HARDING LOEVNER

GLOBAL EQUITY

2018 Year End Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED DECEMBER 31, 2018[1]

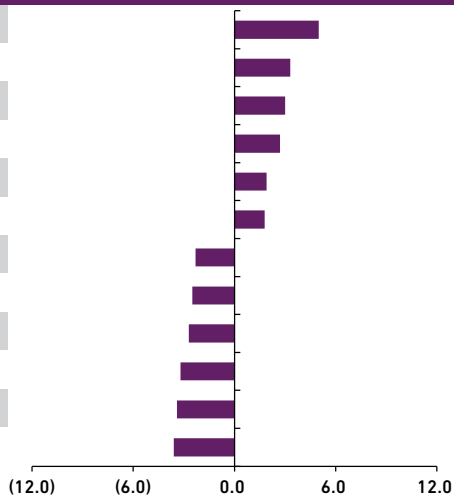
	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY (GROSS OF FEES)	-15.49	-9.35	8.97	7.26	12.22	9.49
HL GLOBAL EQUITY (NET OF FEES)	-15.58	-9.75	8.47	6.77	11.76	8.83
MSCI ALL COUNTRY WORLD INDEX[4,5]	-12.65	-8.93	7.17	4.82	10.04	6.68
MSCI WORLD INDEX[5,6]	-13.31	-8.20	6.90	5.14	10.28	6.73

[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 the last page of this report. Past performance does not guarantee future results. All performance and data shown are in US dollar terms, unless otherwise noted.

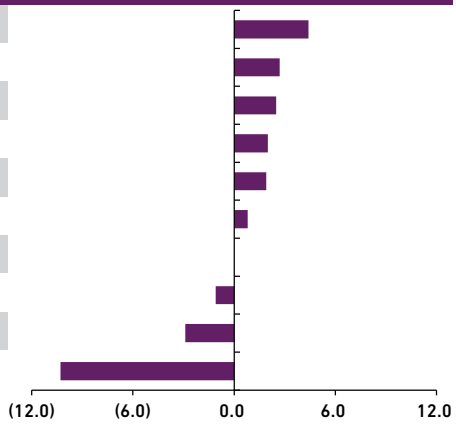
SECTOR EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
INDUSTRIALS	15.3	10.3
MATERIALS	8.3	5.0
INFO TECHNOLOGY	17.8	14.8
CASH	2.7	—
HEALTH CARE	14.0	12.1
CONS DISCRETIONARY	12.2	10.4
COMM SERVICES	6.7	9.0
CONS STAPLES	5.9	8.4
FINANCIALS	14.5	17.2
REAL ESTATE	0.0	3.2
UTILITIES	0.0	3.4
ENERGY	2.6	6.2



GEOGRAPHIC EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
EMERGING MARKETS	16.3	11.9
CASH	2.7	—
EUROPE EMU	12.2	9.7
EUROPE EX-EMU	11.5	9.5
JAPAN	9.5	7.6
MIDDLE EAST	1.0	0.2
FRONTIER MARKETS[7]	0.0	—
PACIFIC EX-JAPAN	2.7	3.8
CANADA	0.0	2.9
UNITED STATES	44.1	54.4



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

Sector and geographic allocations are supplemental information only and complement the fully compliant Global Equity 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

Global stock markets suffered their sharpest quarterly fall in seven years, led by double-digit declines in developed markets equities amid worries that a global recession looms. Investors soured even on US stocks, which had soared to new heights in the first nine months of the year but slumped hard in the quarter to turn in their weakest year since the global financial crisis in 2008. Emerging markets (EMs), weak all year, fell less in the quarter than either the US or other developed markets, aided in part by rebounds in the weakest countries and currencies. Stocks of the fastest-growing companies reversed their earlier outperformance, posting some of the quarter's worst declines.

The US Federal Reserve declared in October that it planned more hikes in short-term interest rates if economic data continued to be strong; in December, it duly delivered its ninth quarter-point rise. Long-term US Treasury yields fell, however, flattening the yield curve. That, and widening credit spreads in global bond markets, suggested investors foresee an end to the economic expansion. A precipitous decline in crude oil prices reinforced that suggestion. The European Central Bank formally ended its quantitative easing monetary policy in December, having bought nearly US$3 trillion worth of bonds with printed money.

