HARDING LOEVNER

EMERGING MARKETS EQUITY

2019 Second Quarter Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED JUNE 30, 2019[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)	1.84	16.24	-0.10	10.92	4.10	8.80	12.55
HL EMERGING MARKETS (NET OF FEES)	1.61	15.72	-0.99	9.95	3.20	7.84	11.64
MSCI EMERGING MARKETS INDEX (GROSS)[4,5]	0.74	10.76	1.61	11.06	2.87	6.17	9.04

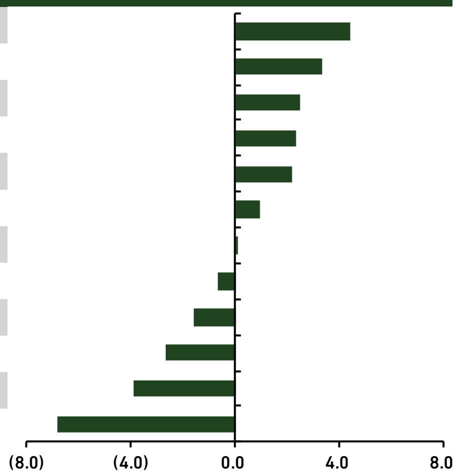
[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1998; [4]The Benchmark Index; [5]Gross of withholding taxes.

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	29.5	25.1
CASH	3.3	—
CONS DISCRETIONARY	16.0	13.5
CONS STAPLES	8.9	6.6
INFO TECHNOLOGY	16.1	13.9
INDUSTRIALS	6.3	5.4
ENERGY	8.0	7.9
UTILITIES	2.0	2.7
HEALTH CARE	1.0	2.6
REAL ESTATE	0.3	3.0
COMM SERVICES	7.8	11.7
MATERIALS	0.8	7.6

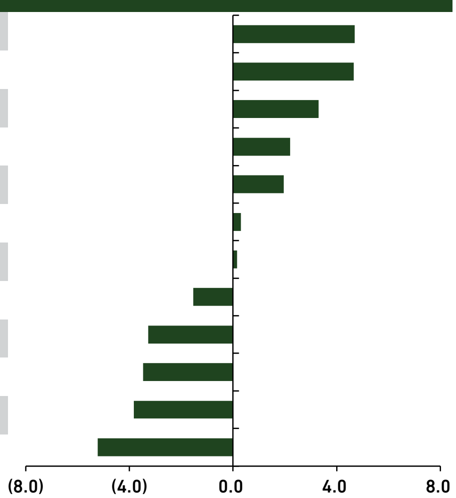
(UNDER) / OVER THE BENCHMARK



GEOGRAPHIC EXPOSURE (%)

	HL EM	MSCI EM
DEVELOPED MARKET LISTED[6]	4.7	—
RUSSIA	8.7	4.0
CASH	3.3	—
FRONTIER MARKETS[7]	2.2	—
MEXICO	4.5	2.5
BRAZIL	8.0	7.7
CHINA + HONG KONG[8]	31.7	31.6
SOUTH AFRICA	4.4	5.9
INDIA	5.7	9.0
SOUTH KOREA	8.9	12.4
TAIWAN	7.0	10.8
SMALL EMERGING MARKETS[9]	10.9	16.1

(UNDER) / OVER THE BENCHMARK



[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 24.0% and Hong Kong is 7.7%. 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.

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MARKET REVIEW

Stocks in Emerging Markets (EMs) rose 0.7% in a volatile quarter as investors reacted, in turn, to developments in the US-China trade dispute, weak economic data, and signs of monetary policy response. In May, at the peak of trade tensions, the EM index fell 7% but bounced back in June when US and European central bankers indicated they might lower interest rates to boost their economies.

Optimism surrounding prospects for the latest round of US-China trade talks had supported rebounding stock markets in the first four months of the year, but evaporated when negotiations abruptly dissolved into recriminations, seemingly just shy of a deal. Piqued, President Donald Trump announced a tariff increase on US$200 billion of Chinese goods, and the Chinese stiffened their resistance to US demands. A further jolt was delivered by the US Commerce Department opening a new front in the conflict by barring US companies from selling advanced semiconductors or other parts to Huawei, China's telecommunications equipment giant, and banning US purchases of Huawei equipment and handsets, citing risks to national security. This unexpected action escalated a long-running dispute over intellectual property theft into potentially a new "war" for technological supremacy. Huawei is also a global leader in supplying fifth-generation (5G) wireless equipment and relies upon US-designed components to power its systems. The ban thus led to fears of worldwide delays and disruption in plans to roll out 5G networks.

In June, the US Federal Reserve acknowledged rising global risks to the US' continued economic expansion—the US has enjoyed the most prolonged period without a recession since the Civil War—and signaled further interest rate increases are unlikely. Meanwhile, US markets are predicting the next rate change will be a cut. Global bond yields have fallen uniformly, as the ECB looks to initiate its next chapter of quantitative easing. The dovish tone of central banks enticed investors back to EM risk assets, and EM currencies rebounded from the lows of May to finish in positive territory for the quarter and the year.

