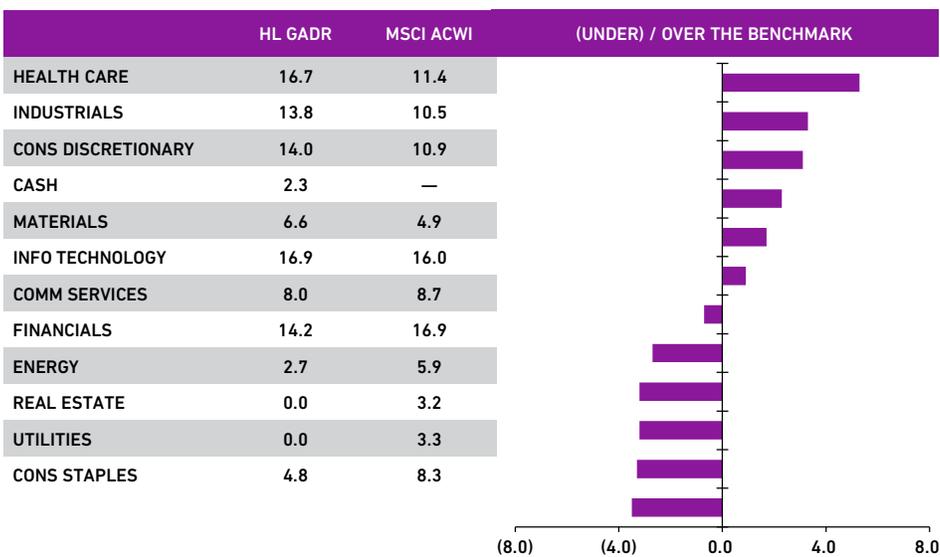
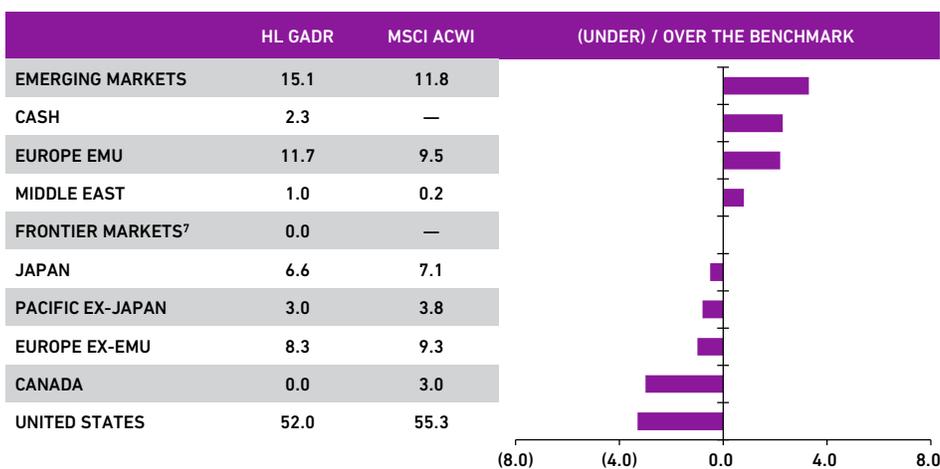


**COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED JUNE 30, 2019<sup>1</sup>**

	3 MONTHS	YTD	1 YEAR	3 YEARS <sup>2</sup>	5 YEARS <sup>2</sup>	10 YEARS <sup>2</sup>	SINCE INCEPTION <sup>2,3</sup>
HL GLOBAL EQUITY ADR (GROSS OF FEES)	3.78	18.56	4.24	14.79	9.48	11.76	9.46
HL GLOBAL EQUITY ADR (NET OF FEES)	3.58	18.10	3.32	13.87	8.60	10.86	8.57
MSCI ALL COUNTRY WORLD INDEX <sup>4,5</sup>	3.80	16.60	6.32	12.22	6.73	10.73	7.12
MSCI WORLD INDEX <sup>5,6</sup>	4.20	17.38	6.94	12.39	7.20	11.33	7.19

<sup>1</sup>The Composite performance returns shown are preliminary; <sup>2</sup>Annualized Returns; <sup>3</sup>Inception Date: November 30, 1989 corresponds to that of the linked Global Equity Composite; <sup>4</sup>The Benchmark Index; <sup>5</sup>Gross of withholding taxes; <sup>6</sup>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 (%)**

**GEOGRAPHIC EXPOSURE (%)**


<sup>7</sup>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.

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**ONLINE SUPPLEMENTS**


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## MARKET REVIEW

Global equity markets swooned in May when US-China trade talks broke down, only to finish the quarter modestly higher after central banks signaled a return to monetary easing in response to continued weak economic data. US stock markets ended the quarter near their historic highs.