MARKET PERFORMANCE (USD %)

MARKET	4Q 2018	TRAILING 12 MONTHS
CANADA	-15.1	-16.6
EMERGING MARKETS	-7.4	-14.2
EUROPE EMU	-14.0	-16.2
EUROPE EX-EMU	-11.2	-12.3
JAPAN	-14.2	-12.6
MIDDLE EAST	-14.3	-5.2
PACIFIC EX-JAPAN	-7.9	-10.2
UNITED STATES	-13.7	-4.5
MSCI ACW INDEX	-12.7	-8.9

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

SECTOR	4Q 2018	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-11.4	-10.8
CONSUMER DISCRETIONARY	-15.0	-9.1
CONSUMER STAPLES	-6.3	-10.0
ENERGY	-20.0	-12.6
FINANCIALS	-11.8	-15.2
HEALTH CARE	-9.5	2.2
INDUSTRIALS	-15.5	-13.9
INFORMATION TECHNOLOGY	-17.0	-1.9
MATERIALS	-13.3	-15.6
REAL ESTATE	-3.8	-7.0
UTILITIES	0.9	2.1

Source: FactSet (as of December 31, 2018). MSCI Inc. and S&P.

Political developments around the world provided little support for investor sentiment, starting in the US. A hawkish foreign policy speech by Vice President Mike Pence at the beginning of October gave investors the impression that the tariffs President Donald Trump imposed on China are more than just a negotiating tactic, despite the president's assurances that trade talks with China have been productive. Prospects of a protracted trade war threatened the growth of cross-border trade, raised the possibility of disruption to global supply chains, and discouraged company managements from making fixed-capital investments. As if that were not bad enough, President Trump openly criticized the Fed chairman, calling into question the independence of the central bank in setting monetary policy and raising the specter of political meddling last seen in the inflationary 1960s and 1970s. Finally, the year ended with the US government partially shut down after budget negotiations between the president and his Republican-controlled Congress ended in a stalemate. A clumsy effort in December by Treasury Secretary Steven Mnuchin to calm markets instead rekindled memories of some of the panic-ridden days of the 2008 financial crisis.

Outside the US, a "no-deal" Brexit scenario appeared increasingly likely as Prime Minister Theresa May pulled her negotiated proposal for withdrawal from the European Union before British lawmakers could reject it. German Chancellor Angela Merkel, long a steadying hand in volatile European politics, signaled an end to her 13 years in office by relinquishing the post of leader of her political party following recent election setbacks. French President Emmanuel Macron faced violent protests in a backlash against his fiscal reform agenda. Latin American politics intoxicated by populism lurched both left and right. The anti-corruption campaign of new Mexican President Andrés Manuel López Obrador claimed its first casualties: airport construction contracts signed by the government under the previous administration, which it immediately abrogated. In Brazil, voters elected an authoritarian but ostensibly business-friendly president, Jair Bolsonaro. Its equity market was one of the few to rise in the quarter.

Stocks in cyclical industries such as capital goods, energy, technology hardware, and semiconductors lagged in the fourth quarter, while non-cyclical sectors such as Utilities, Real Estate, Consumer Staples, and Health Care performed the strongest.

By style, stocks of higher-quality companies fared better than their low-quality counterparts, which was a consistent factor all year. Stocks of the fastest-growing companies performed much worse than their slower-growing counterparts, a reversal from the first nine months of the year. The MSCI All Country World (ACW) Growth Index underperformed its Value Index counterpart, but we find no pattern in the returns of cheaper stocks relative to pricier ones in the quarter; if anything, cheap stocks fared slightly worse than other valuation cohorts.

The least-volatile stocks outperformed, and only the global Utilities sector finished the quarter in positive territory. Equity

investors had nowhere else to hide: no regions, other sectors, or styles gained in the period.

PERFORMANCE AND ATTRIBUTION

The Global Equity composite fell 15.5% in the fourth quarter, considerably more than the index's decline of 12.7%. For the year, the composite declined 9.4%, compared with the index's 8.9% fall. The charts to the right attribute the year's performance by sector and region, respectively.

By sector, our stocks in Health Care were the biggest drag on relative performance, as some of our fastest-growing companies fell sharply. Two Japanese holdings, clinical testing equipment maker **Sysmex** and medical information services provider **M3**, plummeted. Sysmex's growth forecast was tempered by management comments, while M3 fell with other internet stocks. Two companies specializing in biopharmaceuticals contract manufacturing and outsourcing services, Switzerland's **Lonza Group** and China's **Wuxi Biologics**, fell in the wake of government-mandated Chinese drug-price reductions and the escalation of US-China trade tensions.

Our stocks within the Information Technology (IT) sector also detracted due to large declines in **AAC Technologies**, a Chinese supplier of acoustic (sound) and haptic (motion) components for smartphones and other devices, and **NVIDIA**, a US-based graphics-processor designer, both of which suffered from the negative implications of the US-China tariff dispute for the global electronics supply chain. We purchased NVIDIA in the fourth quarter after its shares fell to what we thought was an attractive price. That judgment proved to be hasty, as the company later disclosed excess inventories of components previously in heavy demand for cryptocurrency processing. Our investments in Financials were a relative bright spot, led by EM stocks including India's **ICICI Bank** and **HDFC Bank**, Brazil's **Itaú Unibanco**, and Indonesia's **Bank Central Asia**.

