GLOBAL EQUITY

2016 Year End Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDING DECEMBER 31, 2016[1]

	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY (GROSS OF FEES)	-1.41	7.13	5.54	11.10	6.70	9.45
HL GLOBAL EQUITY (NET OF FEES)	-1.52	6.62	5.05	10.61	6.24	8.79
MSCI ALL COUNTRY WORLD INDEX[4,5]	1.30	8.48	3.69	9.95	4.12	6.69
MSCI WORLD INDEX[5,6]	1.97	8.15	4.38	11.03	4.41	6.76

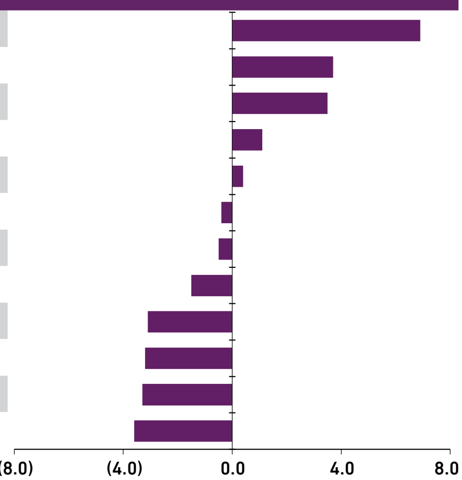
[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1989; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

Please read the above performance in conjunction with the footnotes on page 11 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 GLOBAL	MSCI ACWI
INFO TECHNOLOGY	22.4	15.5
INDUSTRIALS	14.3	10.6
HEALTH CARE	14.6	11.1
CASH	1.1	–
MATERIALS	5.7	5.3
FINANCIALS	18.3	18.7
CONS DISCRETIONARY	11.6	12.1
ENERGY	5.8	7.3
REAL ESTATE	0.0	3.1
UTILITIES	0.0	3.2
CONS STAPLES	6.2	9.5
TELECOM SERVICES	0.0	3.6

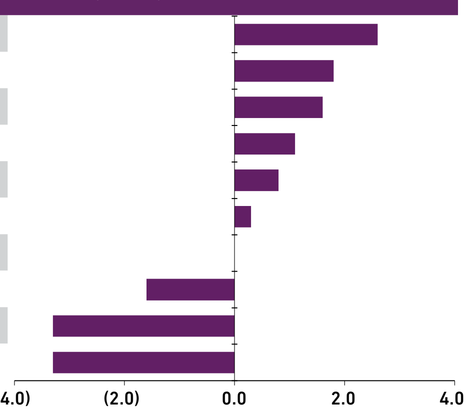
(UNDER) / OVER THE BENCHMARK



GEOGRAPHIC EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
JAPAN	10.4	7.8
EMERGING MARKETS	12.3	10.5
EUROPE EMU	11.7	10.1
CASH	1.1	–
MIDDLE EAST	1.0	0.2
EUROPE EX-EMU	10.7	10.4
FRONTIER MARKETS[7]	0.0	–
PACIFIC EX-JAPAN	2.3	3.9
CANADA	0.0	3.3
UNITED STATES	50.5	53.8

(UNDER) / OVER THE BENCHMARK



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

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

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

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MARKET REVIEW

Markets ended the year with modest gains driven almost entirely by the US equity market.

A "value rally," present all year, was most pronounced in the 30 days following the US presidential election.

EM stocks were hurt by fears of Trump's stated intention to raise US trade barriers.

Energy shares rose with the increase in oil prices.

PORTFOLIO HIGHLIGHTS

Most trades this quarter were in reaction to price changes following the US election.

We purchased two Indian banks.

Regardless of style headwinds, we continue to invest in high-quality growth companies with attractive valuations, while parting ways with those that we deem too pricey.

MARKET REVIEW

Stock markets ended the year with modest overall gains, rising into December as investors reacted to the astonishing outcome of the US presidential election. Donald Trump delivered the second major political upset of the year by winning the US presidency, dealing prognosticators another black eye after their failure to predict the outcome of the UK referendum on European Union membership. An initial plunge in share prices overnight November 8 quickly gave way to a rally in developed markets as investors seized on Trump's plans to cut corporate taxes, roll back regulation, and borrow to invest more in infrastructure, relegating their concerns about his trade or foreign policies or his cavalier personal attitude toward contracts (debt repayment obligations in particular) to the background. Expectations for US growth and inflation shifted upward as a result, manifest as a sharp bond sell-off globally and a stronger US dollar, predicated on an accelerated schedule of Federal Reserve interest rate hikes. The Fed duly raised short-term interest rates by a quarter percent in December and signaled three more possible rate hikes in 2017, validating this trend.

The small gain of the MSCI All Country World Index in the quarter was driven almost entirely by the gains in the dominant US equity market and masked very large divergences between high- and low-priced stocks within all regions and sectors. The fiscal boost and regulatory-burden reduction that investors anticipated from the combination of a Trump administration and Republican Congress (especially when compared to their embedded expectations of a Clinton administration) afforded better earnings hopes for banks, energy, construction and engineering, capital goods, and materials companies, whose shares have dominated the ranks of lower valuations in recent years due to heightened regulation, slow capital spending, sluggish growth, and falling commodity prices. As the following charts illustrate, the cheapest stocks outperformed the most expensive ones by a wide margin.

