HARDING LOEVNER

EMERGING MARKETS EQUITY

2020 First Quarter Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED MARCH 31, 2020[1]

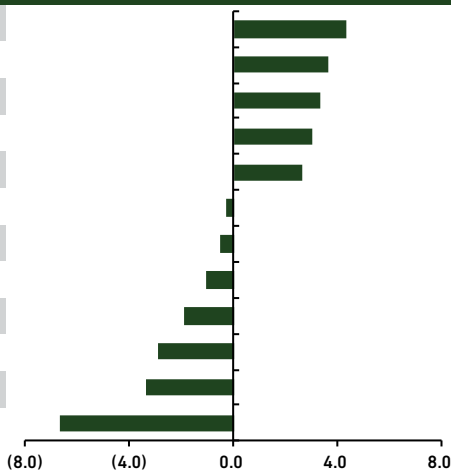
	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL EMERGING MARKETS (GROSS OF FEES)	-27.17	-19.02	-2.17	0.70	3.25	10.89
HL EMERGING MARKETS (NET OF FEES)	-27.34	-19.76	-3.04	-0.18	2.33	9.99
MSCI EMERGING MARKETS INDEX (GROSS)[4,5]	-23.57	-17.36	-1.25	0.01	1.04	7.71

[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.

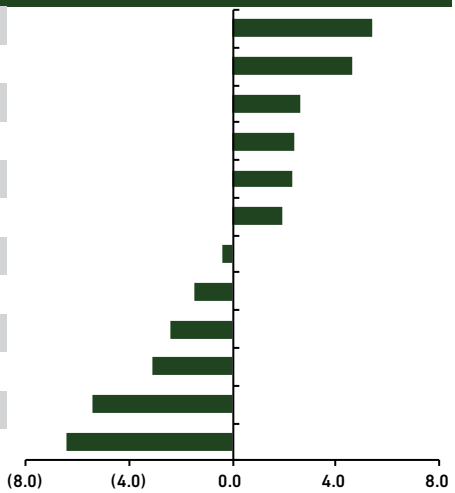
SECTOR EXPOSURE (%)

	HL EM	MSCI EM
INFO TECHNOLOGY	21.2	16.9
CONS STAPLES	10.2	6.6
INDUSTRIALS	8.2	4.9
FINANCIALS	24.6	21.6
CASH	2.6	—
ENERGY	5.6	5.9
CONS DISCRETIONARY	14.9	15.4
UTILITIES	1.4	2.5
HEALTH CARE	1.6	3.5
REAL ESTATE	0.0	2.9
COMM SERVICES	9.7	13.1
MATERIALS	0.0	6.7



GEOGRAPHIC EXPOSURE (%)

	HL EM	MSCI EM
DEVELOPED MARKET LISTED[6]	5.4	—
RUSSIA	7.9	3.3
CASH	2.6	—
MEXICO	4.3	1.9
FRONTIER MARKETS[7]	2.3	—
BRAZIL	6.8	4.9
INDIA	7.3	7.7
SOUTH KOREA	10.3	11.8
SOUTH AFRICA	1.3	3.7
TAIWAN	9.2	12.3
SMALL EMERGING MARKETS[8]	8.3	13.7
CHINA + HONG KONG[9]	34.3	40.7



[6]Emerging markets or frontier markets companies listed in developed markets; [7]Includes countries with less-developed markets outside the Index; [8]Includes the remaining emerging markets, which individually, comprise less than 5% of the Index; [9]The Harding Loevner Emerging Markets Model Portfolio's end weight in China is 27.2% and Hong Kong is 7.2%. The Benchmark does not include Hong Kong.

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

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

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MARKET REVIEW

Stocks in Emerging Markets (EMs) plummeted 24% in the quarter as the COVID-19 pandemic engulfed the planet and oil prices collapsed amid a production dispute between Saudi Arabia and Russia. The size and speed of the equity market decline were unprecedented, with volatility reaching levels not seen since the global financial crisis. EMs posted their worst quarter since 2008, with all regions and sectors finishing in negative territory.

The year began with rising expectations for earnings growth amid de-escalating US-China trade tensions, but the optimism quickly evaporated in January as a new coronavirus claimed its first victims in China and spread from its origin in Wuhan to other parts of the country. By mid-February, Chinese authorities locked down the entire province of Hubei, an area the size of Illinois but, at nearly 60 million people, four times its population. Within a month, the World Health Organization declared the outbreak a global pandemic. Although the respiratory disease spread first in Asia, the epicenter shifted rapidly to Europe and the US. By quarter-end, the infection had spread to over 180 countries, and governments everywhere were struggling to contain the disease and its fallout. The ensuing travel restrictions, business closures, and home confinements brought economic activity to a shuddering stop.

China's draconian measures to contain the virus sent shock waves through the global economy as lockdowns in more than 200 cities clobbered production within the country and interrupted supply chains worldwide. China's Purchasing Managers Index, an indication of manufacturing activity, dropped from 50 in January to a record low of 36 in February. Retail sales plunged 21% in January and February compared with 2019, and year-over-year auto sales fell 79% in February. By the end of the quarter, China's actions appeared to succeed in containing the virus as the number of daily new reported cases dropped below 50 nationwide and business activity picked up. But the recovery will likely be slow, thanks to China's reliance on exports to now-ailing economies, especially those in Europe and the Americas.

