HARDING LOEVNER

GLOBAL EQUITY ADR

2018 Second Quarter Report

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

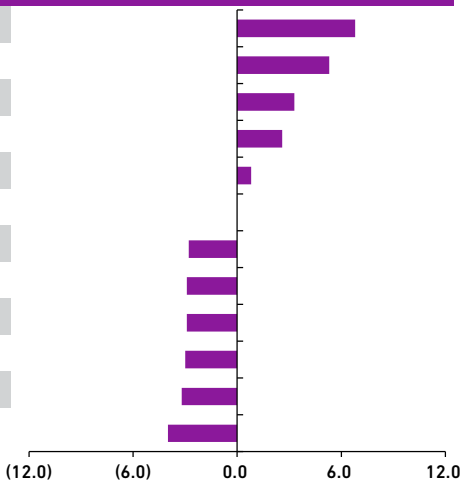
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY ADR (GROSS OF FEES)	1.46	3.45	15.77	12.87	13.13	7.99	9.65
HL GLOBAL EQUITY ADR (NET OF FEES)	1.26	3.04	14.85	11.99	12.23	7.13	8.76
MSCI ALL COUNTRY WORLD INDEX[4,5]	0.72	-0.13	11.31	8.77	9.99	6.37	7.15
MSCI WORLD INDEX[5,6]	1.93	0.76	11.70	9.09	10.55	6.86	7.20

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

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.

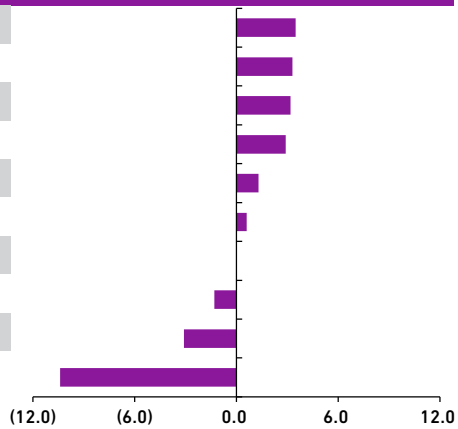
SECTOR EXPOSURE (%)

	HL GADR	MSCI ACWI
HEALTH CARE	17.9	11.1
INDUSTRIALS	15.8	10.5
CASH	3.3	–
MATERIALS	7.9	5.3
INFO TECHNOLOGY	20.4	19.6
CONS DISCRETIONARY	12.4	12.4
TELECOM SERVICES	0.0	2.8
CONS STAPLES	5.2	8.1
UTILITIES	0.0	2.9
REAL ESTATE	0.0	3.0
ENERGY	3.6	6.8
FINANCIALS	13.5	17.5



GEOGRAPHIC EXPOSURE (%)

	HL GADR	MSCI ACWI
EMERGING MARKETS	15.1	11.6
CASH	3.3	–
EUROPE EMU	13.6	10.4
EUROPE EX-EMU	12.6	9.7
JAPAN	8.9	7.6
MIDDLE EAST	0.8	0.2
FRONTIER MARKETS[7]	0.0	–
PACIFIC EX-JAPAN	2.5	3.8
CANADA	0.0	3.1
UNITED STATES	43.2	53.6



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

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

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

WHAT'S INSIDE

ONLINE SUPPLEMENTS

Listen to the Global Equity ADR quarterly review

View other reports at hardingloevner.com/library

This page intentionally left blank.

MARKET REVIEW

Developed markets delivered positive returns in local currency terms this quarter, while Emerging Markets (EMs) endured their weakest quarter in almost three years. The US dollar rose against nearly every other currency, turning positive stock market returns outside the US into negative ones in dollar terms.

Last year, synchronized global economic growth helped send stock markets soaring; subsequently, signs of divergence sowed doubts about its persistence, and the consequences for the continued normalization of monetary policies. The Federal Reserve confirmed its positive outlook for US economic growth, increasing interest rates again and signaling its intentions for two additional hikes this year. Outside the US, the economic data were less encouraging. A monthly survey measuring the activity of manufacturing purchasing managers in the eurozone that peaked in December 2017 has retreated since, and surveys of business sentiment pointed to weakness in Germany, France, Italy, and Japan. The European Central Bank, despite rising loan growth, made clear it is not contemplating a rise in eurozone interest rates to follow the Fed's hikes at least until next year, underscoring the widening differential in growth expectations between the eurozone and the US. The Bank of Japan (BoJ) is also standing pat on its ultra-low rates. In China, tighter banking regulations to clamp down on undisciplined lending may put a brake on economic growth in the coming months.

