HARDING LOEVNER

GLOBAL EQUITY

2020 First Quarter Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED MARCH 31, 2020[1]

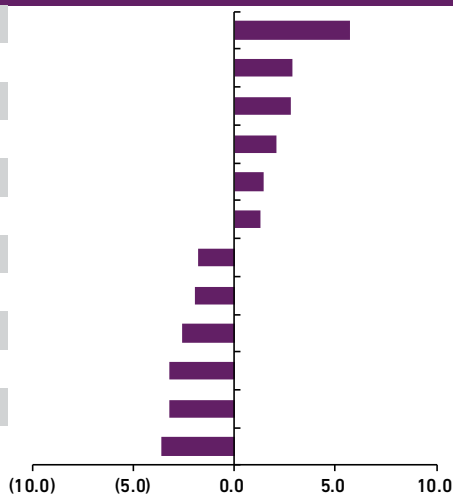
	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL GLOBAL EQUITY (GROSS OF FEES)	-16.77	-5.04	6.08	6.86	8.68	9.37
HL GLOBAL EQUITY (NET OF FEES)	-16.86	-5.43	5.62	6.38	8.22	8.72
MSCI ALL COUNTRY WORLD INDEX[4,5]	-21.26	-10.76	2.05	3.41	6.44	6.41
MSCI WORLD INDEX[5,6]	-20.93	-9.87	2.49	3.83	7.17	6.50

[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.

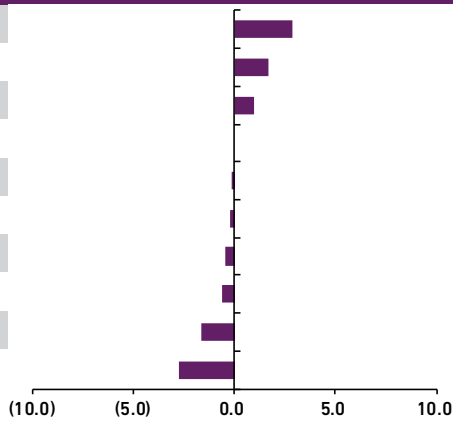
SECTOR EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
HEALTH CARE	19.0	13.3
CASH	2.9	—
INDUSTRIALS	12.4	9.6
INFO TECHNOLOGY	20.9	18.8
MATERIALS	5.9	4.4
COMM SERVICES	10.6	9.3
ENERGY	1.9	3.7
CONS DISCRETIONARY	8.9	10.8
CONS STAPLES	6.2	8.8
FINANCIALS	11.3	14.5
REAL ESTATE	0.0	3.2
UTILITIES	0.0	3.6



GEOGRAPHIC EXPOSURE (%)

	HL GLOBAL	MSCI ACWI
CASH	2.9	—
EUROPE EX-EMU	10.7	9.0
UNITED STATES	57.6	56.6
FRONTIER MARKETS[7]	0.0	—
JAPAN	7.4	7.5
MIDDLE EAST	0.0	0.2
PACIFIC EX-JAPAN	2.8	3.2
EMERGING MARKETS	11.4	12.0
EUROPE EMU	7.2	8.8
CANADA	0.0	2.7



[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 markets fell savagely in the first quarter as the COVID-19 pandemic engulfed the planet. The size and speed of the equity market decline were unprecedented, with volatility reaching levels not seen since the global financial crisis. While markets recovered somewhat in the last two weeks of the quarter, equity markets nevertheless posted their worst quarter since 2008. All regions and sectors finished in negative territory.

The quarter began with the US killing of a top Iranian general, escalating tensions in the Middle East before investor attention was gripped by mushrooming outbreaks of a novel coronavirus in China. By mid-February, Chinese authorities locked down the entire province of Hubei, an area the size of Illinois but, at nearly 60 million people, four times its population. Within a month, the World Health Organization (WHO) declared the outbreak a global pandemic. Although the respiratory disease spread first in Asia, the epicenter shifted rapidly to Europe and the United States. By quarter-end, the infection had spread to over 180 countries, and governments everywhere were struggling to contain the disease and its fallout. The ensuing travel restrictions, enforced business closures, and home confinements brought economic activity to a shuddering stop.

A severe global recession is now at hand. One data point from first-affected China—a 79% decline in nationwide auto sales in February—is a harbinger of the speed and depth of declines in economic activity we should expect elsewhere.

A severe global recession is now at hand. One data point from first-affected China—a 79% decline in nationwide auto sales in February—is a harbinger of the speed and depth of declines in economic activity we should expect elsewhere. Exacerbating the turmoil, Saudi Arabia decided to retaliate against Russia for its unwillingness to curb oil production, flooding the market with excess supplies of oil. A price war between two of the world's largest oil producers amid a collapse in demand pushed oil prices down to an 18-year low of just under US$23 for Brent crude.

While global equity markets gyrate violently, government bond yields in developed markets plumb new lows. As the health crisis morphs into a full-blown economic crisis, policymakers are grappling with how to respond. On the monetary front, central bankers have pulled out all the stops. The Bank of England pledged unlimited support to large company financings, the US Federal Reserve lowered short-term rates to near-zero and unveiled aggressive actions to keep credit flowing, and the European Central Bank expanded its asset purchase program, relaxing its asset eligibility requirements for both sovereign and corporate issuers. The People's Bank of China cut its reserve requirement ratio—twice—hoping to spur bank lending. On the fiscal front, governments have responded with massive spending plans, dwarfing the rescue programs from the global financial crisis. The United States passed a US$2.2 trillion economic relief package, and European governments pledged hundreds of billions of euros to mitigate the sudden losses of personal and corporate incomes. Chinese officials committed to increase spending on infrastructure projects.

Currency effects were large in the quarter, as domestic demand for US dollar liquidity combined with overseas demand roiled money markets in many countries where companies or governments have incurred substantial dollar debts. Currencies of energy-exporting countries fell hard as market participants adjusted for worsened terms of trade. Only the perceived safe havens of the Swiss franc and the Japanese yen, along with the Hong Kong dollar, managed any appreciation against the US dollar, while several Emerging Markets currencies fell more than 20%. The euro and the yuan fell only slightly.