China's grim data points were a harbinger of the speed and depth of declines in economic activity to come in other countries. At the end of the quarter, most developing countries still had yet to experience the full brunt of the widespread contagion that would come with community spread. Many governments, including India's and South Africa's, ordered lockdowns to slow the contagion and ease pressure on their already-strained health care systems.

Developing countries' economies also suffered secondary effects of the outbreak, including a global US dollar shortage and plummeting commodity prices. Exacerbating the economic turmoil, Saudi Arabia retaliated against Russia for its unwillingness to curb oil production and flooded the market with excess supplies of oil. A price war between two of the world's biggest oil producers amid a collapse in demand conspired to push down oil prices to an 18-year low of just under US$23 for Brent crude.

While global equity markets gyrated violently, and the health crisis morphed into a full-blown economic crisis, policymakers grappled with how to respond. On the monetary front, central bankers pulled out all the stops. The People's Bank of China injected liquidity into the banking system, including 3 trillion renminbi (US$420 billion) in the first half of February, and cut its 7-day and 14-day reverse repo rates. Brazil's monetary policy committee cut the policy rate by 50 basis points to a new all-time low of 3.75% and implemented measures to increase liquidity in the financial system. India's central bank cut the repo rate by 75 basis points and announced a three-month moratorium for all term loan repayments due from March 1. India's central bank also infused liquidity equalling nearly 1.8% of GDP by cutting the cash reserve ratio by 100 basis points among other measures.

MARKET PERFORMANCE (USD %)

REGION/COUNTRY	1Q 2020	TRAILING 12 MONTHS
AFRICA	-39.9	-35.4
SOUTH AFRICA	-40.3	-36.0
ASIA	-18.1	-11.8
CHINA	-10.2	-5.7
INDIA	-31.1	-30.9
SOUTH KOREA	-22.4	-16.4
TAIWAN	-19.0	2.3
EUROPE	-36.5	-21.1
RUSSIA	-36.3	-13.4
LATIN AMERICA	-45.6	-40.5
BRAZIL	-50.2	-41.7
MEXICO	-35.4	-31.6
MIDDLE EAST	-22.9	-25.1
MSCI EM INDEX	-23.6	-17.4

SECTOR PERFORMANCE (USD %)
OF THE MSCI EM INDEX

SECTOR	1Q 2020	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-9.6	-8.0
CONSUMER DISCRETIONARY	-18.0	-8.0
CONSUMER STAPLES	-19.7	-15.5
ENERGY	-39.9	-35.4
FINANCIALS	-31.0	-27.3
HEALTH CARE	-8.5	-8.4
INDUSTRIALS	-28.0	-26.2
INFORMATION TECHNOLOGY	-17.7	3.9
MATERIALS	-30.6	-31.0
REAL ESTATE	-26.7	-21.3
UTILITIES	-26.0	-23.7

Source: FactSet (as of March 31, 2020). MSCI Inc. and S&P.

On the fiscal front, governments responded with massive spending plans. In China, the government implemented an estimated 1.3 trillion renminbi (US$184 billion) program that included tax relief and an accelerated disbursement of unemployment insurance. Brazil's government announced a massive package adding up to 6.5% of the country's GDP, including cash transfers to informal and unemployed workers, temporary tax breaks, and credit lines for businesses. And India announced a fiscal package amounting to around 1.1% of GDP, primarily focused on cash disbursements and income support to the poor.

Energy stocks suffered the most in the quarter, falling 40% amid the collapse in oil prices. Financials, especially banks in oil- and commodity-producing countries like Russia, Mexico, Brazil, and Colombia, were also weak. Expectations for loan growth have fallen with weaker economic activity, and credit losses will also rise due to virus-related business disruption and unemployment.

Health Care was the best-performing sector during the quarter, led by pharmaceutical stocks in China and South Korea, where COVID-19's disruption to growth appeared to be limited. Communication Services also outperformed, helped by strong performance in Chinese online game stocks **Tencent** and NetEase. Both likely saw a short-term boost to their revenues due to the lockdowns. Information Technology (IT) stocks were relatively resilient amid the pandemic. Hardware and semiconductor companies continue to enjoy growth in demand from the rollout of 5G wireless networks and increased usage of cloud computing services. Shares of Software and Services companies outperformed amid strong sales for corporate digital transformation projects. Consumer Discretionary stocks also fell less than the broad market, led by e-commerce companies such as China's **Alibaba** and **JD.com** as well as online education companies. These internet businesses reported increased usage and gained market share from offline competitors amid COVID-19-related shutdowns.

By region, stocks in commodity-exporting countries like Brazil, Colombia, Russia, and Mexico were among the weakest performers this quarter, reeling from the one-two punch of coronavirus shutdowns and falling commodity prices. US dollar-based returns in oil-exporting countries were also dragged down by a sharp depreciation of about 20% for their currencies as the lower oil price would likely lead to lower foreign exchange reserves.