Optimism surrounding prospects for the latest round of US-China trade talks had supported rebounding stock markets in the first four months of the year, but evaporated when negotiations abruptly dissolved into recriminations, seemingly just shy of a deal. Piqued, US President Donald Trump announced a tariff increase on US\$200 billion of Chinese goods and the Chinese stiffened their resistance to US demands. A further jolt was delivered by the US Commerce Department opening a new front in the conflict by barring US companies from selling advanced semiconductors or other parts to Huawei, China's telecommunications equipment giant, and banning US purchases of Huawei equipment and handsets, citing risks to national security. This unexpected action escalated a long-running dispute over intellectual property theft into potentially a new "war" for technological supremacy. Subsequently, the US added five more Chinese companies involved in supercomput-

ing to the blacklist, again citing national security, and China established its own "unreliable entities list." Technology companies dependent on complex global supply chains—which are many of them—scrambled to assess and address the disruptive implications of the new conflict.

Trump's trade ire was not limited to China: he threatened duties on European car imports, charged India with unfair trade practices and excessive tariffs, and threatened tariffs on Mexican goods to compel assistance in deterring US-bound migrants. The belligerence contributed to the erosion of business confidence domestically and abroad even as economic data continued to paint a picture of slowing global growth. Germany's Institute for Economic Research reported that its bellwether index of business confidence in the country has reached the lowest level in nearly five years. Japan's leading index had already been in modestly negative territory since mid-2018, and now US leading indicators are weakening. Investor sentiment is also worsening. The most recent Bank of America Merrill Lynch Global Fund Manager Survey was the most bearish since the financial crisis, and managers listed the trade war and recession risks as their primary concerns.

Central banks responded accordingly. In June, the Federal Reserve hinted strongly that rate cuts are on the table, and the European Central Bank stated clearly that it is ready to act if weak inflation persists. Bond markets also reacted to the downbeat data. In the US, long-term interest rates fell below short-term rates, an inversion that is thought to presage a recession. In Europe and Japan, the quantity of sovereign bonds with negative yields reached the US\$13 trillion dollar mark, surpassing the previous high in the summer of 2017.

Stock market leadership shifted throughout the quarter. Semiconductors, hardware, and communications equipment fell hard on the Huawei blacklisting before rebounding in June, while non-cyclical industries suffered least amid the May swoon. Energy, however, was the weakest sector; Financials, led by insurance stocks, and Information Technology (IT), led by software stocks, ended up the best-performing sectors.

All major regions had positive returns with Emerging Markets at the bottom of the list due to weak performance of Chinese stocks, including its mega-cap internet companies. However, their US e-commerce and social media counterparts were among the strongest performers in the benchmark. Southeast Asian stocks rallied around the view that Singapore, Thailand, and Indonesia are among the countries that could benefit from the fallout of China's trade woes. US stocks finished the quarter in the middle of the pack.

Style effects were more muted than in the first quarter, with stocks of higher-quality companies outperforming modestly. Stocks of the slowest-growing companies performed worse than the broad market, while the more cheaply priced (aka "value") stocks also lagged.

### MARKET PERFORMANCE (USD %)

MARKET	2Q 2019	TRAILING 12 MONTHS
CANADA	5.1	4.1
EMERGING MARKETS	0.8	1.6
EUROPE EMU	6.1	0.4
EUROPE EX-EMU	3.7	4.9
JAPAN	1.0	-3.8
MIDDLE EAST	-3.5	-4.2
PACIFIC EX-JAPAN	5.2	8.2
UNITED STATES	4.3	10.2
MSCI ACW INDEX	3.8	6.3

### SECTOR PERFORMANCE (USD %) OF THE MSCI ACW INDEX

SECTOR	2Q 2019	TRAILING 12 MONTHS
COMMUNICATION SERVICES	3.4	2.0
CONSUMER DISCRETIONARY	4.6	3.1
CONSUMER STAPLES	3.1	10.0
ENERGY	-0.9	-7.1
FINANCIALS	6.1	4.0
HEALTH CARE	1.4	10.2
INDUSTRIALS	4.6	6.9
INFORMATION TECHNOLOGY	5.4	14.1
MATERIALS	3.9	0.6
REAL ESTATE	0.6	10.9
UTILITIES	2.8	14.8

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

## ■ PERFORMANCE AND ATTRIBUTION

The Global Equity ADR composite rose 3.8% in the quarter, in line with the benchmark index's 3.8% gain. For the year to date, the composite rose 18.6%, outpacing the index's 16.6% gain. The charts to the right attribute the quarter's performance by sector and region.