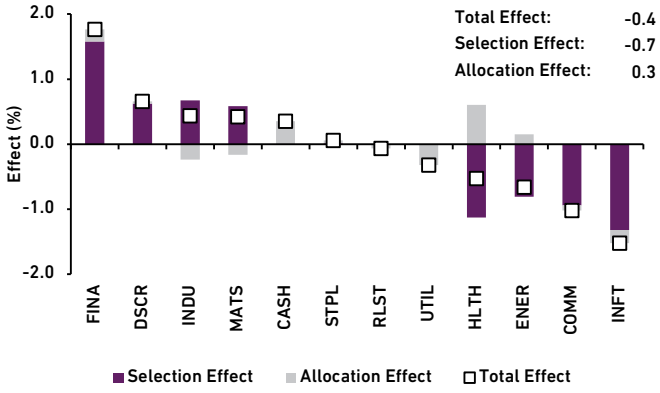
By geography, our stocks in Japan and China were the most significant detractors from relative performance, especially the aforementioned M3, Sysmex, AAC, and Wuxi. Our stocks in the US also lagged, where, in addition to NVIDIA, oilfield services provider **Schlumberger** and **SVB Financial Group** fell.

Large reversals in the fourth quarter negated positive results from the prior nine months in the full-year attribution of relative performance by sector. Poor stocks in IT and Health Care had the largest negative impact. AAC, NVIDIA, and US-based laser manufacturer **IPG Photonics** all declined due to weakness in the global electronics supply chain. In Health Care, Sysmex detracted. Strong stocks in Financials offset some of our poor stocks elsewhere thanks to Bank Central Asia, ICICI, and Itaú. By geography, our underweight in the top-performing US market was the most significant detractor, but the absence of any holdings in underperforming Canada offset about half the effect of that US stance.

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, 2018 is available on page 9 of this report.

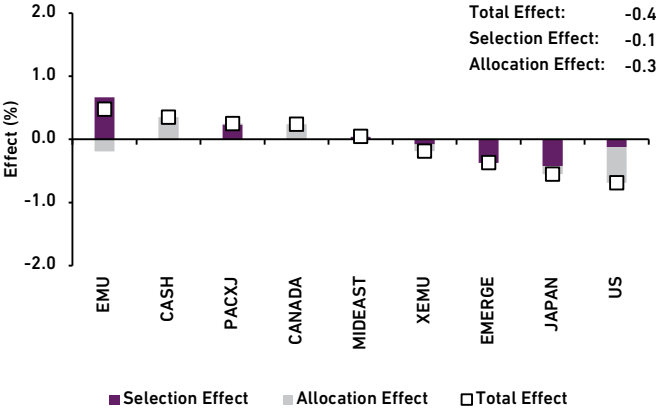
SECTOR PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS

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.

PERSPECTIVE AND OUTLOOK

In an environment in which the Fed has been steadily raising short-term interest rates, leading other central banks to signal a retreat from the ultra-low interest rate policies of the last decade, combined with rising risks of trade disruption for political reasons from Brexit to US tariffs, what should an investor reasonably expect from our strategy? We believe that stocks of high-quality companies generally offer a return premium over the market return. That premium is due in part to the competi-

THE ECONOMIC ENVIRONMENT AND OUR PROCESS

When describing market developments, we normally touch on significant economic shifts and political forces that we think provide context. Sometimes a newer colleague asks us why we do that. After all, we take pains to say, over and over, that we make investment decisions from our bottom-up analysis of companies, rather than from a top-down view of the economy or political climate. In one tantrum, we couldn't help ourselves from telling our readers to stop asking us about our outlook, because we didn't have one. All of that remains true.

Still, we believe that reviewing the economic environment, and sometimes the political environment, is a way to provide context for not only our decisions but also our portfolio's returns, which are often better than the market, but sometimes—like in this quarter—worse. We think that such a review helps set our investors' expectations of what might be possible, and what would be unlikely in the short run, even as we focus on forecasting the long-term prospects of individual businesses.

The main economic factors that affect the environment for making investment decisions include inflation, interest rates, and broad economic growth. Inflation, when not subdued as at the present time, can have a significant impact on individuals' consumption behavior, on corporate cash flows, and on investor preferences. We pay attention to inflation expectations revealed in markets, even though we don't try to forecast inflation. In an unconstrained market, inflation expectations exert direct influence on interest rates, which act as the great equalizer of cash flows from different time periods and different currencies. As current focus on the yield curve demonstrates, long-term interest rates driven by those expectations can diverge from short-term rates controlled by central banks. The level of long-term interest rates also has a huge effect on individuals', companies', and governments' willingness to invest, either in housing or consumer durable goods financed by debt, or in plants and equipment, or in infrastructure and public works, which, in turn, spurs or reins in overall economic activity.

Economic activity waxes and wanes. When generalized growth is strong, opportunities are plentiful for most companies. Rivalry among them declines, and most companies are able to expand their sales at profitable prices. When economic growth is less abundant, only those companies with the strongest competitive advantages manage to maintain profitable growth.

