HARDING LOEVNER

INTERNATIONAL EQUITY ADR

2019 Third Quarter Report

COMPOSITE PERFORMANCE (% TOTAL RETURN) FOR PERIODS ENDED SEPTEMBER 30, 2019[1]

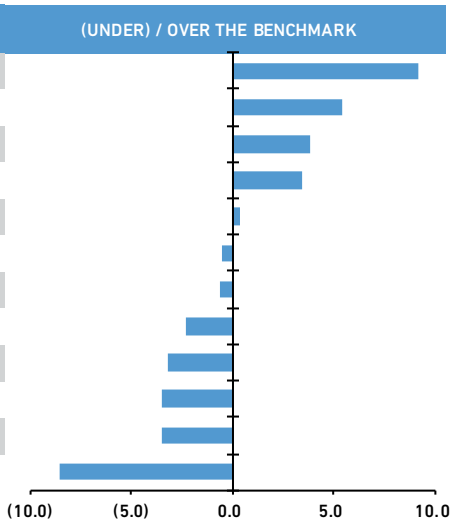
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL INTL EQUITY ADR (GROSS OF FEES)	-2.87	12.34	-4.74	6.58	5.30	7.21	7.99
HL INTL EQUITY ADR (NET OF FEES)	-3.03	11.77	-5.40	5.86	4.58	6.44	7.13
MSCI ALL COUNTRY WORLD EX-US INDEX[4,5]	-1.70	12.06	-0.72	6.85	3.39	4.93	5.01
MSCI EAFE INDEX[5,6]	-1.00	13.35	-0.82	7.01	3.77	5.39	4.70

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: December 31, 1989 corresponds to that of the linked International Equity Composite; [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.

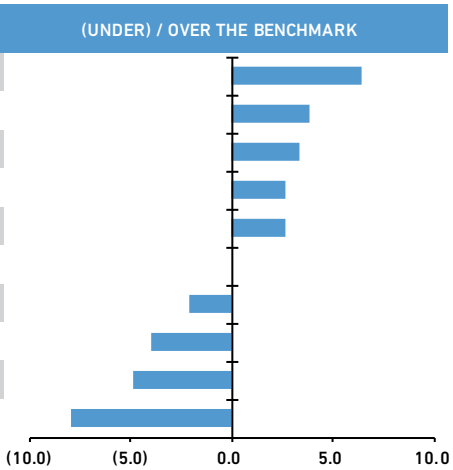
SECTOR EXPOSURE (%)

	HL INTL ADR	ACWI EX-US
INFO TECHNOLOGY	18.1	8.9
CONS STAPLES	15.6	10.2
CASH	3.8	—
HEALTH CARE	11.9	8.5
MATERIALS	7.7	7.3
COMM SERVICES	6.3	6.8
INDUSTRIALS	11.3	11.9
ENERGY	4.4	6.7
REAL ESTATE	0.0	3.2
FINANCIALS	18.1	21.6
UTILITIES	0.0	3.5
CONS DISCRETIONARY	2.8	11.4



GEOGRAPHIC EXPOSURE (%)

	HL INTL ADR	ACWI EX-US
EUROPE EX-EMU	27.0	20.6
CASH	3.8	—
OTHER[7]	3.3	—
EUROPE EMU	24.2	21.5
MIDDLE EAST	3.1	0.4
FRONTIER MARKETS[8]	0.0	—
PACIFIC EX-JAPAN	6.0	8.1
EMERGING MARKETS	22.0	26.0
CANADA	2.1	7.0
JAPAN	8.5	16.4



[7]Includes companies classified in countries outside the Index; [8]Includes countries with less-developed markets outside the Index.

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

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

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MARKET REVIEW

International equity markets declined slightly in the quarter, following sharp swings during the period and economic cross currents. The US-China trade dispute continued to loom. Central banks responded to slowing growth with fresh monetary stimulus.

Evidence of weakening in the global economy mounted, with business sentiment souring and capital spending slowing in the US and Europe. In September, the OECD cut its 2019 forecast for global economic growth to the slowest rate in a decade, citing the impact of the US-China tariff wars on global trade and capital investment. It also reduced its GDP growth estimates for next year for 18 of the G20 economies.

A tweet from the White House on August 1 dashed hopes of progress in US-China trade negotiations. President Donald Trump, miffed that China had not followed through on a promise to buy more US farm products, announced the imposition of 10% tariffs on a further US$300 billion worth of Chinese goods. Global stock markets fell sharply in the following days, as did the Chinese currency, which slid past the 7-yuan-to-the-dollar level for the first time in more than a decade. Although the modest 2.4% depreciation matched the declines of most European currencies against the US dollar in prior weeks, China was excoriated by the Trump administration. The US Treasury Department labeled China a "currency manipulator," setting the stage for possible further sanctions against the country.