MARKET PERFORMANCE (USD %)

MARKET	2Q 2018	TRAILING 12 MONTHS
CANADA	4.9	9.9
EMERGING MARKETS	-7.9	8.6
EUROPE EMU	-2.2	6.6
EUROPE EX-EMU	0.5	5.3
JAPAN	-2.8	10.9
MIDDLE EAST	11.0	-4.2
PACIFIC EX-JAPAN	1.8	8.8
UNITED STATES	3.5	14.5
MSCI ACW INDEX	0.7	11.3

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

SECTOR	2Q 2018	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	3.2	16.5
CONSUMER STAPLES	-1.3	0.0
ENERGY	10.4	25.0
FINANCIALS	-5.4	5.2
HEALTH CARE	2.8	5.6
INDUSTRIALS	-2.6	6.5
INFORMATION TECHNOLOGY	4.0	26.5
MATERIALS	0.6	14.4
REAL ESTATE	1.6	6.1
TELECOM SERVICES	-3.9	-3.5
UTILITIES	1.5	3.9

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

Corporate earnings nonetheless grew, fulfilling the promise of last year's stock market gains. Consensus estimates still reflect expectations of double-digit growth this year in nearly all regions, with the US leading the pack due to lower corporate tax rates. The modest rise in stock prices (in developed markets) dented the earnings multiple afforded the average company by the market, reflecting rising US interest rates and perhaps an unwillingness by investors to extrapolate that earnings growth much into the future. Escalating trade conflict between the US and nearly all its trading partners fed their doubts. The BoJ's Tankan survey revealed deep concern among Japanese auto manufacturers over US tariffs and the corresponding retaliations, while Daimler Benz warned of lower profits due to reduced exports to China of autos it manufactures in the US.

The eurozone's Financials sector was among the market's worst-performing segments this quarter, in the face of continuing erosion of European coherence. Months after elections resulted in a splintered Parliament, Italy remained without a government in office. Two populist parties had a mandate to form a government but seemed to agree only on their shared disdain for the European Union's (EU's) strictures on Italy's economic policies. The EU has long aimed to contain and eventually reduce Italy's very high debt levels, while encouraging improvements in the competitiveness of Italian businesses through labor and regulatory reforms. Political resentment toward austerity imposed by EU institutions seen as "foreign" portends a possible reprise, on a much larger stage, of the Greek saga of eight years ago, which threatened the euro through the banking system linkages. In the UK, Brexit's effective date loomed just nine months away, but there was no deal on terms for leaving the EU, and no political roadmap for remaining in, nor has the UK made any progress in developing new, non-EU trade relations. The UK market rose in the quarter, mostly because the index's largest constituents—energy heavyweights Royal Dutch Shell and BP; pharmaceutical giants GlaxoSmithKline and AstraZeneca; and banking leader HSBC—earn most of their profits from outside the UK and also benefit from a rising US dollar.

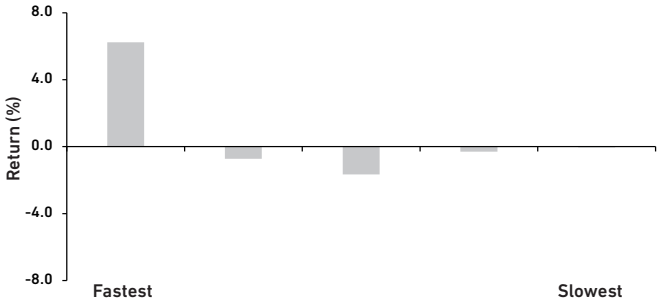
The destabilizing effects of a threatened trade war and high-stakes elections were even more pronounced in EMs, because in countries with less-diverse economies and less-developed institutions, economic fortunes are more dependent on exports, and policy is more closely tied to politics. A congested cycle of polarized elections shook investor confidence in Latin America, where victories for Andrés Manuel López Obrador (AMLO) in Mexico and Iván Duque in Colombia signaled a populist shift for both countries, with Mexican sentiment against Trump also playing a favorable role for AMLO. Meanwhile, Brazil will hold elections in October, but its recovery from large budget and current-account deficits is only beginning under President Michel Temer and will be threatened by any tilt toward a populist or more social-minded government.

Likewise dependent on foreign capital, Turkey was subjected to poor policy choices by its leadership, exacerbating its economic fragilities. Investors fear further non-orthodox and erratic policy-making under the increasingly authoritarian rule of President Recep Tayyip Erdoğan, who was re-elected at the end of June. China, however, despite being a main target of the Trump tariffs, was more resilient, with its stock market rising in local currency terms, and the yuan falling no more than the euro or the British pound against the US dollar. With the Chinese market constituting almost five times the weight of Brazil in the index, and nearly forty times that of Turkey, that resilience takes on increasing importance for international investors.