MARKET PERFORMANCE (USD %)

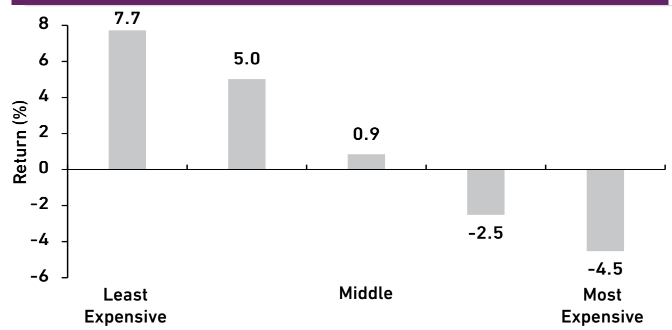
MARKET	4Q 2016	TRAILING 12 MONTHS
CANADA	3.4	25.5
EMERGING MARKETS	-4.1	11.6
EUROPE EMU	1.5	2.2
EUROPE EX-EMU	-2.0	-1.6
JAPAN	-0.1	2.7
MIDDLE EAST	-11.2	-24.5
PACIFIC EX-JAPAN	-2.7	8.0
UNITED STATES	3.5	11.6
MSCI ACW INDEX	1.3	8.5

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

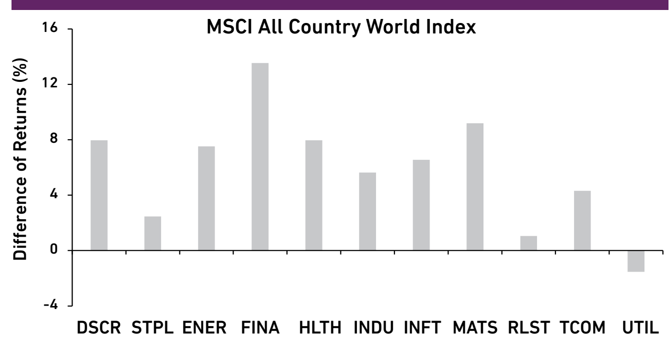
SECTOR	4Q 2016	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	0.9	3.3
CONSUMER STAPLES	-5.9	2.1
ENERGY	7.6	28.6
FINANCIALS	12.3	11.4
HEALTH CARE	-5.4	-6.2
INDUSTRIALS	1.7	12.3
INFORMATION TECHNOLOGY	-0.8	12.7
MATERIALS	3.2	24.4
REAL ESTATE	-6.2	3.1
TELECOM SERVICES	-2.2	5.8
UTILITIES	-3.3	6.6

Source: FactSet (as of December 31, 2016); MSCI Inc. and S&P.

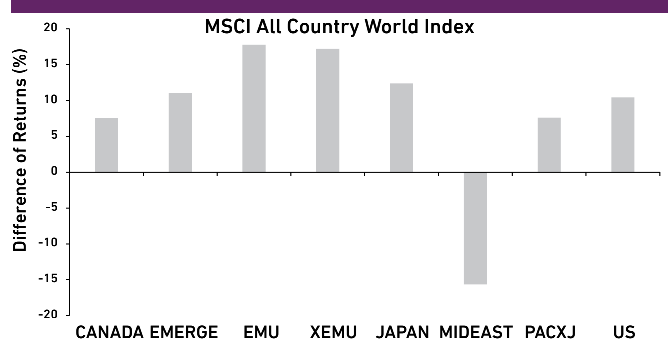
MSCI ACW INDEX PERFORMANCE BY VALUE 4Q16



RETURN SPREAD IN FAVOR OF CHEAPEST STOCKS BY SECTOR



RETURN SPREAD IN FAVOR OF CHEAPEST STOCKS BY REGION

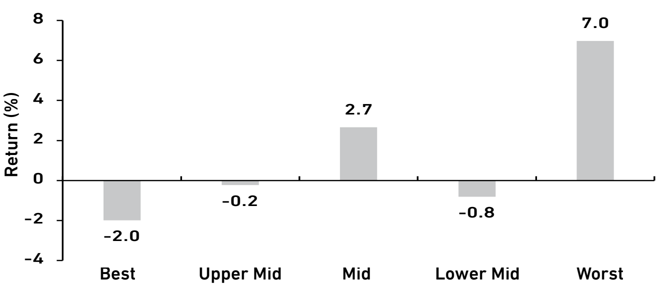


Source: FactSet. Data as of December 31, 2016, MSCI Inc. and S&P.

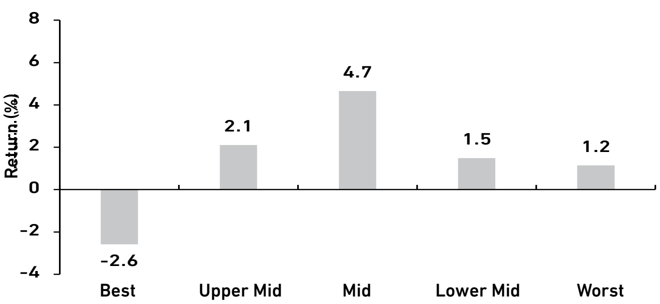
The Return Spread charts show the excess of the return of the cheapest third of stocks by Harding Loevner's Value ranking over the most expensive third in the quarter.

Ranked according to our proprietary valuation metric, the least-expensive quintile of stocks outperformed the most-expensive quintile by more than 12 percentage points in the quarter. Echoing that divergence, the MSCI ACW Value Index outperformed its Growth counterpart by seven percentage points, the widest margin since the second quarter of 2003. And, because there is a high degree of overlap between low-quality or slow-growing businesses and companies with lowly priced stocks, the shares of the lowest-quality and slowest-growth businesses also performed better on average than shares of those with superior quality and growth records. The highest-quality quintile underperformed the lowest-quality quintile by nine percentage points.

MSCI ACW INDEX PERFORMANCE BY QUALITY 4Q16



MSCI ACW INDEX PERFORMANCE BY GROWTH 4Q16



Source: FactSet. Data as of December 31, 2016, MSCI Inc. and S&P.

Harding Loevner's Quality, Growth, and Value rankings 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.

The resurgence of a "value" style was perceptible, if muted, in the first nine months of the year, but became highly pronounced in the 30 days following the US election.