MARKET PERFORMANCE (USD %)

MARKET	1Q 2020	TRAILING 12 MONTHS
CANADA	-27.4	-19.3
EMERGING MARKETS	-23.6	-17.3
EUROPE EMU	-26.7	-17.3
EUROPE EX-EMU	-21.6	-12.5
JAPAN	-16.6	-6.3
MIDDLE EAST	-18.0	-18.1
PACIFIC EX-JAPAN	-27.6	-23.5
UNITED STATES	-19.6	-7.1
MSCI ACW INDEX	-21.3	-10.8

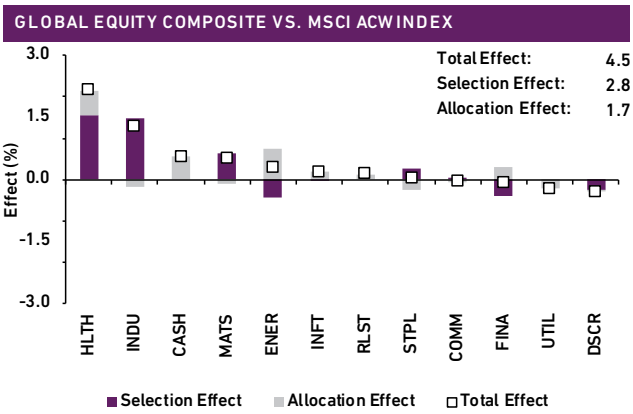
SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW INDEX

SECTOR	1Q 2020	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-16.2	-5.7
CONSUMER DISCRETIONARY	-21.3	-10.9
CONSUMER STAPLES	-13.8	-5.4
ENERGY	-43.8	-44.0
FINANCIALS	-31.6	-21.7
HEALTH CARE	-11.2	1.2
INDUSTRIALS	-26.2	-17.6
INFORMATION TECHNOLOGY	-13.6	7.2
MATERIALS	-27.1	-20.9
REAL ESTATE	-23.5	-18.5
UTILITIES	-14.8	-5.3

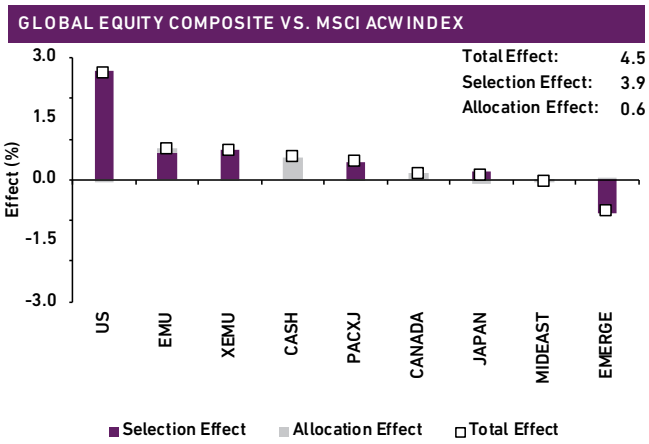
Source: FactSet (as of March 31, 2020). MSCI Inc. and S&P.

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 March 31, 2020 is available on page 10 of this report.

SECTOR PERFORMANCE ATTRIBUTION
FIRST QUARTER 2020



GEOGRAPHIC PERFORMANCE ATTRIBUTION
FIRST QUARTER 2020



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.

Consistent with the fraught economic backdrop, non-cyclical sectors outperformed in equity markets. Health Care performed best, with strong relative performance in Pharmaceutical and Biotechnology stocks since drug sales are typically less sensitive in recessions and may even see an uplift in the event of new treatments for COVID-19. Consumer Staples also outperformed, as demand for essential household products, unlike discretionary goods, is expected to persist in the face of consumers self-isolating. Utilities—again, facing stable demand—outperformed. Energy stocks fell in sympathy with the dramatic fall in oil prices. Materials and Financials performed poorly, anticipating the overall decline in economic activity and likely increase in defaults. Unexpectedly, Information Technology (IT), normally a cyclical sector, outperformed in the decline, a topic we address later in this report.

Viewed by geography, Asian markets were the most resilient. China performed the best of any major market despite being the locus of the outbreak, perhaps reflecting the success of domestic containment efforts once the virus was identified. The US also outperformed, but that result is due more to the effect of falling currency exchange rates on the USD-based returns of other markets than on the relative resilience of US versus international stocks, although the large Health Care and IT sectors in the US were important contributors. Countries heavily reliant on commodities and energy, such as Australia, Canada, Norway, Indonesia, Russia and Brazil, were some of the worst performers. Emerging Markets performed in line with developed markets, almost solely due to the strong relative performance of China.

Style effects in the quarter showed a clear investor preference for safety, which accelerated through mid-March before easing slightly following the passage of the US stimulus package. High-quality companies—that is, those with more consistent returns and low leverage—outperformed those with more cyclical revenues and higher debt loads. Another pronounced effect was how much investors preferred growth companies: the cohort of the fastest-growing outperformed that of the slowest-growing by 1,750 basis points, pushing their high valuations higher still. Value underperformed by a wide margin, hurt especially by poor returns from Financials.

PERFORMANCE AND ATTRIBUTION

The Global Equity Composite declined 16.8%, significantly less than the 21.3% decline of the MSCI All Country World Index (ACWI).

Outperformance derived from both positive sector allocation and stock selection. Our overweights in Health Care and IT helped, as did our underweights in Energy and Financials. Within Health Care, US-based biopharmaceutical holdings **Regeneron** and **Vertex Pharmaceuticals**, along with Swiss contract drug manufacturer **Lonza** and Japanese blood-testing specialist **Sysmex**, each managed share price gains, and together they contributed substantially to our relative performance. Regeneron's shares rose on optimism the company would be able to develop a COVID-19 treatment quickly, having created an approved antiviral for Ebola several years ago. Vertex's recent launch of new drugs used to treat cystic fibrosis patients, who are at higher risk for life-threatening complications from COVID-19, assured strong take-up of its medication. Lonza shares surged on the recognition the company would enjoy increased demand for its anti-microbial chemicals used to sanitize surfaces.

Good stocks in Industrials also helped, especially US-based **Roper** and Finnish elevator-maker **Kone**, both of whose business models entail a large degree of contractually recurring service revenues. **Verisk**, a US-based commercial data provider, outperformed for similar reasons: its services are contractual and non-physical. Within Materials, European food-ingredient producers **Symrise** and **Chr. Hansen** combined with industrial gas producers **Linde** and **Air Liquide** helped to more than offset the drag from **Sasol**, a producer of synthetic fuels and chemicals.

