GLOBAL EQUITY

2017 Year End Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED DECEMBER 31, 2017[1]

	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY (GROSS OF FEES)	7.08	33.26	13.57	13.76	8.04	10.22
HL GLOBAL EQUITY (NET OF FEES)	6.97	32.66	13.04	13.24	7.59	9.56
MSCI ALL COUNTRY WORLD INDEX[4,5]	5.84	24.62	9.88	11.39	5.22	7.28
MSCI WORLD INDEX[5,6]	5.62	23.07	9.87	12.25	5.63	7.30

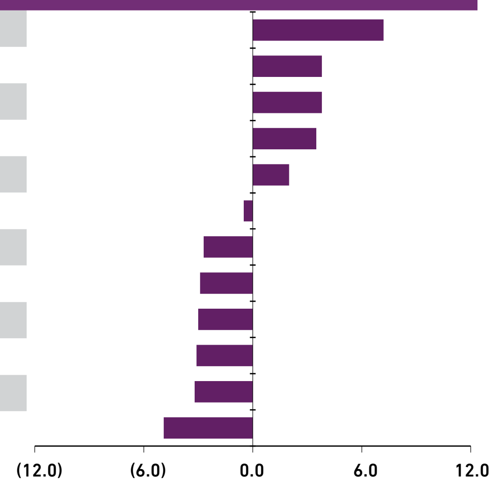
[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: November 30, 1989; [4]The Benchmark Index; [5]Gross of withholding taxes; [6]Supplemental Index.

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
HEALTH CARE	17.9	10.7
INDUSTRIALS	14.7	10.9
CASH	3.8	–
MATERIALS	9.0	5.5
INFO TECHNOLOGY	20.0	18.0
CONS DISCRETIONARY	11.5	12.0
ENERGY	3.7	6.4
UTILITIES	0.0	2.9
TELECOM SERVICES	0.0	3.0
REAL ESTATE	0.0	3.1
CONS STAPLES	5.6	8.8
FINANCIALS	13.8	18.7

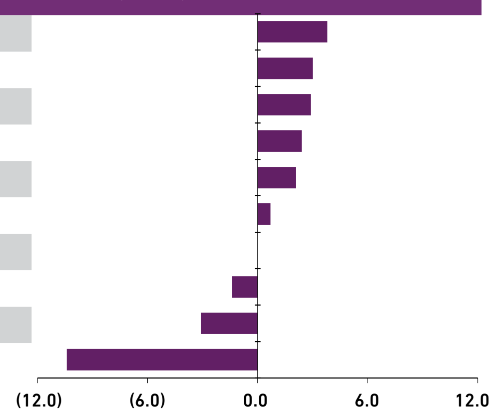
(UNDER) / OVER THE BENCHMARK



GEOGRAPHIC EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
CASH	3.8	–
EUROPE EMU	13.7	10.7
EMERGING MARKETS	14.7	11.8
JAPAN	10.3	7.9
EUROPE EX-EMU	12.3	10.2
MIDDLE EAST	0.9	0.2
FRONTIER MARKETS[7]	0.0	–
PACIFIC EX-JAPAN	2.5	3.9
CANADA	0.0	3.1
UNITED STATES	41.8	52.2

(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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For the full year, global stocks turned in their strongest gain since the market recovery of 2009. EM companies showed the fastest earnings growth of any region, currency effects aside.

Stocks of the fastest-growing businesses outperformed the slowest-growing in the year by an exceptionally wide margin.

PORTFOLIO HIGHLIGHTS

The long-term changes wrought by the internet unevenly affect the competitive structures of industries and the fortunes of their constituents.

In the past year, we have reduced our investments in the most expensively priced shares, particularly in those businesses we viewed as more exposed to cyclical and regulatory risks.

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MARKET REVIEW

Markets capped a strong year with a positive final quarter, extending the MSCI All Country World Index's (ACWI) streak of positive monthly returns to a record 14 months. Economic growth across all major regions remained positive and synchronized, while inflation was subdued. In the US, investors ignored the Federal Reserve's signals of further interest rate increases, including the most-recent hike in mid-December. They weighed approvingly the expected future benefits of lower corporate tax rates from tax legislation, which finally passed in late December. In Europe, the European Central Bank (ECB) remained accommodative on monetary policy, although it signaled a slowing pace of bond buying. China's economy gathered momentum, shrugging off concerns over government corruption crackdowns and shaky property loans, with positive pull-through effects on its trading partners. Japanese economic growth edged higher, while inflation remained positive—a critical policy goal.

Japan was the top-performing "region" in the fourth quarter, followed by Emerging Markets (EMs), particularly South Africa, South Korea, and India. The US also performed well; the fourth quarter was the only quarter of 2017 in which the US did not trail the rest of the world. The eurozone lagged, beset by election results that renewed uncertainty over the region's cohesion: two referenda on Catalonia's independence from Spain bookended an inconclusive German election that left Chancellor Angela Merkel unable as yet to form a coalition government.

