in first quarter 2018 Walmex's same-store sales growth was 10%, beating its peers overall by five percentage points.

Like its parent, Walmex keeps prices low by finding efficiencies and maximizing returns from every inch of its store space. In 2016, the company announced it would spend US$1.3 billion on logistics over three years to increase further the automation of its stores and warehouses. Proprietary mobile apps help managers train new workers, monitor product sales, and improve store operations. When scoping out locations for a new store, district managers use in-house software that estimates the competition it would face and how much of Walmex's existing stores' business it would cannibalize. In addition, Walmex is deploying free Wi-Fi, product-information kiosks, and self-service checkouts to enhance shoppers' experiences.

E-commerce currently makes up only 3% of retail sales in Mexico, but the percentage is rising. Walmex's management is aware of the potential opportunity—and the potential to be disrupted by Amazon.com and other online platforms. Walmex initially focused on building out the infrastructure for its online grocery business, which it hopes will get its customers accustomed to shopping online. Paradoxically, one of Walmex's biggest advantages in e-commerce may well be its 2,390 physical stores. Because of the difficulties of last-mile package delivery in Mexico, e-commerce cannot succeed (as Amazon itself realizes) without physical infrastructure, which Walmex holds in abundance.

Novatek

Supplies of natural gas have generally kept pace with strongly rising global demand for this clean-burning fuel, with the result that its price has been flat or falling. Due to the commodity nature of the business, gas producers' competitiveness and profitability depend on the location and sufficiency of their reserves, their cost-efficiency in its extraction, and their ability to transport products where they are needed. Novatek, Russia's largest independent gas producer and the world's eighth-largest producer, has achieved strong revenue and profit growth by tapping its vast gas reserves in and around one of the most difficult environments on Earth—Siberia's Yamal-Nenets Autonomous Area north of the Arctic Circle.

Novatek's US$27 billion Yamal LNG project began production in December 2017. The project is expected to earn solid returns above its cost of capital in part because the frigid location helps reduce the cost of cooling natural gas into its liquefied state. There are abundant nearby reserves that can be tapped and processed at the facility, minimizing future development and production costs. In addition, Yamal's resources contain gas condensates that can be stripped out and sold at attractive profits.

Novatek has achieved strong revenue and profit growth by tapping its vast gas reserves in and around one of the most difficult environments on Earth.

LNG does not require pipelines to transport; instead, it can be moved by ocean tankers. Exports should allow Novatek to earn higher revenues and profits than selling in the domestic Russian gas market alone. To reach customers in Asia, Novatek has launched a fleet of massive ice-breaking tankers and inaugurated a Northern Sea shipping route that will be supported by a transshipment terminal on the far-east Russian Kamchatka Peninsula. From May until November each year, vessels will be able to reach Asia in 19 days, compared with 36 days on the conventional route around Europe and through the Suez Canal.

Based on its expertise in extracting gas in extremely challenging arctic environments, Novatek is set to become one of the world's leading LNG producers by 2030. The company plans to commence work on its second Arctic LNG project next year.

Safaricom

Growth investors are rarely attracted to the wireless communications industry, for good reason. The companies must spend heavily to build, maintain, and upgrade their vast networks, but due to intense competition the rates they can charge for voice and data are in near-constant decline. **Safaricom**, Kenya's largest mobile telecom operator, has figured out how to escape the doldrums: by leveraging its underlying technology to move beyond mobile telephony to offer services typically provided by firms in other sectors. In 2007, Safaricom launched M-Pesa, a data platform that supports person-to-person money transfer services via cell phones. M-Pesa was designed to solve the problem of how to transfer cash easily and cheaply across long distances in a country where cash dominates daily transactions and millions of consumers lack bank accounts or, in rural areas, even access to bank branches. The company has since extended this business with other services, notably business-to-business and person-to-business money transfers. There is ample room for continued growth in electronic payments as nationally eight out of ten transactions are still settled in cash.

Safaricom is taking initiatives to capitalize on M-Pesa's huge customer base, which now encompasses 27 million registered users. Among the more promising is MaSoko, an e-commerce platform launched at the end of 2017 where small businesses can sell their products and get paid through M-Pesa. Another service under development is Digifarm, which will help farmers obtain higher prices by connecting them directly to markets, bypassing middlemen. The company is also rolling out a health care application called M-Tiba, which guides people to high-quality primary care centers that accept M-Pesa.