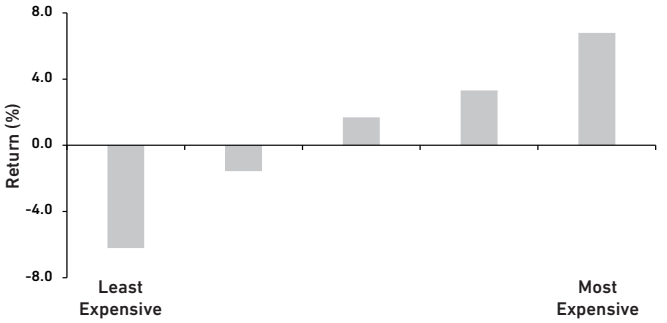
Energy stocks outperformed in the quarter, as crude oil prices were supported by supply issues and OPEC's agreement to increase production levels only modestly. Information Technology (IT) stocks performed well, especially within the US. In keeping with softening economic conditions in Europe and trade fears, other cyclical sectors underperformed: capital goods, automobiles and components, and banks were among the weakest industry groups. Banks were inhibited by the projected continuance of ultra-low interest rates in Europe and Japan, and the Italian political tremors. European banks performed nearly as badly as EM banks in the quarter, posting a double-digit decline in US dollars.

Rising concerns over the sustainability of global cyclical growth heightened demand for "growth stocks"—companies that tend to grow throughout each phase of the business cycle—which continued to outperform. Companies whose growth appears the most impervious to trade or cyclical worries continued to command very rich prices and outperform the rest of the market. As in recent quarters, the most expensive cohort of stocks outpaced everything else, whereas there was little return differentiation on quality grounds. The MSCI All Country World Growth Index outperformed the Value Index, especially in the US.

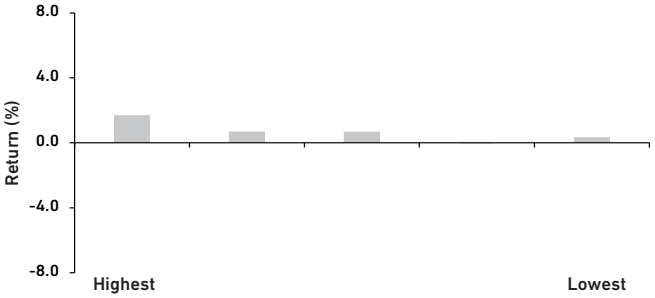
MSCI ACW INDEX PERFORMANCE BY GROWTH 2Q18



MSCI ACW INDEX PERFORMANCE BY VALUE 2Q18



MSCI ACW INDEX PERFORMANCE BY QUALITY 2Q18



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

The preceding charts divide the market into quintiles according to Harding Loevner's Quality, Growth, and Value rankings, which are proprietary measures determined using objective data. Quality rankings are based on the stability, trend, and level of profitability, as well as balance sheet strength. Growth rankings are based on historical growth of earnings, sales, and assets, as well as expected changes in earnings and profitability. Value rankings are based on several valuation measures, including price ratios.

PERFORMANCE AND ATTRIBUTION

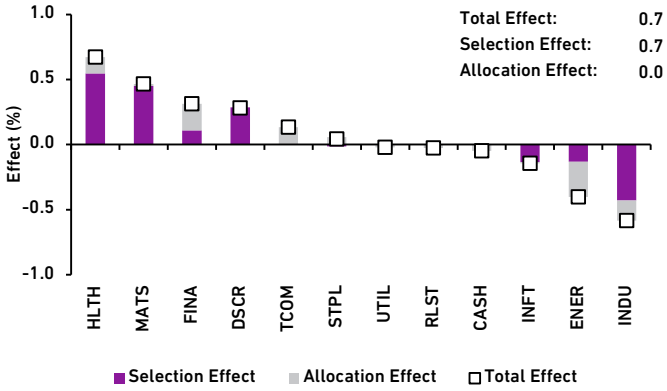
The Global Equity ADR composite rose 1.5% in the second quarter, while its benchmark increased by 0.7%. The composite returned 3.5% in the year-to-date, also ahead of the 0.1% decline of the index. The charts on the following page attribute the quarter's performance by sector and region.

Our portfolio's small-but-positive relative returns were derived from our good stock selection, while our regional weights detracted. Our Health Care stocks delivered the most-pronounced outperformance, led by contract drug manufacturers **Lonza Group** and **Wuxi Biologics**. Both companies announced plans to expand capacity to meet burgeoning demand. Materials holdings gained, led by German flavors-and-fragrances company **Symrise**, which reported higher-than-expected organic growth and market-share gains. Our Consumer Discretionary stocks were led by US-based **Nike**, which reported accelerating sales growth in North America and overall margin expansion. In Financials, stunning earnings results caused shares of US-based **SVB Financial Group** to soar, more than offsetting the drag within the sector from our bank holdings in EMs, where Brazil's **Itaú Unibanco** underperformed the weak Brazilian market, in line with its peers there, all of which are vulnerable to a reversal of declining loan losses and regulatory stabilization.