In Europe, markets rose in local currency terms in the quarter, but a weaker euro took its toll on US dollar returns. Another chapter in the European saga of ineffectual government unfolded when Italian Prime Minister Matteo Renzi resigned (as he promised) after his proposed constitutional reform was defeated at referendum, prompting troubled lender Monte dei Paschi di Siena to request its third state-backed bailout since the financial crisis as private investors backed away from injecting fresh capital. The European Central Bank increased its Quantitative Easing program by roughly one-half trillion euros by extending it until at least December 2017. Italy was Europe's best-performing stock market in the quarter, with the cheaper half of the market rising far more than the expensive half, giving the lie to any impression that the "value rally" was purely a US-centric Trumponomics phenomenon, or even a consequence of rising interest rates. Stocks of high-quality multinational companies, such as those that dominate the Danish stock market (one of Europe's worst performing in the quarter), fell heavily.

Interest rates were held low in Japan, too, and the yen depreciated 13% against the US dollar in response to the Bank of Japan's announced plan to buy an unlimited amount of bonds as part of its yield-curve control program, erasing strong stock-market performance in local currency terms. Highly priced growth stocks fell sharply, while low-priced automotive, engineering, capital goods, real estate, and financial shares outperformed.

Emerging market (EM) stocks were poor performers in the quarter, hurt by fears of President-elect Trump's stated intention to raise US trade barriers and by concerns about the impact of higher interest rates and a stronger US dollar on EM external debt burdens. The MSCI China Index declined as the government tightened capital controls and Trump's bellicose tweets stoked fears that he would trigger a destructive trade war with China. The yuan continued its slide, depreciating another 4% to the weakest level since 2008, despite Trump's threats to punish China for being a "currency manipulator." Mexico, Trump's proxy punching bag during the campaign, fell almost 8%, mostly caused by a decline in the peso.

By sector, Financials and Energy stocks rose the most in the quarter. Globally, bank shares appreciated 15%, the best quarterly returns in over four years, led by US banks, whose profits could rise due to lower regulatory costs and higher interest rates. Energy shares were aided by an increase in oil prices after the first agreement by OPEC to cut supply since the financial crisis. Real Estate, Consumer Staples, Health Care, Utilities, and Telecom Services stocks performed the worst, as investors no longer prized as greatly the steady, bond-like characteristics of their businesses in an environment where bonds were falling sharply. Health Care stocks also suffered from uncertainty about the potential rollback or repeal of the Affordable Care Act in the US, the most profitable market for many of the largest pharmaceutical companies.

For the full year, Canada, EMs, and the US led market returns with double-digit increases. Europe ex-EMU, along with the Middle East (Israel), declined in US dollars. By sector, Energy and Materials were, by far, the best-performing segments, each returning roughly three times the market. Industrials, Information Technology (IT), and Financials, led by banks, also bettered the Index, managing low double-digit returns, in keeping with slowly but steadily improving economic data. Health Care was the lone declining sector, buffeted all year by political scrutiny during the US presidential campaign and now by ongoing reimbursement concerns.

PERFORMANCE AND ATTRIBUTION

The 1.4% decline of the Global Equity composite trailed the 1.3% rise of the Index in the quarter. The composite rose by 7.1% in the full year, behind the Index, which gained 8.5%. The charts on the right illustrate the sources of relative return for the year by sector and region, respectively.

Viewed by region, essentially all the portfolio's poor relative performance in the quarter came from stock selection, consistent with our quality-growth investment style facing severe headwinds from the value resurgence. Our stocks were especially poor in Japan, home to some of our most highly priced stocks. **Sysmex** and **M3** suffered sharp stock-price declines after reporting earnings that fell short of lofty expectations; meanwhile, we had no Japanese investments in Financials, Energy, or Materials, the strongest sectors.

Partially offsetting this, the portfolio's US holdings outperformed the strong US Index, aided by robust returns from our sizeable bank holdings, especially those whose businesses are more sensitive to interest rates, **SVB Financial Group** and **First Republic Bank**. We also enjoyed good performance from our US IT stocks, notably industrial automation equipment producers **Cognex** and **IPG Photonics**, both of which reported strong earnings and a good business outlook on the back of improving customer demand.

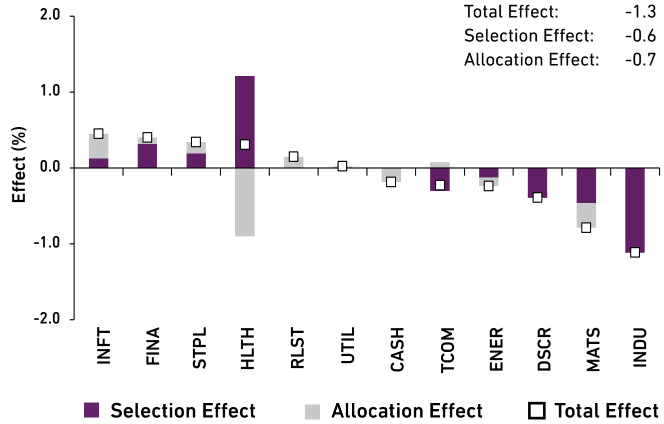
Viewed by sector, the portfolio's large weighting in Health Care detracted significantly from relative performance. In addition to the share weakness of Sysmex and M3, **Waters**, a US-based life-sciences-tools company, reported disappointing earnings. Industrials holdings also suffered from poor returns from investments in Japanese businesses. Company management lowered sales guidance at online Japanese industrial distributor **MonotaRO**. **Kubota** announced an earnings shortfall resulting from its decision to offer more customer incentives for purchasing farming equipment in the US.

For the year as a whole, the portfolio did not keep pace with the strong returns in EMs and the US, which more than offset good stock selection within Europe and Japan. Our decision to avoid Canadian stocks hurt performance since Canada—along with other resource-rich countries including Russia, Brazil, and Indonesia (where we did own stocks)—was one of the best-performing markets this year, rising by more than one quarter in US dollar terms.