While Safaricom's voice business has matured, its overall revenue and profits should grow at double-digit rates in coming years thanks to its mobile data business, M-Pesa, and related products. The company has nearly completed building out its network, allowing free cash flow to grow even as Safaricom continues to invest in new businesses. In 2017, Kenya's GDP grew by 4.9%, well below the previous year's rate of 5.9%, as the economy was affected by a disputed presidential election, tight credit, and a prolonged drought. Despite these headwinds, Safaricom's free cash flow rose 27% for its fiscal year ended March 31.

PORTFOLIO HIGHLIGHTS

To ensure our portfolios are well diversified, portfolio managers at Harding Loevner must comply with internal guidelines that stipulate the portfolio's maximum permissible weight in each of the markets where we invest. These rules—by design—occasionally prevent portfolio managers from fully expressing their enthusiasm for companies in particular markets. Over the years, the restraints they impose have helped us achieve superior risk-adjusted returns.

For our EM Equity strategy, China and Hong Kong stocks combined can be no more than 35% of the portfolio—the highest limit among all geographies. In 2017, we raised the cap from 25%, reflecting the expanding availability, accessibility, and size of publicly listed Chinese companies. We believe the constraint is prudent for a huge market that, while it offers a large array of high-quality, growing companies, also presents significant systematic risks. The structure and regulation of China's capital markets are still developing (see "China Equity Market Reforms" on page 5), and the country continues to rank low in terms of economic freedom.

In the past year, as our analysts have identified additional Chinese companies with attractive quality and growth characteristics, we have increased the number of Chinese holdings in our portfolio from 19 to 24. Because these companies' share prices have risen faster than others, much of our activity this quarter involved trimming Chinese positions to maintain compliance with our China exposure limit. We also sold our stake in **China Mobile** to make room for investments in more-appealing Chinese companies. We believe China Mobile's growth prospects are constrained by its high subscriber penetration rate and pricing pressure on data and voice services. Additionally, the government has mandated that China Mobile invest heavily in 5G wireless technology, which will limit the company's returns on capital.

Country weight limits are simple and easy to enforce, and we think they provide an effective way to diversify our portfolio's risk exposures, including currency. We do not attempt to predict currency movements, but we try to understand how they influence our companies and their cash flows. When opportunities arise, we try to find ways to balance our currency risks. In Russia, for example, we own Sberbank, the country's dominant bank in terms of market share and financial strength. Its business is directly exposed to the local currency, and its value in dollars falls in periods of ruble weakness. We also own two energy exporters, **Lukoil** and Novatek. In contrast, their revenues are largely denominated in, or at least linked to, US dollars, while their expenses are primarily in rubles. Their profit margins are enhanced by a weaker ruble.

Country weight limits are simple and easy to enforce, and we think they provide an effective way to diversify our portfolio's risk exposures, including currency.

This quarter we established only one position—the Mexican retail chain Walmex, already discussed. We also completed a number of "pain trades" late in the quarter by adding to underperforming bank holdings in sharply lower markets, including Brazil (Itaú Unibanco) and Argentina (Banco Macro). Banco Macro is familiar with navigating an economy prone to currency devaluation, high inflation, and high interest rates. While the deteriorating economy is a big source of risk to the asset quality of Argentina's banks, we expect that Banco Macro—with its historically disciplined lending practices and strong balance sheet—will weather this crisis just as it has endured through previous cycles. It may even seize on opportunities to expand as its rivals falter.

In Energy, we sold Kazakhstan's **Nostrum Oil & Gas** (listed in the UK) following a series of operational missteps, including disappointing drilling results and delays in completing its third gas-separation facility. The issues reduced our expectations for cash-flow growth and led us to question the quality of management. In IT, we sold South Korean internet search and social media platform **NAVER**, as its revenue growth has failed to translate into earnings growth due to the company's rising marketing expenses. In Financials, we sold Poland's **Bank Pekao**, a holding since 2004 that in 2016 underwent a management change when a state-owned insurance company bought a controlling interest and installed an executive team with little commercial banking experience. It became apparent to us that raising dividends, rather than reinvesting for growth, has become their priority. We are not averse to investing in state-controlled companies that are managed in the interests of minority shareholders, but feared that this was no longer the case for Pekao.