Our Consumer Discretionary stocks performed worse than their sector peers, as shares of online travel agencies **Booking Holdings** in the US and **Trip.com Group** in China fell sharply in anticipation of dramatic revenue and profit declines as a result of the cessation of global travel. We also had poor stocks within Financials, as many of the banks we favor—ones oriented toward Emerging Markets—fell more than the sector. Shares of **HDFC** and **ICICI** of India and **Itaú Unibanco** of Brazil were among the portfolio's worst performers. Within Energy, US-based oilfield services provider **Schlumberger** fell hard as its customers rushed to cut expenditures for exploration and production in the face of declining oil prices.

Viewed by geography, the portfolio had strong stock selection in every region except EMs. The US contributed over half of our relative performance, in line with its weight in the portfolio. US IT stocks exhibited strong relative performance. Online payments provider **PayPal** stands to benefit from increased online shopping. **NVIDIA**, whose chips improve the performance of computer graphics in games as well as artificial intelligence (AI) algorithms, should be insulated from the looming decline in demand for semiconductors. AI is being used to research a cure for COVID-19, while more people staying at home should boost gaming consumption.

Our Emerging Markets bank stocks hurt the most, as discussed earlier. We also suffered from lagging stocks in China, where domestically listed shares far outperformed those listed in New York or Hong Kong. Our China stocks negated the positive contribution from our overweight in China, the best-performing market in the Index.

PERSPECTIVE AND OUTLOOK

Since early March, the focus of our investment team has been on the following:

1. Reviewing all portfolio holdings or followed companies for newly heightened risks to the investment thesis from the market environment, either in their business model or in their financial structure.

2. Deploying modest cash reserves into companies we strongly admire, but whose shares have seemed far too highly priced until now.

3. Examining our existing holdings for evidence of price dislocations, instances where share prices have either over or under reacted relative to our understanding of their longer-term prospects. Mis-pricing due to the short-term urgency of others' behavior can offer rich opportunities for investors with a long-term investment horizon.

4. Divining in what ways companies and individuals may behave differently after the coronavirus is overcome (if they do). We cannot recall a bear market that has not witnessed a change in the kinds of stocks to lead the market, usually because a different set of companies is seen to be (revealed to be?) delivering essential products or services because individuals or companies are demanding them. Alternatively, nothing may change in economic behavior but share prices may reach extremes of pessimism that imply wrongly that behavior will change—another form of opportunity for astute investors with a suitably long horizon.

The stocks of high-quality, fast-growing companies have held their ground well in this market decline, which has compressed a bear market into (so far) just six weeks. The resilience of quality has come widely to be expected, leading us to fear that, because of the growth in their popularity, shares of high-quality companies might not be as stable in "the next downturn" as in prior episodes. That has not been the case in this one so far. But the resilience of *growth* stocks is one of the marvels of this decline. In the US (the stock market for which we have the longest data series), the IT sector, for example, has underperformed the broader market in all but one bear market since 1926. This time, Global IT fell only 14%, which is one-third less than the overall global stock market. It is unheard of for IT to rival the performance of the non-cyclical and traditionally "defensive" sectors of Consumer Staples or Utilities in down markets, yet it has done so this time. This anomaly makes perfect sense, however, considering how companies and individuals have responded to the pandemic in ways that accelerate the trends that were already fueling the growth of companies that exploit the internet as a mode of commerce.

The most obvious of these trends is the increasing share of online spending at the expense of brick-and-mortar shops and malls. Online retailers **Alibaba**, Amazon, and **eBay**, along with grocers that were prescient to build online ordering and fulfillment infrastructure, have provided a lifeline to hundreds of millions who find themselves unable to leave their homes. This mass migration to online shopping will not reverse when the pandemic subsides, so long-term growth in customers will have been drawn forward for the companies best able to ramp up during the crisis. Their gain in market share from traditional retailers will be sustained, especially as many smaller ones may not survive, further increasing the economies of scale enjoyed by the largest e-commerce players.

Online communications and employee productivity are undergoing an acid-test of mass remote working. This has stimulated explosive, but temporary, demand for the latest devices, but probably also sustained demand for upgraded software, cloud computing services, and IT consulting.

Likewise, online or contactless payments mechanisms, already a healthy growth area, will record broadening acceptance and usage, with exchange of currency and coin increasingly avoided as a point of viral transmission risk. Companies who

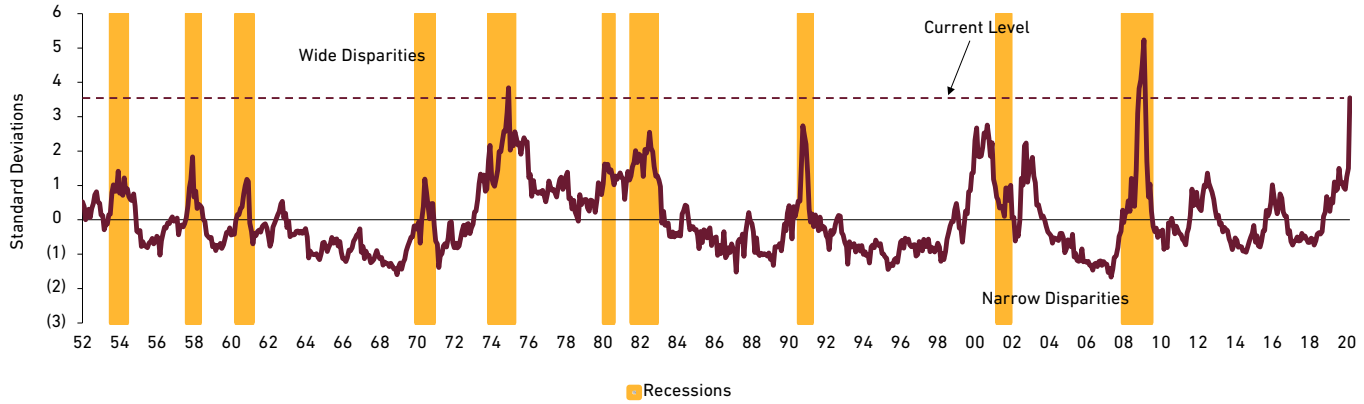
provide secure online networks or otherwise enable online or contactless payment functions are growing stronger even as the economy lapses into a coma.