MARKET PERFORMANCE (USD %)

MARKET	4Q 2017	TRAILING 12 MONTHS
CANADA	4.5	16.9
EMERGING MARKETS	7.5	37.7
EUROPE EMU	1.1	29.0
EUROPE EX-EMU	3.5	23.6
JAPAN	8.5	24.4
MIDDLE EAST	4.2	2.6
PACIFIC EX-JAPAN	7.0	26.0
UNITED STATES	6.5	21.9
MSCI ACW INDEX	5.8	24.6

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

SECTOR	4Q 2017	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	7.8	25.6
CONSUMER STAPLES	6.0	18.5
ENERGY	7.0	7.6
FINANCIALS	6.1	24.7
HEALTH CARE	1.3	20.8
INDUSTRIALS	5.3	25.8
INFORMATION TECHNOLOGY	8.2	42.3
MATERIALS	8.0	30.1
REAL ESTATE	4.4	18.5
TELECOM SERVICES	2.2	8.5
UTILITIES	-0.1	14.8

Source: FactSet (as of December 31, 2017); MSCI Inc. and S&P.

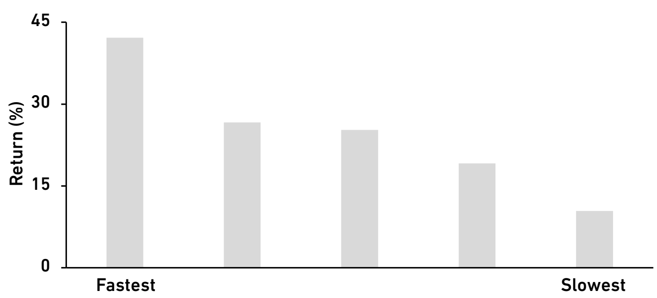
All sectors except Utilities posted positive returns in the quarter. Information Technology (IT), Materials, Consumer Discretionary, and Energy companies in particular benefited from rising expectations for sustained global demand. Health Care lagged, as governments and insurers continued to exert their bargaining power to resist price increases from pharmaceutical companies.

For the full year, global stocks turned in their strongest gain since the market recovery of 2009. Analysts called for double-digit growth in corporate earnings in all major regions and, unusually, their early forecasts held steady or, in the case of non-US companies, even rose as the year progressed. EM companies showed the fastest earnings growth of any region, currency effects aside. The IT sector returned nearly double the index return, as IT companies reported accelerating earnings growth that often exceeded expectations. The strongest growth came especially from the largest businesses: the internet giants—primarily based in China or the US—enjoyed large network effects, while semiconductor manufacturers exploited the benefits of scale and subdued rivalry to improve profitability.

China and South Korea—specifically their contingents of potent IT companies—led EMs to the best performance by region in 2017. A declining US dollar augmented local market returns in most major regions outside of the US. The euro's 14% appreciation against the US dollar boosted the eurozone's subpar local returns.

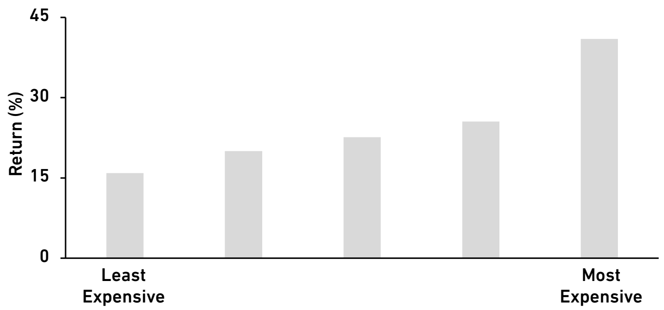
The MSCI ACWI Growth Index outperformed its Value counterpart for the year in all regions. Stocks of the fastest-growing businesses outperformed the slowest-growing by an exceptionally wide margin of more than 30 percentage points in the year. Many of those rapid growers were also the most expen-

MSCI ACW INDEX PERFORMANCE BY GROWTH 2017

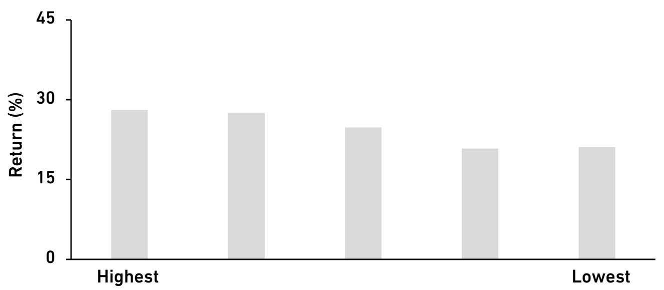


Source: FactSet. Data as of December 31, 2017, MSCI Inc. and S&P.
Please see the footnote on the following page, which pertains to the charts displaying performance by Growth, Value, and Quality.