The Chinese currency slid past the 7-yuan-to-the-dollar level for the first time in more than a decade.

Confronted with anemic economic growth and still no inflationary impulse from ten years of easy money, central banks responded with additional stimulus. The Federal Reserve cut interest rates for the first time since the global financial crisis, and cut them again in late September. The European Central Bank renewed its quantitative easing program and pushed short-term interest rates deeper into negative territory. Central banks in other countries also moved to cut rates or otherwise create monetary stimulus.

Bond investors sought safety in sovereign debt, pushing the global value of debt with negative interest rates to US$17 trillion in August, exceeding the previous peak in 2016. In a sign of the strange times, a Danish bank offered a 10-year fixed-rate mortgage with a -0.5% rate, whereby the bank pays customers for the privilege of lending money against the security of a house.

Bond yields did not stay down, however, as companies rushed to take on new debt at record-low interest rates. Furthermore, policymakers in the Netherlands and Germany considered augmenting monetary stimulus with fiscal measures such as tax cuts or infrastructure spending. India's government did just that, announcing a substantial reduction in the corporate tax rate.

MARKET PERFORMANCE (USD %)

MARKET	3Q 2019	TRAILING 12 MONTHS
CANADA	0.7	3.8
EMERGING MARKETS	-4.1	-1.6
EUROPE EMU	-1.7	-1.3
EUROPE EX-EMU	-1.8	1.2
JAPAN	3.3	-4.3
MIDDLE EAST	-3.7	-12.3
PACIFIC EX-JAPAN	-5.2	3.2
MSCI ACW EX-US INDEX	-1.7	-0.7

SECTOR PERFORMANCE (USD %)
OF THE MSCI ACW EX-US INDEX

SECTOR	3Q 2019	TRAILING 12 MONTHS
COMMUNICATION SERVICES	-2.8	-3.7
CONSUMER DISCRETIONARY	-0.6	-0.9
CONSUMER STAPLES	1.6	7.4
ENERGY	-4.4	-9.3
FINANCIALS	-3.4	-2.6
HEALTH CARE	1.2	1.4
INDUSTRIALS	-2.4	-1.8
INFORMATION TECHNOLOGY	2.4	3.0
MATERIALS	-6.4	-6.8
REAL ESTATE	-2.9	5.5
UTILITIES	1.4	13.2

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

In a shock for energy markets, both real and financial, a drone and missile attack on Saudi Arabia's largest oil production facility at Abqaiq disrupted nearly half of the kingdom's oil output and over 5% of global oil production. Oil prices soared as much as 20% in the immediate aftermath of the attack, and many prognosticators predicted high oil prices for the foreseeable future. However, the resilient global energy supply chain responded while rapid repairs to the facilities proceeded, with the result that oil prices fully corrected, closing 7% *lower* for the quarter as demand slackened.

While sector leadership shifted during the quarter, by the end of September, Information Technology (IT) gained the most, thanks to semiconductor stocks. Consumer Staples, Utilities, and Health Care also outperformed. Materials and Energy were the weakest-performing sectors amid declines in the prices of oil and other commodities.

Japan was the strongest region. It was one of the few countries whose projected 2019 growth rate was upgraded by the OECD. In contrast, stocks in Europe, Pacific ex-Japan, and Emerging

Markets (EMs) lagged, weighed down by slackening economic growth and the effects of negative interest rates on their banks' revenues. The US dollar advanced against nearly all major currencies in the quarter, and US stocks gained, in contrast to non-US stocks.

Style effects also shifted within the quarter, with July and August reflecting investor preference for companies with strong quality and growth character, regardless of their rich valuations. During the first two weeks of September, however, value stocks dramatically outperformed growth stocks in every region. That shift to value fizzled by the end of September. As a result, the style effects for the quarter were mixed, with declines for the fastest-growing stocks similar to those of the slowest. High-quality stocks edged out low quality, and the most-expensive stocks once again outperformed the cheapest.

PERFORMANCE AND ATTRIBUTION

The International Equity ADR composite fell 2.9% in the quarter, behind the 1.7% drop in the index. For the year to date, the composite rose 12.3%, ahead of the index's 12.1% gain. The following charts illustrate the performance for the quarter by sector and region.

Our underperformance in the quarter stemmed from poor stocks in Financials and IT. Shares of **AIA Group**, a Hong Kong-based insurer, fell amid escalating political unrest in its home market. The protests have temporarily closed the city's airports and subways, and investors are concerned that fewer people from mainland China will travel to Hong Kong to purchase AIA's policies. Spanish lender **BBVA's** shares fell due to concerns about the company's exposure to Mexico's and Turkey's struggling economies.