Asia was the strongest region as investors were cheered by nascent signs of China's recovery. Its market fell only 10% in the quarter, outperforming the overall EM Index by 13 percentage points. The country's outperformance was led by the stocks of e-commerce, internet game, and online education companies. The technology-heavy Taiwanese market also outperformed the index. On the other hand, India and Indonesia significantly lagged the index. Though both countries rely on imported oil and should benefit from low crude prices, their economies face extended lockdowns that will severely impact their companies' near-term earnings.

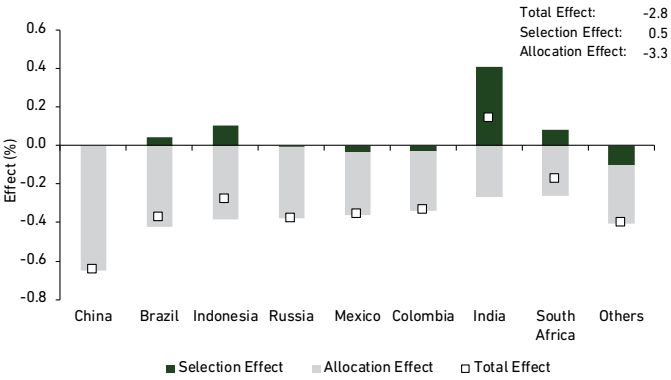
Companies held in the portfolio during the quarter appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at March 31, 2020 is available on page 9 of this report.

PERFORMANCE AND ATTRIBUTION

The Emerging Markets composite fell 27.2% in the quarter, underperforming the 23.6% decline of the MSCI EM Index.

Stock selection in Financials was the largest cause of underperformance; our bank holdings alone detracted over 300 basis points. The poor returns were entirely due to country and currency allocation effects within the sector, with the former illustrated in the chart below. In the Perspective and Outlook section of this report, we discuss the impact of our Financials investments on portfolio returns amid this quarter's sell-off.

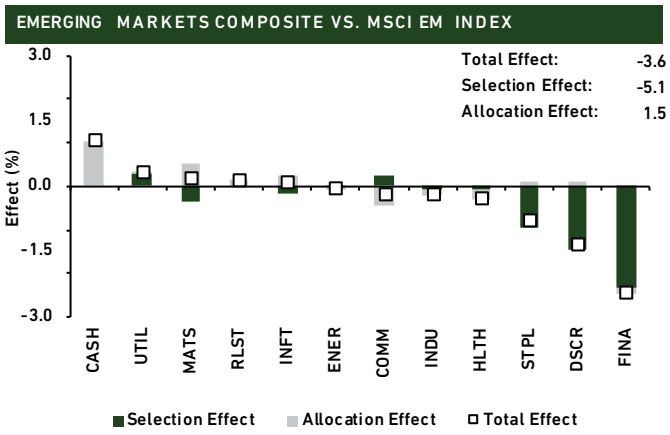
PERFORMANCE CONTRIBUTION BY COUNTRY WITHIN BANKS



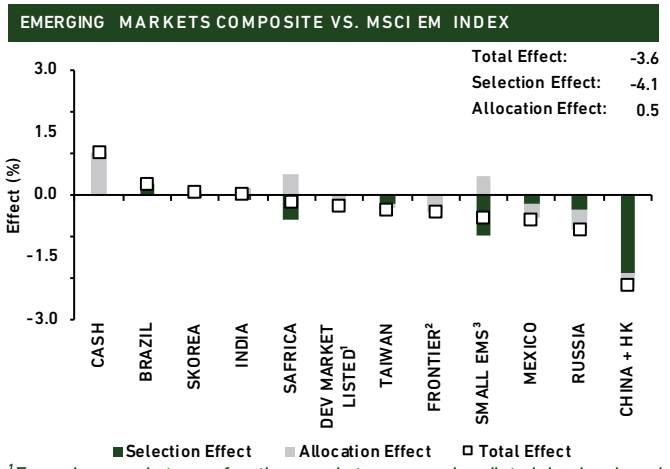
Source: FactSet; Harding Loevner Emerging Markets Composite; MSCI Inc. and S&P.

Portfolio returns were further hurt by holdings in companies with direct exposure to travel and tourism. In Industrials, Panamanian airline **Copa Holdings**, Brazilian rental car business **Localiza**, and Mexican airport operator **ASUR** suffered devastating, yet we believe temporary, blows. All are strong enough to make it through this dislocation and, in the case of Copa and Localiza, may then face less competition if financially weaker rivals do not survive. In Consumer Discretionary, China's **Trip.com Group** has faced high costs from paying employees overtime to assist customers and covering cancellation fees from those hotels and airlines that refused to waive them. We believe Trip.com will be rewarded for its efforts to reduce hassles and expenses for customers with client retention and enhanced brand equity. **Sands China**, a Macau casino operator, underperformed as it closed its operations to mitigate the virus outbreak.

SECTOR PERFORMANCE ATTRIBUTION
FIRST QUARTER 2020



GEOGRAPHIC PERFORMANCE ATTRIBUTION
FIRST QUARTER 2020



[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.