MSCI ACW INDEX PERFORMANCE BY VALUE 2017



MSCI ACW INDEX PERFORMANCE BY QUALITY 2017

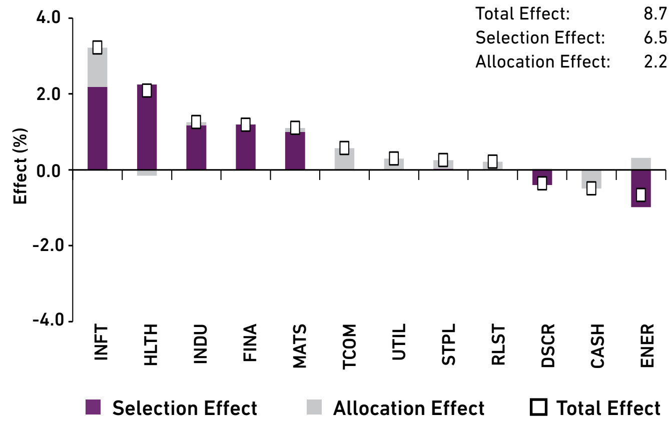


Source: FactSet. Data as of December 31, 2017, MSCI Inc. and S&P.

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

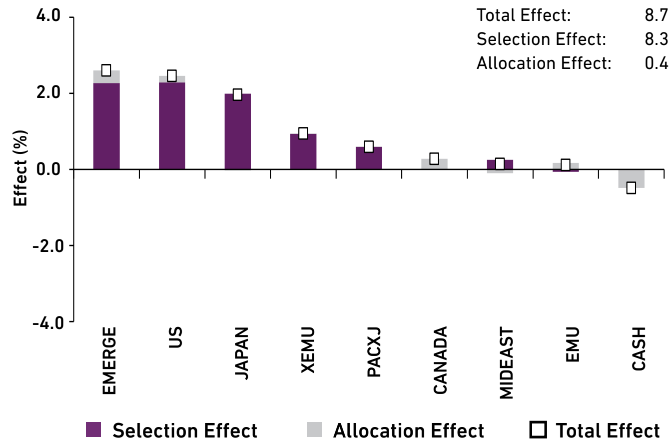
SECTOR PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS

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.

sive stocks, on simple rules of thumb, but that did not deter investors from pushing them higher. Quality effects on relative performance were modest.

PERFORMANCE AND ATTRIBUTION

The 7.1% return of the Global Equity composite outpaced the 5.8% return of the MSCI ACWI in the quarter. The composite rose by 33.3% in the full year, ahead of the ACWI's 24.6%. The charts to the right attribute the year's performance by sector and region.

In the fourth quarter, strong stock selection in Health Care contributed the most to relative returns, especially **Sino Biopharmaceutical** and Japanese holdings **Sysmex** and **M3**, whose revenue growth accelerated. Good stocks in Industrials and Materials—led by **Verisk** and **Symrise** respectively, as both businesses resumed organic growth after a lull—were offset by poor stocks in Consumer Staples (**Walgreens Boots Alliance**), Energy (**Schlumberger**), and Consumer Discretionary (**Televisa**).

Viewed geographically, the portfolio outperformed the index due largely to good stocks in the eurozone (Symrise, **Essilor International**) and Japan (Sysmex, M3). Our US holdings matched the index. **Nike's** strong recovery on management's credible efforts to reduce excess inventory was offset by weakness in **Regeneron**, whose recently approved EYLEA treatment for macular degeneration may face significant competition from a new Novartis drug.

For the year, stock selection was broadly positive. Energy holdings lagged, as suppliers Schlumberger and **Tenaris** failed to keep up with oil and gas producers, who were the more immediate beneficiaries of the 10% rise in the oil price. Consumer

Companies held in the portfolio during the year 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, 2017 is available on page 9 of this report.

Discretionary holdings also hurt relative returns, as advertising agency **WPP** and broadcaster Televisa continued to struggle with shifts in ad spending away from traditional media and toward digital channels.

PERSPECTIVE AND OUTLOOK

The pronouncement that the "Internet changes everything" is unlikely to come as a surprise to anyone today. In fact, we wrote those words in a previous quarterly report…in 1999. Yet, as we look back at 2017 and forward into 2018, we are struck by how the world is *still* changing rapidly due to the internet and how, in particular, these changes continue to affect the competitive structures of industries and the fortunes of their constituents. Our fourth-quarter 1999 report described a well-known 230-year-old publishing brand as a business that was already being pillaged by highwaymen on the information superhighway. The example led us to a prescient insight:

> What will it mean when a long-established enterprise, such as the Encyclopedia Britannica, no longer charges money for its wealth of scholarly and general information?…It means that consumers will expect to get valuable products and services at far lower costs than traditional business models can profitably deliver them. And it means that many traditional businesses could face a stark future where their customers evaporate into cyberspace.

While the shift to online consumption of information we cautioned about in 1999 devastated the business models of traditional media quite rapidly (the Encyclopedia Britannica's 2010 edition was the last printed version), other industries were not threatened until much later. (As the novelist William Gibson said, "The future is here—it's just not evenly distributed.") Various catalysts and bottlenecks created an uneven pace of encroachment. Internet retail required customer trust, for everything from entering credit card information online to believing you could return regretted purchases. Netflix and Uber didn't take off until broadband internet and mobile data became widely available. Online financial services required changes to regulation. Overcoming consumer habit, incumbent power, and high delivery costs slowed e-commerce's spread into groceries. The uneven impact of the internet has created both threats and opportunities for investors.