Politics can foster benign climates for corporate expansion, or they can create instability, which raises the variability of returns that any investment made today will have over the coming years. The only way of improving expected returns in such a situation is to shorten the payback period, which is tantamount to saying "raise the required return" of any investment project. Unstable political environments will cast a chill over most investment plans in this way, such that only the expected returns of the most lucrative projects meet the hurdle of the higher required return. Fewer projects initiated leads to both slower revenue growth and lower employment. The UK's struggle with Brexit and the US' unilateral instigation of trade hostilities are two current instances of politically rooted sources of instability.

tive advantages and financial strength of the businesses themselves, which makes them more resilient and maneuverable in shifting economic currents. And it is due in part to the behavior of investors, who time and again demonstrate their love of exciting "stories," their irrational preference for risk, and their overconfidence in extrapolating today's growth. These foibles tend to result in the underpricing of boring-and-steady profitable growth at less-than-heady rates.

This belief in high-quality businesses' return premium underpins our investment philosophy. Over the several cycles we have experienced since starting our firm nearly 30 years ago, our performance in falling markets has been relatively better than the market. And as we got better over the years at identifying quantitative financial metrics associated with the essentially subjective label of "quality," we could see correlation between our preference for high-quality companies and outperformance in periods of stock market declines (as well as underperformance in some periods of "risk-on" rallies).

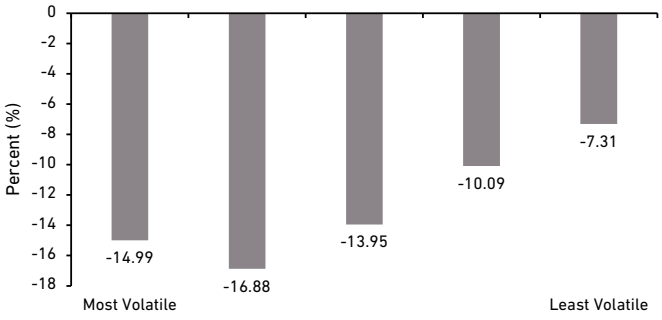
In this most recent market decline, however, our portfolio underperformed, even though stocks of higher-quality companies in general fell less than other market constituents, and despite our portfolios being laden with companies that exhibit high-quality characteristics. That unaccustomed outcome demands some investigation into what was different about this market decline, or, alternatively, what we got wrong in the environment before the decline, that left our portfolios unprepared to withstand this particular episode of market weakness. First, the decline itself was marked by the most-liquid stocks—which describes many of our holdings—falling the furthest, while less liquid ones had smaller declines. That strikes us as a common feature of rapid crashes in the past, and it has often just meant that investors sold first what they could sell efficiently, while the stocks with less turnover take more time to find the price level that attracts new willing owners and experience longer, slower declines that end up of similar magnitude. As we experienced it, the 1987 crash very distinctly had that feature. Second, lower stock prices are likely reflecting higher discount rates demanded by investors to incorporate the unstable business environment created by politicians in the UK and US, which heretofore have been fairly predictable places for profit-making activities, in contrast to, say, Russia, Brazil, or Indonesia. We are underweight both the US and the UK in

our portfolio, although many of our holdings in both countries (and elsewhere) are multinationals that benefit from rising global trade.

A third notable feature of this decline is the dreadful performance of stocks of the fastest-growing companies, the cohort most avidly pursued by investors over the past few years. If your portfolio did not emphasize fast growth, your relative performance over the past 12 quarters until this one was likely poor. Our portfolios have always emphasized growing businesses, a look that was certainly "in fashion" over the past couple of years. What has been different in this cycle is that many of the fastest-growing companies also rank objectively among the highest quality, so that it has been possible to own a portfolio that was both fast growing and high quality. We had our share of those fast-growing stocks that suddenly went out of fashion. The downside protection we normally get from our high-quality focus was lost in the rush to exit from the fastest-growth companies.

A final feature of the quarter was the smaller decline of "low volatility" stocks. As seen in the chart below, the quintile of stocks in the index with the lowest volatility fell just over half as much as the broad index.

MSCI ACW INDEX PERFORMANCE BY VOLATILITY (TOTAL RISK) 4Q18

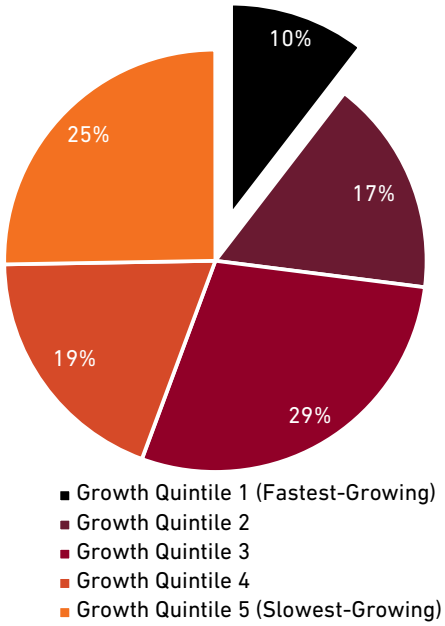


Source: FactSet (as of December 31, 2018); MSCI, Inc. and S&P.