Our semiconductor stocks offset weakness in software.

In IT, software and services stocks detracted from our relative performance. Enterprise software maker **SAP** reported weaker-than-expected margins after several deals in China were delayed. Other software holdings also underperformed despite reporting stable financial results in the most recent quarter, including 3D-design software developer **Dassault Systèmes**, travel-and-leisure IT service provider **Amadeus**, and network security firm **Check Point Software**. Our semiconductor stocks offset weakness in software. **TSMC**, the world's largest chip foundry, issued better-than-expected forward guidance for the second half of the year, citing strong demand for logic chips from smartphone manufacturers.

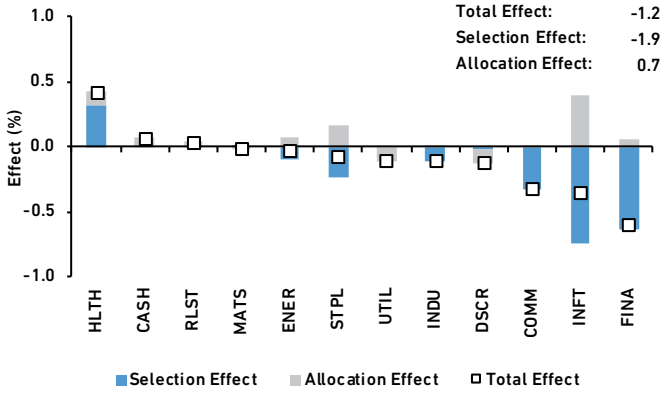
Health Care was the largest contributor to performance. **Chugai Pharmaceutical** reported strong sales of its new hemophilia drug in Japan and overseas. Shares of Swiss drug maker **Roche Holdings** rallied in September on rising expectations for the company's newly launched drugs for treating multiple sclerosis and cancer.

Viewed by geography, our stocks in the eurozone detracted the most, primarily SAP, Dassault Systèmes, BBVA, and Amadeus. In contrast, TSMC led the way for EM stocks. Beijing-based internet search provider **Baidu** has been struggling with heightened competition in search-driven advertising. Its shares, which are listed only in the US, on NASDAQ, fell after media

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 September 30, 2019 is available on page 9 of this report.

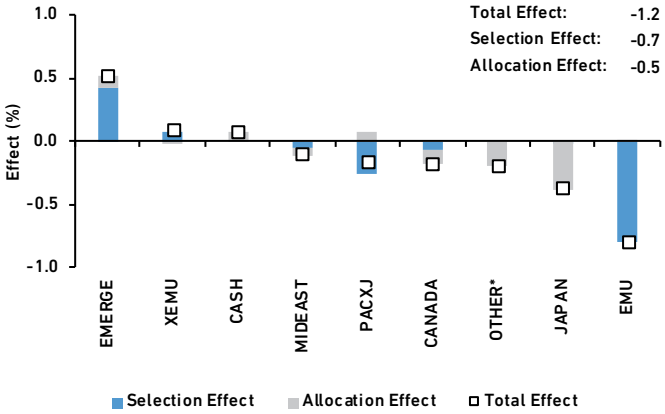
SECTOR PERFORMANCE ATTRIBUTION THIRD QUARTER 2019

INTERNATIONAL EQUITY ADR COMPOSITE VS. MSCI ACW EX-US INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION THIRD QUARTER 2019

INTERNATIONAL EQUITY ADR COMPOSITE VS. MSCI ACW EX-US INDEX



**Includes companies classified in countries outside the Index. Source: FactSet; Harding Loevner International Equity ADR Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on the first page of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS Presentation.*

reports suggested the Trump administration might force the delisting of Chinese shares in the US, or otherwise restrict US investors' access to Chinese companies. The White House later denied the reports.

PERSPECTIVE AND OUTLOOK

We have been concerned about President Trump's approach to trade policy from the outset of his administration. A day after his election in 2016, we predicted "beneficiaries of trade and globalization stand to lose" if consensus assumptions about his future policies proved correct. By the fourth quarter of last year, new tariffs had been imposed, and their impact was beginning to be felt. We revealed our fear of an emergent trade war becoming "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."

We are no longer thinking about the possibility of a hot trade war but rather grappling with the reality of one.

We are no longer thinking about the possibility of a hot trade war but rather grappling with the reality of one. As it has escalated, companies have canceled investment plans, shifted their supply chains out of China, and been forced to choose between accepting lower margins or lower sales. The impact of tariffs is now showing up in economic data. In August, the US Purchasing Managers Index sank to a 10-year low, while Germany's Business Climate Index dropped to a nearly 7-year low. The World Trade Organization (WTO) halved its estimate of growth in world trade in merchandise this year to just 1.2%, the slowest since 2009.