Portfolio Management Team Update

Scott Crawshaw, portfolio manager on the Emerging Markets Equity strategy since 2014, became a co-lead portfolio manager on July 2, 2018, replacing Rusty Johnson. Craig Shaw continues as the other co-lead portfolio manager. Rusty remains on the EM strategy as a portfolio manager, along with Portfolio Managers Pradipta Chakrabortty and Rick Schmidt. Rusty also continues to support the strategy as an analyst of emerging markets companies. The assignment changes were made to provide Rusty with added flexibility to address a health issue.

EMERGING MARKETS HOLDINGS (AS OF JUNE 30, 2018)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
CONSUMER DISCRETIONARY		
ARÇELIK Consumer appliances manufacturer	Turkey	0.3
ASTRA INTERNATIONAL Auto business operator	Indonesia	0.8
CTRIP.COM Online travel services	China	0.6
ECLAT TEXTILE Technology-based textile manufacturer	Taiwan	1.0
HANKOOK TIRE Tire manufacturer	South Korea	1.0
HANSSEM Home-furnishings retailer	South Korea	0.2
JD.COM E-commerce retailer	China	0.5
MARUTI SUZUKI Automobile manufacturer	India	1.3
MIDEA GROUP Consumer appliances manufacturer	China	1.5
NASPERS Internet and media services	South Africa	1.0
SANDS CHINA Integrated resorts and casinos operator	Hong Kong	1.4
SHENZHOU INTERNATIONAL Textile manufacturer	China	2.0
CONSUMER STAPLES		
AMBEV Alcoholic beverages manufacturer	Brazil	0.8
AMOREPACIFIC Cosmetics manufacturer	South Korea	1.0
CBD Foods and consumer products retailer	Brazil	0.8
COCA-COLA HBC Coca-Cola bottler	UK	1.4
EAST AFRICAN BREWERIES Alcoholic beverages manufacturer	Kenya	0.3
FEMSA Beverages manufacturer and retail operator	Mexico	0.5
LG HOUSEHOLD & HEALTH CARE Cons products manufacturer	South Korea	1.8
WALMART DE MÉXICO Foods and consumer products retailer	Mexico	1.0
ENERGY		
CNOOC Oil and gas producer	China	1.5
LUKOIL Oil and gas producer	Russia	2.2
NOVATEK Natural gas producer	Russia	2.2
TENARIS Steel-pipe manufacturer	Italy	1.3
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	2.3
B3 Clearing house and exchange	Brazil	0.6
BANCO BRADESCO Commercial bank	Brazil	1.0
BANCO MACRO Commercial bank	Argentina	0.6
BANCO SANTANDER CHILE Commercial bank	Chile	1.1
BANCOLOMBIA Commercial bank	Colombia	1.1
BANK CENTRAL ASIA Commercial bank	Indonesia	0.7
BANK OF GEORGIA Commercial bank	UK	0.5
BANK RAKYAT Commercial bank	Indonesia	1.4
COMMERCIAL INTERNATIONAL BANK Commercial bank	Egypt	0.6
CREDICORP Commercial bank	Peru	1.5
DISCOVERY HOLDINGS Insurance provider	South Africa	1.2
GARANTI BANK Commercial bank	Turkey	0.8
GEORGIA CAPITAL Investment services	UK	0.1
GF BANORTE Commercial bank	Mexico	1.6
HDFC CORP Mortgage lender	India	1.9
HONG KONG EXCHANGES Clearing house and exchange	Hong Kong	1.4
ITAÚ UNIBANCO Commercial bank	Brazil	1.7
KOMERČNÍ BANKA Commercial bank	Czech Rep.	1.0
KOTAK MAHINDRA BANK Commercial bank	India	0.8
SBERBANK Commercial bank	Russia	2.5
SIAM COMMERCIAL BANK Commercial bank	Thailand	1.1
STANDARD BANK Commercial bank	South Africa	1.5
HEALTH CARE		
ASPEN PHARMACARE Pharma manufacturer	South Africa	1.1
CSPC PHARMACEUTICAL GROUP Pharma manufacturer	China	0.9
GEDEON RICHTER Pharma manufacturer	Hungary	0.5
JIANGSU HENGRUI MEDICINE Pharma manufacturer	China	1.3
SINO BIOPHARMACEUTICAL Pharma manufacturer	China	1.7
INDUSTRIALS		
51JOB INC. Online human resource services	China	2.4
AIRTAC Pneumatic-equipment manufacturer	Taiwan	0.7
ASUR Airport operator	Mexico	1.1
COPA HOLDINGS Airline operator	Panama	0.8
DP WORLD Container-terminal operator	UAE	1.0
HAN'S LASER Laser equipment manufacturer	China	0.9
JIANGSU EXPRESSWAY Toll road and bridge operator	China	0.4
WEG Industrial equipment manufacturer	Brazil	0.6
INFORMATION TECHNOLOGY		
AAC TECHNOLOGIES Smartphone components manufacturer	China	1.0
ADVANTECH Industrial PCs manufacturer	Taiwan	0.0
ALIBABA E-commerce retailer	China	2.3
ASM PACIFIC TECHNOLOGY Semiconductor eqpt manufacturer	Hong Kong	0.8
BAIDU Internet products and services	China	0.9
EPAM IT consultant	US	0.5
HANGZHOU HIKVISION Surveillance camera manufacturer	China	1.3
HON HAI PRECISION Electronics manufacturer	Taiwan	1.0
LARGAN PRECISION Smartphone lens modules producer	Taiwan	1.2
NETEASE Gaming and internet services	China	0.2
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	4.3
SUNNY OPTICAL Optical component manufacturer	China	0.9
TENCENT Internet and IT services	China	4.5
TSMC Semiconductor manufacturer	Taiwan	4.1
WEIBO Social network	China	0.5
MATERIALS		
SASOL Energy and chemical technology developer	South Africa	1.1
REAL ESTATE		
EMAAR PROPERTIES Real estate developer and manager	UAE	0.8
TELECOM SERVICES		
BHARTI AIRTEL Telecom services	India	0.6
SAFARICOM Mobile network operator	Kenya	1.1
UTILITIES		
ENN ENERGY Gas pipeline operator	China	2.4
CASH		3.7