Investors sometimes conflate low-volatility stocks and high-quality companies, and indeed, there is some overlap, not least because, in our taxonomy, one of the hallmarks of high quality is low cyclicality, for which we take the volatility of returns on capital as a proxy. But low-volatility stocks are just that: stocks whose share prices vary less than that of the average stock, and many of those companies do not meet our standards as high quality. They are over-represented in the "defensive" sectors of Utilities, Real Estate, and Consumer Staples, along with a portion of Health Care known as "Big Pharma," and, surprisingly, a considerable part of Financials. It is no surprise that those were the best-performing sectors this quarter. We have owned—on quality grounds—very few companies from the Utilities and Real Estate sectors over our firm's history. They tend to be both highly regulated and highly leveraged, with low unlevered profitability. Our holdings of Financials companies are light for similar reasons.

A more obscure truth about low-volatility stocks is that they encompass very few growth businesses. By our count, less than 10% of the companies in the least-volatile quintile of stocks also rank in the fastest growth quintile, as seen in the chart below—meaning just 2% of stocks in the index.

MSCI ACW INDEX LEAST-VOLATILE QUINTILE BY GROWTH 4Q18



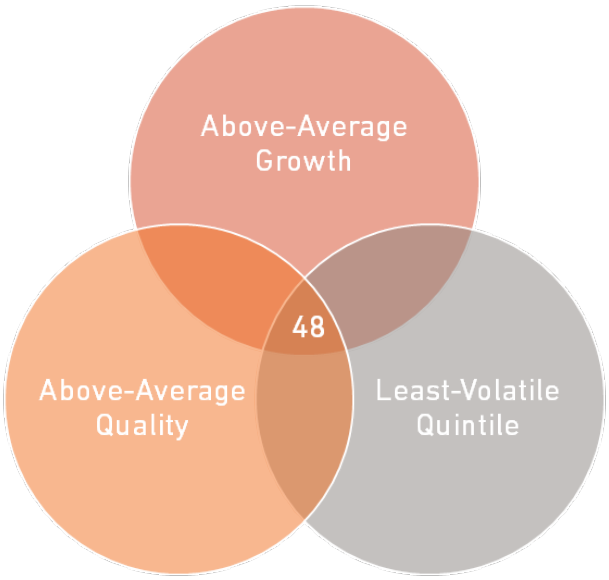
Source: FactSet (as of December 31, 2018); MSCI, Inc. and S&P.

Because growth holds equal rank alongside quality as a fundamental underpinning of our investment philosophy, it's relevant to point out that the number of companies that rank highly on both quality and growth, and whose stocks also display minimal price volatility, is a small minority. Of the 2,758 stocks in the MSCI ACWI, only 48 were at the intersection of good growth, high quality, and low volatility, as seen in the diagram on the next page. A rare breed indeed. The best place to hide this quarter was in low-volatility stocks—but owning more of those might have forced us to abandon our insistence on growth.

In that small opportunity set, we have limited scope to own a large proportion of low-volatility stocks while still adhering to our philosophy. We clearly failed to seize that slim chance. In our defense, shifting our aim explicitly toward those most "defensive" of stocks would have required an insight that the fashion of pursuing highest growth regardless of price was about to change—a grasp at market timing that we take pains to avoid in our utter mistrust of our ability to make such top-down calls on the market. In our studied agnosticism about predicting the behavior of others, it's quite possible that we paid insufficient heed to how much "the crowd" had moved toward our own preferences, or, more accurately, failed to identify an adequate shelter against the moment that fashion shifted elsewhere.

Instead, the risk that we have been focusing on for the past several years is the increasingly high prices commanded by

MSCI ACW INDEX LOW-VOLATILITY STOCKS OF ABOVE-AVERAGE GROWTH AND QUALITY



Source: FactSet (as of December 31, 2018); MSCI, Inc. and S&P.

stocks of high-quality, growing companies. As habitual readers of our letters will know, we first voiced concern in the fourth quarter of 2014 and have returned often to this theme. As already noted, the least-volatile stocks have not appeared particularly cheap. As a case in point, our recent low holdings of Consumer Staples stocks relative to our own long-term history is grounded in that disconnect of rich prices and steady but modest growth. Nevertheless, even if we had shifted our emphasis from growth toward cheaper valuations some time ago (which would have come at great cost to investment returns over the past couple of years), we still would have likely underperformed in the recent market decline. Our rankings of stocks in the index by value show no return advantage this quarter for the cheaper stocks. Among the stocks that we own, those that rank as better value actually hurt relative performance in the quarter, typically because the trade-off to lower valuation was a more cyclical business.