Viewed by sector, the portfolio suffered from poor stocks in Industrials, especially those in Japan (MonotaRO, Kubota, and **Fanuc**), Materials (where we hold more highly priced stable-growth companies rather than low-priced, cyclical mining or commodity businesses), and Consumer Discretionary, where **Nike** shares underperformed due to a resurgent competitor in Adidas and a mishandled inventory overhang. Good stock selection within poorly performing Health Care partly offset this, but our hefty holdings there further dragged on returns.

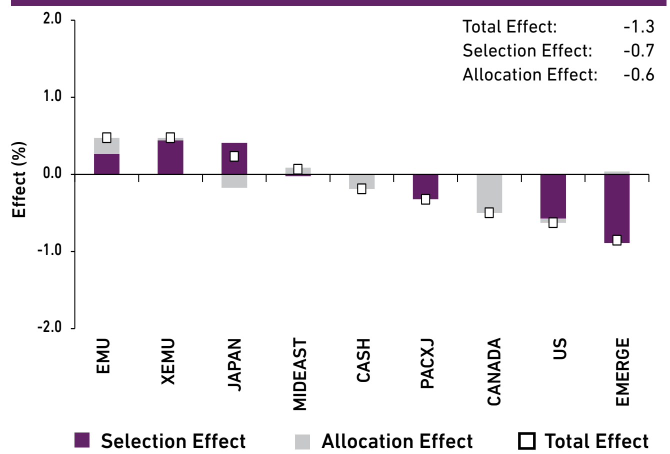
SECTOR PERFORMANCE ATTRIBUTION
TRAILING 12 MONTHS

GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION
TRAILING 12 MONTHS

GLOBAL EQUITY COMPOSITE VS. MSCI ACW INDEX



Source: FactSet; Harding Loevner Global Equity 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.

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 December 31, 2016 is available on page 9 of this report.

PERSPECTIVE AND OUTLOOK

Markets have undergone a sea change in expectations, accelerated by the surprise results of the US presidential election, with effects radiating across the world and interacting with independent and sometimes opposing forces. The US election itself was politically polarizing, which we do not intend to address here. However, it is nearly as difficult to arrive at middle ground regarding the election's effects on various parts of the global economy and the investment implications. As a result, we're offering you the perspective of several of our investment colleagues as they think, and as we debate, about the prospects for our companies and for markets in the quarters ahead. One strand, championed by Rick Schmidt, CFA, is orthodox in its macroeconomic approach to the perceived implications of a Trump administration. Another strand, by Jingyi Li, focuses on the state of global trade, which has been, in our view, the engine of global growth and prosperity over the 30-year stretch of our own careers. The final strand, championed by Peter Baughan, CFA, embraces the possible changes for the better that might come from replacing the gridlock of US political economy with a supply-side vision of government enabling growth. None of these views (yet) represents a Harding Loevner "house" view, but each perspective informs some part of our investment thinking. In cherished Harding Loevner tradition, we do not require, or even seek, unanimity of vision or outlook; at the present juncture, we assuredly do not have it. Instead, we offer you some of the debate.

Less Trade and More Inflation: Not Great for Stocks

Rick Schmidt, CFA

Predicting what Trump policies will mean for the economy when we don't even know what future Trump policies will be is obviously a mug's game. But the process of thinking about what Trump's policies will mean for economies, companies, and share prices can start by looking at Trump's words and the bond market's response. These suggest that two outcomes are likely: a rolling back of globalization and higher inflation in the US, even while stock prices suggest faster economic growth ahead.

In global trade, Trump's words, particularly his consistent theme of "America First," along with promises to tear up trade agreements like NAFTA and implement "border taxes" and 10–45% tariffs on imports from China, will make it even harder for the growth in global trade to move above the positive growth achieved in each of the last five years (in the range of 1.7–2.7%). If threats to impose 35% tariffs on companies that close their domestic US factories and move production to other countries are made actual policy, an absolute fall in trade is not out of the question. To put that in perspective, it takes a lot to stop trade: only three times in the last 25 years has global trade declined (1982, 2001, and 2008—each time following a US recession).

The implications of less trade competition may be positive for some companies (US steelmakers were able to raise prices the last time duties were placed on Chinese steel), but negative for most (including everyone buying steel). The important fact to remember is that countries do not trade with each other—companies do. Company managements have chosen a supplier or manufacturer in location X or Y because they find it more profitable to do so. An "America First" policy cannot mean better profits for US companies on average—unless one argues that higher employment and wages in protected industries will spur demand and increase the rate of economic growth to the benefit of all US companies. Tariffs or penalties will not only result in less-profitable sourcing, but also wreak havoc with supplier/production chains, with a resulting loss of efficiency and profitability. For a lesson on the impact of restrictions on company managements, look no further than the misguided efforts to increase employment in Europe. A mandated 35-hour week in France did not lead companies to hire more labor to "fill" the extra hours; it led to less investment and employment as companies simply chose not to add capacity in France. Why would any companies make the marginal decision to add capacity in the US if they knew that they face the risk of not being able to move that production if it proves uneconomic?

While US equity indexes have moved higher, prices in the US fixed income market have, in percentage terms, moved even more—in the opposite direction. The reason is simple: bond-market investors have already voted, and they have backed higher inflation. This can be seen most clearly in the changes in the 10-year Treasury bond yields. Those yields jumped from 1.76% at the end of October to 2.23% on November 14, one week after Trump's election victory, and ended the year at 2.45%, almost 40% higher in total. Corroborated by a rise in the breakeven rate on Treasury Inflation-Protected Securities, the bond market's price actions are implying higher inflation and higher nominal interest rates.