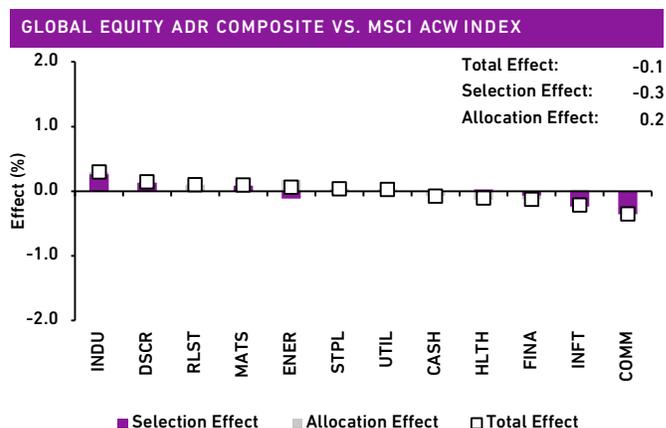
The composite matched the benchmark in the quarter, as strong stocks in Europe and Japan were offset by a handful of poor stocks in US. Within the European Monetary Union (EMU), **EssilorLuxottica** rebounded after the company resolved the boardroom issues that had tied it in knots for months. Shares of **KONE**, a Finland-based elevator maker, rose after it reported strong results and lifted its outlook, including for China, the world's largest market for new elevators, where KONE enjoys top market share. **Kubota**, a Japanese agriculture- and construction-equipment maker, benefited from strong demand in the US. **Abcam**, a UK-based manufacturer of antibodies used in pre-clinical research, also did well.

Our US holdings detracted from relative performance. Shares of **Regeneron** fell after it reported higher-than-expected manufacturing and R&D costs. Like the rest of the pharmaceutical industry, the company also faces pressure to lower drug prices. **Waters**, a life science tools company, reported that its China business was adversely affected by regulatory changes that led Chinese drug manufacturers to reduce their capital spending. The drag of Regeneron and Waters was partially offset by **Disney**, whose shares surged after it announced plans to expand its direct-to-consumer video streaming business.

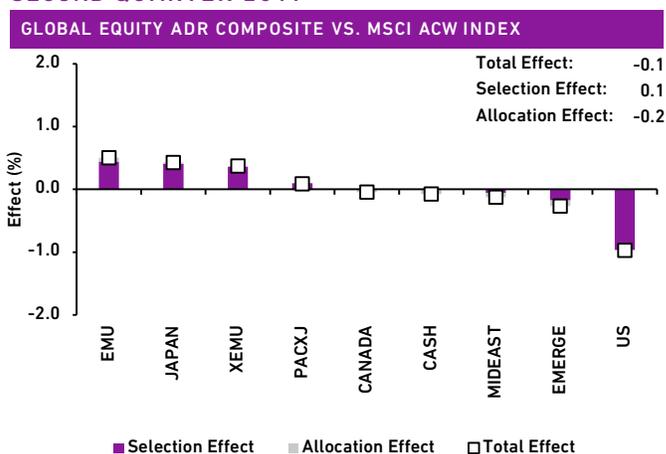
Viewed by sector, our Industrial companies contributed most to relative performance, led by KONE and Kubota. In addition, shares of **Verisk**, an information services company, rose after it reported solid organic growth in its main business of supplying data to the insurance industry. In Communication Services, Chinese search engine **Baidu** detracted as rivalry heated up in online advertising amid China's slowing economy. Its US counterpart, Google parent **Alphabet**, detracted nearly as much due to increased regulatory scrutiny in the US and Europe. In IT, shares of technology services company **Cognizant** fell after it reported weak earnings and reduced its guidance. In Health Care, the underperformance of Regeneron was offset by good performance from Abcam and **Lonza**, a biopharma contract manufacturer. Shares of Lonza rose, fully retracing their fourth-quarter decline, after the company signaled intentions to spin off its slow-growing chemicals business unit.

*Companies held in the portfolio during the quarter appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at June 30, 2019 is available on page 9 of this report.*

## SECTOR PERFORMANCE ATTRIBUTION SECOND QUARTER 2019



## GEOGRAPHIC PERFORMANCE ATTRIBUTION SECOND QUARTER 2019



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.

## ■ PERSPECTIVE AND OUTLOOK

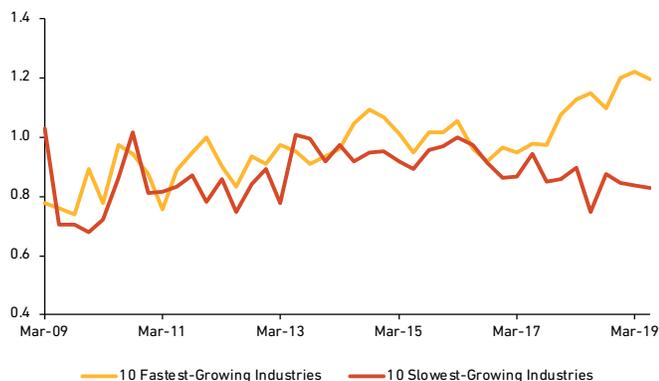
### Portfolio Manager Viewpoint by Peter Baughan, CFA

I'd like to outline some thoughts about investment risk: how to measure it, how to manage it, and how much of it there may be in our portfolios today. "Riskiness" can be defined in various ways, but here I am using the term to refer specifically to stock price volatility—how frequently and by how much a stock's market price varies over time.

