HARDING LOEVNER

INTERNATIONAL EQUITY

2018 Year End Report

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

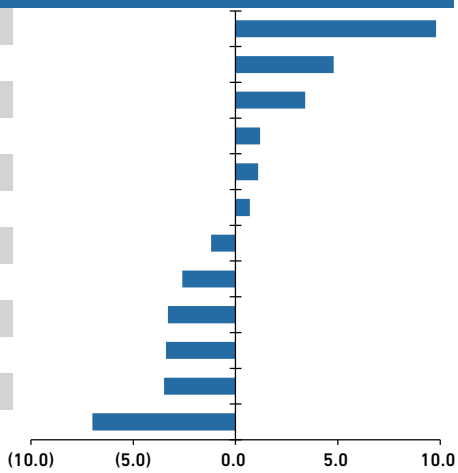
	3 MONTHS	1 YEAR	3 YEARS[2]	5 YEARS[2]	10 YEARS[2]	SINCE INCEPTION[2,3]
HL INTL EQUITY (GROSS OF FEES)	-14.88	-13.26	6.41	3.68	10.06	7.93
HL INTL EQUITY (NET OF FEES)	-15.02	-13.82	5.72	3.03	9.37	7.13
MSCI ALL COUNTRY WORLD EX-US INDEX[4,5]	-11.41	-13.78	4.97	1.14	7.06	4.73
MSCI EAFE INDEX[5,6]	-12.50	-13.36	3.38	1.00	6.81	4.37

[1]The Composite performance returns shown are preliminary; [2]Annualized Returns; [3]Inception Date: December 31, 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.

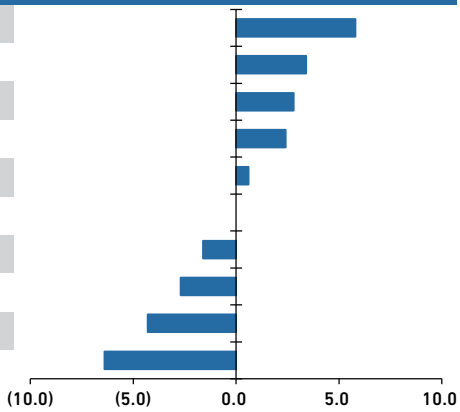
SECTOR EXPOSURE (%)

	HL INTL	ACWI EX-US
INFO TECHNOLOGY	17.8	8.0
HEALTH CARE	13.2	8.4
CASH	3.4	—
CONS STAPLES	11.0	9.8
INDUSTRIALS	12.8	11.7
MATERIALS	8.4	7.7
COMM SERVICES	6.4	7.6
ENERGY	4.7	7.3
REAL ESTATE	0.0	3.3
UTILITIES	0.0	3.4
FINANCIALS	18.7	22.2
CONS DISCRETIONARY	3.6	10.6



GEOGRAPHIC EXPOSURE (%)

	HL INTL	ACWI EX-US
EUROPE EMU	27.2	21.4
CASH	3.4	—
OTHER[7]	2.8	—
MIDDLE EAST	2.7	0.3
EUROPE EX-EMU	21.4	20.8
FRONTIER MARKETS[8]	0.0	—
PACIFIC EX-JAPAN	6.8	8.4
JAPAN	13.9	16.6
CANADA	2.2	6.5
EMERGING MARKETS	19.6	26.0



[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 Composite GIPS Presentation.

Source: Harding Loevner International 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

International stock markets suffered their sharpest quarterly fall in three years, led by double-digit declines in developed market equities amid worries that a global recession looms. Emerging markets (EMs), weak all year, fell less in the quarter than developed markets, aided in part by rebounds in the weakest countries and currencies. Stocks of the fastest-growing companies reversed their earlier outperformance, posting some of the quarter's worst declines.

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

Political developments around the world provided little support for investor sentiment, starting in the US. A hawkish foreign policy speech by Vice President Mike Pence at the beginning of October gave investors the impression that the tariffs President Donald Trump imposed on China are more than just a negotiating tactic, despite the president's assurances that trade talks with China have been productive. Prospects of a protracted trade war threatened the growth of cross-border trade, raised the possibility of disruption to global supply chains, and discouraged company managements from making fixed-capital investments.

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

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

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

The least-volatile stocks outperformed, and only the Utilities sector finished the quarter in positive territory. Equity investors had nowhere else to hide: no regions, other sectors, or styles gained in the period.