While the predictive accuracy of that "vote" may be questioned (will pressure on wages be muted by new labor supply as today's out-of-work, but no longer looking for work—and thus not included in unemployment statistics—begin to re-enter the workforce?), it is hard to argue against the math. Trump's campaign promises of increased infrastructure (and military and so much more) spending, coupled with pledged tax cuts, simply do not add up. The US will have to run increased budget deficits to pay for these policies. With the US economy already below 5% unemployment, wage hikes and higher inflation are very likely. That prospect, combined with inflation already having reached Fed target levels, might portend the end of the 35-year bull market in bonds.

The implications for stock prices are complicated. US equity-market indexes have risen on the hope of stronger growth in revenues. If today's historically high US corporate profitability can be maintained in the face of less trade, higher inflation, uncertain fiscal policies, and whoknows-what populist measures, that growth may flow through to corporate bottom lines. But a reversion to the mean in profit margins seems much more likely, particularly with the current full employment levels. The key to Trump's Electoral College victory was anger over the lack of wage growth. In the next four years, what politician will not try to make sure those voters are satisfied?

Finally, today's high valuations should give the bulls pause. Equity-market rallies in the past began at much lower levels of corporate profitability and valuation multiples. This meant there was room for companies to both grow profits and see valuations rise. To argue that this can happen from the relatively high levels of today suggests the triumph of hope over experience (three marriages, don't forget). If one listens to Trump's words and sees the bond market's reactions, a more conservative set of corporate profit growth expectations seems in order.

Globalization is Not Fragile

Jingyi Li

The trade policy of the new administration is likely to impact global trade and every stakeholder negatively, yet the actual effects could be limited in scale and extent. Global trade of goods and services is now huge—approximately US$25 trillion in 2014—and contributes 30% of the world GDP.[1] Nearly half of world trade in goods and services is part of global value chains as different countries specialize in particular stages of production. Any effort to curtail trade will face enormous challenges from every country and industry. Global trade is more than boatloads of shoes and smartphones. Trade of services, especially computer services, financial services, and travel, is resilient and fast growing, though still smaller than trade of goods. The trade of services is less subject to measures that target trade of goods. Global trade is also regional: 70% of merchandise exports from Europe are within the region, and approximately 50% of exports from Asia and North America are intraregional trade.[2] Policy changes in the US, if any, will have less direct impact on these intraregional businesses.

The companies held in our portfolios, with their strong competitive advantages and capable management, stand a better chance of overcoming all kinds of challenges. Companies such as **AIA Group**, M3, and **Tencent** are regional champions with enormous competitive advantages. Tencent, a leading internet company in China, boasts over 800 million monthly active users for its large portfolio of social and entertainment services. Companies such as **WPP**, **Nestlé**, and **Atlas Copco** each have strong a local presence in almost every part of the world, including the US. Nestlé, founded 150 years ago, has 436 factories in 85 countries and sells a large variety of food products to 189 countries. Companies such as **Linde**, **Dassault Systèmes**, and Fanuc share oligopolistic positions with other non-US companies. Fanuc is the number-one provider of computer numerical-control systems (50% market share globally) and is one of the largest robot makers (20% market share globally). It is unlikely that any policy change would disrupt the competitive position of such companies, especially given that some of them, for example Atlas Copco, **Roche Holding**, and Nestlé, have been around for over 100 years and have survived some of the most severe disruptions in human history.

Donald Trump: (Constrained) Master of the Media Moment

Peter Baughan, CFA

The sense of ongoing "regime change" across global financial markets is palpable. We had observed green shoots of a value recovery in equity markets before the surprise election of Trump to the US presidency. The sharp rally in the US dollar and bond yields after the election and further gains in equities (led by less-expensive and lower-quality stocks), as well as the Fed's aggressive interest rate forecast in December, appear to have marked 2016 as a year of fundamental change—in economic outlook, at least in the US, and in style leadership in equity markets. The question now for many investors is: Who is the real Donald Trump and what impact will the emerging Trump administration have on global financial markets in 2017 and beyond? An additional question: How long will renewed value leadership in equity markets last?

It is not entirely clear who the real Donald Trump is. What is inescapable is that Trump the political candidate is disruptive in form and content. In form, Trump eschewed traditional media, labeling much of it "corrupt," speaking to millions of voters directly through social media. Further, despite his self-proclaimed billionaire status, candidate Trump was able to tap into the discontent, anger, and fear across much of Middle America, a powerful social dynamic that armies of pollsters and well-paid political consultants failed to discern fully. For content, candidate Trump pursued, and President-elect Trump continues to pursue, unconventional dialogue. Blunt Trump utterances—even those that are patently racist, sexist, or simply untrue—are seen as "authentic," something apparently so rare in the political realm that millions of voters rewarded this bluntness. My only firm initial conclusion at this stage is that Trump is master of the media moment. If this Trump were alone at the helm of the US government, I'd expect volatility to rise sharply in the coming year as Trump's impulse-utterances of the moment fail to convert to coherent policy.

Fortunately, President Trump will operate within the well-established checks and balances of the US political structure. In this context, considering Republican

[1] World Trade Organization, *International Trade Statistics 2015* (2015): 17.
[2] Ibid., 27.

majorities in the Senate and the House and Republican dominance across state governments, the outlook for a Trump presidency could be quite positive. It is illustrative to consider Trump's "contract for the American voter" detailed shortly before the election. Asking Americans "to dream big," Trump outlined a series of policy initiatives he pledged to pursue in his first 100 days in office. The contract proposes term limits for members of Congress while sharply limiting the ability of politicians to become lobbyists. It outlines the core of Trump's economic agenda, calling for tax reduction and structural simplification, aggressive investment in US infrastructure and energy, and pursuit of an ambitious "America First" economic and trade policy. The contract does not shy away from "deliverables," calling for the achievement of 4% economic growth and creation of 25 million new American jobs. It details additional Trump priorities such as sharp reduction in government regulations, reversal of some of President Obama's controversial executive actions, appointment of conservative Supreme Court justices, deportation of criminal illegal aliens, and a rollback of federal involvement in state and local control of education.