As growth investors, we at Harding Loevner are particularly interested in how stocks of companies in faster-growing industries (which we tend to favor) behave compared with those in slower-growing industries (which we tend to avoid). One of the tools we use to monitor the investment environment is a multifactor model that generates forecasts of how risky equity investments will be based on their past behavior. For most of

the past fifteen years (that is, since the dot-com bust), stocks in the ten fastest-growing industries have not been much riskier (i.e., volatile) than those in the ten slowest-growing industries. Yet starting in late 2017 this has changed. Stocks in the ten fastest-growing industries have become increasingly volatile, and bigger contributors to market volatility than stocks of the slowest-growing industries. This phenomenon is illustrated in the chart below.

**FORECAST VOLATILITY RELATIVE TO MARKET FOR FASTEST- AND SLOWEST-GROWING INDUSTRIES IN THE MSCI ACW INDEX**



Source: MSCI Inc., FactSet; Data as of June 30, 2019.

These growth stocks are increasingly exposed to, and at the mercy of, the behavior of the investor “crowd” that is becoming a very significant—and hard to diversify—risk factor. Active investors, large and small, have been attracted to growth stocks because that’s where the returns are, or at least where the returns have been. Passive investors, naturally, have followed them. We think that, as a result, investing in high-quality, rapidly growing companies now requires a higher tolerance for volatility than in the past. Our risk models are suggesting that our portfolios have a potential to outperform in rising markets—and underperform in a correction—which is contrary to their historical pattern of exhibiting more resilience in falling markets.

**FORECAST VOLATILITY RELATIVE TO MARKET FOR HIGHEST- AND LOWEST-QUALITY INDUSTRIES IN THE MSCI ACW INDEX**



Source: MSCI Inc., FactSet; Data as of June 30, 2019.

As a portfolio manager, this suggestion leaves me looking for more insight into the fundamental sources of systematic risk. Forecast portfolio volatility is clearly an output—the simulated result of some input, a “disturbance” of some sort, introduced into the risk-analysis system. Stepping back to survey the state of the world, I submit that the frequency and potential severity of disturbances are rising. We have now experienced ten years of highly stimulative monetary policies and sharply rising passive fund flows into stocks. We see a host of fundamental changes unfolding globally: demographic, political, social, cultural, economic, geopolitical, technological, you name it. How should we approach the uncertainty of this environment?

Obviously we cannot look to a quantitative risk model for the answers to such a question. I find myself thinking about *Moby-Dick*, Herman Melville’s epic novel about Captain Ahab’s maniacal and, ultimately, fatal pursuit of a great white whale. The story ends with Moby Dick sinking the good ship *Pequod* to the doom of its crew with the sole exception of the tale’s narrator, Ishmael.

Melville’s depiction of Starbuck, the *Pequod*’s chief mate, is an unrivaled portrayal of a risk manager *par excellence*. Melville describes a whaler who has seen it all and been through it all, a man “embalmed with inner health and strength ... prepared to endure for ages to come. ... Polar snow or torrid sun ... a thousand-fold perils he had calmly confronted through life.” Critically, Starbuck could “restrain the gush of dare-devil daring, so often evinced by others in the more perilous vicissitudes of the fishery.” Starbuck’s primary dictum was: “I will have no man in my boat who is not afraid of a whale.” To him, the only acceptable whaler possessed “reliable and useful courage” that arises from “the fair estimation of the encountered peril.” For Starbuck, an utterly fearless man was a far more dangerous comrade than a coward. Starbuck, I imagine, generated strong risk-adjusted returns for the owners of the *Pequod*.

**Melville’s depiction of Starbuck, the *Pequod*’s chief mate, is an unrivaled portrayal of a risk manager *par excellence*.**

Consider the following exchange at a tense moment, when Ahab is pressing his fanatical pursuit of the white whale and Starbuck has sharply rising misgivings over the risks involved. Starbuck goes below deck to confront Ahab in his cabin. Ahab reacts furiously, grabbing a loaded musket and pointing it at Starbuck. Starbuck replies:

Thou hast outraged, not insulted me, sir; but for that I ask thee not to beware of Starbuck; thou wouldst but laugh; but let Ahab beware of Ahab; beware of thyself, old man.

Melville gave Starbuck these words in approximately 1851—an early example of “know thyself” behavioral finance advice.

I think Starbuck had one great advantage in evaluating and managing risk compared with a risk-asset manager such as myself today: he knew what he was looking for, and what he was looking at. Starbuck intimately knew whales—the risk asset. This included their behaviors when harpooned. He could tell when ripples in the water from a submerged harpooned whale were routine and when they portended imminent danger to the boat. In such cases, the harpoon line had to be cut quickly to release the boat from unacceptably risen uncertainty in the behavior of the whale. Further, he knew that Moby Dick was a uniquely dangerous whale, easily identified by color, and a colossus of unprecedented strength and unmanageable malevolence when encountered. Finally, he knew that the *Pequod* had to go looking for Moby Dick—Moby Dick would not go looking for the *Pequod*.