Due to the nature of today's global trading system the negative effects of the trade war will be further-reaching than its proponents represented. According to a new WTO report, today more than two-thirds of global trade flows through global value chains (GVCs), with the remainder reflecting the traditional cross-border exchange of finished products. In "simple" GVCs, companies supply intermediate goods for use in finished production in other countries, for example, Brazilian iron ore exported to China to be made into steel for use in its skyscrapers. In "complex" GVCs, components cross and re-cross borders in intermediate production before being assembled as a final product. The iPhone is the classic example of such a "made in the world" product of a complex GVC. Gorilla Glass from Corning factories in Kentucky, semiconductors from Texas Instruments, batteries from Korea, DRAM from Taiwan, and other parts from 40 additional countries are assembled in China and shipped as a finished smartphone to consumers around the globe. The automobile and aircraft industries exhibit a similarly complex organization of production.

Determining the impact of tariffs on participants in GVCs is a near-impossible task. The WTO report notes: "One important policy implication is that changes in trade policy can have broad and unanticipated effects. The unilateral imposition of trade protection on exports from a partner country can have a significant impact on third countries when trade is carried out through GVCs, particularly complex GVCs. Indeed, as many products today are already 'made in the world,' increasing import protection can even harm exports from the home country."

So great has been the bounty of the global trading system over our investing careers, it's certainly the case that we have developed a bias in favor of businesses that are deeply embedded in complex GVCs. We have found that they tend to have lower and more flexible costs, making them more competitive. They are able to achieve higher and more geographically diversified revenues, and higher and more stable profit margins, resulting in higher returns on capital. It is for these reasons that our research process leads us to them. If the global trading system is under rising threat from political interference, discount rates will rise for the shares of those companies most exposed.

Every quarter in this letter, we provide a breakdown of the portfolio's regional and sector exposures as an exhibit of the diversification of our holdings, and, by implication, of the risks in the portfolio. Internally, we also compute the regional sources of revenues for each portfolio company. Thus, we put at the disposal of the portfolio managers the aggregate regional revenue breakdown of the companies in their portfolios, as a guide to risks of growth interruption or exposure to long-term trends in the various countries or regions.

We've adopted and streamlined the WTO's taxonomy of enterprises to create a classification by which we can (crudely) estimate the portfolio's aggregate exposure to global value chains. Accordingly, we classify our companies as follows:

- A *domestic* business is one whose operations are limited to one country. An example is **HDFC Bank**, which does almost all its business in its home market of India.

- A *multi-domestic* business is similar to what is commonly known as a multinational corporation (MNC), but with what we think is a needed twist. An example is the Swiss-based consumer products giant **Nestlé**. The company is commonly viewed as an MNC since it sells its products in 190 countries. While Nestlé uses raw materials from around the world and there is some trade in Nestle's end products, the vast majority of its products are manufactured in the same place they are sold: in the 80 countries where it has factories. To us, this means Nestle's GVC exposure is lower as it is effectively a set of domestic business in multiple countries.

- A *cross-border* business not only has sales in multiple countries but also a complex production chain that sources components from many countries, assembles in others, and then transports the final product to

countries around the world. Examples here include **Adidas** and Apple.

Distinguishing our companies in this way yields a picture of our aggregate exposure to each of the three business cost models. As can be seen in the chart on page 7, our portfolio's exposure to cross-border businesses is sizable, with more than 50% by portfolio weight so classified.

If the US-instigated tariff threats have increased the risks of employing complex supply chains, then discount rates will have also risen for the companies whose businesses depend on them. While each analyst will be making judgments about whether such risks for any one company are adequately (or excessively) discounted in its share price, portfolio managers need to consider just how many of such judgments, that is, how many cross-border businesses, they are willing to back in their portfolio.

Over the last twelve months, the share prices of companies that we have categorized as cross-border have performed worse than those classified as multi-domestic, although the small handful of domestic companies in the portfolio did even worse (dominated by terrible performance from Chinese internet search provider Baidu). Unfortunately, without a similar clas-

OUR APPROACH TO COMPANY ENGAGEMENT
By Jafar Rizvi, CFA

We recognize the value of communicating with companies on strategic issues including corporate governance as a means to improve returns to shareholders. We engage with companies in multiple ways beyond thoughtful voting of proxies. Whenever we vote against management's proxy proposals, we write to them to explain the basis of our disagreement. When appropriate, we follow up in one-on-one discussions with management. On occasion, when we think improvements in management incentives, corporate governance, or specific operational actions can lead to enhanced shareholder value, we write to the board directly.