MARKET PERFORMANCE (USD %)

MARKET	4Q 2018	TRAILING 12 MONTHS
CANADA	-15.1	-16.6
EMERGING MARKETS	-7.4	-14.2
EUROPE EMU	-14.0	-16.2
EUROPE EX-EMU	-11.2	-12.3
JAPAN	-14.2	-12.6
MIDDLE EAST	-14.3	-5.2
PACIFIC EX-JAPAN	-7.9	-10.2
MSCI ACW EX-US INDEX	-11.4	-13.8

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

SECTOR	4Q 2018	TRAILING 12 MONTHS
COMM SERVICES	-8.1	-16.8
CONSUMER DISCRETIONARY	-13.9	-19.0
CONSUMER STAPLES	-7.2	-10.9
ENERGY	-16.2	-7.4
FINANCIALS	-10.6	-16.4
HEALTH CARE	-11.1	-5.7
INDUSTRIALS	-13.5	-14.6
INFORMATION TECHNOLOGY	-15.8	-15.5
MATERIALS	-13.5	-15.5
REAL ESTATE	-3.7	-11.1
UTILITIES	0.6	-0.5

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

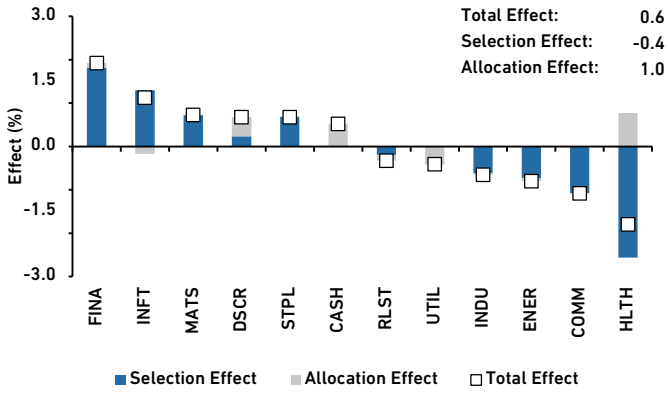
PERFORMANCE AND ATTRIBUTION

The International Equity composite fell 14.9% in the fourth quarter, considerably more than the index's 11.4% decline. The quarter's weak performance nearly negated the positive relative performance for the prior nine months. For the year, the composite fell 13.3%, only slightly outperforming the index, which declined 13.8%. The charts on the following page attribute the year's performance by sector and region, respectively.

For the quarter, our underperformance was primarily due to weak stock selection. By sector, our stocks in Health Care detracted the most, led by two Japanese companies. Shares of **M3**, a medical information services provider, sold off after the company reported larger-than-expected margin declines due to acquisitions and investments in artificial intelligence technology, which we believe will pay off over time. **Sysmex**, a leading manufacturer of blood-testing equipment and associated consumables, reduced its sales growth forecast for this fiscal year to 6% from 10% as hardware sales weakened. Our top detractors in Industrials were also Japanese capital goods companies: **JGC**, **Fanuc**, and **Komatsu**. Our Financials stocks helped relative returns, led by EM banks. **ICICI Bank** and **HDFC Bank** in India, and **Itaú Unibanco** in Brazil all rebounded from prior weakness.

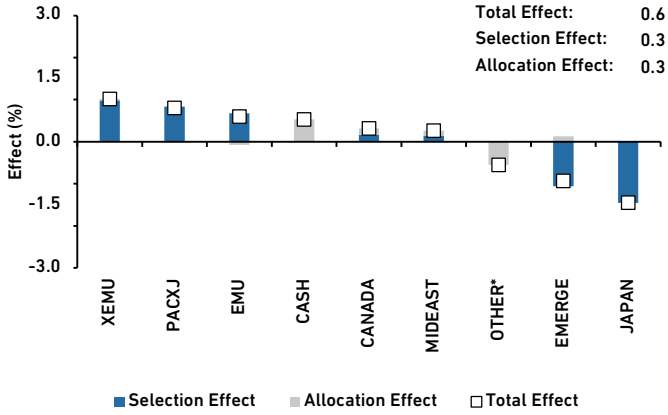
SECTOR PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS

INTERNATIONAL EQUITY COMPOSITE VS. MSCI ACW EX-US INDEX



GEOGRAPHIC PERFORMANCE ATTRIBUTION TRAILING 12 MONTHS

INTERNATIONAL EQUITY COMPOSITE VS. MSCI ACW EX-US INDEX



**Includes companies classified in countries outside the Index. Source: FactSet; Harding Loevner International 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.*

We underperformed across all major regions in the quarter, especially Japan and EMs. In the latter, China (due to search engine company **Baidu**) and South Africa (due to energy and chemical technology developer **Sasol**) hurt returns.