Consumer Discretionary returns were also dented by two auto industry businesses, India's **Maruti Suzuki** and Indonesia's **Astra International**. Government-ordered lockdowns have crushed the demand for cars. Both should survive the immediate challenges and return to growth when demand for vehicles in their populous home markets reappears. **Shenzhou International**, China's leading manufacturer of woven materials and a key supplier to brands such as Nike, sold off as end-customer sales were hit by the worldwide closure of retail shops.

In Consumer Staples, two beverage holdings also weighed on relative returns. **Coca-Cola HBC**, one of the world's largest Coca-Cola anchor bottlers, was punished in part by its geographic footprint. Two of its largest markets, Nigeria and Russia, are major oil producers and a key European market is Italy, where the virus has taken an especially severe toll. The cancellation of major sports events (such as the European Football Championship, which has been delayed until 2021) is also expected to hurt sales volumes. Prior to this quarter, **Ambev**, Brazil's leading brewer, had already been battling a weak economy. Now, a likely economic recession will further reduce the disposable income of Brazilian beer drinkers, and push expectations of improved financial results back further. We believe Ambev's long-term growth potential remains intact, however, as per capita spend on beer consumption in Brazil has room to grow. Moreover, its other markets in the Americas are also concentrated, supporting the company's strong profitability. Ambev also possesses a strong balance sheet and a seasoned management team that has successfully navigated the company through challenging environments in the past.

The positive contribution from our underweight to Materials was largely offset by the collapse in the share price of South African chemicals company **Sasol**. Historically, Sasol has had a strong balance sheet with low leverage and investment grade credit ratings. However, in the past year its leverage has risen significantly as the company has struggled to complete a large chemical project in Louisiana that experienced delays and cost overruns. The recent decline in oil prices having made its financial status more precarious, and we sold the holding.

By geography, our regional allocations were detrimental to returns; our underweight to the relatively resilient markets of China and Taiwan and overweight to lagging Russia and Mexico, whose economies are heavily dependent on oil production, proved costly. Stock selection was also negative overall. The worst impact came from our holdings in China: negative contributors included **CNOOC**, the offshore oil company, **AAC Technologies**, the smartphone component manufacturer that counts Apple as its largest customer, and Trip.com. There were some notable bright spots in China, such as **ENN Energy**, a regional gas distribution company, and **SF Express**, an integrated express delivery company. Quarantines not only drove demand for delivery services, but also gave SF a leg-up on its peers. Using its own trucks and personnel, SF continued to provide service across the nation during the lockdown, while its competitors, reliant on local contractors for "last mile" delivery, were forced to shut down when their deliverymen, many of them migrant workers who had traveled to visit family in distant provinces during the New Year holiday, were unable to return to their urban workplaces.

PERSPECTIVE AND OUTLOOK

EM Financials and the Pandemic

The humanitarian and economic tragedies wrought by the coronavirus pandemic, combined with uncertainty around the timeline for recovery and the pandemic's ultimate costs, have created an unprecedented set of risks for investors to consider. By investing only in high-quality businesses, we have sought to limit how much we need to worry about the impact of adverse events on their long-term sustainability. This focus has meant that our portfolios have usually been resilient during market

panics. In the most recent decline, however, the relative returns of our Emerging Markets strategy were disappointing. Obviously, this single quarter represents only the initial stage of the market's reaction to a world-shattering event. This is not a defense. Contrary to our expectations, our portfolio of high-quality companies underperformed during this quarter's crisis, and it is important to understand why.

The proximate cause was the performance of our Financials holdings, especially bank stocks. Nearly one-fifth of the portfolio is invested in high-quality banks operating in economies where the penetration of financial services remains low and the need for retirement savings is only beginning to be recognized. Our highest exposures are in Brazil, Russia, and Indonesia. Over long periods, our Financials holdings have produced consistently strong relative returns; in fact, in the five years leading up to the end of 2019, they contributed more to the portfolio's excess returns than any other sector.

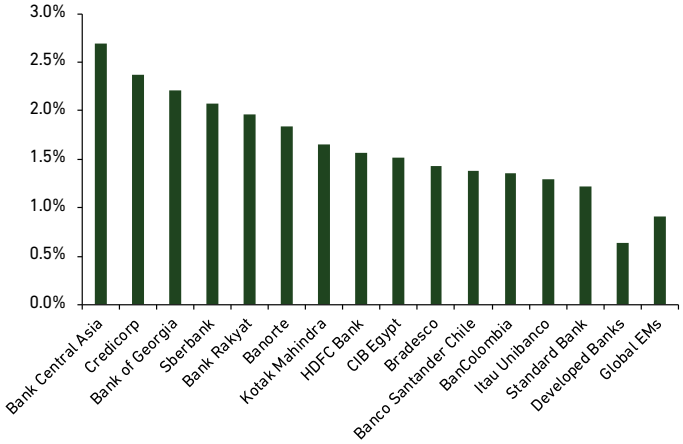
Bank shares in China and Taiwan have been relative safe havens. These countries appear to have managed the outbreak well, at least the first wave of infection. Also, as net importers of most commodities, including oil, their economies have benefited from the sharp drop in prices. Our lack of bank holdings in Northeast Asia hurt us.