In the quarter, sector performance for EMs mirrored that of Developed Markets (DMs) with intriguing consistency, which we believe is explained by the truly global implications of the US-China stand-off, and the impact of rising concerns with global growth broadly across equity markets. Financials was the top-performing sector, benefiting from expectations that lower US interest rates will repel mobile capital into higher-yielding EMs and afford central banks the flexibility to ease their policies and boost their growth rates. While lower rates may pressure margins, investors were cheered by the prospect of increased financial inclusion and higher demand for credit. Consumer Staples companies also outperformed, as investors sought their more resilient growth. As in DMs, Health Care was a weak sector as political pressures continued to mount worldwide over the rising cost burden of health care, particularly in the US, an important market for many EM-based generic drug manufacturers.

Negative returns in Communication Services and Consumer Discretionary reflected weakness in China, where large online businesses that rely on advertising revenues faltered. Consumer industries such as online gaming and autos have curtailed their ad spending in a weakening demand environment just as additional online ad capacity entering the market has depressed ad prices. E-commerce giant **Alibaba** posted a robust business update as Chinese consumers continued to shop online, but the stock fell nevertheless, reflecting the Chinese economy's dimming outlook.

While EMs overall were flat this quarter, emerging Europe delivered double-digit returns thanks to a sizeable contribution from Russia. In a global environment of rising risks from conflicts over trade and technology, as well as lower sovereign bond yields, investors are attracted by Russia's "splendid" isolation from dislocations in global trade and high dividend yields

MARKET PERFORMANCE (USD %)

REGION/COUNTRY	2Q 2019	TRAILING 12 MONTHS
AFRICA	6.8	-0.1
SOUTH AFRICA	6.8	-0.2
ASIA	-1.1	-2.0
CHINA	-3.9	-6.5
INDIA	0.5	7.9
SOUTH KOREA	-0.9	-8.6
TAIWAN	1.1	1.9
EUROPE	12.1	16.5
RUSSIA	17.3	28.4
LATIN AMERICA	4.7	19.0
BRAZIL	7.2	39.9
MEXICO	1.3	-7.1
MIDDLE EAST	0.5	13.8
MSCI EM INDEX	0.7	1.6

SECTOR PERFORMANCE (USD %)
OF THE MSCI EM INDEX

SECTOR	2Q 2019	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-2.3	-9.4
CONSUMER DISCRETIONARY	-1.1	-6.9
CONSUMER STAPLES	3.4	1.3
ENERGY	1.5	16.8
FINANCIALS	4.2	12.5
HEALTH CARE	-6.6	-24.6
INDUSTRIALS	0.0	3.8
INFORMATION TECHNOLOGY	0.2	-1.8
MATERIALS	-1.1	-1.2
REAL ESTATE	-0.1	10.9
UTILITIES	2.7	9.7

Source: FactSet (as of June 30, 2019). MSCI Inc. and S&P.

offered by Russia's blue-chip stocks, such as **Sberbank** (6.7%) and **Lukoil** (4.8%). The Russian government's continued pressure on state companies to improve shareholder returns also began paying dividends (literally): in May, energy giant Gazprom declared it planned to more than double its dividend over the previous year's payment.

Latin America was positive largely due to Brazil. The increasing likelihood that Brazil's Congress will pass a landmark social security reform bill before its summer break has stoked investors' confidence that the country's fiscal position will improve. Its stock market was also buoyed by the prospect of further cuts to its benchmark interest rate, which is already at a historically low level. South Africa rose as President Cyril Ramaphosa narrowly won re-election in May. He now faces a stern test ahead to push forward with much-needed reforms.

Asia lagged as strong returns in Thailand and the Philippines were offset by China's weak performance. Chinese stocks fell in every sector except Consumer Staples and Utilities. Information Technology (IT) stocks were especially hard-hit as the blacklisting of Huawei caused negative reverberations across companies in the smartphone supply chain. In India, Prime Minister Narendra Modi won a second five-year term with a strong majority of the vote that ensures policy continuity. The market reaction, however, was muted compared with 2014. Modi's re-election coincided with tightening credit conditions and weakening consumer and corporate confidence. In May, the government announced that in the first quarter India's year-over-year GDP growth had fallen to 5.8%, the lowest in five years.

PERFORMANCE AND ATTRIBUTION

The Emerging Markets composite returned 1.8% in the quarter, surpassing the index's 0.7% gain. The charts to the right attribute the quarter's performance by sector and region.