As a global portfolio manager, I don't have the same clarity around the nature of a "fundamental disturbance" or the likely behavior of the risky asset in its wake as Starbuck had. Nor do I have to worry about only a single whale. To illustrate the particular multi-dimensional risk-management challenge facing portfolio managers, it's helpful to look at another boat and another captain. In the early morning of June 17, 2017, the USS *Fitzgerald*, a US\$1.8 billion destroyer, collided with a 30,000-ton cargo ship, the *ACX Crystal*, 12 miles off the coast of Japan, leading to the drowning of seven sailors in their bunk rooms and hundreds of millions of dollars in damage to the *Fitzgerald*. How did a US naval destroyer manage to collide with a well-lit cargo ship nearly four times its size on a calm and clear, moonlit night?

To make a long and sadly fascinating story short, the *Fitzgerald* would not have collided with the *ACX Crystal* if Starbuck had been at the helm. Quite unbelievably, but believably, the 26-year-old back-up captain in charge of the *Fitzgerald* that early morning did not take her eyes off the navigation computer screens, which erroneously showed no dangerously converging ship traffic until it was too late. Tragically, when she finally grasped the severity of the imminent danger faced by the ship, in panic she chose the wrong evasive maneuver and swung the ship *into* the path of the *Crystal* (though, reportedly, if the *Fitzgerald* had missed the *Crystal*, it may well have collided with an even larger ship coming close behind the *Crystal*.)

The captain did not have the awareness that comes from real-world experience to realize that it was simply not plausible for the *Fitzgerald* to be facing the wide-open, smooth-sailing scenario projected by the ship's navigation system while sailing through the narrow shipping channel that leads into and out of Tokyo, one of the world's busiest ports. The captain did not think to double check what the ship's navigation systems indicated by confirming it with physical observation that was readily available to her by leaving the bridge, walking out onto the deck, and looking around her. Incredibly, due to staff shortage, a physical lookout was only posted on the port side of the vessel; nobody was posted on the starboard side where the *ACX Crystal* was a brightly lit skyscraper bearing down on the *Fitzgerald*.

So what can we learn from comparing risk management on the *Pequod* and the *Fitzgerald*?

**First**, in risk management, as in all endeavors, pride goeth before destruction. Starbuck's exemplary risk awareness and action were overwhelmed by what Melville describes as "the fatal pride" of Captain Ahab. Starbuck, too, perishes in the end.

**Second**, lack of transparency and failures of coordination in capturing and analyzing, and in delivering information to and from key decision-makers, is dangerous. Communication was fragmented on the *Fitzgerald*, where the organization of work was characterized by many silos of specialist activity. This fragmentation enabled the collision.

**Third**, to the extent that risk is equated with volatility, it can be very hard to identify its underlying sources. All volatility is not created equal: some reflects ripples from "disturbances" that are ultimately benign; at other times volatility emanates from malign sources portending imminent danger of serious damage. Starbuck could tell the difference between the two, but unlike Starbuck we operate in a multi-dimensional environment where telling the difference is far more challenging.

**Fourth**, portfolio managers need the equivalent of both high-tech radar systems and human eyes on deck scanning the horizon in all directions. The *Fitzgerald*'s captain could only tell what the navigation screen showed her. I would like to think I have the real-world awareness to "look around" to confirm what our system—in this case our multi-factor risk model—is telling us.

**Fifth**, crowding clouds the picture for the risk manager and raises the peril. Starbuck did not have to worry that the whale he harpooned would turn unmanageable due to the activity of competing whaling ships. By contrast, the *Fitzgerald* very much had to worry about the activity of other ships.

**How does one make a "fair estimation of the 'encountered peril'" if the behavior of the risk assets has become increasingly unpredictable and dangerous—with sharply rising potential for severity of consequence?**

In this vein, while sailing through the last three months of 2018, when the MSCI All Country World Index fell 13%, I felt as though I were the captain of the *Fitzgerald*, as the behavior of many risk assets in my portfolio diverged sharply from my expectations in response to the unforeseen activities of countless other return-seeking, risk-avoiding market participants crowded into a narrow passage of growth stocks. That we subsequently experienced a sharp reversal in collective action and snap-back in the valuation of global equities gave me little comfort. In fact, the episode serves to highlight what I think is increasing unpredictability of growth stocks. Starbuck would think twice before lowering his whale boats in such wa-

ters. How does one make a “fair estimation of the ‘encountered peril’” if the behavior of the risk assets has become increasingly unpredictable and dangerous—with sharply rising potential for severity of consequence?

If, as Solomon wrote in the *Book of Proverbs*, the fear of God is the beginning of wisdom, perhaps fear of risk is the beginning of good (long-term) investment returns. Following our philosophy, we will retain exposure to many of the strongest-growth sectors despite their increased volatility. But we are also developing more fear (or at least appreciation) of risk as we look around us at disturbing dynamics in the real world and the seemingly oft-disconnected behavior of the markets. We want to emulate Starbuck by having “reliable and useful courage” that recognizes the importance of guarding against whatever the unpredictable “encountered perils” will be in the future.