Over the past two years or so, we have reduced or sold a larger than usual number of holdings that had reached what we considered to be extremely rich valuations. Those proceeds have been reinvested in other companies whose share prices were less pricey, sometimes due to a sharp decline following a business hiccup that we deemed temporary. Those shifts away from the most highly priced stocks now seem to us—at least emotionally—too incremental. However, in hindsight we're doubtful that we'd have reinvested the proceeds of additional sales into companies that would have weathered this market decline much better. It wasn't cheaper valuations that helped; it was avoiding the stocks of the fastest-growing companies, whatever their valuations.

Moving ahead, we are unwilling to reduce either our emphasis of growth or of quality, and we will continue to build portfolios of companies that exhibit both. But, as hinted earlier, we do worry about the bias we manifest in favor of multinational businesses. These companies are repeatedly recognized by our process: they tend to be more diversified and less cyclical, with higher profit margins and returns on capital, and are thus able to operate with less leverage while investing around broader growth opportunities. As the trade war worsens, it becomes an attack on the bounty of globalization: the efficiencies of global supply chains that have benefited consumers everywhere while bolstering the profits of those companies most adept at exploiting them. If global supply chains are further disrupted, we will be working overtime to identify less-exposed companies, using the same analytical framework (that is, our criteria of competitive advantage, good growth prospects, sound management, and financial strength) that led us in the past to so many beneficiaries of trade.

PORTFOLIO HIGHLIGHTS

The quarter was characterized by broad declines with particular damage to shares of high-growth, high-quality companies. Our performance suffered due to a handful of very poor stocks. Here, we review our growth theses for three of the poorest.

US-based Schlumberger's competitive advantages lie in its sophisticated oilfield services technology. In recent years, however, difficult industry conditions have dragged on Schlumberger. The explosive growth of US shale exploration has led to a proliferation of small producers that prioritize basic, lower-cost services over the more-sophisticated services that Schlumberger offers. This dynamic has created fierce price competition among service providers and has led to significant pricing and margin challenges for Schlumberger. As shale development in the US matures and becomes more difficult, we expect demand for more technologically advanced services to grow, benefiting Schlumberger. Until then, Schlumberger continues to boost productivity, cutting its costs aggressively to generate profits in the current environment. It is likely to see strong marginal profitability should recovery in demand for its services sustain revenue growth. The company's strong balance sheet allows us to wait patiently. We also believe Schlumberger shares will likely benefit the portfolio should instability in the Middle East or elsewhere lead to oil supply disruptions and higher oil prices.

Sysmex, a Japanese medical testing company, was also a notable detractor to performance in the fourth quarter and year due to short-term factors related to product launches and inventory levels. Sysmex develops fully automated, high-throughput test systems and the consumable test reagents these systems employ. It follows a razor-and-blade business model: reagent sales and related services comprised 67% of its revenues in the latest fiscal year, up 28 percentage points from 20 years ago. Sysmex is also known for a very strong commitment to R&D. New products, along with secular growth in demand for increasingly advanced, individualized, yet cost-competitive medical testing, leaves Sysmex well placed to deliver attractive earnings growth over the long term.

One of the portfolio's worst performers was a new holding in November, US-based graphics processor (GPU) designer NVIDIA. NVIDIA's microprocessors were first developed to improve the realism of video games. The chips' parallel accelerator technology has proven to be well-suited for numerous artificial intelligence applications in transportation (autonomous driving), health care (medical imaging), and finance (algorithmic trading and blockchain). The company's technology now powers some of the world's highest-performing supercomputers. Shortly after our purchase, NVIDIA reduced its short-term earnings outlook due to excess inventory created by the collapse of cryptocurrency mining (which relied heavily on NVIDIA's chips). We misjudged the extent of these short-term challenges, but we believe NVIDIA's inventory issues are temporary, and that the company's addressable market will continue to grow substantially in coming years. We regard NVIDIA as one of the strongest secular growth companies in our universe, and one that is significantly undervalued today. We added to our position at lower prices.

We also purchased **ZOZO**, Japan's largest online fashion marketplace. With over five million active users, ZOZO hosts e-commerce sites for some 6,900 brands. The firm's consignment model, by which it takes approximately 30% of product sales, uses little capital and results in high margins and strong free cash flow. ZOZO recently began designing and selling custom-fit merchandise under its own label, a strategy that increases potential returns—as well as risks. Management's expertise in online retailing and understanding of the Japanese consumer makes us cautiously optimistic about its latest initiative.

We sold five holdings during the quarter:

- **Facebook**, a successful holding for nearly four years, after determining its growth prospects are increasingly uncertain. Rising global regulatory risks and the saturation of its core platform threaten to outweigh positive developments, such as Instagram's rising popularity. We will revisit Facebook should a clearer growth path emerge.