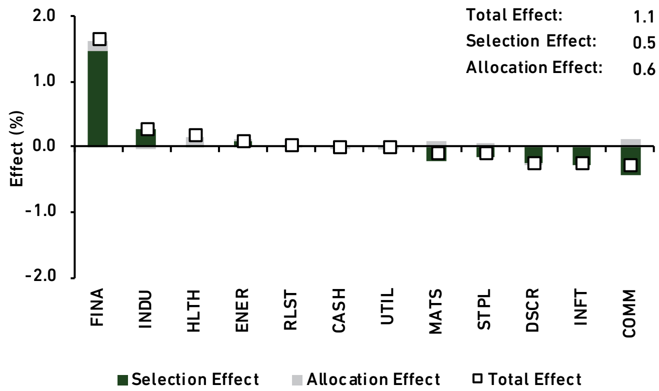
Our outperformance was from the combination of generally favorable sector allocations and good stock selection. Our overweight to Financials and underweights to Communication Services, Health Care, and Materials were all helpful. Our good stock picks in Financials and Industrials offset weaker ones in Communication Services, IT, and Consumer Discretionary.

In Financials, our investments in an array of growing banks and insurance companies across Russia, Brazil, India, South Africa, Mexico, Indonesia, and China/Hong Kong produced strong returns. Sberbank was a large contributor. Shares of Hong Kong-listed **AIA Group** also rose in anticipation of the Chinese government's plan to accelerate the removal of restrictions on foreign insurance companies. Our demand for quality helped relative returns in India and Southeast Asia as our holdings, including **Kotak Mahindra Bank** and **Siam Commercial Bank**, outperformed weaker banks in the region.

In Industrials, Latin American airline **Copa Holdings**' first-quarter results were better than expected, helped by declining fuel costs. **WEG**, a Brazilian industrial-motor manufacturer, reported improving demand from the mining and pulp-and-paper industries. The country's recovering investment climate should boost demand for WEG's equipment generally.

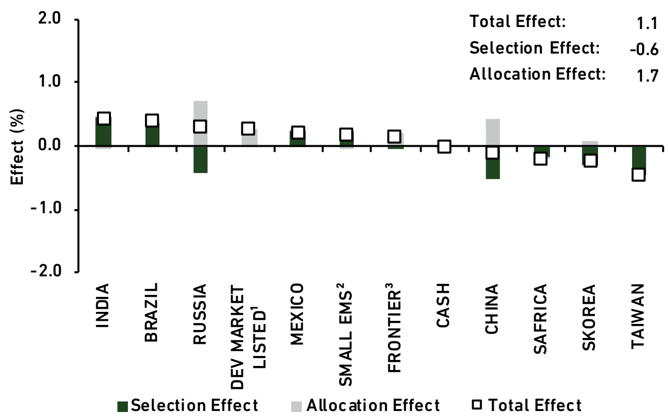
SECTOR PERFORMANCE ATTRIBUTION SECOND QUARTER 2019

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION SECOND QUARTER 2019

EMERGING MARKETS COMPOSITE VS. MSCI EM INDEX



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

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, 2019 is available on page 9 of this report.

In IT, US policy action against China hurt several of our stocks. Shares of **Hangzhou Hikvision**, a surveillance equipment manufacturer, fell on speculation that the company would be added to the US "entity list," limiting its access to US-made semiconductors. **Largan Precision** and **Sunny Optical**, two manufacturers of camera components for smartphones, sold off in anticipation of a severe interruption of demand for their products in the wake of the blacklisting of Huawei and potential Chinese retaliation against iPhone-maker Apple.

Geographically, stock selection in China was a detractor. Fears of an online advertising slowdown hurt **Weibo**, a social media platform, and **Autohome**, an online site for automobile buyers. The latter has also been impacted by a contraction in car sales and in the number of car dealers, by whom Autohome is paid for sales leads. We had good relative returns in India largely due to the mortgage lender **HDFC Corp**, which recently issued solid results including 12% growth in loans and 32% growth in profits year over year.

PERSPECTIVE AND OUTLOOK

This quarter's episode of the US-China trade drama featured whiplash-inducing developments, ending with a meeting and a handshake between Presidents Trump and Xi at the G20 summit in Japan. Though this latest twist was positive, there still is no trade deal. New tariffs and trade restrictions imposed over the last 18 months continue to be enforced, and protectionist rhetoric remains fierce in Washington, Beijing, and elsewhere. We have no better idea than anyone else if or when the current US-China dispute will be resolved.

When we first wrote about the trade dispute around its inception in April 2018, we stated that we would make no changes to our portfolio based on tweets, headlines, and geopolitical predictions, reminding readers that our investment decisions remain anchored in analysis of industry and company fundamentals. With respect to potential changes in global trade, we seek answers to two primary questions: Would the competitive position of a company be affected? If so, what are the implications for its long-term growth and profit margins? We must consider alternate scenarios and how our companies may be impacted in each. The task is not as simple as estimating the exposure of a company's export sales to revised tariff structures. Intricate global supply chains established over decades are under threat, not only from tariffs but also from non-tariff barriers, especially involving intellectual property. Therefore our analysis must delve deeper, to seek to uncover the nuanced effects of new rules on companies' customers and suppliers, and to discern their ability to adapt their products and productive assets in response. It is especially tricky to evaluate the disruptive impact of technology embargoes, such as that imposed (though subsequently softened) on Huawei. Alternative sourcing options will have cost implications and, where there are no alternatives, the inevitable impact on current production and the pace of new product development must be assessed. The job of our analysts is to investigate such issues and incorporate their findings into one or more revised financial projections for the business. Ultimately, we need to understand which of the plausible scenarios are discounted in the share price, and which are not.