Our engagement with South Africa-listed **Naspers** is illustrative. Naspers is an "interactive media" company with a diverse set of operations and strategic stakes in listed companies such as Chinese internet conglomerate Tencent, Russian social media company mail.ru, Germany's online food delivery service Delivery Hero, and Chinese online travel agency Ctrip. Naspers's operating businesses are primarily in similar areas: classifieds and e-commerce, digital payments, and food delivery. We have been Naspers shareholders since 2013 (in our Emerging Markets Equity strategy). While the shares have performed well, they have significantly lagged the outstanding returns of Naspers's single largest asset, its investment in Tencent. As a result, a large discount has opened between Naspers's market valuation and the market value of its stake in Tencent. At its widest, this valuation discount amounted to more than US$60 billion—value that we believed management and the board could and should do more to capture for Naspers's shareholders.

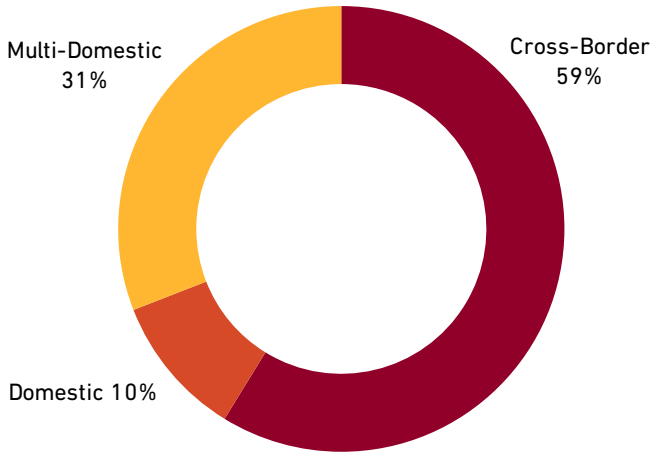
Management asserted at its investor day in December 2017 that the long-term solution to reducing the discount was to improve the profitability of the unlisted operating businesses. Executives also blamed investment flowing out of South Africa as a major contributor to the discount that was beyond their control.

We wrote to Naspers's board in May 2018, outlining our recommendations for closing the discount. This letter included a recommendation that the company tie executive compensation to improvements in the results of the operating businesses, using return on invested capital and free cash flow generation to measure their performance. We suggested converting to a single class of shares from the current dual-class structure, which effectively lets the Chairman Koos Bekker control the company despite owning only a small percentage. We also proposed some possible ways to narrow the valuation discount, including share buybacks, spin-offs of non-core businesses, and listing the shares outside South Africa to escape the limitations of its capital markets. And, finally, we requested that the board set milestones and a timeline toward the achievement of these objectives.

We have been pleased to see the company take meaningful action in line with our proposals. In its 2017 annual report published in July 2018, the board acknowledged the shareholder feedback, and described improvements made to management incentives, including a claw-back provision for bonuses. In early 2019, the company spun out its pay-TV business and announced the partial spin-off and listing in Amsterdam of **Prosus**. Prosus, a European investment holding company, owns the Tencent stake and all of Naspers's other internet-media businesses and strategic stakes except the South African ones. Naspers retains a 74% stake in Prosus for now.

As a result of these actions, the discount of Naspers's shares to its readily valued holdings (mainly the Tencent stake) has decreased by about 15 percent. Gratified but not yet satisfied, we continue to press for conversion to a single class of shares.

GLOBAL VALUE CHAIN CLASSIFICATION
INTERNATIONAL EQUITY ADR MODEL END WEIGHT

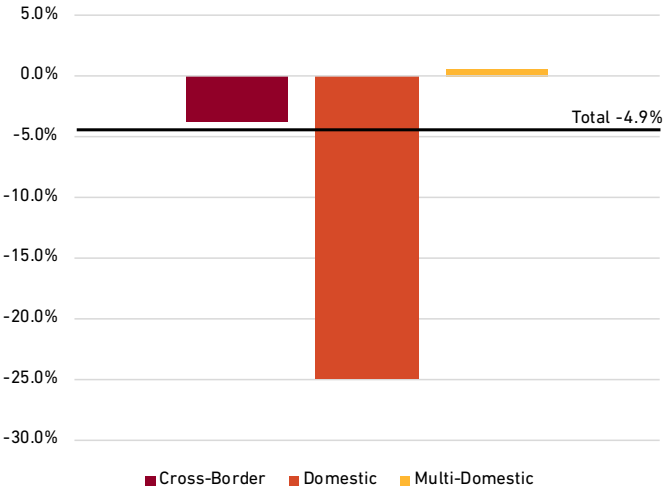


Source: Harding Loevner International Equity ADR Model as of September 30, 2019.

sification for all stocks in the index, we have no means to quantify the effect on relative performance of this "cross border" factor apart from other factors.