Companies held in the portfolio during the quarter appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at June 30, 2018 is available on page 9 of this report.

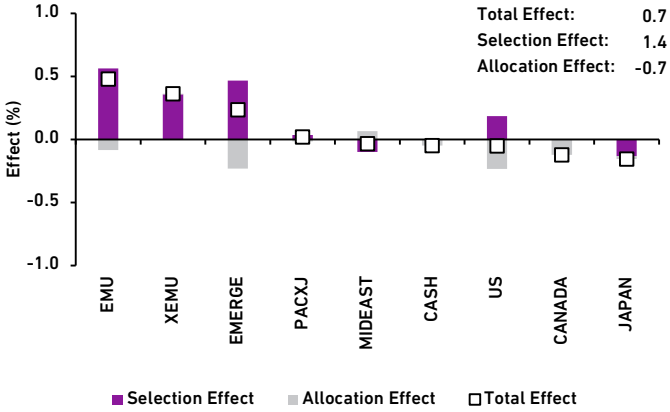
SECTOR PERFORMANCE ATTRIBUTION SECOND QUARTER 2018

GLOBAL EQUITY ADR COMPOSITE VS. MSCI ACW INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION SECOND QUARTER 2018

GLOBAL EQUITY ADR COMPOSITE VS. MSCI ACW INDEX



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

By geography, our portfolio outperformed its benchmark due to strong stocks in Europe and EMs. Lonza and Symrise were key contributors along with Wuxi Biologics and Mexican broadcaster **Televisa**, which reported significant improvement in its advertising sales. Our US holdings slightly outperformed the market, which was led by mega-cap IT-related stocks, but our US underweight left us underexposed to strong US returns and overexposed to currency weakness in EMs, Japan, and the eurozone.

PERSPECTIVE AND OUTLOOK

Responding to the global financial crisis a decade ago, the US Federal Reserve and other central banks cut interest rates to near zero and embarked on an asset-buying spree to pump additional liquidity into the financial system. They hoped the cheap money would entice businesses to borrow and invest, unfreezing the financial system, restoring shattered confidence, and preventing a global depression. They succeeded. But the low rates and asset buying persisted long after the immediate banking crisis had passed, despite the dangers of excess liquidity. Policy makers deemed the continued monetary stimulus necessary to support the recovery, counter deflation, and spur job growth. "Even if one doubts the ability or the political will of policy makers to mop up the excess liquidity once the credit emergency has passed, we have a very long time to wait before the threat it poses passes into a present danger," we wrote in 2009. That distant danger would become apparent when restored confidence turned the excess liquidity into excess demand, outstripping productive capacity and labor, and causing general inflation of prices and wages. Only then, if central banks reacted aggressively, would high asset prices reveal themselves as bubbles (because they popped), and debt-laden balance sheets buckle (because refinancing grew too expensive).

We have worried for years about what might happen once central banks turned off the spigot. In seven of our last eight quarterly reports, we discussed the implications of rising rates. (The exception was in the third quarter of 2017, when we focused on "withdrawing liquidity.") This year, in the US, quantitative easing has become quantitative tightening; the EU plans a similar reversal starting in 2019. In addition to shrinking its balance sheet, the Fed has increased interest rates seven times since 2015, with the latest 0.25% hike announced in June along with plans to accelerate future tightening. The decade of easy money is coming to an end, and it has implications for economies, companies, stocks, and our portfolios.

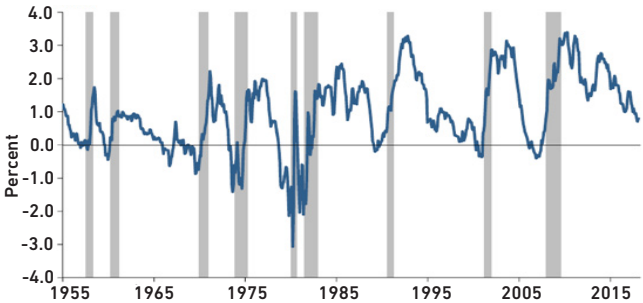
This year, in the US, quantitative easing has become quantitative tightening; the EU plans a similar reversal starting in 2019.