To illustrate how we analyze the implications of the trade dispute and incorporate them into our investment decisions, we discuss two holdings especially exposed.

Techtronic Industries (TTI)

Techtronic Industries (TTI), the manufacturer of Milwaukee, Ryobi, and Homelite cordless tools, appears to be caught right in the middle of the conflict. Though headquartered in Hong Kong, the company's factories are concentrated in China and the majority of its revenue is generated in the US. In the weeks following the Trump administration's September 2018 announcement of tariffs on US$200 billion in Chinese goods, TTI's shares fell 28%.

In our opinion, this was an overreaction. For one reason, the list of Chinese goods subject to tariffs is highly specific, and often targets components rather than whole products. "Lithium-ion battery-operated cordless tools"—TTI's fastest-growing product line—are not on the list. Lithium-ion batteries are on the list, but TTI sources the majority of its batteries from Japan and South Korea and so avoids the levies. Corded tools are also on the list. TTI's key competitors in the US market, such as Stanley Black & Decker, also manufacture primarily in China but they are more exposed to tariffs because a higher percentage of their sales comes from corded tools. Some also source their Li-ion batteries from China.

Another reason is that even if the tariffs were extended to cover cordless tools we would expect TTI to continue to grow, albeit with some margin impact that TTI can offset by moving production outside of China or introducing new products at higher prices. Do-it-yourselfers have already largely transitioned from corded to cordless tools, but professionals have held back due to concerns about cordless tools' inferior power and reliability. Thanks to recent advances in battery technology, cordless tools now meet the demanding requirements of construction and industrial jobs, and professionals are responding accordingly. TTI is now selling cordless tools to telecommunications companies, oil-and-gas producers, and utilities, where its corded tools previously held sway.

Our analyst expects the cordless power-tool market to grow at a compound annual rate of 6% over the next 10 years, with TTI's sales growing at 10% thanks to market-share gain on the strength of its superior technology, and its first mover advantage and brand loyalty among professionals. The impact of tariffs to growth is negligible in his model, though he does account for a potential impact to TTI's margins if the company relocates some production outside of China. His worst-case scenario—a deep recession perhaps triggered by the trade war's impact on business sentiment—would affect the company's growth. In that case, he believes TTI's ten-year growth rate would slow to 7%, which assumes a 6% one-year revenue decline at the trough. Based on that outlook, we established a position in TTI at the beginning of 2019 and added to it in the recent quarter.

Hangzhou Hikvision

While the key issue for TTI is how tariffs could raise the price and depress the sales of its products, the concern for Hangzhou Hikvision is not nearly as straightforward. Its global business success has put the company in the crosshairs of the Trump administration as it combats what it perceives as China's military and technological threat to the US. The company is the global leader in developing and manufacturing video surveillance equipment, including systems that incorporate artificial intelligence (AI) and big-data analysis to improve the efficacy and expand the applications of its cameras. Hikvision's high-quality, low-cost products have enabled it to dominate the vast Chinese market, and it is rapidly capturing market share elsewhere.

The US has targeted Hikvision's products purportedly for national security reasons, despite that its products have been certified by US governmental and international agencies to comply with the highest cybersecurity standards. Last year, a law was passed requiring US federal agencies to remove Hikvision equipment from their facilities and cease purchasing from the company. In May 2019, shortly after trade talks broke down and the US added Huawei to its entity list (blacklist), news organizations reported that the Trump administration was considering blacklisting Hikvision as well, which would cut off the company's access to US components such as semiconductors.

The loss of US government business will have a minor impact on Hikvision. The US market as a whole accounts for only 5% of its US$7 billion in annual sales. Under any scenario, its most important market will continue to be China, which accounts for more than 70% of sales. The threat of loss of access to US semiconductors raises the political drama, but similar to the US government boycott it would not have a material financial impact on the company in the near term. In recent years, Hikvision has significantly diversified its sources of semiconductors and produces most of its products using non-US chips. It still relies on advanced microprocessors from NVIDIA and other US suppliers for its AI research, so loss of access to these chips might retard the development of Hikvision's AI capabilities over the long term.

Surveillance is a vast and growing global business. According to BIS Research, the surveillance market is expected to grow 16% a year to over US$77 billion by 2023.[1] The growth is being propelled by the replacement of simple analog video cameras with advanced digital technology that offers more increasingly advanced analytical capabilities. No longer being used just to watch for shoplifters or monitor parking lots, surveillance systems are now being deployed to count inventory and alert when stock is running low, or automatically alert authorities or managers when drivers violate traffic laws or workers ignore construction-site safety rules.