The acute sell-off in EM bank stocks elsewhere has been relatively indiscriminate. Many EMs outside of China are more exposed to the risk appetite of foreign investors. The de-risking of global investment portfolios has led to the large-scale selling of EM fixed-income and equity assets, which in turn has weakened EM currencies. The uncertainties over the timing and pace of economic recovery, and therefore the extent of future credit losses, has placed bank stocks under additional pressure. Our pursuit of banks with great long-term growth potential often draws us to those in countries with low penetration of financial services, but countries with underdeveloped financial systems are underdeveloped in other respects, too. These countries, including many in Latin America and Southeast Asia, lack robust health care infrastructure and public services and will struggle to contain the virus.

We recognize that massive economic shutdowns could lead to significant losses and capital erosion at our banks. However, we would point to their fundamental strengths, including their solid balance sheets. If our banks had to increase their loss provisions significantly, akin to what they experienced during the global financial crisis a decade ago, their balance sheets could withstand it. For example, Mexico's **GF Banorte** has returns on equity of 20% and a tier 1 capital ratio of 13%. In a recent stress test that assumed more than a doubling of credit-loss-related charges, management found that its capital ratio would fall to 11%, still well above the minimum regulatory requirement of 8%.

Our banks have track records of surviving past economic dislocations and thriving thereafter. The resilience of Brazil's **Itaú Unibanco** and **Banco Bradesco** was tested during the country's severe recession from 2014 to 2017. Due to their strong capital positions and high returns on assets (ROAs), they had enough cushion to absorb losses through the downturn. Both remained profitable throughout, and their ROAs improved during the recovery as competition waned from state banks saddled with bad loans.

HL EM BANK HOLDINGS - RETURN ON ASSETS (2019)



Source: FactSet; Harding Loevner Emerging Markets Model. Data as of December 31, 2019.

We have positive impressions of the speed and extent of government actions across most EMs to provide liquidity to the banking system and regulatory flexibility to allow banks to negotiate the impending period of stress. Measures include payment holidays and loan term extensions for the most hard-pressed customers, such as lower-income individuals and small- and medium-sized enterprises. This coordinated response, in conjunction with global support from developed markets' central banks and the World Bank, provides some comfort that systemic risks can be managed, assuming the economic disruption is measured in months and not years.

Our EM bank stocks are currently trading at severely depressed valuations. In fact, during the quarter, the valuations of most of our holdings sank below the lows of 2008. At these levels, the market is discounting a severe and prolonged economic downturn. While we place some non-zero probability on this scenario, we believe there is a greater chance that economies can embark upon a recovery in the second half of the year, in at least a fair sample of the countries to which we are exposed. Our banks have been successful in managing through bleak economic conditions over the last 20 years. Their skill at crisis management, supported by their robust financial strength and compelling valuations, have led us to stick with our bank investments and, in some cases, add to them.

China's Resilience and Recovery

By March 19, governments around the world were reporting sharp increases in new COVID-19 infections and shutting down their economies to contain the outbreak. On that day, less than

two months after the lockdown of Wuhan, the number of daily new cases in the pandemic's original epicenter dropped to zero. In the ensuing weeks, other parts of China began lifting their lockdowns (with Wuhan's restrictions starting to be eased on April 8). Economic activity has started to normalize throughout the country. Workers returned to their factories and offices, schools reopened, and local restaurants started serving customers again. Subway ridership and traffic jams returned, too.

China's apparent success in restarting business activity offers a reason for optimism to countries whose economies are shrinking under efforts to control the pandemic. The reasons for China's recovery include the quick response of its people and authoritarian government. Other factors that spurred China's recovery, such as the digitalization of the Chinese economy, were underway long before the new virus emerged.

The government initially attempted to suppress reports of the outbreak. But with memories still fresh from 2003's SARS outbreak that sickened 7,000 and killed over 600 people, China quickly mobilized once the severity of the new virus became clear. Given that community spread was already happening, and the massive migration for the Lunar New Year was imminent, the government ordered a draconian lockdown: first, of the city of Wuhan, with over 11 million residents, and then of the whole province of Hubei, which has 59 million residents. In the following days, over 200 cities in China issued similar orders.

As described earlier, the government and Central Bank acted quickly to soften the impact of the lockdowns and ensuing slowdown of economic activity. The emergency stimulus spending and monetary actions kept whole industries afloat during the lockdown and ensured companies and employees were in a position to return to work once the virus was contained.

Equally important to the economy's survival and recovery, however, was its digital transformation over the last decade. Spurred by government policies seeking to advance the country's global competitiveness, companies adopted advanced technologies like cloud computing and agile development processes to leapfrog their global peers. Alibaba Cloud, the country's largest cloud service, has a very wide footprint in China, providing its services to 59% of all listed companies in China. The second largest cloud service provider, Tencent, has also been growing rapidly, and it has more than one million paying customers. In addition, China has the world's most-advanced digital ecosystem, with 800 million active internet users and 790 million people with smartphones in their pockets.

As the physical movement of people ground to a halt in January, China's virtual economy accelerated. Online services provided by companies like Alibaba and Tencent became the backbones for business and social interaction. Households started buying groceries on mobile apps. Office workers used the apps to work from home and videoconference with their colleagues. Students took courses online, and the general public stayed informed and entertained thanks to their smartphones. The combination of technical infrastructure and citizens familiar with technology not only kept the economy running during the lockdowns but also positioned it for growth in the pandemic's aftermath.