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

2Q18 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
SHENZHOU INTERNATIONAL	DSCR	2.0	0.32
CNOOC	ENER	1.8	0.31
51JOB INC.	INDU	2.4	0.27
LARGAN PRECISION	INFT	1.1	0.26
ENN ENERGY	UTIL	2.4	0.25

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
TENCENT	INFT	4.4	1.42
51JOB INC.	INDU	1.8	1.36
SINO BIOPHARMACEUTICAL	HLTH	1.3	1.19
SHENZHOU INTERNATIONAL	DSCR	1.7	1.05
SBERBANK	FINA	2.7	1.04

2Q18 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ITAÚ UNIBANCO	FINA	1.8	-0.69
BANCO BRADESCO	FINA	1.3	-0.54
TSMC	INFT	4.1	-0.54
SBERBANK	FINA	2.5	-0.53
STANDARD BANK	FINA	1.7	-0.40

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
HANKOOK TIRE	DSCR	1.3	-0.45
HON HAI PRECISION	INFT	1.4	-0.40
ARÇELIK	DSCR	0.5	-0.38
ASTRA INTERNATIONAL	DSCR	1.1	-0.37
ASUR	INDU	1.4	-0.34

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL EM	MSCI EM
PROFIT MARGIN[1] (%)	17.3	15.6
RETURN ON ASSETS[1] (%)	8.5	7.4
RETURN ON EQUITY[1] (%)	19.8	16.6
DEBT/EQUITY RATIO[1] (%)	38.3	49.2
STD DEV OF 5 YEAR ROE[1] (%)	3.6	3.4
SALES GROWTH[1,2] (%)	9.1	4.3
EARNINGS GROWTH[1,2] (%)	14.2	12.2
CASH FLOW GROWTH[1,2] (%)	15.6	12.3
DIVIDEND GROWTH[1,2] (%)	14.4	6.4
SIZE & TURNOVER	**HL EM**	**MSCI EM**
WTD MEDIAN MKT CAP (US $B)	22.7	23.3
WTD AVG MKT CAP (US $B)	77.9	97.8
TURNOVER[3] (ANNUAL %)	20.4	—

RISK AND VALUATION	HL EM	MSCI EM
ALPHA[2] (%)	3.09	—
BETA[2]	0.90	—
R-SQUARED[2]	0.94	—
ACTIVE SHARE[3] (%)	73	—
STANDARD DEVIATION[2] (%)	13.68	14.73
SHARPE RATIO[2]	0.56	0.34
TRACKING ERROR[2] (%)	3.8	—
INFORMATION RATIO[2]	0.72	—
UP/DOWN CAPTURE[2]	97/85	—
PRICE/EARNINGS[4]	16.1	13.2
PRICE/CASH FLOW[4]	12.7	9.0
PRICE/BOOK[4]	2.6	1.6
DIVIDEND YIELD[5] (%)	2.1	2.5