- Global advertising agency **WPP**, after concluding that the company's anemic growth performance in recent quarters, especially compared with industry peers, reflects fundamental imbalances that would require many quarters to rectify. After its period of poor performance, WPP shares do not look expensive in relation to its history, but we cannot find the valuation attractive unless its newly installed management team is successful in making structural changes to its business model. We will monitor progress with interest, but from the sidelines.

- Chinese social media platform **Weibo**, which we reduced significantly earlier in the year. The company is facing increased competition from new entrants and the challenge of a broad economic slowdown.

- Industrial equipment manufacturer **Atlas Copco** and its recent spin-off **Epiroc**. Atlas Copco has significant exposure to the semiconductor cycle through its Edwards Vacuum Solutions division, which makes clean room equipment for semiconductor manufacturing. We exited our position following our recent purchases of other chip makers (**Samsung Electronics** and NVIDIA) and to reduce our general industrial cyclical exposure.

GLOBAL EQUITY HOLDINGS (AS OF DECEMBER 31, 2018)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMMUNICATION SERVICES		
BAIDU Internet products and services	China	0.9
DISNEY Diversified media and entertainment provider	US	1.2
NASPERS Internet and media services	South Africa	2.5
TELEVISA News and entertainment broadcaster	Mexico	0.9
YANDEX Internet products and services	Russia	1.2
CONSUMER DISCRETIONARY		
ALIBABA E-commerce retailer	China	1.1
AMAZON.COM E-commerce retailer	US	1.5
BMW Automobile manufacturer	Germany	0.9
BOOKING HOLDINGS Online travel services	US	2.5
EBAY E-commerce retailer	US	0.8
ESSILORLUXOTTICA Eyewear manufacturer and retailer	France	2.6
NIKE Athletic footwear and apparel retailer	US	1.8
ZOZO E-commerce Retailer	Japan	0.9
CONSUMER STAPLES		
COLGATE PALMOLIVE Consumer products manufacturer	US	1.2
L'ORÉAL Cosmetics manufacturer	France	1.1
NESTLÉ Foods manufacturer	Switzerland	1.3
RECKITT BENCKISER Consumer products manufacturer	UK	1.2
WALGREENS BOOTS ALLIANCE Drugstores operator	US	1.2
ENERGY		
EXXONMOBIL Oil and gas producer	US	0.8
SCHLUMBERGER Oilfield services	US	1.2
TENARIS Steel-pipe manufacturer	Italy	0.6
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	2.8
BANK CENTRAL ASIA Commercial bank	Indonesia	1.6
BBVA Commercial bank	Spain	0.9
FIRST REPUBLIC BANK Private bank and wealth manager	US	2.6
HDFC BANK Commercial bank	India	1.1
ICICI BANK Commercial bank	India	1.7
ITAÚ UNIBANCO Commercial bank	Brazil	1.3
STANDARD CHARTERED Commercial bank	UK	1.7
SVB FINANCIAL GROUP Commercial bank	US	0.8
HEALTH CARE		
ABBOTT LABS Health care products manufacturer	US	1.4
ABCAM Life science services	UK	0.9
AMERISOURCEBERGEN Pharma services	US	1.0
GRIFOLS Blood plasma fractionation operator	Spain	1.3
LONZA Life science products developer	Switzerland	2.0
M3 Medical information services	Japan	1.0
REGENERON Biopharma manufacturer	US	1.9
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.0
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.0

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
HEALTH CARE (continued)		
WATERS Analytical instruments manufacturer	US	1.3
WUXI BIOLOGICS Biopharma manufacturer	China	1.2
INDUSTRIALS		
3M COMPANY Diversified product manufacturer	US	0.9
FANUC Industrial robot manufacturer	Japan	0.7
INTRUM JUSTITIA Credit management services	Sweden	0.9
KONE Elevator and escalator manufacturer	Finland	1.5
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.1
MAKITA Power tool manufacturer	Japan	0.8
MONOTARO Factory materials supplier	Japan	1.6
PARK24 Automated parking lot operator	Japan	0.7
ROPER Diversified technology businesses operator	US	3.2
VERISK Risk analytics and assessment services	US	2.6
WABCO Vehicle control systems supplier	US	1.3
INFORMATION TECHNOLOGY		
AAC TECHNOLOGIES Smartphone components manufacturer	China	0.9
APPLE Consumer electronics and software developer	US	1.5
CHECK POINT Cybersecurity software developer	Israel	1.0
COGNEX Machine vision systems manufacturer	US	0.9
COGNIZANT TECHNOLOGY IT consultant	US	1.0
IPG PHOTONICS Lasers and amplifiers manufacturer	US	0.8
KEYENCE Sensor and measurement equipment manufacturer	Japan	1.6
MASTERCARD Electronic payment services	US	1.9
MICROSOFT Consumer electronics and software developer	US	1.1
NVIDIA Semiconductor chip designer	US	2.1
PAYPAL Electronic payment services	US	4.0
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	1.0
MATERIALS		
AIR LIQUIDE Industrial gases producer	France	1.1
CHR. HANSEN Natural ingredients developer	Denmark	1.4
LINDE Industrial gases supplier and engineer	US	1.6
NOVOZYMES Biotechnology producer	Denmark	1.1
SASOL Energy and chemical technology developer	South Africa	0.8
SYMRISE Fragrances and flavors manufacturer	Germany	2.3
REAL ESTATE		
No Holdings		
UTILITIES		
No Holdings		
CASH		2.7