The contract also states that the Trump administration will label China a currency manipulator as well as take aggressive steps to identify and end trade abuses that are believed to negatively impact American workers. This language has given rise to fears of spiraling trade wars and even an end to growth in global trade under a protectionist Trump administration. These fears will likely prove exaggerated. I see these and many other statements that Trump has made as opening salvos in a grand series of negotiations—negotiations that in this instance promise to fundamentally redefine how America conducts trade and what constitutes a successful trade agreement. This could be a good thing for US companies that are able to supplant an international supply chain. Given Trump's and the Republican Party's need to deliver economic results, I'm not expecting the Trump trade team to derail US economic growth.

Of course the Trump Cabinet will be essential to the success—or failure—of the Trump administration. From what we know to date, President-elect Trump has tacked away from his most divisive campaign stances and attracted accomplished executives and leaders from across the private sector to join his administration, confirmation hearings pending. While it is too early to determine how effective this unconventional set of high-profile cabinet appointees may be, their initial selection leaves me with a favorable impression of President-elect Trump's personnel judgments. I'm expecting a can-do, results-oriented administration with a president and senior team acting as corporate CEOs, not senior politicians.

Summing up, in President-elect Trump we have on the one hand an unpredictable media showman and, on the other, an apparently successful private-sector executive with a set of audacious, if populist, policy proposals, backed by Republican control of Congress and an impressive Cabinet-in-waiting. The success of the Trump administration in 2017 will largely depend on how these dynamics interact. In an optimistic scenario, I could see President Trump pursuing a series of innovative and fresh political and economic initiatives, engaging directly with CEOs and political leaders, and injecting energy and confidence into consumers and corporates to spend and invest across the US. At the same time, the machinery of government would simultaneously grind forward, led by the Republican Congress and various Cabinet members and their teams. This would appear to be a rare opportunity to drive significant economic and political change. In this scenario, I'd expect to see "value" retain broad style leadership in equity markets as economic and interest rate forecasts are likely boosted during the year and as potential ripple-through economic benefits from US economic growth aids non-US markets. However, I'd be surprised if there was truly a step-change increase in US economic growth in the near term as potential delays in political negotiations are possible and given time lags in the impact of accelerated capital spending, should it occur. As such, I'd expect to see style leadership turn neutral or even swing mildly back toward growth later in the year given the rapidity and extent of the relative valuation moves to date.

In a pessimistic scenario, I could see President Trump becoming irascible and moody in the face of public criticism or obstacle, acting unpredictably and perhaps punitively and counterproductively against political or business critics. Alternatively, the Trump administration could prove effective in advancing what turns out to be ill-considered trade and tax policies through Congress that negatively affect economic growth. In this scenario, we could see the machinery of underlying government grind slowly or even come to a halt amidst a storm of political argument including Cabinet infighting and resignations. Should these risks materialize, I'd expect a sharp reversal in the value rally and renewed leadership by high-quality growth stocks.

I don't know how to handicap the odds of a Trump administration success or failure in 2017. However, I tilt toward optimism given Republican control of Congress, the clarity of Trump's proposals for his first 100 days in office, the readiness of voters for fundamental change in Washington, and the pressing need for Republicans to demonstrate concrete results before midterm elections in 2018. I would not be surprised to see a continuation of value style leadership in 2017, although I'd expect its magnitude to diminish as the year progresses. Longer term, I do think the Trump administration has the potential to fundamentally increase US economic growth through an explicitly pro-American worker yet pro-business set of priorities.

PORTFOLIO HIGHLIGHTS

The portfolio has altered its structural positioning very little, despite an unusually large number of trades in the quarter. Most of those trades were reactions to price changes produced by the volatility surrounding the US election. A small exception is a reduction in our portfolio weight in Health Care after several sales or reductions of companies in that sector, most notably **AbbVie**, the US maker of the anti-inflammatory drug Humira, which produces the overwhelming majority of the company's profits. We sold AbbVie on concerns about the company's ability to continue to defend Humira's dominant market share from biosimilar competitors and the parsimonious reimbursement intentions of payors, including the US government. We also sold Roche Holding and reduced **Grifols** voting shares.

Our weight in Financials increased, despite our sale of **Wells Fargo** over the fabricated accounts scandal, which may impair the company's ability to grow its business with its existing customer base and deter new customers from trying its services. In its place, we bought back our holding in India's **ICICI Bank**. Later in the quarter, when India's government initiated its chaotic "demonetization" program to cancel some currency denominations and bring many more transactions into the legitimate banking system, we bought another Indian bank, **HDFC Bank**. The near term may bring small business bankruptcies, but the long term will bring the resumption of growth of financial services in India, which is likely to endure for many years.

We sold two IT companies: customer-relationship software provider **salesforce.com** and Japanese restaurant-review and booking platform **Kakaku.com**, both of which face challenges to their businesses that may make their high share prices unjustified. We bought a new holding in network security specialist **Check Point Software Technologies** of Israel.

We also bought **Novozymes**, a Materials company in Denmark that specializes in the manufacture of enzymes for industrial processes. The stock had been a market darling, trading at very high valuations, but came down on an earnings warning and the general price warp of the value resurgence. We took the opportunity to add this secular growth stalwart to our portfolio.

After the election, we took advantage of relative price movements to sell our holding in Russian food retailer **Magnit** and to buy Mexican cable TV operator **Televisa**. Our EM holdings are now back to above 12% of the portfolio, roughly one-fifth more than their weight in the Index.