Online communications and employee productivity are undergoing an acid-test of mass remote working. This has stimulated explosive, but temporary, demand for the latest devices, but probably also sustained demand for upgraded software, cloud computing services, and IT consulting services by companies finally recognizing the need to catch up to their more forward-looking, digitally sophisticated peers.

On the losing side, wanderlust and trust of strangers have sustained a mighty blow from which they will take time to recover. The collateral victim of this is the travel industry, including online travel facilitators—exceptions to the general resilience of online businesses. Likewise, we'd guess that the "sharing" economy will be slow to recover from a deep swoon in customer usage: trusting that your Uber driver (and their prior passengers), or the previous occupants of your rented home via Airbnb are not virus-carriers seems a way off, to our mind.

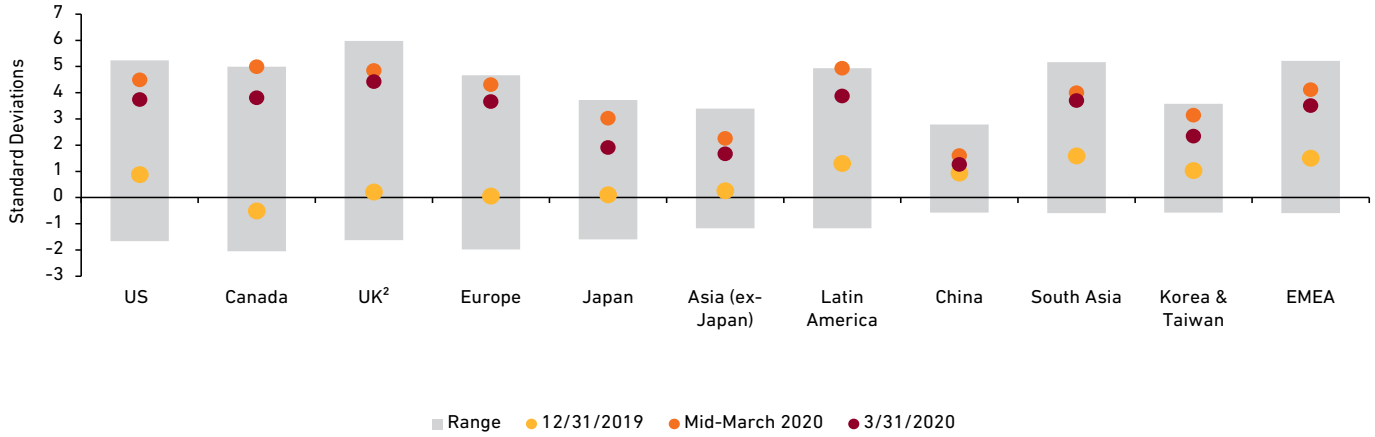
By and large, though, most of yesterday's fast-growing companies seem destined to be tomorrow's as well, provided they don't need constant access to more capital. But the high prices the market has afforded the stocks of the fastest growing businesses, driven by the relative performance of growth stocks this quarter combined with all the performance that has come before, mean that valuation premium afforded to the priciest stocks is now larger than at almost any time in the last century. The chart below illustrates the valuation spread between the most expensive 20% of US stocks and the rest of the market expressed as units of standard deviation relative to its long-term trend. Relative valuations for expensive stocks typically swing between plus or minus one or two standard deviations but on rare occasions rise to great peaks often associated with general market dislocations.

US LARGE CAP STOCKS VALUATION SPREADS
THE TOP QUINTILE COMPARED TO THE AVERAGE: 1952 THROUGH LATE-MARCH 2020

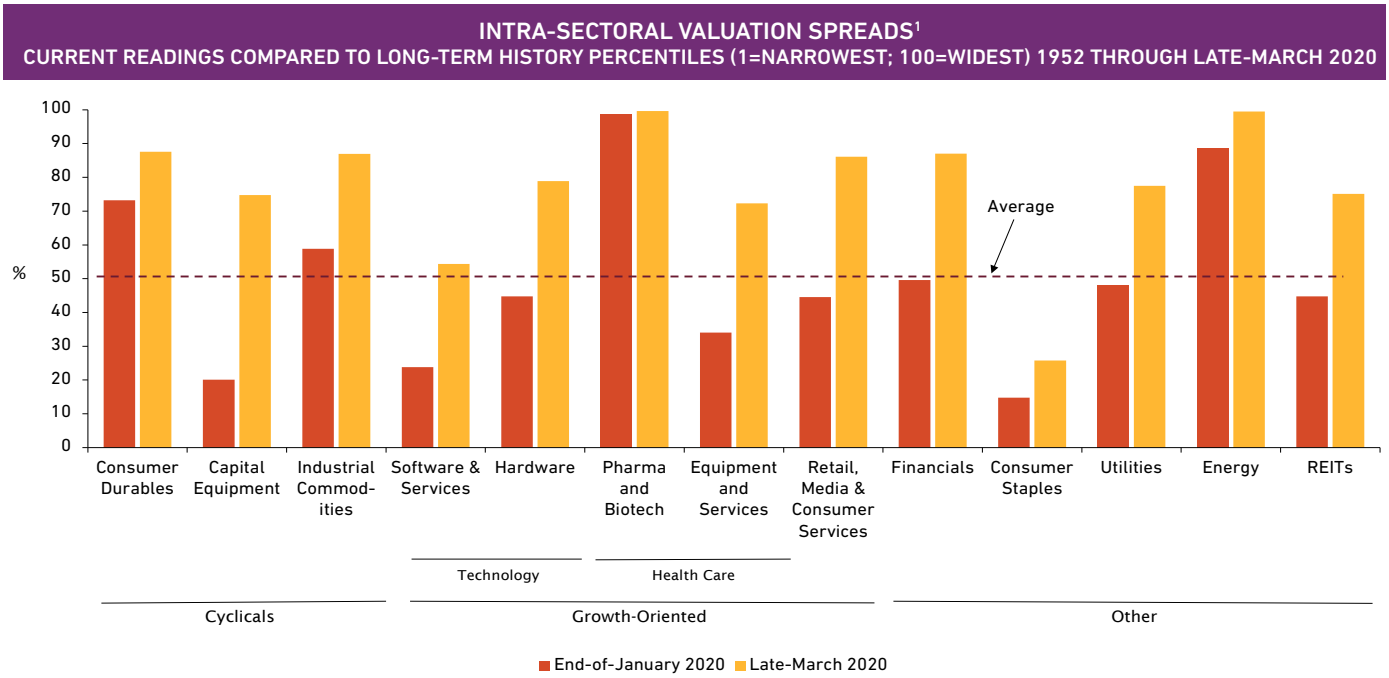


Source: National Bureau of Economic Research, Empirical Research Partners Analysis.