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.

4Q18 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
ICICI BANK	FINA	1.5	0.28
ITAÚ UNIBANCO	FINA	1.2	0.20
BANK CENTRAL ASIA	FINA	1.4	0.16
HDFC BANK	FINA	0.9	0.10
LINDE	MATS	0.5	0.09

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
PAYPAL	INFT	3.5	0.42
MONOTARO	INDU	1.2	0.35
MASTERCARD	INFT	1.9	0.32
NIKE	DSCR	1.8	0.30
SHIRE	HLTH	0.4	0.25

4Q18 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
LONZA	HLTH	2.8	-0.72
SCHLUMBERGER	ENER	1.5	-0.71
NVIDIA	INFT	1.3	-0.71
SYSMEX	HLTH	1.2	-0.69
AAC TECHNOLOGIES	INFT	1.1	-0.64

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
AAC TECHNOLOGIES	INFT	0.6	-1.03
SCHLUMBERGER	ENER	1.8	-0.81
NVIDIA	INFT	0.3	-0.71
IPG PHOTONICS	INFT	1.3	-0.53
NASPERS	COMM	1.6	-0.46

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GLOBAL	MSCI ACWI
PROFIT MARGIN[1] (%)	15.0	11.3
RETURN ON ASSETS[1] (%)	8.0	5.8
RETURN ON EQUITY[1] (%)	17.2	14.2
DEBT/EQUITY RATIO[1] (%)	61.2	73.0
STD DEV OF 5 YEAR ROE[1] (%)	3.6	4.2
SALES GROWTH[1,2] (%)	7.5	2.9
EARNINGS GROWTH[1,2] (%)	11.4	8.6
CASH FLOW GROWTH[1,2] (%)	10.7	8.4
DIVIDEND GROWTH[1,2] (%)	10.7	7.5
SIZE & TURNOVER	**HL GLOBAL**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	36.8	52.0
WTD AVG MKT CAP (US $B)	86.8	131.6
TURNOVER[3] (ANNUAL %)	22.7	—

RISK AND VALUATION	HL GLOBAL	MSCI ACWI
ALPHA[2] (%)	2.15	—
BETA[2]	1.06	—
R-SQUARED[2]	0.94	—
ACTIVE SHARE[3] (%)	89	—
STANDARD DEVIATION[2] (%)	11.76	10.78
SHARPE RATIO[2]	0.57	0.39
TRACKING ERROR[2] (%)	3.0	—
INFORMATION RATIO[2]	0.81	—
UP/DOWN CAPTURE[2]	112/96	—
PRICE/EARNINGS[4]	20.7	14.5
PRICE/CASH FLOW[4]	15.4	10.0
PRICE/BOOK[4]	3.2	2.0
DIVIDEND YIELD[5] (%)	1.3	2.7

[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 9, 2019); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
NVIDIA	US	INFT
ZOZO	JAPAN	DSCR

POSITIONS SOLD	COUNTRY	SECTOR
ATLAS COPCO	SWEDEN	INDU
EPIROC	SWEDEN	INDU
FACEBOOK	US	COMM
WEIBO	CHINA	COMM
WPP	UK	COMM

The portfolio is actively managed therefore holdings identified above do not represent all of the securities held in the portfolio and holdings may not be current. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the charts above; and (2) a list showing the weight and contribution of all holdings during the quarter and the last 12 months. Past performance does not guarantee future results. In the charts above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance over the period. Contributors and detractors exclude cash and securities in the Composite not held in the Model Portfolio. Quarterly data is not annualized. Portfolio attribution and characteristics are supplemental information only and complement the fully compliant 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, 2018)

	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 (%)
2018[5]	-9.35	-9.75	-8.93	-8.20	11.85	10.48	10.39	0.2	30	10,752	21.39
2017	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

[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 2018 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 accounts investing in US and non-US equity and equity-equivalent securities and cash reserves, and is measured against the MSCI All Country World Total Return Index (Gross) for comparison purposes. Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI 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, 2018.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Global Equity Composite has been examined for the periods December 1, 1989 through September 30, 2018. The verification and performance examination reports are available upon request.

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

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