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner Emerging Markets Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: July 5, 2018); Harding Loevner Emerging Markets Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
WALMART DE MÉXICO	MEXICO	STPL

POSITIONS SOLD	COUNTRY	SECTOR
BANK PEKAO	POLAND	FINA
CHINA MOBILE	CHINA	TCOM
NAVER	SOUTH KOREA	INFT
NOSTRUM OIL & GAS	UK	ENER

The portfolio is actively managed therefore holdings identified above do not represent all of the securities held in the portfolio and holdings may not be current. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and contribution of all holdings during the quarter and the last 12 months. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance over the period. Contributors and detractors exclude cash and securities in the Composite not held in the Model Portfolio. Quarterly data is not annualized. Portfolio attribution and characteristics are supplemental information only and complement the fully compliant Emerging Markets Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

EMERGING MARKETS COMPOSITE PERFORMANCE (AS OF JUNE 30, 2018)

	HL EM GROSS (%)	HL EM NET (%)	MSCI EM INDEX[1] (%)	HL EM 3-YR STD DEVIATION[2] (%)	MSCI EM INDEX 3-YR STD DEVIATION[2] (%)	INTERNAL DISPERSION[3] (%)	NO. OF ACCOUNTS	COMPOSITE ASSETS ($M)	FIRM ASSETS (%)
2018 YTD[4]	-3.75	-4.17	-6.51	14.48	15.82	N.A.[5]	22	18,161	32.40
2017	36.81	35.64	37.75	13.90	15.36	0.3	23	19,177	35.51
2016	14.84	13.85	11.60	15.00	16.07	0.4	22	13,629	34.95
2015	-12.85	-13.59	-14.60	13.61	14.04	1.2	20	9,670	29.04
2014	0.74	-0.11	-1.82	14.06	14.99	0.5	14	8,212	23.46
2013	5.74	4.80	-2.27	17.56	19.03	0.6	12	5,649	17.04
2012	23.92	22.79	18.63	20.15	21.49	0.4	10	3,772	16.65
2011	-15.55	-16.36	-18.17	24.72	25.76	0.5	9	3,136	23.06
2010	22.22	21.06	19.20	31.54	32.59	0.1	7	3,881	35.25
2009	68.45	66.95	79.02	30.92	32.35	0.2	6	2,716	42.44
2008	-52.01	-52.46	-53.18	27.61	28.68	0.4	6	1,545	47.31

[1]Benchmark Index; [2]Variability of the Composite and the Index returns over the preceding 36-month period, annualized; [3]Asset-weighted standar deviation (gross of fees); [4]The 2018 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion is less than a 12-mont period.

The Emerging Markets Composite contains fully discretionary, fee-paying accounts investing in non-US equity and equity-equivalent securities c companies domiciled predominately in emerging markets and cash reserves, and is measured against the MSCI Emerging Markets Total Return Inde (Gross) for comparison purposes. 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 asset invested in countries or regions not included in the benchmark, is available upon request.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the globa emerging markets. The Index consists of 24 emerging market countries. You cannot invest directly in this Index.

Harding Loevner LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report i compliance with the GIPS standards. Harding Loevner has been independently verified for the period November 1, 1989 through March 31, 2018.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis an (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Emerging Market Composite has been examined for the periods December 1, 1998 through March 31, 2018. The verification and performance examination reports ar available upon request.

Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of Affiliate Managers Group, Inc. (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. The firm maintains a complete lis 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 i 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 th reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expense that may be incurred in the management of the account. The standard fee schedule generally applied to separate Emerging Markets Equity accounts i 1.25% annually of the market value up to $20 million; 0.90% of amounts from $20 million to $100 million; 0.75% of amounts from $100 million to $20 million; 0.55% of amounts above $200 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersio presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The Emerging Markets Composite was created on November 30, 1998.

This page intentionally left blank.

400 CROSSING BLVD, FOURTH FLOOR • BRIDGEWATER, NJ 08807
T (908)218-7900 • F (908)218-1915 • HARDINGLOEVNER.COM