THE WORLD - VALUATION SPREADS BY REGION
THE TOP QUINTILE COMPARED TO THE AVERAGE HISTORICAL RANGE, DECEMBER 2019 AND CURRENT LEVEL: 1987 THROUGH MARCH 2020[1]



Source: Empirical Research Partners Analysis.
[1]US data since 1926. Japan and emerging markets regional data since 1997.
[2]UK data based on the largest 350 companies.



Source: Empirical Research Partners Analysis.
[1]Based on an analysis of a 1,500 stock universe. Framework varies across sectors depending on what's efficacious.

The same disparity in valuations extends around the globe, to varying degrees, with the exception of China, as illustrated in the second chart on page 5.

And the phenomenon is repeated within sectors even in those sectors with heightened risk to profitability such as Energy and Financials, as the above chart of the US industry group spreads over 70 years illustrates.

This causes us to worry about the future relative performance potential of our favorite companies' shares. Value-oriented strategies have been the better performers following prior episodes of anything approaching this sort of extreme in valuation spreads. We are wrestling with a conundrum: cheaper stocks are cheap for a reason; their issuers have not grown much, are financially leveraged, or operate in industries with poor competitive structures that hamstring their ability to generate attractive returns on capital—in a nutshell, companies of poor quality that are unlikely to grow.

Even though we are unwilling to reach to the bottom of the quality- or growth-barrel to fill our portfolios, we have been pruning, and continue incrementally to prune, some of the most richly priced shares in our portfolio, and reinvesting the proceeds in companies that, albeit not the raciest, enjoy sturdy finances and respectable long-term growth outlooks. During the quarter we bought at least one new company whose strong growth prospects seem undiminished but whose shares were more cheaply priced than before; an objective observer will note that they nevertheless still sport high prices.

We have mis-analyzed the Energy industry. We dismissed concerns about petroleum reserves ultimately becoming "stranded" (stemming from fossil fuel bans or carbon taxes) as being just a version of sunk costs, with no implication for cash flows except in the very long term. That meant we overlooked a key feature of the forces shaping competition in this industry. We failed to anticipate that the mere *prospect* of stranded assets would cause rival oil-producing countries to alter their strategies. If some reserves are eventually going to be shut in by reduced demand, low-cost producers will aim to make sure it's not their reserves that are shut in. Better, therefore, to take out the high-cost producers sooner rather than later. That is the rational explanation of what OPEC members have done by scotching their agreement. The pandemic has temporarily crushed demand just as supply discipline has been abrogated.

Looking forward, the questions for us have become: Will there be excess, or instead insufficient, supply to meet resumed demand on the far side of the COVID-19 recession, given the closure of access to capital markets for a large swath of the high cost and debt-dependent producers in this combined oil price and high-yield swoon? How much exploration and production capex was being made, and how much will no longer get spent? We're unsure, but this much is clear: the breakdown of the OPEC-led cartel has done more to raise the cost of capital for the Energy industry than all the Extinction Rebellion and 350.org protests combined. The question remains whether this higher cost of capital will deliver what the rarely considered logic demands: higher returns on capital for those who remain in the business.

Another marvel of this bear market has been the astonishing outperformance of Chinese shares, especially those traded primarily on the domestic Shanghai and Shenzhen exchanges, relative not only to the rest of Emerging Markets, but relative even to the US market. While there may be some effect from lower financialization (read: derivative engineering) in

CHINA AND THE CORONAVIRUS

By Jingyi Li

This quarter, the focus around the world is on the effective containment and mitigation of the coronavirus. My central observation as a China analyst, without buying into specific reported casualty figures and always suspicious of Chinese government propaganda, is that China has managed to contain the COVID-19 virus relatively quickly and is already taking steps to restart its economy. The relative effectiveness of China in this crisis has surprised me.

National solidarity and popular tenacity, combined with its centralized and authoritarian political system and its economic prowess, are the key reasons why China was able to contain the COVID-19 virus relatively quickly, in spite of an early cover-up and egregious missteps.

Collectivism is deeply rooted in the Chinese culture. Often in its history, when the nation has faced an existential threat, individual citizens are called upon to make sacrifices to defeat a common enemy. The bureaucracy, which dates to China's imperial era, serves as a far-reaching apparatus for the interest of the whole society as much as for that of the ruling class. It not only coordinates the actions of the nation at large but also provides structure at the local level while preserving local civic autonomy.

The whole nation was put on high alert, once the new virus was confirmed in January as a pathogen similar to 2003's SARS. The COVID-19 outbreak was at the beginning of the Chinese New Year, when hundreds of millions of migrant workers from rural areas go back to their hometowns. Given that community spread was already happening, and the massive migration was imminent, the government ordered a draconian lockdown: first, of the city of Wuhan, with over 11 million residents, and then of the whole province of Hubei, which has nearly 60 million residents. In the following days, over 200 cities in China issued similar orders.

Even the most authoritarian government imaginable could not force hundreds of millions of people to jail themselves at home. Such a large-scale lockdown was only possible with the genuine support of the public.

As it has often done with natural disasters, the central government called on the whole nation for help.

In addition to the national response, each county of Hubei was paired with a less-impacted province. The central government left a large portion of assistance work to the best judgement of the aid-giving province and the receiving county. With a remarkable spirit of solidarity, the provinces outside Hubei—while still fighting outbreaks in their own areas—sent over 20,000 doctors and health care workers to Wuhan and its province.

At the community level, volunteers stepped up to help the most vulnerable members of their communities. Individual donations were sent directly to the hospitals in response to their pleas for protective gear. Each community came up with social-distancing measures suitable for their local situations. Neighbors organized food delivery to households in self-isolation and even provided homemade food and private transportation to the health care workers and their families.