Despite the increases thus far, nominal US interest rates are still historically low, and the US economy remains strong. But higher rates will eventually do what the Fed expects: raise borrowing costs, reduce liquidity, and slow the economy. The modern history of economic cycles suggests that central banks can't execute against their goals very precisely; they tend either to wait too long to tighten, allowing excess liquidity to create excess demand and therefore inflation, or to overshoot on tightening, tipping the economy into a recession. One of the most widely followed and reliable leading indicators of a recession in the US has been when the yield curve "inverts." (The short-term rate controlled by the Fed exceeds the longer-term rates determined by the market.) A short paper by the Federal Reserve Bank of San Francisco,* from which we have excerpted the chart on the next page, shows that for the past 60 years, with one exception, an inverted yield curve has always been followed by an economic slowdown resulting in a recession. (The one false positive, in the mid-1960s, was an

*Michael D. Bauer and Thomas M. Mertens, "Economic Forecasts with the Yield Curve." *FRBSF Economic Letter* 2018-07 (March 5, 2018).

inversion that was followed by a slowdown but not an official recession.) In 2018 to date, the yield curve has flattened but has not inverted—yet.

THE US YIELD CURVE AND RECESSIONS



Gray bars indicate NBER Recession dates.
Source: Federal Reserve Bank of San Francisco.

Though the rate increases have not yet slowed US growth, they have had a significant impact elsewhere on economies, currencies, and capital flows. US rates have an oversized influence around the world, not only because of the relative size of the US economy, but also due to its deep capital markets and the US dollar's role as a reserve currency. Higher US rates will therefore raise the cost of dollar-denominated debt issued by non-US entities—a fact that has sometimes led to a vicious capital flow circle where concerns over a country's (or its banking system's) ability to fund its US dollar debt can lead to not only selling of its debt but also weakening of its currency. That, in turn, makes it even harder to pay back or raise debt, leading to further currency weakness. Traditionally, a warning sign for countries at risk has been the rise of large fiscal and current-account deficits, both of which are funded with debt, but the latter by fickle foreign investors.

This quarter, two EM countries illustrated how the benefits of easy money can turn sour when US interest rates move up-

CHINA EQUITY MARKET REFORMS
BY JINGYI LI

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

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

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

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

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

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

ward. Since 2009, extra liquidity flowed readily from developed countries into EMs in pursuit of the higher yields on offer in those distant parts, where resilient growth opportunities spawned investment demand along with new consumer borrowing. The combined household, business, and government debt of 26 large EMs rose from 148% of GDP at the end of 2008 to 211% last September. Now that rates are rising, the willingness of foreigners to continue holding EM debt is being tested: the JPMorgan EM Bond Index fell 11% and the MSCI EM Index fell almost 8% in the quarter, with half the latter accounted for by currency declines. Two of the countries viewed as most vulnerable to a withdrawal of capital flows, Turkey and Brazil, saw their stock markets each fall by a quarter in US-dollar terms.

The effects of rising rates also impact individual businesses around the world. When interest rates are low, consumers and companies borrow and spend more. In addition, relatively easy-to-get financing can flatter capital allocation calculations (most investments produce returns exceeding a cost of capital of zero percent) and patch leaky balance sheets. As rates rise, and the economy slows, corporate revenue growth decelerates or reverses, and cracks in business models or balance sheets appear. Most companies have a harder time. Some run out of time.

Rising rates also present a challenge for stock valuations, as company share prices should reflect the discounted value of their future cash flows. Standard textbook theories of valuation base discount rates on the prevailing market's "risk free" government borrowing rate as a starting point—and a higher discount rate mathematically lowers the present value of company cash flows. There is some academic work to indicate, however, that what matters may be *which* interest rates have been rising. Some researchers have asserted that long-duration growth companies are valued at longer-term rates, a possible factor in the continued buoyancy of their valuations, since, in the US at least, long-term rates have risen less than short-term rates.

We focus on businesses that can grow faster than the overall economy.

What, then, are the implications for our portfolio? We accept that we will not be able to avoid the declines of a bear market. But we do believe our portfolio will perform better than the market, as it has mostly done in past market declines. We think all three pillars of our investment philosophy—quality, growth, and valuation—will help cushion us. In an environment of rising interest rates, we have found that one of our key quality criteria—the requirement that our companies have strong balance sheets and cash flows—has protected our investments when liquidity tightens: because they have ample resources to invest in their businesses, investors don't fear them facing refinancing difficulty. We focus on businesses that can grow faster than the overall economy. Though nearly all of our businesses will be adversely affected if global growth slows (or, in a recession, declines), we believe they will be more likely than weaker companies to sustain their margins and achieve at least modest revenue growth.

The final pillar of our investment philosophy, valuation, is potentially the most problematic for us and for growth investors generally. For years, while share prices have been rising, we have talked about how we found market valuations challenging, but noted that, with growth scarce in a slow-to-heal world, we would be more tolerant of higher valuations than in other circumstances. With growth now under threat cyclically but the prices of the fastest-growing companies still rising, market valuations remain a fraught issue.