For the year, our modestly negative stock selection was more than fully offset by positive sector allocations (including, in the fourth quarter, a small cash balance), notably the portfolio's light holdings in Consumer Discretionary, the worst-performing sector, and large holdings in Health Care, the second-best-performing sector. Our stocks in the latter detracted, however, especially German life sciences company **Bayer**. Our stocks in Communication Services also hurt, especially three companies exposed to the Chinese internet and social media industry: Baidu, **Weibo** (a social media platform), and South Africa's **Naspers** (which holds a large stake in Tencent, the Chinese online games and social media giant). We benefited from stocks in Financials, where strong performers included Hong Kong-based insurer **AIA Group**, Singapore-based commercial bank **DBS Group**, and Itaú Unibanco. In IT, our good returns were led by **Dassault Systèmes**, a 3D-design software company.

By geography, our poor stocks in Japan (Fanuc and Sysmex) and in EMs (Baidu, Weibo, Naspers, and South Africa's **Aspen Pharmacare**) partially offset positive selection elsewhere. In Europe outside the eurozone, all five of our Swiss holdings contributed to our returns. Pacific ex-Japan benefited from financial companies AIA and DBS. France's Dassault, **L'Oréal**, and industrial gases company **Air Liquide** were our top performers within the eurozone.

PERSPECTIVE AND OUTLOOK

In an environment in which the Fed has been steadily raising short-term interest rates, leading other central banks to signal a retreat from the ultra-low interest rate policies of the last decade, combined with rising risks of trade disruption for political reasons from Brexit to US tariffs, what should an investor reasonably expect from our strategy? We believe that stocks of high-quality companies generally offer a return premium over the market return. That premium is due in part to the competitive advantages and financial strength of the businesses themselves, which makes them more resilient and maneuverable in shifting economic currents. And it is due in part to the behavior of investors, who time and again demonstrate their love of exciting "stories," their irrational preference for risk, and their overconfidence in extrapolating today's growth. These foibles tend to result in the underpricing of boring-and-steady profitable growth at less-than-heady rates.

Companies held in the portfolio during the year appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at December 31, 2018 is available on page 9 of this report.

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

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

A third notable feature of this decline is the dreadful performance of stocks of the fastest-growing companies, the cohort

THE ECONOMIC ENVIRONMENT AND OUR PROCESS

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

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

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

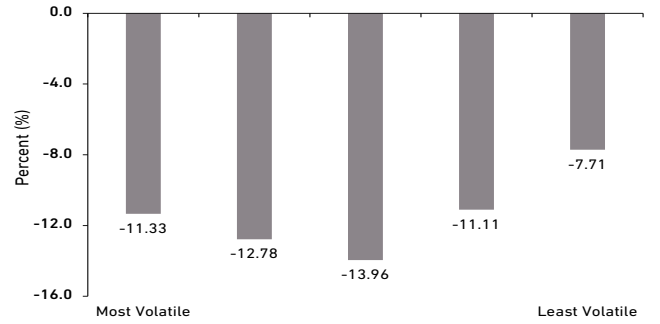
Economic activity waxes and wanes. When generalized growth is strong, opportunities are plentiful for most companies. Rivalry among them declines, and most companies are able to expand their sales at profitable prices. When economic growth is less abundant, only those companies with the strongest competitive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

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

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

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

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

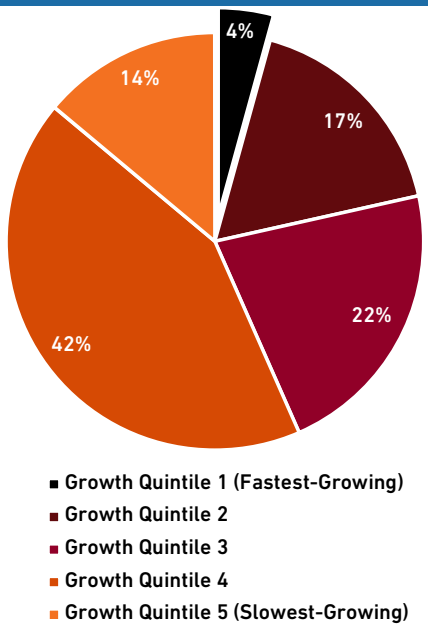


Source: FactSet (as of December 31, 2018); MSCI, Inc. and S&P.

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

A more obscure truth about low-volatility stocks is that they encompass very few growth businesses. By our count, just 4% of the companies in the least-volatile quintile of stocks also rank in the fastest growth quintile, as seen in the following chart—meaning less than 1% of stocks in the index.