Futurist Roy Amara observed that people—including investors—"tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run." An overestimation of the positive effects for the first wave of internet-business successes resulted in the 1999 stock market bubble and subsequent bust. The market awarded unprecedented valuations to the perceived winners, but most of those winners disappeared after only a short star turn in the limelight. The high share prices of the Technology, Media, and Telecoms (TMT) businesses at the turn of the millennium were not sustained: it took NASDAQ 15 years to regain its March 2000 highs. There are echoes of that evanescent phenomenon in today's market. Even if history only rhymes, the potential implications are significant.

Yet the long-term changes wrought by the internet have proved inexorable. As internet connectivity and underlying technologies spread, barriers to entry in industry after industry weaken. As products or services transform from physical things or relationships to a stream of bits and bytes, industries become susceptible to new entrants. Startups and established businesses can enter new businesses and succeed merely with better data, more processing power, or more-efficient algorithms. We see this in today's media, telecom, retail, and financial industries, where the threat of new entrants like Google and **Facebook**—and the competitive response from incumbents—is resulting in intensifying battles over growth and profit margins.

As internet connectivity and underlying technologies spread, barriers to entry in industry after industry weaken.

In media, internet platforms have altered the dynamics of industry power. Advertising profits used to be shared between the creators of content (TV networks, movie studios, and the erstwhile publishers of the Encyclopedia Britannica) and its distributors (TV stations, cinemas, and bookstores). Today, the free-to-consumer services offered by Google and Facebook have proven so popular that a majority of consumers now access information through their websites. Advertisers no longer need to pay multiple distributors but can instead concentrate their spending with the two leading internet platforms. As a result, Google and Facebook have captured 99% of the growth in digital advertising in the US. Media incumbents have responded (in the classic fashion of all imperiled incumbents) with mergers, in an effort to increase their own bargaining power against their new suppliers of readers and viewers. To the adage that "content is king," consolidations like that of **Disney** and 21st Century Fox have added the dictum that, to match the market power of the two new giants, one must be the "king of content."

Years ago, telecom industry companies responded to the threat of the rise of internet with their own mergers. Today, in response to the growing disintermediation of their services through the use of over-the-top services like WhatsApp and Netflix, industry players are lobbying politicians in both Europe and the US to "level the playing field" and allow them to worsen service or charge higher fees to users whose heavy usage taxes their infrastructure. Success, such as seen in the Trump administration's recent repeal of net neutrality regulations, could shift industry profits back to telecom providers from the internet giants.

In retailing, the internet allowed **Amazon.com**, **Alibaba**, and others to reach critical mass faster and increased consumer bargaining power through easy comparison pricing. But the effect has varied by country as legacy retailers in the developed world, thanks to their physical presence, have been able to fight back with omnichannel (combining online and offline) selling efforts. For all of Amazon's fearsome reputation, e-commerce in the US captures less than 10% of overall retail sales. In developing markets like China, e-commerce's share is double that amount, possibly because the rise of China's online retail occurred before its brick-and-mortar retailing reached significant scale. As a result, Chinese online retailers not only faced less competition, but also encountered less entrenched consumer shopping habits and rivals with fewer financial resources to buy into the changing game than their e-commerce peers in developed markets. Investors have declared the Chinese retail battle over before it began, as the market value of Alibaba and **Tencent**, China's two leading online companies, each far exceeds that of all listed Chinese traditional retailers *combined*. Several of these retailers have recently sold equity stakes to Alibaba or Tencent, in the spirit of "If you can't beat 'em, join 'em."

In Financials, the internet's effect so far has been less damaging to the incumbents—but that may be changing. To mitigate risks, including regulatory risks, banks adopt new technology only cautiously and slowly, often at the insistence of regulators. The limits on their ability to introduce new technologies quickly may well have created opportunities for new financial service business models and substitute banking products to take hold, although these themselves have been held up by the need for regulators to catch up with modern advances. Startups like Square and **PayPal's** Venmo offer easier and cheaper real-time payment services. Established internet businesses, including **Apple**, Google, Alibaba, Tencent, and Samsung, are incorporating mobile payment applications that compete with traditional credit cards. Even banks' core activity of collecting deposits and lending money is threatened. Online lending clubs bypass the bank as middleman altogether by linking savers directly with borrowers, taking a small fee for the service.

As an aside, index-providers MSCI and S&P Dow Jones jointly announced this quarter that, effective September 2018, they will change the industry classifications of many internet businesses, including heavyweights like Google-parent Alphabet, Facebook, Tencent, and Alibaba. Those businesses grouped under the IT sector will be reclassified under the sectors in which they compete, including Communication Services (the new home for Facebook, Tencent, and Alphabet) and Consumer Discretionary (Alibaba, **eBay**, and MercadoLibre). The erstwhile software and services industry will literally disappear. We expect this change to have very little impact on our investing.

We have written repeatedly over the past few years about the rising popularity—and expensiveness—of high-quality growth stocks in the world's recent state of slow growth and plentiful liquidity. On simple measures such as price-to-earnings and price-to-book ratios, the US stock market appears more expensive today than at any time since the TMT bubble of the late 1990s. Developed European and Asian markets are less expensive, but, after strong gains in 2017, none appear particularly cheap any longer.