Our response has been a gradual shift in our portfolio allocation over the last several years. We have been reducing our weight in the US, one of the better-performing and most expensive markets, and investing more in Europe and EMs, where we have been able to find companies whose share prices we believe discount less growth than we expect from them over the long term.

PORTFOLIO HIGHLIGHTS

Many of our purchases this quarter, including the two in the IT sector that we discuss, were of stocks that experienced significant declines due to disappointing business results that we do not expect to persist. In each case, we are attempting to take advantage of the market's myopia.

Shares of **AAC Technologies**, a Chinese supplier of speaker-and-microphone components for smartphones and other devices, have suffered this year due to weaker-than-expected sales of **Apple's** iPhone X. While other investors sold their shares, we did the opposite. Demand is rising for internet-connected devices that rely on voice commands to interact with users. AAC's expertise in developing quality speakers and microphones in ever-smaller packages is unlikely to be matched by competitors anytime soon.

We purchased **Cognex**, a provider of machine-vision software and equipment, which we had sold from the portfolio last year after its shares rose on a spike in iPhone X-related orders. Given the lumpiness of product orders, we felt the price didn't adequately discount the risk of growth disappointment. As it turned out, investors quickly lost their enthusiasm for the stock. In April, we repurchased the shares, regarding that, at their lower price, short-term risk from order volatility was outweighed by the potential from rising long-term demand for industrial automation equipment.

Two holdings left the portfolio as a result of M&A activity: **Monsanto's** acquisition by German life sciences giant Bayer closed this quarter shortly after regulatory approvals were completed. We sold **Shire**, a UK-based biopharmaceutical manufacturer, after Japan's Takeda Pharmaceutical made a formal bid for the company, sending Shire's share price to our estimate of the company's fair value.

Within Financials, we sold Turkey's **Garanti Bank** in April, ending an unsuccessful investment that saw a strong banking fran-

chise deliver poor returns to foreign investors due to chronic currency weakness. Nevertheless, we avoided additional losses amid the distress that shook EMs later in the quarter. We also sold New York-based **Signature Bank**, whose growth has not rebounded to the extent we had expected.

The portfolio's US weight remains significantly lower than the benchmark index as we find better-priced opportunities outside of the US. Recent purchases increased the portfolio's weight in EMs to more than 350 basis points higher than the benchmark, the biggest overweight since 2006. Approximately half of our EM stocks are in the IT sector or related to technology, with most of the remainder invested in Financials (specifically banks) and Health Care. China remains the largest portfolio exposure within EMs, a risk of which we are mindful as trade wars loom. Of our five Chinese holdings, Wuxi Biologics and AAC Technologies generate more than half of their revenue from US customers. The others generate nearly all of their revenue inside China.