Hikvision appears poised to capture much of the industry's growth. The company's key competitive advantages are its heavy investment in R&D and the large number of engineers it has hired from China's highly skilled and affordable labor pool. In 2018, the company spent 4.5 billion renminbi (US$655 million) on R&D (a 40% increase over the previous year) and employed over 16,000 engineers, who account for nearly half of its total workforce. No other surveillance company comes close to Hikvision's scale. Dahua Technology, its closest competitor in China, has less than half of Hikvision's revenues and engineering staff.

We recognize that there are social risks associated with selling surveillance equipment, which can be used for socially oppressive as well as socially beneficial purposes. As an integral part of our fundamental research, we explore environmental, social, or governance (ESG) issues that may pose a risk to the sustainability of a company's business. Our ESG analysis culminates in assigning a score to each of these three areas for a company. The ESG scores are measures of the risk to the sustainability of a company's growth and impact our estimate of a company's fair value. Late last year, news reports emerged that Hikvision's technology was being used to support government surveillance in Xinjiang province, where for years Uighurs and other Muslims have been detained in re-education camps for the ostensible purpose of countering extremism and terrorism. The reports detailed, for the first time, the role that advanced surveillance systems played in the government's crackdown in the province, including in the camps.

During a recent meeting in China, we discussed the Xinjiang issue with Hikvision's management. They claimed that the company had been unaware of the purposes of the government contracts at issue, as the projects' specifications were very similar to the typical surveillance system used for security at many large school campuses in China or abroad, that the company was not involved in the operations at its clients' sites, and that the data collected in Xinjiang was not accessible by Hikvision. Though it is impossible for us to confirm what the company knew about the camps before last year's reports, we were encouraged by the actions it has taken in the aftermath. Hikvision immediately made changes to reduce its social risk exposure, including ending its participation in such projects in Xinjiang and revising its screening procedures to comply with international human rights standards. The company hired a former US State Department official with experience in war crimes and genocide investigations to advise the company on the human-rights implications of its business. Nonetheless, we assign the company a high social risk score to reflect the heightened concerns surrounding the potential for employment of its products in human rights abuses, and to reflect the additional, related risk factor that its largest shareholder remains a Chinese state entity.

[1] BIS Research, "The Global Video Surveillance Market is Expected to Grow over $77.21 Billion by 2023" (Online Press Release), December 27, 2018.

A HISTORICAL PERSPECTIVE ON TRADE DISPUTES

by Jingyi Li and Yoko Sakai, CFA

In the second half of the twentieth century, the US was embroiled in a long-running trade dispute with Japan. A historical perspective can be useful to observers of today's trade war: it reminds us to take a long-term view and helps us not to get carried away by the present-day twists and turns.

Like today, the earlier clash stemmed from the US's massive trade deficit with Japan. Early attempts to reduce the imbalance in specific industries ended with Japanese concessions, including various voluntary export restraints on cotton textile (1956), steel (1969), synthetic fiber textiles (1971), and automobiles in the 1980s.

Over time, the goal of negotiations evolved from simply reducing the US trade deficit to addressing deep-rooted structural issues in a wide range of industries. Those talks lasted for decades. Successive US administrations tried different tactics, such as the Market-Oriented Sector-Selective talks (MOSS) under President Ronald Reagan, the Structural Impediments Initiative (SII) under President George H.W. Bush, and the US-Japan Framework for New Economic Partnership (Framework Talks) under President Bill Clinton.

During this long process, the US occasionally took draconian measures unilaterally. In 1971, for example, President Richard Nixon declared a national emergency in order to invoke the Trading with the Enemy Act against Japan, a US ally. The declaration allowed him to impose a 10% *ad valorem* supplemental duty on all dutiable imports into the US. Nixon hoped that the move would compel Japan to revalue the yen sharply, which Japan agreed to do.

As with today's dispute with China, the earlier trade dispute spread to the high-tech area. US semiconductor manufacturers blamed their loss of market share and global leadership on what they claimed were the unfair trade practices of Japanese competitors. They also denounced the Japanese government for restricting foreign companies in Japan and subsidizing local companies' R&D. US chipmakers warned that their industry was critical to the nation's overall economic and national security.

After five years of negotiations, the US and Japan reached the 1986 Semiconductor Agreement, which effectively forced Japan to give up an agreed percentage of its market to US chipmakers. Even with bilateral agreements, history shows that trade relationships can become contentious again. In 1987, President Reagan accused Japan of violating the chip agreement and imposed a 100% tariff on some Japanese-made computers, TVs, and power tools. In another development that year, a proposal by Fujitsu to acquire Fairchild Semiconductor fell apart amid scrutiny by the Committee on Foreign Investment in the United States (CFIUS) and strong objections from the Reagan administration, which had been heavily lobbied by Silicon Valley.

Compared with the US-Japan trade disputes of the 70s and 80s, the differences between the US and China run deeper: they are rooted in separate ideologies and geopolitical interests. Although political issues such as the return of Okinawa were entangled with the US-Japan disputes, Japan was a US ally and depended on the US military to deter mutual adversaries. By contrast, China is in a stronger position than Japan to resist, even defy, US demands. It does not need the US for protection, and its economy—now the world's second largest—is two-thirds the size of the US economy. (Japan's GDP at its relative peak in the 1970s was only a third of US GDP.) The US administration sees its Chinese adversary as an existential threat, and that national security concern has triggered actions like the blocking of US companies from supplying advanced chips to technology giant Huawei.