The effect of tariffs on participants in GVCs is but one, albeit a very important, example of how political intrusion in the economic sphere impacts our companies. It is clear that we must constantly monitor on many fronts the threats of government intervention. These threats are rising, not only in the form of tariffs, but also as additional restrictions on technology transfer (e.g., the US ban on sales of certain computer chips to certain

INTERNATIONAL EQUITY ADR PORTFOLIO 12-MONTH STOCK PERFORMANCE BY GLOBAL VALUE CHAIN CLASSIFICATION



Source: Harding Loevner Estimates; FactSet. Data as of September 30, 2019.

Chinese entities), capital restrictions (US threats to restrict investment in Chinese equities, or force Chinese companies to move their listings from US stock exchanges), or even putative presidential "orders" that US companies abandon the business relationships they have built up in China. Our analysts must grasp how each company manages its supply chain and make a judgment about whether or not such risks are appropriately discounted in its share price.

PORTFOLIO HIGHLIGHTS

We tend to favor EM-oriented financial companies because we think that economies where the penetration of financial services is low, the ratio of debt to GDP is modest, and the need for retirement savings and other protection is only beginning to be recognized offer banks and insurers more opportunities for growth. That preference exposes the portfolio not only to more growth opportunity but also to more market volatility, and results in this quarter illustrated that trade-off. Three of our holdings—AIA, **HSBC**, and **Ping An Insurance**—have significant operations in Hong Kong and China.

AIA remains one of the most respected brands in all of Asia and China.

AIA, a pan-Asian insurer, boasts Hong Kong as its largest and most profitable market. The company has increasingly prospered by writing policies in Hong Kong for Chinese nationals willing and able to travel there. This business is sure to have been affected by the unrest that has, at times, shuttered the city's airport and subways. AIA has long been investing to expand its operations on the mainland, already an important source of revenue growth. In our view, AIA remains one of the most respected brands in all of Asia and in China, preferred by consumers for its multinational pedigree and financial strength, advantages that will outlast the current turmoil in Hong Kong.

The UK-based bank HSBC has suffered multiple headwinds: besides its extensive retail and SME business in Hong Kong, it also caters to large corporate clients doing cross-border business in China, across Asia, and around the world. HSBC also has a substantial business in the UK, where Brexit uncertainty hampered investment spending and housing markets. Adding to these woes, China is weighing sanctions against HSBC for revealing Huawei executives' financial transactions to US authorities. In addition, our thesis that HSBC will be able to deploy its massive deposit base more profitably than its peers is being tested by the weakening global economy and falling interest rates.

Shares of Ping An, a Hong Kong-listed Chinese insurer, have fallen amid rising tensions between the US and China even though it is not reliant on trade. Its future growth is based on the long-term prosperity of Chinese citizens and their propensity to save, which we think remains on track. The company continues to invest heavily in its platform technologies and

agent force. As a result, its fintech products are on par with the offerings of foreign competitors. Ping An's rich customer data and analytics allow it to develop products and pricing targeted to specific consumers, which improves sales efficiency and customer loyalty. Ping An's 1.4 million agents are armed with detailed information on each prospective customer that identifies the most appropriate products to offer and guides the agent on the most effective sales approach. We expect the company's profitability will continue to rise.

We completed the sale of **Aspen Pharmacare**, which had rebounded earlier in the year while Health Care generally lagged the market. Our thesis that Aspen would grow by acquiring older patented drugs and expanding their sales through its developing-world distribution network proved too optimistic. Continued pricing pressure in developed markets more than offset the additional sales in developing countries. Management's confidence in its ability to reshuffle its portfolio via M&A, as is common with that strategy, proved to be unwarranted.