GLOBAL EQUITY ADR HOLDINGS (AS OF JUNE 30, 2018)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
CONSUMER DISCRETIONARY		
AMAZON.COM E-commerce retailer	US	1.5
BMW Automobile manufacturer	Germany	0.9
BOOKING HOLDINGS Online travel services	US	2.4
DISNEY Diversified media and entertainment provider	US	1.0
LUXOTTICA Eyewear manufacturer and retailer	Italy	1.2
NASPERS Internet and media services	South Africa	1.1
NIKE Athletic footwear and apparel retailer	US	1.7
TELEVISA News and entertainment broadcaster	Mexico	1.2
WPP Marketing and advertising services	UK	1.5
CONSUMER STAPLES		
COLGATE PALMOLIVE Consumer products manufacturer	US	1.3
L'ORÉAL Cosmetics manufacturer	France	1.0
NESTLÉ Foods manufacturer	Switzerland	1.1
RECKITT BENCKISER Consumer products manufacturer	UK	1.1
WALGREENS BOOTS ALLIANCE Drugstores operator	US	0.6
ENERGY		
EXXONMOBIL Oil and gas producer	US	0.8
SCHLUMBERGER Oilfield services	US	1.9
TENARIS Steel-pipe manufacturer	Italy	0.9
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	2.5
BANK CENTRAL ASIA Commercial bank	Indonesia	1.2
BBVA Commercial bank	Spain	1.6
FIRST REPUBLIC BANK Private bank and wealth manager	US	2.4
HDFC BANK Commercial bank	India	1.0
ICICI BANK Commercial bank	India	1.9
ITAÚ UNIBANCO Commercial bank	Brazil	1.3
SVB FINANCIAL GROUP Commercial bank	US	1.7
HEALTH CARE		
ABBOTT LABS Health care products manufacturer	US	1.3
ABCAM Life science services	UK	0.6
AMERISOURCEBERGEN Pharma services	US	1.0
ESSILOR Ophthalmic lenses manufacturer	France	1.9
GRIFOLS Blood plasma fractionation operator	Spain	1.3
LONZA GROUP Life science products developer	Switzerland	3.1
REGENERON Biopharma manufacturer	US	1.5
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.0
SYSMEX Clinical laboratory equipment manufacturer	Japan	3.1
WATERS Analytical instruments manufacturer	US	1.2
WUXI BIOLOGICS Biopharma manufacturer	China	1.8
INDUSTRIALS		
3M COMPANY Diversified product manufacturer	US	0.8
ATLAS COPCO Industrial equipment manufacturer	Sweden	1.1
FANUC Industrial robot manufacturer	Japan	0.8
INTRUM JUSTITIA Credit management services	Sweden	0.8
KONE Elevator and escalator manufacturer	Finland	1.4
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.1
MAKITA Power tool manufacturer	Japan	0.9
MONOTARO Factory materials supplier	Japan	2.2
PARK24 Automated parking lot operator	Japan	0.7
ROPER Diversified technology businesses operator	US	2.9
VERISK Risk analytics and assessment services	US	2.3
WABCO Vehicle control systems supplier	US	0.8
INFORMATION TECHNOLOGY		
AAC TECHNOLOGIES Smartphone components manufacturer	China	0.9
ALIBABA E-commerce retailer	China	1.0
APPLE Consumer electronics and software developer	US	1.6
BAIDU Internet products and services	China	1.2
CHECK POINT Cybersecurity software developer	Israel	0.8
COGNEX Machine vision systems manufacturer	US	0.9
COGNIZANT TECHNOLOGY IT consultant	US	1.1
EBAY E-commerce retailer	US	0.9
FACEBOOK Social network	US	2.2
IPG PHOTONICS Lasers and amplifiers manufacturer	US	1.4
MASTERCARD Electronic payment services	US	1.7
MICROSOFT Consumer electronics and software developer	US	1.0
PAYPAL Electronic payment services	US	4.1
WEIBO Social network	China	0.4
YANDEX Internet products and services	Russia	1.2
MATERIALS		
AIR LIQUIDE Industrial gases producer	France	1.0
CHR. HANSEN Natural ingredients developer	Denmark	1.3
NOVOZYMES Biotechnology producer	Denmark	1.0
PRAXAIR Industrial gases producer	US	1.3
SASOL Energy and chemical technology developer	South Africa	0.9
SYMRISE Fragrances and flavors manufacturer	Germany	2.4
REAL ESTATE		
No Holdings		
TELECOM SERVICES		
No Holdings		
UTILITIES		
No Holdings		
CASH		3.3

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

2Q18 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
FACEBOOK	INFT	2.0	0.39
LONZA GROUP	HLTH	3.0	0.37
PAYPAL	INFT	3.9	0.36
SVB FINANCIAL GROUP	FINA	1.7	0.30
NIKE	DSCR	1.5	0.28

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
PAYPAL	INFT	3.6	1.62
SYSMEX	HLTH	2.4	1.24
SVB FINANCIAL GROUP	FINA	2.2	1.10
WUXI BIOLOGICS	HLTH	0.7	0.94
WEIBO	INFT	1.2	0.77

2Q18 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ITAÚ UNIBANCO	FINA	1.4	-0.59
FANUC	INDU	1.1	-0.26
KUBOTA	INDU	1.6	-0.20
BBVA	FINA	1.6	-0.19
ICICI BANK	FINA	1.8	-0.15

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
REGENERON	HLTH	1.7	-0.68
INTRUM JUSTITIA	INDU	0.6	-0.38
RECKITT BENCKISER	STPL	1.2	-0.28
WPP	DSCR	1.1	-0.26
BBVA	FINA	1.4	-0.24

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GADR	MSCI ACWI
PROFIT MARGIN[1] (%)	13.9	11.4
RETURN ON ASSETS[1] (%)	8.0	6.0
RETURN ON EQUITY[1] (%)	17.0	14.4
DEBT/EQUITY RATIO[1] (%)	49.1	71.7
STD DEV OF 5 YEAR ROE[1] (%)	4.0	4.4
SALES GROWTH[1,2] (%)	7.5	2.8
EARNINGS GROWTH[1,2] (%)	11.4	8.3
CASH FLOW GROWTH[1,2] (%)	10.1	7.4
DIVIDEND GROWTH[1,2] (%)	8.9	7.7
SIZE & TURNOVER	**HL GADR**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	28.5	55.8
WTD AVG MKT CAP (US $B)	97.5	142.7
TURNOVER[3] (ANNUAL %)	23.3	—