Several factors explain these high valuations. Unlike in 1999, tech companies today are highly profitable and rapidly expanding. The tendency of today's internet business models toward winner-take-most outcomes—as a result of network effects and scale economies—has given rise to large, profitable, high-growth businesses. Stock prices of companies both in and out of the tech sector have also been supported by low or even negative real interest rates. When the discount rate is as low as it has recently been, growing equity cash flows, especially those in the far-off future, are worth more in the present. Along with those of internet winners, share prices of "legacy" businesses that have been able to continue to grow have been pushed up as well, as investors gravitate to investments that they hope can return more than bonds. An alternative explanation behind today's high IT sector valuations could be that investors are just overly optimistic about the speed and potential extent of future earnings growth. We have been reducing our investments in IT companies whose share prices we think overstate their potential future cash flow generation. While we don't know whether any of today's internet-related businesses will follow the boom-bust path of Pets.com (which in 2000 went from initial public offering [IPO] to liquidation in 268 days), we think that many share prices are too high.

The tendency of today's internet business models toward winner-take-most outcomes—as a result of network effects and scale economies—has given rise to large, profitable, high-growth businesses.

What, then, could threaten the high valuations of today's market? For tech companies, regulation and enforcement head the list. Legal risks include changes in net neutrality as well as a "techlash," in which governments move to limit the size or scope of internet businesses on monopoly or privacy grounds. The most significant precedent is from the time of the TMT bubble: the US Department of Justice's prosecution of **Microsoft** in 1998 using antitrust regulations from the 1890s, on the grounds that Microsoft engaged in anti-competitive practices. Another potential legal snare is Europe's General Data Protection Regulation, which aims to strengthen data protection in the European Union and prescribes fines for non-compliance of up to 4% of annual revenues—a potential unexpected blow to any internet-related business. Future regulation also could gut the profitability of today's winners by forcing them to pay consumers for use of their personal data or to open their platforms to competitors for "fair" compensation, just as has been required of telecom infrastructure providers.

A threat to expensive stocks generally—not just to IT and internet stocks—is the inevitable withdrawal of liquidity by central banks. So long as global inflation has remained low, central banks have been able to remain highly accommodative, but that condition may now be at an end. It has been said that "Economic expansions do not die of old age. They are murdered by central banks." The Fed is already raising interest rates and reducing its balance sheet. Other central banks are now following suit: the ECB announced it will cut monthly asset purchases in half starting in January 2018, while the central banks of Canada and England have raised their reference interest rates. The pace of normalization of extraordinary monetary policy could accelerate if there is an "inflation surprise," which stock markets might find difficult to absorb calmly. This risk seems to be rising: labor slack has ended, particularly in the US, as discouraged workers have re-entered the labor force and part-time workers have found full-time work. Globalization has acted as a disinflationary force in the developed world. If populist policies restrict free trade or favor domestic (i.e., less-competitive) producers, prices for traded goods and services will rise faster, unless countered by contractionary monetary policy.

As quality-growth investors, we and our clients have benefited from generally rising prices of the companies in our portfolio, even as we've worried about them. In our reports, we have referenced the rising prices of high-quality companies routinely since 2014! In general, we have been tolerant of those rising prices, willing to hold shares even as they came to appear expensive on simple measures such as price-to-earnings ratios, on the basis that ultra-low interest rates, a durable, albeit slow, global economic expansion, and unprecedented earnings growth opportunities for exceptional businesses rendered such traditional rules of thumb inadequate to the task of reflecting true intrinsic value. Such price tolerance was a key factor in our success in 2017 even as we leaned into the wind, reducing our investments in the most expensively priced shares, particularly in those businesses we viewed as more exposed to cyclical and regulatory risks.