E-commerce was a critical lifeline that allowed hundreds of millions of people under lockdown to order meals, groceries, and other essential items. In China's larger cities, most citizens were already familiar with online shopping and digital payments. Alibaba's retail marketplaces served about 85% of the urban population in 2019. In smaller cities and rural areas, penetration rates were lower but have been growing rapidly since last year, when three of the leading e-commerce companies—Alibaba, JD.com, and Pinduoduo—expanded their logistics networks to reach new customers. Consumers' familiarity with digital payment systems like Tencent's Tenpay and Alibaba's Alipay also helped.

As the physical movement of people ground to a halt in January, China's virtual economy accelerated.

Technology also enabled companies to act swiftly in response to the crisis. Alibaba and Tencent, for example, rolled out a "health code" system on their widely used apps. Computer-readable QR codes, each linked to individual users' accounts and activities, provided access to individuals' travel histories and risk levels. This feature, first developed by Alibaba's Alipay payment platform, was launched nationwide in only seven days. It helped public health officials track down people who may have been exposed to the virus. It also allowed checkpoints to screen visitors more quickly, providing convenience to low-risk people when they ventured outside their homes. Tencent Meeting, a recently launched business conferencing app, released 14 upgrades in 40 days in response to feedback from millions of customers who just switched to remote work. The number of daily active users crossed 10 million in just two months due to strong demand from businesses, government, and the education sector.

In addition, thousands of independent developers built apps for Alibaba's and Tencent's platforms. In one week during the lockdown, programmers launched 181 new mini programs on Alipay's platform alone. The apps not only enabled local restaurants to offer take-out ordering but also provided transparency on the health condition of the food providers. Alibaba's offline-to-online business also collaborated with more than 40 restaurants, hotels, and cinema chains to redeploy their workers temporarily to deliver groceries for Alibaba's "New Retail" unit.

As life begins to return to normal in China, the definition of "normal" has changed. In the near term, the country must cope with the enormous human and economic losses while staying vigilant against any reoccurrence of the virus. Over the longer term, changes will likely be even more profound. The ability of China's virtual economy to adapt and shape the successful response to the outbreak will likely spur on more widespread digital adoption by both individuals and companies.

PORTFOLIO HIGHLIGHTS

To survive crises, advance preparation is crucial. Preparation is intrinsic to our investment philosophy. We invest only in companies meeting, in our judgment, four essential criteria: they possess competitive advantage, they can generate sustainable superior long-term growth, they have superior financial strength to support that growth and withstand difficult economic and credit environments, and they have management with the foresight and dynamism to apply these strengths to changing challenges and opportunities for the benefit of shareholders.

Sometimes, when the storm is upon you, the least exciting aspect of your preparation reveals itself to be critical. We think the most immediately important preparation our approach provides is our insistence on financial strength. By not compromising on our commitment to strong balance sheets when times are good, we reduce losses arising from financial distress. We can therefore place greater confidence in our estimates of the long-term value of our companies, for if a company is to enjoy the growth of economic recovery, it must first survive the transient shock. Currently, the weighted median debt-to-equity ratio of our portfolio companies is meaningfully lower than that of the benchmark (28% vs. 48%); this is but one of the dimensions of financial strength that we consider. When a company no longer meets our standard for financial strength, we sell it.

The geographic and sectoral profile of our portfolio did not change substantially in the first quarter. We primarily trimmed holdings that have outperformed, in part to ensure the portfolio remained in compliance with strategy guidelines. We also established four new positions and added to several existing holdings after valuations grew attractive in our estimation. This activity increased our exposure to Brazil, shifting the portfolio to an overweight position, and it nearly closed our longstanding underweight to India. By sector, we now have a modest underweight to Consumer Discretionary, while our overweight to Consumer Staples, Industrials, and IT increased.

In Industrials, we bought **ZTO Express**, China's largest express courier whose network serves 98% of the country's cities and counties. The company is both an enabler and a beneficiary of China's e-commerce boom, providing delivery services for millions of online merchants and customers on Alibaba, Pinduoduo, and JD.com. In 2018, ZTO delivered more packages than UPS and FedEx combined. Earnings have been strong, too, rising 26% last year.

In Consumer Discretionary, we bought **Lojas Renner**, Brazil's premier fashion retailer. The company has been gaining market share, and we expect its long-term growth will be led by an increase in its store footprint and the development of an omnichannel ecosystem. Lojas's stock was beaten down amid pandemic-related store closures, and we took advantage of its attractive valuation to build a position in this high-quality company. Renner's growing online business should perform well during the lockdowns ordered by state governors. (President Jair Bolsonaro, who called COVID-19 a "measly cold," has criticized the closures.) Once the economic situation stabilizes, we think Renner will be in an even stronger position to take market share from competitors.

We also bought a position in **Fuyao Glass Industry**, China's leading auto glass manufacturer. The company has highly integrated, cost-efficient production lines, and it leads its peers in R&D investment. These competitive advantages have enabled it to maintain a dominant market share in China while steadily increasing its international business. As major car manufacturers seek as partners price-competitive suppliers that have strong global development capabilities, we foresee Fuyao continuing to acquire global market share. The company has a strong balance sheet and a track record of consistently generating a cash flow return on investment well above its cost of capital. At the present time when sentiment toward the auto sector is extremely depressed, Fuyao's valuation appears attractive relative to other high-quality consumer discretionary companies.