## ■ PORTFOLIO HIGHLIGHTS

We have lamented before in these pages about the rising valuation premium that has emerged in recent years for high-quality, fast-growing companies relative to the rest of the market. As further noted in those letters, we have chosen by and large to tolerate increasingly expensive valuations for such companies given our longstanding outlook for a continuation of scarce growth, low inflation, and very low interest rates. Wholesale avoidance of the increased price risk in stocks of the kind of companies we favor would have driven us into more cheaply priced cyclical businesses, into financial businesses, or into riskier geographies, all of which have lagged the market.

More recently, the more-expensive stocks are also trading with increased volatility, and have become more correlated to one another. As a result, the portfolio’s forecast volatility has been rising. The combination of rising valuation and rising volatility associated with quality-growth investing concerns us. It presents us with a dilemma: should we continue to emphasize the highest-quality and fastest-growing companies, which *as businesses* should be the most resilient through a recession? Or should we emphasize companies whose businesses may be slightly less robust but whose stock prices currently exhibit lower volatility and lower valuation, and which therefore might be more resilient *as stocks* in a stock market downturn?

### The combination of rising valuation and rising volatility associated with quality-growth investing concerns us.

While reluctant to make portfolio changes based on top-down considerations, we have moved at the margin to moderate our portfolio’s risk characteristics. In recent quarters, we have taken steps to reduce exposure to specific stocks that have contributed significantly to the portfolio’s forecast volatility, especially when they appear to be expensive. These include US-based **SVB Financial Group**, South African media company **Naspers**,

US-based graphics chipmaker **NVIDIA**, and Chinese social media giant Weibo.

Should their growth prospects dim, any of our expensive high-quality growth stocks could fall substantially—whether or not they currently exhibit particularly high forecast volatility. In other words, our tolerance for price risk does have limits, and the shares of even the most pristine companies can reach levels that are too dear. This quarter in Europe, we reduced holdings in KONE and ingredients supplier **Chr. Hansen** solely on valuation grounds. On the other hand, we did not reduce our exposure to other holdings with expensive-looking valuations, such as US payments company **PayPal** and Swiss hearing-aid manufacturer **Sonova**, whose common thread is that their corporate strategies give them both a chance to exceed the market’s high expectations for earnings growth.

### Facebook is still surrounded by considerable controversy over its handling of user data.

We re-established a position in **Facebook** following our sale in late 2018, thinking that the regulatory threats that prompted it were now fully discounted in its share price. We had sold worrying about the approaching maturity of Facebook’s core platform and a host of high-profile privacy controversies that led to sharply rising operating and regulatory costs. Facebook is still surrounded by considerable controversy over its handling of user data, and the company has seen a number of high profile senior management departures as it reorients its strategy to focus on the private rather than public sharing of information. Nevertheless, the company’s platforms still offer high, if no longer unique, value to users and advertisers, and it continues to innovate across all of them. Few effective competitors have emerged (outside of China), and its underlying operating results have remained strong. Barring a much more aggressive and intrusive phase of regulatory action, we think Facebook will continue to leverage its technology and scale to grow and monetize its online global community of several billion people.

We bought a new holding this quarter in **NetEase**, China’s second-largest video game producer. Whereas larger rival Tencent focuses on distributing games developed by third-party studios, NetEase’s core competency is the development of its own content, thanks to its having the largest pool of game developers in China by a wide margin. It has a large, diversified library of games and a fat pipeline of new titles in development. It has focused presciently on games for mobile devices over PC platforms, and sustains high user engagement by delivering frequent updates to its games. While we like the steady growth and high cash generation of the company’s core gaming business, we’re less keen on the lower margin Chinese e-commerce businesses it has been developing recently, but it has shifted its strategy to focus on profitability and we see positive signs already.

During the quarter we exited our position in **WABCO**, the former Westinghouse Air Brake Company, a global leader in commercial vehicle technologies. The company agreed to be

## A HISTORICAL PERSPECTIVE ON TRADE DISPUTES

by Jingyi Li and Yoko Sakai, CFA

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

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

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

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

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

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

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

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

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

acquired by a competitor, privately held ZF Friedrichshafen, for US\$136.50 per share. While we believe this is too modest a premium for control, there is no sign of another bidder.

We also sold Mexican broadcaster **Televisa** during the quarter after determining that the company no longer meets our requirements for sustainable growth and financial strength. We concluded that the weakness in Televisa's advertising earnings is not transitory as we had earlier thought but rather structural, due to advertisers' shift to digital platforms like Facebook. Televisa's restructuring of its ad-pricing model has done little to lift organic growth and, as content production costs remain elevated, margins have shrunk.

We sold our holding in **Park24**, a Japanese operator of parking lots and a car-sharing service, after disagreeing with management's strategy of investing in overseas parking lots. The company's competitive advantage is strong in Japan but unproven abroad. Its overseas acquisitions are driving down the company's return on invested capital and, we fear, distracting management from its areas of strength.