RISK AND VALUATION	HL GADR	MSCI ACWI
ALPHA[2] (%)	2.60	—
BETA[2]	1.03	—
R-SQUARED[2]	0.93	—
ACTIVE SHARE[3] (%)	89	—
STANDARD DEVIATION[2] (%)	10.83	10.09
SHARPE RATIO[2]	1.18	0.95
TRACKING ERROR[2] (%)	2.9	—
INFORMATION RATIO[2]	1.06	—
UP/DOWN CAPTURE[2]	113/94	—
PRICE/EARNINGS[4]	25.7	17.1
PRICE/CASH FLOW[4]	18.7	11.6
PRICE/BOOK[4]	3.8	2.2
DIVIDEND YIELD[5] (%)	1.2	2.4

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

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
AAC TECHNOLOGIES	CHINA	INFT
COGNEX	US	INFT
PARK24	JAPAN	INDU

POSITIONS SOLD	COUNTRY	SECTOR
GARANTI BANK	TURKEY	FINA
MONSANTO	US	MATS
SHIRE	UK	HLTH
SIGNATURE BANK	US	FINA
STARBUCKS	US	DSCR

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

GLOBAL EQUITY ADR COMPOSITE PERFORMANCE (AS OF JUNE 30, 2018)

	HL GLOBAL ADR GROSS (%)	HL GLOBAL ADR NET (%)	MSCI ACWI[1] (%)	MSCI WORLD[2] (%)	HL GLOBAL ADR 3-YR STD DEVIATION[3] (%)	MSCI ACWI 3-YR STD DEVIATION[3] (%)	MSCI WORLD 3-YR STD DEVIATION[3] (%)	INTERNAL DISPERSION[4] (%)	NO. OF ACCOUNTS[5]	COMPOSITE ASSETS[5] ($M)	FIRM ASSETS (%)
2018 YTD[6]	3.45	3.04	-0.13	0.76	11.70	10.52	10.29	N.A.[7]	2	2	0.00
2017	32.97	32.00	24.62	23.07	11.33	10.37	10.24	N.M.[8]	3	3	0.01
2016	5.91	5.04	8.48	8.15	11.56	11.07	10.94	N.M.[8]	3	2	0.00
2015	2.89	2.07	-1.84	-0.32	11.22	10.78	10.80	N.M.	5	4	0.01
2014	6.34	5.47	4.71	5.50	10.90	10.48	10.21	N.M.	5	4	0.01
2013	20.91	19.95	23.44	27.37	14.53	13.92	13.52	0.1	7	5	0.02
2012	18.53	17.56	16.80	16.54	17.52	17.11	16.72	0.5	7	4	0.02
2011	-8.70	-9.41	-6.86	-5.02	20.15	20.59	20.16	0.2	15	8	0.06
2010	13.33	12.44	13.21	12.34	22.87	24.51	23.74	0.8	37	31	0.28
2009	37.05	35.88	35.41	30.79	20.48	22.37	21.44	N.M.	35	21	0.33
2008	-37.11	-37.63	-41.84	-40.33	16.24	17.98	17.03	N.M.	3	1	0.03

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the composite and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]Total product accounts and assets are 2,336 and are $418 million, respectively, at June 30, 2018, and are presented as supplemental information; [6]The 2018 YTD performance returns and assets shown are preliminary; [7]N.A.–Internal dispersion less than a 12-month period; [8]N.M.–Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year.

The Global Equity ADR Composite contains fully discretionary, dual contract, fee-paying accounts that may also pay a wrap fee to their custodian investing in US and non-US equity and equity-equivalent securities and cash reserves. The composite was re-defined in March 2018, to allow for the inclusion of dual contract wrap portfolios. Securities are held in Depository Receipt (DR) form, including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), or are otherwise traded on US exchanges. For comparison purposes the Composite return is measured against the MSCI All Country World Total Return Index. From 2001 (when the net index first became available) through December 30, 2012, the index return is presented net of foreign withholding taxes. Beginning December 31, 2012, Harding Loevner LP presents the gross version of the index to conform the benchmark's treatment of dividend withholding with that of the Composite. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 47 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in these Indices.

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

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Global Equity ADR Composite has been examined for the periods December 1, 1989 through March 31, 2018. 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 withholding taxes on dividends, interest income and capital gains. Additional information is available upon request. Past performance does not guarantee future results. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Performance for accounts paying a wrap fee is calculated including the trading costs associated with their wrap program.

Under a wrap fee program, a client is charged a specified fee, which is not based directly upon transactions in a client's account, for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisors) and execution of client transactions.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Global Equity ADR accounts is 0.80% annually of the market value up to $20 million; 0.40% of amounts above $20 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 Global Equity ADR Composite was created on October 31, 2001. Performance prior to October 31, 2001 is that of the Global Equity Composite, which was managed similarly and materially represented the strategy of the Global ADR Composite.

This page intentionally left blank.