The whole-society effort was supported and amplified by the country's technological and industrial capabilities.

On January 11, just days after China and the WHO announced the discovery of the virus, Chinese scientists isolated the new virus, sequenced its genome and shared their findings with the global community. The scientists also established—at record speed—diagnostic tools and key transmission characteristics. Fourteen makeshift hospitals were built in Wuhan in a matter of days.

As the physical movement of people and goods ground to a halt, China's virtual economy accelerated. Online services provided by companies such as Alibaba and Tencent became the backbones for business and social interaction. Alibaba and Tencent rolled out a "health code," a computer-readable color-coded QR code function on their widely used apps. Linked to each user's identity, the health code indicates the user's risk level and travel histories. It allowed community checkpoints to screen visitors more quickly and enabled public health officials to do transmission tracking more rigorously than ever.

Additionally, independent developers on Alibaba's and Tencent's platforms quickly built thousands of "mini programs" to help the public cope with confinement. Households started buying groceries on mobile apps. Office workers also used apps to work from home and videoconference with their colleagues. Students took courses online, and the general public stayed informed and entertained thanks to their smartphones.

Life has begun to normalize week by week, as the pandemic gets under control. In the near term, China must cope with the enormous human and economic losses while staying vigilant against any reoccurrence of the virus. Over the longer term, changes will likely be even more profound. The adoption of the "New Economy" is likely to accelerate and run deeper. Politically, President Xi Jinping may capitalize on the crisis and national pride to justify the political system. On the world stage, China may finally succeed in expanding its influence and fill the void left by US's abdication. At least, China can earn some grudging respect, if not goodwill and friendship, from many countries around the world.

Chinese markets, the prohibition of short-selling, and maybe even some muscular jawboning by their regulators, we think China's outperformance is for the most part based on solid grounds. Despite being the first victim of the coronavirus, with no one's example to learn from, Chinese authorities acted ferociously once they realized the scale and virulence of the disease, to the great benefit of their overall society. We in the West can easily overlook the daunting problems faced by the Chinese, given the sheer size of their migrant workforce (at nearly 300 million, roughly the equivalent of the entire US population), most of whom travel from their workplaces to the towns and provinces from which they hail every Lunar New Year. Containing the coronavirus within a single province for the most part is a huge achievement for the Chinese government, even though it required brutal quarantine measures along with pervasive electronic monitoring of individuals, and will have come at a large, but temporary, cost to their industrial production. Our China analyst, Jingyi Li, writes persuasively nearby about that achievement.

Our view is that the comparison of how China has managed the pandemic (so far) with how the West—especially the US, which had the same early chances as South Korea to contain and then to mitigate the spread of the virus—has done will enhance its standing in the eyes of many, in spite of the authoritarian measures it has employed. Its economy is likely to recover faster, and its political influence with other countries will expand, especially in those places that are benefiting from Chinese medical and technical aid. The US, on the other hand, will have shown a poor ability to protect its own people, and will have squandered the political and economic opportunity to help its allies and desired friends abroad. Moreover, this comparison, and the existential chaos of the pandemic crisis itself, may lead more countries to view authoritarian political structures with less suspicion, a dark portent for our post-crisis world.

PORTFOLIO HIGHLIGHTS

The portfolio's character reflects our ongoing struggle to balance quality and growth with attractive valuation. We have written for many quarters about the sustained outperformance of stocks of high-quality and rapidly growing but ostensibly expensive companies. As discussed, these securities outperformed once again this quarter amid the market's sharp decline. When real interest rates are falling, investors appear willing to look past high valuation when it comes to what they regard as sustainable growth.

While we made several transactions during the quarter, our portfolio's sectoral profile was essentially unchanged. We retained our longstanding overweight to Health Care, IT, Materials, and Industrials and underweight to Financials, Consumer Staples, and Energy. By continuing to add to our US holdings, we reached approximately market weight, thus ending a longstanding underweight to the US.

Health Care remains the portfolio's largest overweight, at 570 basis points relative, pumped up by especially good performance from Vertex, Regeneron, and Lonza. Vertex's latest combination of cutting-edge therapies can treat cystic fibrosis sufferers for whom no treatments were previously available. It continues to invest in drug development for unmet disease states whose underlying biology is related to the dysfunction underlying cystic fibrosis such as genetic lung and kidney diseases. While Vertex's shares remain attractive in our view, we sold our Regeneron shares after their big run-up left their valuation extended. Regeneron's primary drug, Eyelea, is a leading treatment for macular degeneration, an eye disease typically found in older people that can lead to blindness. The company benefited from serious unexpected complications arising from a competing drug from Novartis. Regeneron's shares also benefited from reports that it was developing treatments for COVID-19. While we hope Regeneron succeeds, it is only one of many companies pursuing potential treatments in what are likely to be drawn-out development processes.

We also saw good performance from longstanding Industrials holdings Verisk and Roper Technologies. Verisk provides data analysis to insurance companies for predictive fraud prevention purposes, along with a host of other data-related services to help them raise their underwriting profitability. Over 80% of Verisk's revenues are recurring, reflecting the subscription nature of its business model. Roper is a diversified industrial company with a long track record of building or acquiring businesses with leading positions in niche markets. An area of emphasis has been specialty software, such as that for automating hospital lab processes or for business management of law firms and other professional organizations. Over 50% of Roper's revenues are recurring. We always place a high value on capital-light, cashflow-generative businesses run by managements with proven foresight and skill at capital allocation—perhaps no more so than today, when capital allocation and execution skills will be vital to confront with the protracted disruption and uncertainty of the global economy.

The travel industry faces the same bleak near-term outlook as the oil industry, but fortunately we do not need to be concerned about the financial strength of Booking Holdings and Trip.com Group, our online travel platform holdings.

Emblematic of our struggle to analyze the Energy sector is the poor performance of our longstanding shareholding in Schlumberger. While it remains a leading global provider of cutting-edge services for oil drilling, its profitability and balance sheet have been badly damaged by the plunge in oil prices. Exploration budgets, already diminished by years of flaccid oil prices and now further reduced by weakened oil consumption from virus containment measures, will face additional cuts as Saudi Arabia and Russia increase production in an attempt to bank-

rupt US shale oil producers. In these conditions, we lost confidence in the adequacy of Schlumberger's financial resources and, consequently, sold the balance of our shares. We reinvested the proceeds in **Exxon**, whose profitability is similarly sensitive to oil prices but whose balance sheet does not present the same concerns.