However, China faces internal economic and political issues that weaken its bargaining position. The government seeks to develop its high-tech sector, but it cannot do that—yet—without US technology. Recent protests in Hong Kong not only explicitly take issue with the legal and political system in mainland China but also cast a shadow over the January 2020 elections in Taiwan, with which China hopes eventually to reunite. President Xi needs to stabilize the US trade relationship so that he can maintain the Chinese peoples' confidence in his reign.

Perhaps the biggest reminder from history is that trade disputes are not unusual and they last long—but eventually settle down. In recent years, trade relations between the US and Japan have grown less strained. Some of the deals helped balance the relationship, while others turned out to be ineffective. There were also unintended consequences that were impossible to predict. In the years after 1986's Semiconductor Agreement, for example, Japan lost its dominant market share in memory chips (a key focus of the deal). But that business did not return to US shores. Today, 75% of DRAMs are made by South Korean companies such as Samsung, which were not a party to, and not bound by, the bilateral agreement.

At the end of March, Hikvision's share price reached its high for this year and then started falling sharply in the face of continuing negative news coverage on the Xinjiang surveillance as well as rising US rhetoric. The steepest decline occurred in May, following reports that the company would be added to the US entity list (which has not occurred as of this writing). We took the opportunity to add to the portfolio's position. Despite its challenges, we believe Hikvision is likely to achieve annual revenue growth of about 15% per year through 2024. Given this growth potential and despite the higher risks to this growth forecast for the reasons discussed, the shares were attractively priced at a level well below our estimate of fair value.

PORTFOLIO HIGHLIGHTS

Our transactions during the quarter were primarily in response to price moves. In April, we reduced our exposure to a selection of stocks that had strongly appreciated as investors were cheered by positive developments in the trade talks. The reductions, primarily in Consumer Discretionary and Industrials, included Chinese travel agency **Ctrip.com**, clothing manufacturer **Shenzhou International**, and **Han's Laser**. We also exited our position in AirTAC, a Taiwanese manufacturer of industrial pneumatic equipment. AirTAC shares have always been volatile due to the cyclical nature of its business, but price swings have intensified with the current geopolitical and economic uncertainties. In early April, its stock price rose sharply from its fourth-quarter low to a level that significantly exceeded our analyst's fair-value estimate.

We also trimmed our exposure to **EPAM**, a technology-services provider founded in Belarus but now headquartered in Pennsylvania, following a period of strong stock performance.[2] Demand has been strong as large companies seek the company's expertise in developing high-end systems for their digital transformation projects. EPAM's annual revenue growth rate has been in the mid-twenties over the past five years.

Our additions this quarter involved attractively priced companies that are executing their corporate strategies well, including **Coca-Cola HBC**, a multinational Coca-Cola bottler that generates a majority of revenues from emerging Europe and Nigeria. The company has continued to improve profit margins by achieving economies of scale and using enhanced data analytics to engage more effectively with retailers on product placement and pricing. This quarter, Coca-Cola HBC announced it was declining the opportunity to acquire Coca-Cola Beverages Africa (CCBA). While the acquisition could have been a potential new source of growth, the price was high. We, along with the market, approved of management's decision to avoid overpaying for a new asset.

We made two new investments in the quarter, both connected to the automotive industry. The first operates amid Chinese economic uncertainty, while the second, in Brazil, is seemingly insulated from the risks of the Trump-Xi negotiations. **Autohome** is China's leading online platform where automotive buyers can browse for comprehensive information about cars and driving. The company claims over 90 million registered users, three times the number of Chinese car buyers each year. The audience is valuable to automakers seeking to target their advertising, while data gathered by the site can help car dealers identify future customers. In fact, online advertising and lead-generation data are Autohome's key revenue streams. New auto-related services the company is pursuing, including selling auto insurance and finance products, are providing opportunities for additional revenue growth and helping to cement Autohome's position as China's go-to site for car-related information.

As Brazil's largest car rental company, **Localiza** has the scale to source vehicles more cheaply than competitors and provide retail and fleet customers with better quality and choice. The company operates over 500 car rental locations in 350 Brazilian cities and purchased 170,000 cars last year, elevating its buying power over car manufacturers well beyond that of its competitors. The rental car industry in Brazil is less mature than in developed countries, providing Localiza a long runway for growth. Rental car usage has been rising along with disposable incomes, helping the company to post on average high double-digit annual sales growth over the last five years. Forty percent of the car rental market still consists of mom-and-pop operators who have rapidly been ceding business to the larger operators. We expect Localiza and its two big competitors to take the vast majority of Brazil's market as it matures.