GLOBAL EQUITY ADR HOLDINGS (AS OF JUNE 30, 2019)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
<b>COMMUNICATION SERVICES</b>		
ALPHABET Internet products and services	US	2.5
BAIDU Internet products and services	China	0.8
DISNEY Diversified media and entertainment provider	US	1.2
FACEBOOK Social network	US	1.2
NETEASE Gaming and internet services	China	0.9
YANDEX Internet products and services	Russia	1.3
<b>CONSUMER DISCRETIONARY</b>		
ALIBABA E-commerce retailer	China	1.7
AMAZON.COM E-commerce retailer	US	1.7
BMW Automobile manufacturer	Germany	0.7
BOOKING HOLDINGS Online travel services	US	2.7
EBAY E-commerce retailer	US	1.0
ESSILORLUXOTTICA Eyewear manufacturer and retailer	France	2.8
NASPERS Internet and media services	South Africa	1.0
NIKE Athletic footwear and apparel retailer	US	1.7
ZOZO E-commerce retailer	Japan	0.8
<b>CONSUMER STAPLES</b>		
COLGATE PALMOLIVE Consumer products manufacturer	US	1.4
L'ORÉAL Cosmetics manufacturer	France	1.1
NESTLÉ Foods manufacturer	Switzerland	1.4
WALGREENS BOOTS ALLIANCE Drugstores operator	US	0.8
<b>ENERGY</b>		
EXXONMOBIL Oil and gas producer	US	1.3
SCHLUMBERGER Oilfield services	US	1.4
<b>FINANCIALS</b>		
AIA GROUP Insurance provider	Hong Kong	3.0
BANK CENTRAL ASIA Commercial bank	Indonesia	1.6
BBVA Commercial bank	Spain	1.2
FIRST REPUBLIC BANK Private bank and wealth manager	US	2.4
HDFC BANK Commercial bank	India	1.2
ICICI BANK Commercial bank	India	2.3
ITAÚ UNIBANCO Commercial bank	Brazil	1.7
SVB FINANCIAL GROUP Commercial bank	US	0.8
<b>HEALTH CARE</b>		
ABBOTT LABS Health care products manufacturer	US	1.7
ABCAM Life science services	UK	0.7
GRIFOLS Blood plasma fractionation operator	Spain	1.3
ILLUMINA Life science products and services	US	1.1
LONZA Life science products developer	Switzerland	3.4
REGENERON Biopharma manufacturer	US	1.3
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.2
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.2

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
UNITEDHEALTH GROUP Health care products and services	US	1.1
VERTEX PHARMACEUTICALS Pharma manufacturer	US	1.1
WATERS Analytical instruments manufacturer	US	1.3
WUXI BIOLOGICS Biopharma manufacturer	China	1.4
<b>INDUSTRIALS</b>		
3M COMPANY Diversified product manufacturer	US	0.7
FANUC Industrial robot manufacturer	Japan	0.7
INTRUM JUSTITIA Credit management services	Sweden	0.9
KONE Elevator and escalator manufacturer	Finland	1.0
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.1
MAKITA Power tool manufacturer	Japan	0.9
MONOTARO Factory materials supplier	Japan	1.8
ROPER Diversified technology businesses operator	US	3.7
VERISK Risk analytics and assessment services	US	3.0
<b>INFORMATION TECHNOLOGY</b>		
AAC TECHNOLOGIES Smartphone components manufacturer	China	0.8
APPLE Consumer electronics and software developer	US	2.2
CHECK POINT Cybersecurity software developer	Israel	0.9
COGNEX Machine vision systems manufacturer	US	0.7
COGNIZANT IT consultant	US	0.8
IPG PHOTONICS Lasers and amplifiers manufacturer	US	0.9
MASTERCARD Electronic payment services	US	2.3
MICROSOFT Consumer electronics and software developer	US	2.3
NVIDIA Semiconductor chip designer	US	1.5
PAYPAL Electronic payment services	US	4.5
<b>MATERIALS</b>		
AIR LIQUIDE Industrial gases producer	France	1.1
CHR. HANSEN Natural ingredients developer	Denmark	0.8
LINDE Industrial gases supplier and engineer	US	1.6
SASOL Energy and chemical technology developer	South Africa	0.6
SYMRISE Fragrances and flavors manufacturer	Germany	2.5
<b>REAL ESTATE</b>		
No Holdings		
<b>UTILITIES</b>		
No Holdings		
<b>CASH</b>		2.3

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.

## 2Q19 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
ESSILORLUXOTTICA	DSCR	2.6	0.50
PAYPAL	INFT	4.7	0.47
LONZA	HLTH	3.2	0.32
VERISK	INDU	3.0	0.30
ROPER	INDU	3.8	0.27

## 2Q19 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
REGENERON	HLTH	1.5	-0.44
BAIDU	COMM	1.0	-0.34
ALPHABET	COMM	2.8	-0.25
WATERS	HLTH	1.4	-0.23
NVIDIA	INFT	1.5	-0.15

## PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GADR	MSCI ACWI
PROFIT MARGIN <sup>1</sup> (%)	15.0	12.9
RETURN ON ASSETS <sup>1</sup> (%)	8.0	7.1
RETURN ON EQUITY <sup>1</sup> (%)	18.3	16.3
DEBT/EQUITY RATIO <sup>1</sup> (%)	55.3	79.0
STD DEV OF 5 YEAR ROE <sup>1</sup> (%)	4.2	4.7
SALES GROWTH <sup>1,2</sup> (%)	9.2	3.9
EARNINGS GROWTH <sup>1,2</sup> (%)	12.0	9.6
CASH FLOW GROWTH <sup>1,2</sup> (%)	12.3	8.3
DIVIDEND GROWTH <sup>1,2</sup> (%)	8.3	7.7
SIZE & TURNOVER	HL GADR	MSCI ACWI
WTD MEDIAN MKT CAP (US \$B)	52.3	57.0
WTD AVG MKT CAP (US \$B)	154.7	157.8
TURNOVER <sup>3</sup> (ANNUAL %)	24.1	—

## LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
PAYPAL	INFT	4.5	1.66
ICICI BANK	FINA	2.3	1.14
ROPER	INDU	3.4	1.03
VERISK	INDU	2.7	0.85
LONZA	HLTH	3.2	0.76

## LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
AAC TECHNOLOGIES	INFT	0.9	-0.95
BAIDU	COMM	1.3	-0.92
SCHLUMBERGER	ENER	1.4	-0.80
SYSMEX	HLTH	1.5	-0.59
TELEVISA	COMM	0.7	-0.57

RISK AND VALUATION	HL GADR	MSCI ACWI
ALPHA <sup>2</sup> (%)	2.26	—
BETA <sup>2</sup>	1.06	—
R-SQUARED <sup>2</sup>	0.95	—
ACTIVE SHARE <sup>3</sup> (%)	89	—
STANDARD DEVIATION <sup>2</sup> (%)	12.72	11.69
SHARPE RATIO <sup>2</sup>	0.68	0.50
TRACKING ERROR <sup>2</sup> (%)	2.9	—
INFORMATION RATIO <sup>2</sup>	0.95	—
UP/DOWN CAPTURE <sup>2</sup>	113/97	—
PRICE/EARNINGS <sup>4</sup>	25.7	17.4
PRICE/CASH FLOW <sup>4</sup>	19.6	11.2
PRICE/BOOK <sup>4</sup>	3.9	1.6
DIVIDEND YIELD <sup>5</sup> (%)	1.2	2.4

<sup>1</sup>Weighted median; <sup>2</sup>Trailing five years, annualized; <sup>3</sup>Five-year average; <sup>4</sup>Weighted harmonic mean; <sup>5</sup>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 4, 2019); Harding Loevner Global Equity ADR Model, based on the underlying holdings; MSCI Inc.

## COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
FACEBOOK	US	COMM
NETEASE	CHINA	COMM

POSITIONS SOLD	COUNTRY	SECTOR
PARK24	JAPAN	INDU
TELEVISA	MEXICO	COMM
WABCO	US	INDU

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

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## GLOBAL EQUITY ADR COMPOSITE PERFORMANCE (AS OF JUNE 30, 2019)

	HL GLOBAL ADR GROSS	HL GLOBAL ADR NET	MSCI ACWI <sup>1</sup>	MSCI WORLD <sup>2</sup>	HL GLOBAL ADR 3-YR STD DEVIATION <sup>3</sup>	MSCI ACWI 3-YR STD DEVIATION <sup>3</sup>	MSCI WORLD 3-YR STD DEVIATION <sup>3</sup>	INTERNAL DISPERSION <sup>4</sup>	NO. OF ACCOUNTS <sup>5</sup>	COMPOSITE ASSETS <sup>5</sup>	FIRM ASSETS
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)		(\$M)	(%)
2019 YTD <sup>6</sup>	18.56	18.10	16.60	17.38	12.44	11.15	11.15	N.A. <sup>7</sup>	2	2	0.00
2018	-9.05	-9.85	-8.93	-8.20	11.85	10.48	10.39	N.M. <sup>8</sup>	2	2	0.00
2017	32.97	32.00	24.62	23.07	11.33	10.37	10.24	N.M.	3	3	0.01
2016	5.91	5.04	8.48	8.15	11.56	11.07	10.94	N.M.	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

<sup>1</sup>Benchmark Index; <sup>2</sup>Supplemental Index; <sup>3</sup>Variability of the Composite and the Index returns over the preceding 36-month period, annualized; <sup>4</sup>Asset-weighted standard deviation (gross of fees); <sup>5</sup>Total product accounts and assets are 3,153 and \$553 million, respectively, at June 30, 2019, include both separately managed and unified managed accounts, and are presented as supplemental information; <sup>6</sup>The 2019 YTD performance returns and assets shown are preliminary; <sup>7</sup>N.A.—Internal dispersion less than a 12-month period; <sup>8</sup>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. The percentage of wrap assets in the Composite as of December 31, 2018 was 42.46%. 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, 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 Global Equity ADR Composite has been examined for the periods December 1, 1989 through March 31, 2019. The verification and performance examination reports are available upon request.

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

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross of 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.