PORTFOLIO HIGHLIGHTS

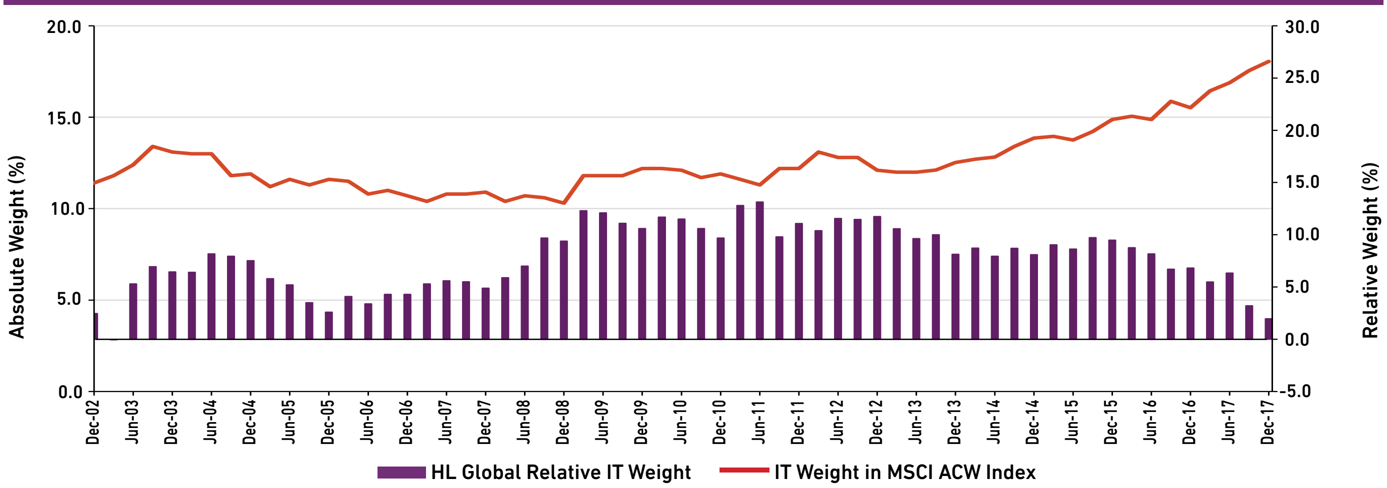
In recognition of these risks, we sold our longstanding holding in Alphabet at the end of the third quarter and reduced our exposure to China's leading social media companies Tencent and **Weibo** in the third and fourth quarters. We also sold **Cognex**, whose machine-vision software is enjoying broad adoption in factory automation, but whose share price has quadrupled over the past two years to discount the continuation of this extraordinary growth. The strong performance of the IT sector, in which we remain overweight, and our even-stronger performance within it, mitigated the negative effect on relative performance of these IT sales. Had we made no changes at all since the beginning of the year, our IT holdings would have swelled to exceed our risk guideline of 25% of the portfolio. As the below chart shows, in actuality, we reduced our IT weight *relative* to the index weight by nearly 500 basis points over the year, to end it with our smallest overweight since 2005.

We reinvested some of the proceeds from these reductions into Chinese health care companies. The industry's secular outlook is favorable. China's large, increasingly affluent population is demanding access to higher-quality health care. The government has recently raised standards and strengthened quality-control requirements across drug development and clinical testing processes. We expect to see established pharmaceutical industry leaders increase their market shares as the long tail of smaller, typically less-sophisticated, competitors fails to meet the new standards. We also see China, with its large pool of highly trained but still modestly paid scientists and engineers, emerging as a high-tech, low-cost base for the production of biologics, which are next-generation medicines derived from complex, large-molecule proteins.

Sino Biopharmaceutical, a Hong Kong-listed pharmaceutical company, spends more on R&D than any Chinese health care company (over 8% of sales versus an average of 2% for domestic peers) and fields the industry's largest sales force, of over 6,000 people. **Wuxi Biologics**, also listed in Hong Kong, applies innovative technology and a large scientific staff to assisting pharmaceutical companies in the discovery, development, and manufacturing of biologics.

At the end of the third quarter, we amended our portfolio risk-control guidelines to allow greater exposure to Hong Kong and China in recognition of the expanded opportunity set of high-quality, growing companies in these markets and our increas-

HARDING LOEVNER GLOBAL EQUITY MODEL RELATIVE INFORMATION TECHNOLOGY SECTOR EXPOSURE



Source: Harding Loevner Global Equity Model; MSCI Inc. and S&P.

ing success in finding those that meet our fundamental investment criteria.

Alibaba is one of the most controversial companies to make it all the way through Harding Loevner's research process. Alibaba's accomplishments are inarguably impressive: it has a 60% share of China's booming e-commerce industry, its emerging e-commerce platforms are spreading across Asia, and it is now aspiring to dominate, through heavy investments, China's outsourced cloud-services industry (think "Chinese equivalent of Amazon Web Services"). A longstanding debate within Harding Loevner (our notes on the company go back to 2006, eight years before its IPO on the NYSE) has revolved around how Alibaba's management regards—and whether it will ultimately respect—the interests of its outside shareholders. Our analyst has argued that management actions in Alibaba's early years cited by critics of its governance, in particular, the sale of its nascent payments subsidiary Alipay to Alibaba CEO Jack Ma, have been mischaracterized, and at least one portfolio manager's conclusion after extensive debate is to agree. Alibaba's management has acted properly toward outside shareholders during its three years as a public company. Others of our colleagues remain skeptical about the company's governance structure, and they fear for the future, believing that a tiger does not change its stripes. Shareholders tend to overlook what may be questionable governance practices when profits are high and stock returns are attractive. Inevitably, growth will slow in Chinese e-commerce, and industry rivalry will rise; there will be less incremental value to split between Alibaba's senior executives and employees, the shareholders of future acquisitions, and Alibaba's outside shareholders. How will Jack Ma and his senior cadre behave then? Thus, our antennae are attuned to our checklists for monitoring management.