We think the most immediately important preparation our approach provides is our insistence on financial strength.

In Financials, we established a position in **HDFC Bank**, a major private sector bank in India. Its growth prospects appear strong thanks to the country's low level of credit penetration, especially in retail lending. The bank is also well-positioned in the corporate segment, which may present good future growth opportunities. In addition, HDFC is one of the few banks in India not saddled with asset-quality issues.

We exited three positions in the quarter. We sold Sasol, the aforementioned South African chemical company, whose management of the development of a new chemical plant disappointed and worried us. We sold two Chinese online companies, JD.com and **Weibo**. JD was a strong outperformer in 2019 as the profitability of its core e-commerce business rose. After outperforming further this quarter, its valuation appeared stretched even if significant further improvement to the company's operating margins were factored in. We sold Weibo due to concerns about the social media platform's capacity to sustain long-term, profitable growth in an industry where the battle to secure a substantial share of digital advertising revenues remains highly contended.

EMERGING MARKETS HOLDINGS (AS OF MARCH 31, 2020)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMM SERVICES		
AUTOHOME Automotive information services	China	0.4
BAIDU Internet products and services	China	1.0
SAFARICOM Mobile network operator	Kenya	1.2
TENCENT Internet and IT services	China	5.4
YANDEX Internet products and services	Russia	1.6
CONSUMER DISCRETIONARY		
ALIBABA E-commerce retailer	China	5.1
ASTRA INTERNATIONAL Auto business operator	Indonesia	0.5
COWAY Consumer appliances manufacturer	South Korea	0.8
ECLAT TEXTILE Technology-based textile manufacturer	Taiwan	0.9
FUYAO GLASS INDUSTRY Automotive glass manufacturer	China	0.7
HANKOOK TIRE Tire manufacturer	South Korea	0.3
LOJAS RENNER Department stores operator	Brazil	0.4
MARUTI SUZUKI Automobile manufacturer	India	0.9
MIDEA GROUP Consumer appliances manufacturer	China	1.6
SANDS CHINA Integrated resorts and casinos operator	Hong Kong	2.1
SHENZHOU INTERNATIONAL Textile manufacturer	China	1.0
TRIP.COM GROUP Online travel services	China	0.6
CONSUMER STAPLES		
AMBEV Alcoholic beverages manufacturer	Brazil	1.2
AMOREPACIFIC Cosmetics manufacturer	South Korea	0.9
CBD Foods and consumer products retailer	Brazil	0.4
COCA-COLA HBC Coca-Cola bottler	UK	1.9
EAST AFRICAN BREWERIES Alcoholic beverages manufacturer	Kenya	0.2
FEMSA Beverages manufacturer and retail operator	Mexico	1.3
JIANGSU YANGHE BREWERY Alcoholic beverages manufacturer	China	0.4
LG HOUSEHOLD & HEALTH CARE Cons products manufacturer	South Korea	2.6
WALMART DE MÉXICO Foods and consumer products retailer	Mexico	1.3
ENERGY		
CNOOC Oil and gas producer	China	0.7
LUKOIL Oil and gas producer	Russia	2.3
NOVATEK Natural gas producer	Russia	1.9
TENARIS Steel-pipe manufacturer	Italy	0.7
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	3.1
B3 Clearing house and exchange	Brazil	0.6
BANCO BRADESCO Commercial bank	Brazil	1.4
BANCO SANTANDER CHILE Commercial bank	Chile	0.3
BANCOLOMBIA Commercial bank	Colombia	0.8
BANK CENTRAL ASIA Commercial bank	Indonesia	1.1
BANK OF GEORGIA Commercial bank	UK	0.2
BANK RAKYAT Commercial bank	Indonesia	1.2
COMMERCIAL INTERNATIONAL BANK Commercial bank	Egypt	0.8
CREDICORP Commercial bank	Peru	1.2
DISCOVERY HOLDINGS Insurance provider	South Africa	0.6
GF BANORTE Commercial bank	Mexico	0.8
HDFC BANK Commercial bank	India	1.0
HDFC CORP Mortgage lender	India	2.3
ITAÚ UNIBANCO Commercial bank	Brazil	1.4
KOMERČNÍ BANKA Commercial bank	Czech Rep.	0.6
KOTAK MAHINDRA BANK Commercial bank	India	1.5
PING AN INSURANCE Insurance provider	China	2.0
SBERBANK Commercial bank	Russia	2.1
SIAM COMMERCIAL BANK Commercial bank	Thailand	1.0
STANDARD BANK Commercial bank	South Africa	0.7
HEALTH CARE		
CSPC PHARMACEUTICAL GROUP Pharma manufacturer	China	1.1
SINO BIOPHARMACEUTICAL Pharma manufacturer	China	0.5
INDUSTRIALS		
51JOB INC. Online human resource services	China	1.3
AIRTAC Pneumatic-equipment manufacturer	Taiwan	0.3
ASUR Airport operator	Mexico	0.8
COPA HOLDINGS Airline operator	Panama	0.8
DP WORLD Container-terminal operator	UAE	1.0
LOCALIZA Automobile rental services	Brazil	0.7
SF EXPRESS Delivery services	China	0.7
TECHTRONIC INDUSTRIES Power tool manufacturer	Hong Kong	1.3
WEG Industrial equipment manufacturer	Brazil	0.7
ZTO EXPRESS Express delivery services	China	0.6
INFORMATION TECHNOLOGY		
AAC TECHNOLOGIES Smartphone components manufacturer	China	0.5
ASM PACIFIC TECHNOLOGY Semiconductor eqpt manufacturer	Hong Kong	0.7
EPAM IT consultant	US	2.6
HANGZHOU HIKVISION Surveillance camera manufacturer	China	1.1
HON HAI PRECISION Electronics manufacturer	Taiwan	0.5
LARGAN PRECISION Smartphone lens modules producer	Taiwan	1.7
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	5.6
SUNNY OPTICAL Optical component manufacturer	China	1.1
TATA CONSULTANCY SERVICES IT consultant	India	1.6
TSMC Semiconductor manufacturer	Taiwan	5.8
MATERIALS		
No Holdings		
REAL ESTATE		
No Holdings		
UTILITIES		
ENN ENERGY Gas pipeline operator	China	1.4
CASH		2.6