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[2] Our strategy admits companies listed in DMs only if they meet certain criteria qualifying them as essentially EM businesses, such as receiving or holding at least 50% of their revenues or productive assets in developing countries. In the case of EPAM, the vast majority of staff work in Eastern Europe at the company's hubs in Minsk and Kiev, and in offices in Russia, Poland, China, and India.

EMERGING MARKETS HOLDINGS (AS OF JUNE 30, 2019)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMMUNICATION SERVICES		
AUTOHOME Automotive information services	China	0.8
BAIDU Internet products and services	China	0.6
SAFARICOM Mobile network operator	Kenya	1.0
TENCENT Internet and IT services	China	4.4
WEIBO Social network	China	0.4
YANDEX Internet products and services	Russia	0.6
CONSUMER DISCRETIONARY		
ALIBABA E-commerce retailer	China	3.9
ASTRA INTERNATIONAL Auto business operator	Indonesia	0.8
COWAY Consumer appliances manufacturer	South Korea	0.9
CTRIP.COM Online travel services	China	0.5
ECLAT TEXTILE Technology-based textile manufacturer	Taiwan	1.2
HANKOOK TIRE Tire manufacturer	South Korea	1.0
JD.COM E-commerce retailer	China	0.4
MARUTI SUZUKI Automobile manufacturer	India	0.9
MIDEA GROUP Consumer appliances manufacturer	China	1.4
NASPERS Internet and media services	South Africa	1.1
SANDS CHINA Integrated resorts and casinos operator	Hong Kong	1.9
SHENZHOU INTERNATIONAL Textile manufacturer	China	1.1
TECHTRONIC INDUSTRIES Power tool manufacturer	Hong Kong	0.9
CONSUMER STAPLES		
AMBEV Alcoholic beverages manufacturer	Brazil	0.9
AMOREPACIFIC Cosmetics manufacturer	South Korea	0.6
CBD Foods and consumer products retailer	Brazil	0.6
COCA-COLA HBC Coca-Cola bottler	UK	1.6
EAST AFRICAN BREWERIES Alcoholic beverages manufacturer	Kenya	0.2
FEMSA Beverages manufacturer and retail operator	Mexico	1.0
JIANGSU YANGHE BREWERY Alcoholic beverages manufacturer	China	0.3
LG HOUSEHOLD & HEALTH CARE Cons products manufacturer	South Korea	2.0
RAIA DROGASIL Drugstores operator	Brazil	0.5
WALMART DE MÉXICO Foods and consumer products retailer	Mexico	1.2
ENERGY		
CNOOC Oil and gas producer	China	1.5
LUKOIL Oil and gas producer	Russia	2.6
NOVATEK Natural gas producer	Russia	2.7
TENARIS Steel-pipe manufacturer	Italy	1.2
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	2.9
B3 Clearing house and exchange	Brazil	0.7
BANCO BRADESCO Commercial bank	Brazil	1.9
BANCO SANTANDER CHILE Commercial bank	Chile	0.5
BANCOLOMBIA Commercial bank	Colombia	1.2
BANK CENTRAL ASIA Commercial bank	Indonesia	1.1
BANK OF GEORGIA Commercial bank	UK	0.3

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
BANK RAKYAT Commercial bank	Indonesia	1.5
COMMERCIAL INTERNATIONAL BANK Commercial bank	Egypt	0.7
CREDICORP Commercial bank	Peru	1.3
DISCOVERY HOLDINGS Insurance provider	South Africa	1.1
GF BANORTE Commercial bank	Mexico	1.4
HDFC CORP Mortgage lender	India	2.4
HONG KONG EXCHANGES Clearing house and exchange	Hong Kong	1.5
ITAÚ UNIBANCO Commercial bank	Brazil	1.6
KOMERČNÍ BANKA Commercial bank	Czech Rep.	1.0
KOTAK MAHINDRA BANK Commercial bank	India	1.3
PING AN INSURANCE Insurance provider	China	1.6
SBERBANK Commercial bank	Russia	2.7
SIAM COMMERCIAL BANK Commercial bank	Thailand	1.6
STANDARD BANK Commercial bank	South Africa	1.4
HEALTH CARE		
ASPEN PHARMACARE Pharma manufacturer	South Africa	0.1
CSPC PHARMACEUTICAL GROUP Pharma manufacturer	China	0.6
SINO BIOPHARMACEUTICAL Pharma manufacturer	China	0.3
INDUSTRIALS		
51JOB INC. Online human resource services	China	1.2
ASUR Airport operator	Mexico	0.9
COPA HOLDINGS Airline operator	Panama	1.0
DP WORLD Container-terminal operator	UAE	0.8
HAN'S LASER Laser equipment manufacturer	China	0.5
LOCALIZA Automobile rental services	Brazil	0.7
WEG Industrial equipment manufacturer	Brazil	1.1
INFORMATION TECHNOLOGY		
AAC TECHNOLOGIES Smartphone components manufacturer	China	0.5
ASM PACIFIC TECHNOLOGY Semiconductor eqpt manufacturer	Hong Kong	0.6
EPAM IT consultant	US	1.6
HANGZHOU HIKVISION Surveillance camera manufacturer	China	1.1
HON HAI PRECISION Electronics manufacturer	Taiwan	0.4
LARGAN PRECISION Smartphone lens modules producer	Taiwan	0.9
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	4.5
SUNNY OPTICAL Optical component manufacturer	China	0.9
TATA CONSULTANCY SERVICES IT consultant	India	1.1
TSMC Semiconductor manufacturer	Taiwan	4.4
MATERIALS		
SASOL Energy and chemical technology developer	South Africa	0.8
REAL ESTATE		
EMAAR PROPERTIES Real estate developer and manager	UAE	0.3
UTILITIES		
ENN ENERGY Gas pipeline operator	China	2.0
CASH		3.3