A common theme across new purchases in the quarter is technological leadership.

The travel industry faces the same bleak near-term outlook as the oil industry, but fortunately we do not need to be concerned about the financial strength of Booking Holdings and Trip.com, our online travel platform holdings. Air travel having ground to a halt and hotels standing empty, little surprise that Booking and Trip were among the portfolio's worst-performing stocks in the quarter. We remain positive, however, about their long-term prospects for growth and profitability. Booking and Trip hold dominant shares in their core markets, Europe and China, respectively. Through their state-of-the-art platforms, both can roll out new services to tens of millions of customers at low marginal cost. For example, Booking has expanded aggressively by offering accommodations in private homes to compete with Airbnb, while Trip.com continually expands its overseas travel alliances to facilitate international travel for its 400 million-plus Chinese users. Both companies connect directly with their customers: Booking generates over half its revenues through its own websites and mobile apps, while Trip generates over 90% of its revenues directly. High levels of direct customer engagement have led to lower customer-acquisition costs and reinforced customer loyalty. As a result, both know their customers' travel habits and preferences well enough to customize offers—an ability that may be especially valuable when travel revives, and hotels of all descriptions compete fiercely for returning travelers. Perhaps most important is that both companies enter 2020 with robust balance sheets, because we expect dismal financial results this year: a near 50% decline in Booking's revenues and at least a one-third decline for Trip.com's. What we don't expect is that either company will experience liquidity issues. We consider both as potential candidates for additional investment if and to the extent that their share prices imply an outlook that does not reflect the recovery we expect.

A common theme across new purchases in the quarter is technological leadership. We bought **John Deere**, the world's largest manufacturer of agricultural equipment. Our thesis is that conservative farmers will ultimately embrace precision-farming technologies to raise their profitability and that Deere is exceptionally well-positioned to enable and exploit such adoption. We also bought **Synopsys**, a global leader in the US$6 billion electronics design automation software industry. Design automation software is increasingly important for semiconductor companies as miniaturization advances. The industry is highly concentrated (three companies account for nearly 90% of industry revenue); competition among the three is rational, focused on innovation, not price; and revenue is largely recurring, typically based on multi-year contracts. Design software is indispensable for engineers designing the next generation of semiconductors. As a result, Synopsys's revenue is linked to design activity rather than semiconductor end demand and it enjoys more stability in its revenues than its customers do.

Representing leadership of a more prosaic sort, **Estée Lauder** was also purchased. Estée Lauder owns a fetching portfolio of cosmetics and skin-care brands to which it is continually adding. The company has been especially successful across China thanks to expertise in optimizing advertising through China's social media and online commerce channels. In the near term, the company will face challenges arising from the temporary shutdown of many of its brick-and-mortar stores, but its strong management, brands, and financial resources, should see it through.

We added to our **Facebook** holding during the quarter when its shares fell sharply along with the market. The value of its network for human social interaction is on full display as usage has surged during the pandemic, which we believe could help bend its heretofore rising curve of regulatory risk. Facebook is one of the internet businesses that has traded at valuations more typical of brick-and-mortar companies and, although we expect advertising spend to decline near term, the enormity of its financial resources enables it to invest through the pandemic. DNA sequencer **Illumina's** shares also fell sharply. One-third lower since mid-2019, they have underperformed the Health Care sector widely, yet we continue to expect healthy long-term demand for DNA sequencing, where Illumina remains the undisputed global leader, with its attractive consumables-based business model.

We made several sales during the quarter, including of two very successful long-term Japanese holdings whose share prices rose to exceed even our most optimistic forecasts: **M3**, an innovative online health care information platform; and **MonotaRO**, an online supplier of janitorial and maintenance supplies to many thousands of primarily small industrial companies across Japan.

GLOBAL EQUITY HOLDINGS (AS OF MARCH 31, 2020)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMMUNICATION SERVICES		
ALPHABET Internet products and services	US	3.0
BAIDU Internet products and services	China	1.5
DISNEY Diversified media and entertainment provider	US	0.9
FACEBOOK Social network	US	2.4
NETEASE Gaming and internet services	China	1.3
YANDEX Internet products and services	Russia	1.4
CONSUMER DISCRETIONARY		
ALIBABA E-commerce retailer	China	2.1
BOOKING HOLDINGS Online travel services	US	2.1
EBAY E-commerce retailer	US	0.8
ESSILORLUXOTTICA Eyewear manufacturer and retailer	France	1.0
NIKE Athletic footwear and apparel retailer	US	1.9
TRIP.COM GROUP Online travel services	China	1.1
CONSUMER STAPLES		
COLGATE PALMOLIVE Consumer products manufacturer	US	1.0
ESTEE LAUDER Cosmetics manufacturer	US	1.0
L'ORÉAL Cosmetics manufacturer	France	1.1
NESTLÉ Foods manufacturer	Switzerland	1.5
SHISEIDO Consumer products manufacturer	Japan	0.8
WALGREENS BOOTS ALLIANCE Drugstores operator	US	0.8
ENERGY		
EXXONMOBIL Oil and gas producer	US	1.7
SCHLUMBERGER Oilfield services	US	0.2
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	2.8
BANK CENTRAL ASIA Commercial bank	Indonesia	1.4
BBVA Commercial bank	Spain	0.5
FIRST REPUBLIC BANK Private bank and wealth manager	US	2.3
HDFC BANK Commercial bank	India	0.8
ICICI BANK Commercial bank	India	1.3
ITAÚ UNIBANCO Commercial bank	Brazil	0.6
STANDARD CHARTERED Commercial bank	UK	0.9
SVB FINANCIAL GROUP Commercial bank	US	0.8
HEALTH CARE		
ABBOTT LABS Health care products manufacturer	US	1.4
ABCAM Life science services	UK	1.4
ALCON Eye care products manufacturer	Switzerland	1.3
ALIGN TECHNOLOGY Orthodontics products manufacturer	US	0.9
ILLUMINA Life science products and services	US	2.5
LONZA Life science products developer	Switzerland	3.1
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.0
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.4
UNITEDHEALTH GROUP Health care products and services	US	0.9
VERTEX PHARMACEUTICALS Pharma manufacturer	US	3.8
WATERS Analytical instruments manufacturer	US	1.2