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.

1Q20 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
TENCENT	COMM	4.9	0.13
SF EXPRESS	INDU	0.7	0.11
DP WORLD	INDU	0.7	0.07
JD.COM	DSCR	0.2	0.05
AIRTAC	INDU	0.0	0.04

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
TSMC	INFT	5.3	0.63
WEG	INDU	1.1	0.36
ALIBABA	DSCR	4.5	0.26
TENCENT	COMM	4.5	0.19
SUNNY OPTICAL	INFT	1.2	0.16

1Q20 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SBERBANK	FINA	2.6	-1.08
LUKOIL	ENER	2.8	-1.06
HDFC CORP	FINA	2.5	-1.05
TSMC	INFT	5.7	-0.95
BANCO BRADESCO	FINA	1.4	-0.93

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
BANCO BRADESCO	FINA	1.7	-0.87
SASOL	MATS	0.7	-0.78
LUKOIL	ENER	2.8	-0.70
HDFC CORP	FINA	2.4	-0.68
GF BANORTE	FINA	1.3	-0.65

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL EM	MSCI EM
PROFIT MARGIN[1] (%)	16.3	14.4
RETURN ON ASSETS[1] (%)	8.2	6.4
RETURN ON EQUITY[1] (%)	19.5	15.9
DEBT/EQUITY RATIO[1] (%)	27.7	48.1
STD DEV OF 5 YEAR ROE[1] (%)	3.4	3.3
SALES GROWTH[1,2] (%)	8.1	6.6
EARNINGS GROWTH[1,2] (%)	11.7	8.3
CASH FLOW GROWTH[1,2] (%)	13.6	9.0
DIVIDEND GROWTH[1,2] (%)	14.9	10.1
SIZE & TURNOVER	**HL EM**	**MSCI EM**
WTD MEDIAN MKT CAP (US $B)	30.8	27.6
WTD AVG MKT CAP (US $B)	102.6	116.5
TURNOVER[3] (ANNUAL %)	18.5	—

RISK AND VALUATION	HL EM	MSCI EM
ALPHA[2] (%)	0.81	—
BETA[2]	1.00	—
R-SQUARED[2]	0.94	—
ACTIVE SHARE[3] (%)	72	—
STANDARD DEVIATION[2] (%)	17.93	17.44
SHARPE RATIO[2]	-0.02	-0.06
TRACKING ERROR[2] (%)	4.3	—
INFORMATION RATIO[2]	0.16	—
UP/DOWN CAPTURE[2]	99/97	—
PRICE/EARNINGS[4]	13.1	11.6
PRICE/CASH FLOW[4]	10.0	7.4
PRICE/BOOK[4]	2.1	1.5
DIVIDEND YIELD[5] (%)	2.9	3.2

[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: April 3, 2020); Harding Loevner Emerging Markets Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
FUYAO GLASS INDUSTRY	CHINA	DSCR
HDFC BANK	INDIA	FINA
LOJAS RENNER	BRAZIL	DSCR
ZTO EXPRESS	CHINA	INDU

POSITIONS SOLD	COUNTRY	SECTOR
JD.COM	CHINA	DSCR
SASOL	SOUTH AFRICA	MATS
WEIBO	CHINA	COMM

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 EQUITY COMPOSITE PERFORMANCE (AS OF MARCH 31, 2020)

	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 (%)
2020 YTD[4]	-27.17	-27.34	-23.57	18.89	17.14	N.A.[5]	17	14,040	27.69
2019	26.90	25.78	18.88	14.64	14.17	0.4	17	19,045	29.62
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

[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 2020 YTD performance returns and assets shown are preliminary; [5]N.A.–Internal dispersion less than a 12-month period.

The Emerging Markets Equity 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 December 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 Equity Composite has been examined for the periods December 1, 1998 through December 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 Equity Composite was created on November 30, 1998.

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