INTERNATIONAL EQUITY ADR HOLDINGS (AS OF SEPTEMBER 30, 2019)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMMUNICATION SERVICES		
BAIDU Internet products and services	China	1.7
CHINA MOBILE Mobile telecom services	China	1.5
DENTSU Marketing and advertising services	Japan	1.0
TENCENT Internet and IT services	China	1.0
YANDEX Internet products and services	Russia	1.1
CONSUMER DISCRETIONARY		
ADIDAS Athletic footwear and apparel retailer	Germany	1.9
NASPERS Internet and media services	South Africa	0.6
PROSUS Internet and media services	Netherlands	0.3
CONSUMER STAPLES		
AMBEV Alcoholic beverages manufacturer	Brazil	1.7
DIAGEO Alcoholic beverages manufacturer	UK	2.0
FEMSA Beverages manufacturer and retail operator	Mexico	1.6
L'ORÉAL Cosmetics manufacturer	France	2.9
NESTLÉ Foods manufacturer	Switzerland	4.6
UNICHARM Consumer products manufacturer	Japan	1.0
UNILEVER Foods and consumer products producer	UK	1.9
ENERGY		
LUKOIL Oil and gas producer	Russia	1.6
ROYAL DUTCH SHELL Oil and gas producer	UK	1.5
SCHLUMBERGER Oilfield services	US	1.3
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	3.3
ALLIANZ Financial services and insurance provider	Germany	3.1
BBVA Commercial bank	Spain	2.2
DBS GROUP Commercial bank	Singapore	2.7
HDFC BANK Commercial bank	India	1.2
HSBC Commercial bank	UK	1.0
ICICI BANK Commercial bank	India	1.5
ITAÚ UNIBANCO Commercial bank	Brazil	1.1
PING AN INSURANCE Insurance provider	China	1.9
HEALTH CARE		
CHUGAI PHARMACEUTICAL Pharma manufacturer	Japan	1.7
GRIFOLS Blood plasma fractionation operator	Spain	0.3
LONZA Life science products developer	Switzerland	2.2
ROCHE Pharma and diagnostic equipment manufacturer	Switzerland	4.7
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.6
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.3
INDUSTRIALS		
ALFA LAVAL Industrial equipment manufacturer	Sweden	1.1
ATLAS COPCO Industrial equipment manufacturer	Sweden	2.5
CANADIAN NATIONAL RAILWAY Railway operator	Canada	2.1
EPIROC Industrial equipment manufacturer	Sweden	1.1
FANUC Industrial robot manufacturer	Japan	1.0
KOMATSU Industrial equipment manufacturer	Japan	0.8
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.6
SGS Quality assurance services	Switzerland	1.0
INFORMATION TECHNOLOGY		
AMADEUS Global distribution systems operator	Spain	1.4
CHECK POINT Cybersecurity software developer	Israel	3.1
DASSAULT SYSTÈMES Design and engineering software developer	France	1.6
INFINEON TECHNOLOGIES Semiconductor manufacturer	Germany	3.0
SAP Enterprise software developer	Germany	4.0
TSMC Semiconductor manufacturer	Taiwan	5.1
MATERIALS		
AIR LIQUIDE Industrial gases producer	France	1.0
FUCHS PETROLUB Lubricants manufacturer	Germany	0.9
LINDE Industrial gases supplier and engineer	US	2.1
NOVOZYMES Biotechnology producer	Denmark	0.8
RIO TINTO Mineral miner and processor	UK	0.9
SASOL Energy and chemical technology developer	South Africa	0.5
SYMRISE Fragrances and flavors manufacturer	Germany	1.6
REAL ESTATE		
No Holdings		
UTILITIES		
No Holdings		
CASH		3.8

Model Portfolio holdings are supplemental information only and complement the fully compliant International Equity ADR Composite GIPS Presentation. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of portfolio holdings for the past year contact Harding Loevner.

3Q19 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
TSMC	INFT	4.6	0.82
CHUGAI PHARMACEUTICAL	HLTH	1.9	0.32
NESTLÉ	STPL	4.5	0.22
ROCHE	HLTH	2.9	0.13
UNICHARM	STPL	0.9	0.06

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
NESTLÉ	STPL	4.1	1.18
ROCHE	HLTH	2.7	0.59
ICICI BANK	FINA	1.4	0.51
L'ORÉAL	STPL	2.7	0.51
ADIDAS	DSCR	1.4	0.50

3Q19 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
SAP	INFT	4.1	-0.61
AIA GROUP	FINA	3.5	-0.44
BAIDU	COMM	1.7	-0.23
SASOL	MATS	0.6	-0.21
DASSAULT SYSTÈMES	INFT	1.6	-0.20

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
BAIDU	COMM	2.5	-2.08
FRESENIUS MEDICAL CARE	HLTH	0.5	-0.92
SCHLUMBERGER	ENER	1.2	-0.75
JGC HOLDINGS CORPORATION	INDU	0.6	-0.63
SASOL	MATS	0.8	-0.60

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL INTL ADR	ACWI EX-US
PROFIT MARGIN[1] (%)	14.5	11.1
RETURN ON ASSETS[1] (%)	9.3	5.2
RETURN ON EQUITY[1] (%)	17.1	13.2
DEBT/EQUITY RATIO[1] (%)	47.6	65.2
STD DEV OF 5 YEAR ROE[1] (%)	2.6	3.4
SALES GROWTH[1,2] (%)	4.2	1.7
EARNINGS GROWTH[1,2] (%)	8.3	7.8
CASH FLOW GROWTH[1,2] (%)	7.2	6.0
DIVIDEND GROWTH[1,2] (%)	5.1	5.1
SIZE & TURNOVER	**HL INTL ADR**	**ACWI EX-US**
WTD MEDIAN MKT CAP (US $B)	62.4	34.8
WTD AVG MKT CAP (US $B)	96.3	69.2
TURNOVER[3] (ANNUAL %)	16.3	—