We also bought Disney during the quarter. Like **Starbucks** (purchased in the third quarter), Disney has built a strong global brand that attracts consumers to its blend of film and sporting event products and theme park "experiences." In order to keep the attention of their huge user bases, large internet platforms have sought to create or buy creative content, something that Disney has in abundance in its library of existing titles and continually creates anew. With millennials prioritizing spending on experiences over things, we view Disney theme parks in the US, Europe, and China as resistant to online substitution. The company's recent strategic shift toward streaming content directly to its own cordoned-off subscribers, enabled by its controlling stake in technology platform BAMTech, will enhance the value of its pending acquisition of 21st Century Fox, which will give Disney control of Hulu, an online streaming platform that competes with Netflix. Amidst short-term earnings difficulties, Disney's shares had been flat for three years, offering a buying opportunity to those focused on the company's long-term attractions.

We also invested in **Intrum Justitia**, a Swedish company that provides debt collection and debt purchase services across Europe. Given the high level of non-performing loans in the portfolios of European lenders—many of whom are subject to changes in regulation and accounting requirements meant to encourage faster bad debt loan disposal—there is room for growth in this market. The company manages bad debts for third parties for a fee and uses its own balance sheet to purchase portfolios of discounted receivables. The company has a long history of profitable growth, which we believe can continue for many years. We acquired our position after a controversial acquisition led to a sharp decline in Intrum Justitia's share price, leaving it undervalued, with additional risks fully priced. Oddly, the company is classified by MSCI within Industrials, despite its obvious financial services activities.

Portfolio Management Team Update

Scott Crawshaw has joined our Global Equity strategy portfolio management team as of January 2, 2018. He is responsible specifically for the World Equity strategy, which is based on our Global Equity strategy but benchmarked to the developed market MSCI World Index. In this role, Scott, in consultation with its co-lead PMs, will adapt the Global Equity strategy to the requirements of the World Equity strategy. Co-lead PM Peter Baughan, CFA previously performed this function.

GLOBAL EQUITY HOLDINGS (AS OF DECEMBER 31, 2017)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
CONSUMER DISCRETIONARY		
AMAZON.COM Online retailer	US	1.1
BMW Automobile manufacturer	Germany	1.0
DISNEY Diversified media company	US	1.0
LUXOTTICA Eyeglass frames and sunglasses designer	Italy	1.2
NIKE Global athletic footwear and apparel	US	2.4
PRICELINE Online travel search services	US	2.2
STARBUCKS Speciality coffee retailer	US	1.0
TELEVISA Media, broadcasting, and entertainment	Mexico	0.7
WPP Advertising and marketing services	UK	0.9
CONSUMER STAPLES		
COLGATE PALMOLIVE Household products	US	1.3
L'ORÉAL Beauty and personal care products	France	0.9
NESTLÉ Food company	Switzerland	1.2
RECKITT BENCKISER Home and hygiene products	UK	1.3
WALGREENS BOOTS ALLIANCE Pharmacy/wholesaler	US	0.8
ENERGY		
EXXON MOBIL Integrated oil and gas company	US	0.9
SCHLUMBERGER Oilfield services company	US	2.0
TENARIS Steel pipe manufacturer	Italy	0.8
FINANCIALS		
AIA GROUP Life insurance	Hong Kong	2.6
BANK CENTRAL ASIA Commercial bank	Indonesia	1.3
BBVA Commercial bank	Spain	1.3
FIRST REPUBLIC BANK Private banking & wealth management	US	1.3
GARANTI BANK Commercial bank	Turkey	0.6
HDFC BANK Commercial bank	India	1.0
ICICI BANK Commercial bank	India	1.5
ITAU UNIBANCO Commercial bank	Brazil	1.1
SIGNATURE BANK Commercial bank	US	0.7
SVB FINANCIAL GROUP Commercial bank	US	2.5
HEALTH CARE		
ABBOTT LABS Health care and nutrition products	US	1.0
ABCAM Research antibody manufacturer/distributor	UK	0.8
AMERISOURCE BERGEN Pharmaceutical company	US	1.1
ESSILOR INTERNATIONAL Ophthalmic lens manufacturer	France	1.3
GRIFOLS Biopharmaceutical and diagnostics	Spain	1.5
LONZA GROUP Biopharmaceuticals/pharma manufacturing	Switzerland	1.7
M3 Medical information services	Japan	1.3
REGENERON Biotech company	US	1.7
SHIRE Prescription medication developer	UK	0.7
SINO BIOPHARMACEUTICAL Drug developer & mfg.	China	1.1
SONOVA HOLDING Hearing aid manufacturer	Switzerland	0.9
SYSMEX Clinical testing equipment	Japan	2.6
WATERS Analytic instruments for life sciences	US	1.2