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
INDUSTRIALS		
3M COMPANY Diversified product manufacturer	US	0.6
FANUC Industrial robot manufacturer	Japan	0.6
JOHN DEERE Industrial equipment manufacturer	US	1.2
KONE Elevator and escalator manufacturer	Finland	1.0
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.0
MAKITA Power tool manufacturer	Japan	0.9
NIDEC Electric motor manufacturer	Japan	0.9
PROTOLABS Prototype manufacturing services	US	0.9
ROPER Diversified technology businesses operator	US	2.8
VERISK Risk analytics and assessment services	US	2.5
INFORMATION TECHNOLOGY		
APPLE Consumer electronics and software developer	US	2.3
COGNEX Machine vision systems manufacturer	US	0.5
COGNIZANT IT consultant	US	0.7
EPAM IT consultant	US	0.3
KEYENCE Sensor and measurement equipment manufacturer	Japan	1.9
MASTERCARD Electronic payment services	US	2.2
MICROSOFT Consumer electronics and software developer	US	1.6
NETWORK INTERNATIONAL Electronic payment services	UK	0.8
NVIDIA Semiconductor chip designer	US	2.3
PAYPAL Electronic payment services	US	4.2
SALESFORCE.COM Customer relationship management software	US	1.1
SYNOPSYS Software developer and chip designer	US	1.1
THE TRADE DESK Digital advertising management services	US	0.9
WORKDAY Enterprise resource planning software	US	0.9
MATERIALS		
AIR LIQUIDE Industrial gases producer	France	1.2
CHR. HANSEN Natural ingredients developer	Denmark	0.7
LINDE Industrial gases supplier and engineer	US	1.7
SYMRISE Fragrances and flavors manufacturer	Germany	2.4
REAL ESTATE		
No Holdings		
UTILITIES		
No Holdings		
CASH		2.9

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.

1Q20 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
LONZA	HLTH	2.5	0.31
VERTEX PHARMACEUTICALS	HLTH	3.2	0.29
NVIDIA	INFT	1.9	0.24
REGENERON	HLTH	1.5	0.21
SYSMEX	HLTH	1.2	0.12

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
M3	HLTH	1.8	1.03
VERTEX PHARMACEUTICALS	HLTH	2.1	0.80
LONZA	HLTH	2.3	0.66
NVIDIA	INFT	1.5	0.62
APPLE	INFT	2.0	0.45

1Q20 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ICICI BANK	FINA	1.8	-0.99
BOOKING HOLDINGS	DSCR	2.4	-0.88
FIRST REPUBLIC BANK	FINA	2.6	-0.83
SCHLUMBERGER	ENER	1.0	-0.82
BANK CENTRAL ASIA	FINA	1.6	-0.60

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SCHLUMBERGER	ENER	1.1	-0.88
EXXONMOBIL	ENER	1.2	-0.55
ICICI BANK	FINA	1.7	-0.54
SASOL	MATS	0.5	-0.52
TRIP.COM GROUP	DSCR	0.8	-0.48

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL GLOBAL	MSCI ACWI
PROFIT MARGIN[1] (%)	16.4	14.0
RETURN ON ASSETS[1] (%)	9.2	7.2
RETURN ON EQUITY[1] (%)	17.5	16.9
DEBT/EQUITY RATIO[1] (%)	40.8	78.1
STD DEV OF 5 YEAR ROE[1] (%)	4.0	4.7
SALES GROWTH[1,2] (%)	12.3	5.4
EARNINGS GROWTH[1,2] (%)	13.7	10.8
CASH FLOW GROWTH[1,2] (%)	13.2	8.9
DIVIDEND GROWTH[1,2] (%)	7.2	8.2
SIZE & TURNOVER	**HL GLOBAL**	**MSCI ACWI**
WTD MEDIAN MKT CAP (US $B)	42.7	57.8
WTD AVG MKT CAP (US $B)	147.3	184.5
TURNOVER[3] (ANNUAL %)	23.2	—

RISK AND VALUATION	HL GLOBAL	MSCI ACWI
ALPHA[2] (%)	3.42	—
BETA[2]	0.99	—
R-SQUARED[2]	0.94	—
ACTIVE SHARE[3] (%)	88	—
STANDARD DEVIATION[2] (%)	13.81	13.57
SHARPE RATIO[2]	0.42	0.17
TRACKING ERROR[2] (%)	3.3	—
INFORMATION RATIO[2]	1.06	—
UP/DOWN CAPTURE[2]	112/93	—
PRICE/EARNINGS[4]	23.9	15.2
PRICE/CASH FLOW[4]	18.3	9.6
PRICE/BOOK[4]	3.1	1.9
DIVIDEND YIELD[5] (%)	1.1	2.9

[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: April 3, 2020); Harding Loevner Global Equity Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
ALIGN TECHNOLOGY	US	HLTH
ESTEE LAUDER	US	STPL
JOHN DEERE	US	INDU
PROTOLABS	US	INDU
SYNOPSYS	US	INFT
THE TRADE DESK	US	INFT

POSITIONS SOLD	COUNTRY	SECTOR
AAC TECHNOLOGIES	CHINA	INFT
M3	JAPAN	HLTH
MONOTARO	JAPAN	INDU
REGENERON	US	HLTH
SAMSUNG ELECTRONICS	SOUTH KOREA	INFT
SASOL	SOUTH AFRICA	MATS
SCHLUMBERGER	US	ENERGY

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 MARCH 31, 2020)

	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 (%)
2020 YTD[5]	-16.80	-16.89	-21.26	-20.93	14.59	14.67	14.61	N.A.[6]	30	11,757	23.19
2019	30.17	29.64	27.30	28.40	12.56	11.21	11.13	0.2	29	14,139	21.99
2018	-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.[7]	6	2,879	26.15

[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 2020 YTD performance returns and assets shown are preliminary; [6]N.A.–Internal dispersion less than a 12-month period; [7]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 49 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 December 31, 2019.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The Global Equity Composite has been examined for the periods December 1, 1989 through December 31, 2019. The verification and performance examination reports are available upon request.

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

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