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.

2Q19 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
NOVATEK	ENER	2.5	0.57
SBERBANK	FINA	2.7	0.56
HDFC CORP	FINA	2.3	0.30
WEG	INDU	1.0	0.22
AIA GROUP	FINA	2.4	0.21

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
BANCO BRADESCO	FINA	1.6	1.02
NOVATEK	ENER	2.4	0.91
ITAÚ UNIBANCO	FINA	1.8	0.87
BANK RAKYAT	FINA	1.5	0.81
LUKOIL	ENER	2.6	0.66

2Q19 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ALIBABA	DSCR	4.0	-0.28
AUTOHOME	COMM	0.7	-0.27
BAIDU	COMM	0.7	-0.26
SASOL	MATS	1.0	-0.23
LARGAN PRECISION	INFT	1.1	-0.22

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SINO BIOPHARMACEUTICAL	HLTH	0.8	-0.91
AAC TECHNOLOGIES	INFT	0.7	-0.86
BAIDU	COMM	1.0	-0.72
ASPEN PHARMACARE	HLTH	0.6	-0.71
CSPC PHARMACEUTICAL GROUP	HLTH	0.9	-0.68

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL EM	MSCI EM
PROFIT MARGIN[1] (%)	17.5	16.0
RETURN ON ASSETS[1] (%)	9.9	6.7
RETURN ON EQUITY[1] (%)	19.6	16.4
DEBT/EQUITY RATIO[1] (%)	34.0	53.5
STD DEV OF 5 YEAR ROE[1] (%)	3.8	3.3
SALES GROWTH[1,2] (%)	8.1	4.7
EARNINGS GROWTH[1,2] (%)	13.3	10.3
CASH FLOW GROWTH[1,2] (%)	13.5	9.8
DIVIDEND GROWTH[1,2] (%)	14.2	7.3
SIZE & TURNOVER	**HL EM**	**MSCI EM**
WTD MEDIAN MKT CAP (US $B)	38.1	24.5
WTD AVG MKT CAP (US $B)	89.4	92.1
TURNOVER[3] (ANNUAL %)	19.3	—

RISK AND VALUATION	HL EM	MSCI EM
ALPHA[2] (%)	1.37	—
BETA[2]	0.93	—
R-SQUARED[2]	0.94	—
ACTIVE SHARE[3] (%)	72	—
STANDARD DEVIATION[2] (%)	15.11	15.65
SHARPE RATIO[2]	0.21	0.13
TRACKING ERROR[2] (%)	3.9	—
INFORMATION RATIO[2]	0.31	—
UP/DOWN CAPTURE[2]	97/93	—
PRICE/EARNINGS[4]	15.8	12.9
PRICE/CASH FLOW[4]	11.2	8.3
PRICE/BOOK[4]	2.6	1.6
DIVIDEND YIELD[5] (%)	2.3	2.7

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner Emerging Markets Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: July 4, 2019); Harding Loevner Emerging Markets Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
AUTOHOME	CHINA	COMM
LOCALIZA	BRAZIL	INDU

POSITIONS SOLD	COUNTRY	SECTOR
AIRTAC	TAIWAN	INDU

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.

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EMERGING MARKETS COMPOSITE PERFORMANCE (AS OF JUNE 30, 2019)

	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 (%)
2019 YTD[4]	16.24	15.72	10.76	14.16	13.67	N.A.[5]	18	18,004	29.80
2018	-17.29	-18.03	-14.25	13.94	14.62	0.4	21	15,114	30.07
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

[1]Benchmark Index; [2]Variability of the Composite and the Index returns over the preceding 36-month period, annualized; [3]Asset-weighted standard deviation (gross of fees); [4]The 2019 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion less than a 12-month period.

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

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Index consists of 26 emerging market countries. You cannot invest directly in this Index.

Harding Loevner LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Harding Loevner has been independently verified for the period November 1, 1989 through March 31, 2019.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Emerging Markets Composite has been examined for the periods December 1, 1998 through March 31, 2019. The verification and performance examination reports are available upon request.

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

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Emerging Markets Equity accounts is 1.25% annually of the market value up to $20 million; 0.90% of amounts from $20 million to $100 million; 0.75% of amounts from $100 million to $200 million; 0.55% of amounts above $200 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

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