As we look ahead, we will continue to manage the portfolio as we have in the past, letting go of investments that have become too expensive, whether successful or not, and replacing them with other attractive businesses whose share prices reflect more modest expectations, not neglecting also to prune stocks of unobjectionable valuation whose prospects we come to doubt on fundamental grounds. In short, while we may currently be suffering style headwinds, we will press ahead with the same approach that has delivered good long-term returns in the past.

Portfolio Management Team Update

Alec Walsh, CFA has stepped down as a PM for the Global Equity strategy as of year-end. Since 2008 he managed a "paper" portfolio that expressed his investment views but was not employed directly in managing client capital in the strategy. The remaining members of the PM team are Peter Baughan, CFA and Ferrill Roll, CFA (co-lead PMs), Chris Mack, CFA, and Rick Schmidt, CFA. Alec continues as a co-lead PM on our International Equity strategy.

GLOBAL EQUITY HOLDINGS (AS OF DECEMBER 31, 2016)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
CONSUMER DISCRETIONARY		
AMAZON.COM Online retailer	US	1.3
CTRIP.COM Travel agent	China	1.1
LUXOTTICA Eyeglass frames and sunglasses designer	Italy	1.4
NIKE Global athletic footwear and apparel	US	3.0
PRICELINE Online travel search services	US	2.5
TELEVISA Media, broadcasting, and entertainment	Mexico	1.0
WPP Advertising and marketing services	UK	1.4
CONSUMER STAPLES		
COLGATE PALMOLIVE Household products	US	1.5
L'ORÉAL Beauty and personal care products	France	1.0
NESTLÉ Food company	Switzerland	1.4
PIGEON Baby care goods	Japan	1.1
WALGREENS BOOTS ALLIANCE Pharmacy/wholesaler	US	1.2
ENERGY		
EXXON MOBIL Integrated oil and gas company	US	1.3
SCHLUMBERGER Oilfield services company	US	3.3
TENARIS Steel pipe manufacturer	Italy	1.2
FINANCIALS		
AIA GROUP Life insurance	Hong Kong	2.2
BANK CENTRAL ASIA Commercial bank	Indonesia	1.2
BBVA Commercial bank	Spain	1.4
FIRST REPUBLIC BANK Private banking & wealth management	US	2.6
GARANTI BANK Commercial bank	Turkey	0.6
HDFC BANK Commercial bank	India	1.0
ICICI BANK Commercial bank	India	1.6
ITAU UNIBANCO Commercial bank	Brazil	1.1
LAZARD Financial advisory and asset management	US	1.4
SIGNATURE BANK Commercial bank	US	1.1
SVB FINANCIAL GROUP Commercial bank	US	4.0
HEALTH CARE		
ABBOTT LABS Health care and nutrition products	US	0.9
ABCAM Research antibody manufacturer/distributor	UK	0.7
AMERISOURCE BERGEN Pharmaceutical company	US	1.2
ESSILOR INTERNATIONAL Ophthalmic lens manufacturer	France	1.4
GRIFOLS Biopharmaceutical and diagnostics	Spain	1.4
LONZA GROUP Biopharmaceuticals/pharma manufacturing	Switzerland	1.4
M3 Medical information services	Japan	2.7
REGENERON Biotech company	US	1.0
SHIRE Prescription medication developer	UK	1.1
SONOVA HOLDING Hearing aid manufacturer	Switzerland	0.9
SYSMEX Clinical testing equipment	Japan	0.8
WATERS Analytic instruments for life sciences	US	1.1

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
INDUSTRIALS		
3M COMPANY Diversified industrial conglomerate	US	1.0
ATLAS COPCO Industrial compressors & mining equipment	Sweden	1.1
FANUC Industrial robots, controls, machine tools	Japan	0.9
KONE Elevator and escalator manufacterer	Finland	1.0
KUBOTA Farming and construction machinery	Japan	1.9
MAKITA Power tool manufacturer	Japan	1.0
MONOTARO Online distributor of maintenance supplies	Japan	0.8
ROPER Niche industrial business conglomerate	US	2.6
ROTORK Electric actuator maker	UK	0.8
VERISK Risk analytics	US	2.3
WABCO Commercial vehicle control technologies supplier	US	1.0
INFORMATION TECHNOLOGY		
ALPHABET Internet search and multimedia	US	3.8
BAIDU Internet search provider	China	1.1
CHECK POINT Software company	Israel	1.0
COGNEX Electrical components manufacturer	US	1.1
DASSAULT SYSTÈMES CAD/CAM software designer	France	1.0
F5 NETWORKS Network technology	US	2.3
FACEBOOK Social network	US	1.4
IPG PHOTONICS High performance fiber lasers/amplifiers	US	1.4
KEYENCE Sensor and measurement equipment	Japan	1.3
MASTERCARD Global payments	US	1.2
MICROSOFT Software company	US	0.8
PAYPAL Electronic payment solutions	US	2.3
RED HAT Software and services	US	0.9
TENCENT Internet, mobile, and telecom provider	China	1.2
YANDEX Russian search engine	Russia	1.4
MATERIALS		1.4
AIR LIQUIDE Industrial gas company	France	1.1
CHR. HANSEN Natural food ingredients producer	Denmark	1.0
LINDE Industrial gases and engineering	Germany	0.8
MONSANTO Seed, genomics, and agricultural products	US	1.0
NOVOZYMES Biotech company	Denmark	1.0
SASOL Refined product and chemicals group	South Africa	0.9
REAL ESTATE		
No holdings		
TELECOM SERVICES		
No holdings		
UTILITIES		
No holdings		
CASH		1.1

Model Portfolio holdings are supplemental information only and complement the fully compliant Global Equity 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.