RISK AND VALUATION	HL INTL ADR	ACWI EX-US
ALPHA[2] (%)	1.94	—
BETA[2]	1.00	—
R-SQUARED[2]	0.93	—
ACTIVE SHARE[3] (%)	87	—
STANDARD DEVIATION[2] (%)	12.84	12.38
SHARPE RATIO[2]	0.34	0.20
TRACKING ERROR[2] (%)	3.5	—
INFORMATION RATIO[2]	0.55	—
UP/DOWN CAPTURE[2]	100/90	—
PRICE/EARNINGS[4]	18.9	14.5
PRICE/CASH FLOW[4]	13.4	8.8
PRICE/BOOK[4]	2.6	1.6
DIVIDEND YIELD[5] (%)	2.4	3.2

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner International Equity ADR Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: October 4, 2019); Harding Loevner International Equity ADR Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
AMADEUS	SPAIN	INFT
PROSUS	NETHERLANDS	DSCR

POSITIONS SOLD	COUNTRY	SECTOR
ASPEN PHARMACARE	SOUTH AFRICA	HLTH
BMW	GERMANY	DSCR
TEMENOS GROUP	SWITZERLAND	INFT

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

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INTERNATIONAL EQUITY ADR COMPOSITE PERFORMANCE (AS OF SEPTEMBER 30, 2019)

	HL INTL ADR GROSS (%)	HL INTL ADR NET (%)	MSCI ACWI EX-US[1] (%)	MSCI EAFE[2] (%)	HL INTL ADR 3-YR STD DEVIATION[3] (%)	MSCI ACWI EX-US 3-YR STD DEVIATION[3] (%)	MSCI EAFE 3-YR STD DEVIATION[3] (%)	INTERNAL DISPERSION[4] (%)	NO. OF ACCOUNTS[5]	COMPOSITE ASSETS[5] ($M)	FIRM ASSETS (%)
2019 YTD[6]	12.34	11.77	12.06	13.35	12.49	11.29	10.91	N.A.[7]	190	900	1.54
2018	-13.36	-13.96	-13.78	-13.36	11.84	11.40	11.27	0.9	196	851	1.69
2017	29.66	28.79	27.77	25.62	11.93	11.88	11.85	0.7	167	903	1.67
2016	4.32	3.58	5.01	1.51	12.80	12.53	12.48	0.2	165	680	1.74
2015	-0.63	-1.30	-5.25	-0.39	12.52	12.13	12.47	0.3	165	630	1.89
2014	-0.16	-0.88	-3.44	-4.48	11.90	12.78	12.99	0.4	160	533	1.52
2013	14.93	14.10	15.78	23.29	15.03	16.20	16.22	0.7	159	520	1.57
2012	19.87	18.99	17.39	17.90	17.92	19.22	19.32	0.5	151	417	1.84
2011	-10.40	-11.08	-13.33	-11.73	21.86	22.74	22.45	0.3	167	365	2.68
2010	17.00	16.13	11.60	8.21	25.55	27.33	26.28	0.3	157	380	3.45
2009	35.76	34.69	42.14	32.46	23.40	25.30	23.65	0.4	118	265	4.14

[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]Total product accounts and assets are 26,892 and $11,754 million, respectively, at September 30, 2019, include both separately managed and unified managed accounts, and are presented as supplemental information; [6]The 2019 YTD performance returns and assets shown are preliminary; [7]N.A.–Internal dispersion less than a 12-month period.

The International Equity ADR Composite contains fully discretionary, fee-paying accounts investing in non-US equity and equity-equivalent securities and cash reserves. Securities are held in Depository Receipt (DR) form, including American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), or are otherwise traded on US exchanges. For comparison purposes the Composite return is measured against the MSCI All Country World ex-US Total Return Index. From 1999 (when the net index first became available) through December 30, 2012, the index return is presented net of foreign withholding taxes. Beginning December 31, 2012, Harding Loevner LP presents the gross version of the index to conform the benchmark's treatment of dividend withholding with that of the Composite. The exchange rate source of the 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 ex-US Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. The Index consists of 48 developed and emerging market countries. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The Index consists of 21 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 June 30, 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 International Equity ADR Composite has been examined for the periods January 1, 1990 through June 30, 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. Additional information is available upon request. Past performance does not guarantee future results. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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 International Equity ADR accounts is 0.80% annually of the market value up to $20 million; 0.40% of amounts above $20 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the Composite the entire year.

The International Equity ADR Composite was created on August 31, 2000. Performance prior to August 31, 2000 is that of the International Equity Composite, which was managed similarly and materially represented the strategy of the International Equity ADR Composite.

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