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT.(%)
WUXI BIOLOGICS Biologics service provider	China	1.0
INDUSTRIALS		
3M COMPANY Diversified industrial conglomerate	US	1.0
ATLAS COPCO Industrial compressors and mining equipment	Sweden	1.2
FANUC Industrial robots, controls, machine tools	Japan	1.0
INTRUM JUSTITIA Credit management and solutions	Sweden	1.0
KONE Elevator and escalator manufacturer	Finland	0.9
KUBOTA Farming and construction machinery	Japan	1.9
MAKITA Power tool manufacturer	Japan	0.9
MONOTARO Online distributor of maintenance supplies	Japan	0.9
ROPER Niche industrial business conglomerate	US	2.8
VERISK Risk analytics	US	2.0
WABCO Supplier of commercial vehicle control technologies	US	1.0
INFORMATION TECHNOLOGY		
ALIBABA Internet company	China	0.9
APPLE Smartphone and PC designer	US	1.5
BAIDU Internet search provider	China	1.2
CHECK POINT Software company	Israel	0.9
COGNIZANT TECHNOLOGY IT consulting and services	US	1.0
EBAY Internet shopping/payment solutions	US	1.0
FACEBOOK Social network	US	1.6
IPG PHOTONICS High performance fiber lasers/amplifiers	US	1.4
KEYENCE Sensor and measurement equipment	Japan	1.6
MASTERCARD Global payments	US	1.4
MICROSOFT Software company	US	0.8
PAYPAL Electronic payment solutions	US	3.2
TENCENT Internet, mobile, and telecom provider	China	1.2
WEIBO Social media platform	China	1.1
YANDEX Russian search engine	Russia	1.3
MATERIALS		
AIR LIQUIDE Industrial gas company	France	1.0
CHR. HANSEN Natural food ingredients producer	Denmark	1.4
LINDE Industrial gases and engineering	Germany	1.4
MONSANTO Seed, genomics, and agricultural products	US	0.8
NOVOZYMES Biotech company	Denmark	1.2
SASOL Refined product and chemicals group	South Africa	0.8
SYMRISE Global flavor and fragrance supplier	Germany	2.4
REAL ESTATE		
No holdings		
TELECOM SERVICES		
No holdings		
UTILITIES		
No holdings		
CASH		3.8

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.

4Q17 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
NIKE	DSCR	3.1	0.66
SVB FINANCIAL GROUP	FINA	2.4	0.54
SYSMEX	HLTH	2.5	0.54
PAYPAL	INFT	3.2	0.47
SINO BIOPHARMACEUTICAL	HLTH	0.8	0.46

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
PAYPAL	INFT	2.7	1.87
IPG PHOTONICS	INFT	1.5	1.34
AIA GROUP	FINA	2.5	1.21
WEIBO	INFT	1.0	1.14
ROPER	INDU	2.7	1.13

4Q17 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
REGENERON	HLTH	1.9	-0.35
FIRST REPUBLIC BANK	FINA	1.5	-0.29
TELEVISA	DSCR	0.8	-0.24
SONOVA HOLDING	HLTH	0.7	-0.12
PRICELINE	DSCR	2.4	-0.12

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SCHLUMBERGER	ENER	2.4	-0.64
F5 NETWORKS	INFT	1.5	-0.49
WPP	DSCR	1.1	-0.21
TENARIS	ENER	0.9	-0.14
WALGREENS BOOTS ALLIANCE	STPL	1.0	-0.11

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GLOBAL	MSCI ACWI
PROFIT MARGIN[1] (%)	14.6	11.1
RETURN ON ASSETS[1] (%)	7.4	5.6
RETURN ON EQUITY[1] (%)	15.6	13.9
DEBT/EQUITY RATIO[1] (%)	53.9	74.0
STD DEV OF 5 YEAR ROE[1] (%)	2.9	3.4
SALES GROWTH[1,2] (%)	6.3	1.6
EARNINGS GROWTH[1,2] (%)	10.3	7.8
CASH FLOW GROWTH[1,2] (%)	11.9	7.3
DIVIDEND GROWTH[1,2] (%)	10.4	7.6
SIZE & TURNOVER	**HL GLOBAL**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	31.6	55.2
WTD AVG MKT CAP (US $B)	87.1	129.8
TURNOVER[3] (ANNUAL %)	21.2	–

RISK & VALUATION	HL GLOBAL	MSCI ACWI
ALPHA[2] (%)	2.01	–
BETA[2]	1.02	–
R-SQUARED[2]	0.93	–
ACTIVE SHARE[3] (%)	89	–
STANDARD DEVIATION[2] (%)	10.38	9.85
SHARPE RATIO[2]	1.30	1.13
TRACKING ERROR[2]	2.8	–
INFORMATION RATIO[2]	0.85	–
UP/DOWN CAPTURE[2]	108/93	–
PRICE/EARNINGS[4]	26.9	19.4
PRICE/CASH FLOW[4]	19.5	12.2
PRICE/BOOK[4]	3.9	2.3
DIVIDEND YIELD[5] (%)	1.1	2.2

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

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
ALIBABA	CHINA	INFT
DISNEY	UNITED STATES	DSCR
INTRUM JUSTITIA	SWEDEN	INDU
WUXI BIOLOGICS	CHINA	HLTH

POSITIONS SOLD	COUNTRY	SECTOR
COGNEX	UNITED STATES	INFT

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, 2017)

	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 (%)
2017[5]	33.26	32.66	24.62	23.07	11.16	10.37	10.24	0.2	27	8,946	16.57
2016	7.13	6.62	8.48	8.15	11.37	11.07	10.94	0.1	29	7,976	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

[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 2017 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 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 September 30, 2017.

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, 2017. 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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