4Q16 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
SVB FINANCIAL	FINA	3.5	1.52
FIRST REPUBLIC BANK	FINA	2.5	0.47
F5 NETWORKS	INFT	2.2	0.33
SIGNATURE BANK	FINA	1.1	0.28
TENARIS	ENER	1.1	0.26

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	WEIGHT	CONTRIBUTION
SVB FINANCIAL	FINA	2.8	1.46
FIRST REPUBLIC BANK	FINA	2.4	0.85
COGNEX	INFT	1.2	0.84
F5 NETWORKS	INFT	1.9	0.81
SCHLUMBERGER	ENER	3.1	0.75

4Q16 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
M3	HLTH	3.0	-0.94
AIA GROUP	FINA	2.3	-0.38
MONOTARO	INDU	0.9	-0.24
ICICI BANK	FINA	1.3	-0.23
SYSMEX	HLTH	0.9	-0.22

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	WEIGHT	CONTRIBUTION
ICICI BANK	FINA	0.5	-0.80
NIKE	DSCR	3.4	-0.65
MONOTARO	INDU	1.1	-0.31
WELLS FARGO	FINA	1.4	-0.29
ROCHE HOLDING	HLTH	1.1	-0.23

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GLOBAL	MSCI ACWI
PROFIT MARGIN[1] (%)	15.5	11.3
RETURN ON ASSETS[1] (%)	8.2	5.4
RETURN ON EQUITY[1] (%)	15.2	13.7
DEBT/EQUITY RATIO[1] (%)	49.1	70.8
STD DEV OF 5 YEAR ROE[1] (%)	3.2	3.4
SALES GROWTH[1,2] (%)	9.0	2.6
EARNINGS GROWTH[1,2] (%)	12.7	7.5
CASH FLOW GROWTH[1,2] (%)	12.1	6.1
DIVIDEND GROWTH[1,2] (%)	13.8	8.3
SIZE & TURNOVER	**HL GLOBAL**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	24.4	46.2
WTD AVG MKT CAP (US $B)	75.6	101.1
TURNOVER[3] (ANNUAL %)	21.0	–

RISK & VALUATION	HL GLOBAL	MSCI ACWI
ALPHA[2] (%)	1.07	–
BETA[2]	1.00	1.00
R-SQUARED[2]	0.94	1.00
ACTIVE SHARE[3] (%)	89	–
STANDARD DEVIATION[2] (%)	11.68	11.29
SHARPE RATIO[2]	0.94	0.87
TRACKING ERROR[2]	2.9	–
INFORMATION RATIO[2]	0.40	–
UP/DOWN CAPTURE[2]	103/96	–
PRICE/EARNINGS[4]	25.5	18.6
PRICE/CASH FLOW[4]	19.4	11.6
PRICE/BOOK[4]	3.4	2.1
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 Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: January 6, 2017); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
CHECK POINT	ISRAEL	INFT
HDFC BANK	INDIA	FINA
ICICI BANK	INDIA	FINA
KONE	FINLAND	INDU
NOVOZYMES	DENMARK	MATS
TELEVISA	MEXICO	DSCR
WABCO	UNITED STATES	INDU
WALGREENS BOOTS ALLIANCE	UNITED STATES	STPL

POSITIONS SOLD	COUNTRY	SECTOR
ABBVIE	UNITED STATES	HLTH
KAKAKU.COM	JAPAN	INFT
MAGNIT	RUSSIA	STPL
MTN GROUP	SOUTH AFRICA	TCOM
ROCHE HOLDING	SWITZERLAND	HLTH
SALESFORCE.COM	UNITED STATES	INFT
WELLS FARGO	UNITED STATES	FINA

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 Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

GLOBAL EQUITY COMPOSITE PERFORMANCE (AS OF DECEMBER 31, 2016)

	HL GLOBAL EQUITY GROSS (%)	HL GLOBAL EQUITY NET (%)	MSCI ACWI[1] (%)	MSCI WORLD[2] (%)	HL GLOBAL EQUITY 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	COMPOSITE ASSETS ($M)	FIRM ASSETS (%)
2016[5]	7.13	6.62	8.48	8.15	11.37	11.07	10.94	0.1	29	7,975	20.45
2015	2.65	2.18	-1.84	-0.32	11.16	10.78	10.80	0.5	28	7,927	23.81
2014	6.91	6.43	4.71	5.50	10.82	10.48	10.21	0.3	31	9,961	28.46
2013	21.64	21.12	23.44	27.37	13.92	13.92	13.52	0.5	32	11,165	33.69
2012	18.44	17.98	16.80	16.54	16.49	17.11	16.72	0.1	25	9,071	40.03
2011	-6.96	-7.31	-6.86	-5.02	19.03	20.59	20.16	0.2	13	5,316	39.10
2010	16.54	16.16	13.21	12.34	22.85	24.51	23.74	N.M.[6]	6	2,879	26.15
2009	42.85	42.42	35.41	30.79	20.82	22.37	21.44	N.M.	4	1,463	22.86
2008	-37.98	-38.27	-41.84	-40.33	17.07	17.98	17.03	N.M.	3	118	3.61
2007	17.62	16.92	12.18	9.57	8.72	8.64	8.09	N.M.	3	124	1.95
2006	19.24	18.59	21.53	20.65	9.25	8.11	7.62	N.M.	2	102	2.16

[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]The 2016 performance returns and assets shown are preliminary; [6]N.M.–Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year.

The Global Equity Composite contains fully discretionary, fee paying global equity accounts investing in US and non-US equity and equity-equivalent securities with the objective of long-term capital appreciation. For comparison purposes, the Composite is measured against the MSCI All Country World Index (gross of withholding taxes). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI 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 46 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 by Ashland Partners & Company, LLP for the period November 1, 1989 through September 30, 2016.

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 Composite has been examined for the periods December 1, 1989 through September 30, 2016. The verification and performance examination reports are available upon request.

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

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Global Equity accounts is 1.00% annually of the market value up to $20 million; 0.50% of amounts from $20 million to $100 million; 0.45% of amounts from $100 million to $250 million; above $250 million on request. 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 Composite was created on November 30, 1989.

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