MSCI ACW EX-US INDEX LEAST-VOLATILE QUINTILE BY GROWTH 4Q18



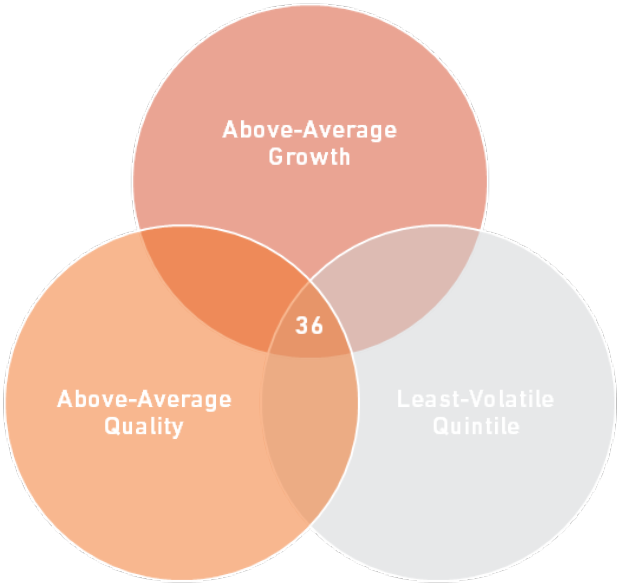
Source: FactSet (as of December 31, 2018); MSCI, Inc. and S&P.

Because growth holds equal rank alongside quality as a fundamental underpinning of our investment philosophy, it's relevant to point out that the number of companies that rank highly on both quality and growth, and whose stocks also display minimal price volatility, is a small minority. Of the 2,136 stocks in the MSCI ACW ex-US Index, only 36 were at the intersection of good growth, high quality, and low volatility, as seen in the diagram on the next page. A rare breed indeed. The best place to hide this quarter was in low-volatility stocks—but owning more of those might have forced us to abandon our insistence on growth.

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

Instead, the risk that we have been focusing on for the past several years is the increasingly high prices commanded by stocks of high-quality, growing companies. As habitual readers of our letters will know, we first voiced concern in the fourth quarter of 2014 and have returned often to this theme. As already noted, the least volatile stocks have not appeared particularly cheap. As a case in point, our recent low holdings of Consumer Staples stocks relative to our own long-term history is grounded in that disconnect of rich prices and steady but modest growth.

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



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

Nevertheless, even if we had shifted our emphasis from growth toward cheaper valuations some time ago (which would have come at great cost to investment returns over the past couple of years), we still would have likely underperformed in the recent market decline. Our rankings of stocks in the index by value show no return advantage this quarter for the cheaper stocks. Among the stocks that we own, those that rank as better value actually hurt relative performance in the quarter (and in the year), typically because the trade-off to lower valuation was a more cyclical business.

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

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

PORTFOLIO HIGHLIGHTS

The quarter brought sharply lower share prices for many of the companies in our coverage universe. The speed, depth, and breadth of the precipitous sell-off brought with it a silver lining: the likelihood that mispricings occurred as investors ratcheted down risk exposure without due regard for price. In contrast to the very low turnover experienced in the portfolio over the past few years, we were quite active this quarter, spurred on by the opportunity to buy several high-quality, growing businesses at newly attractive valuations.

Among the new investments made in the quarter were two in EMs, Mexican conglomerate **FEMSA** and Russian search-engine-and-ridesharing company **Yandex**, which brought our EM exposure to just under 20% of the portfolio. Despite strong fundamentals at both businesses, their shares have been under pressure from the general disfavor of EMs, made worse by the AMLO victory and the additional US sanctions imposed against Russia. We think the growth outlook for each is far brighter than investors are giving them credit for. While FEMSA is perhaps better known for its Coca-Cola bottling business (it owns 47% of Coca-Cola FEMSA, also listed on the Bolsa), its engine for growth recently has been its OXXO convenience stores throughout Mexico and Colombia, which now number around 17,500. OXXO now accounts for over 35% of FEMSA's revenues, having grown sales at a 13% compound annual growth rate over the past five years.

Yandex has been aided recently by court rulings against Google's favored pre-installation on Android smartphones. Yandex accounts for about 55% of all search requests in Russia but for a much higher percentage of search-related advertising revenues. Yandex.Taxi recently merged with the Russian subsidiary of Uber. Yandex now owns 59% of the combined business, ending a rivalry that inflicted large losses on both companies as they fought one another for market share. Ride-sharing constitutes about 14% of Yandex's overall revenues, with the volume of rides more than doubling in the past year.

While we have written in the past on our investment in semiconductors, specifically **Samsung Electronics**, **TSMC**, and more recently, **Infineon Technologies**, we believe their businesses are even more attractive today, for two reasons. First, the industry structure has improved from a rivalry standpoint due to some consolidation and to rising barriers (capital costs and engineering know-how) to new entrants. Second, sources of demand for microprocessors and memory chips are broader

and more disparate than in the past. Silicon chips are increasingly embedded in appliances and automobiles, alongside their traditional uses in PCs, smartphones, servers, and consumer electronics. A less competitive industry structure coupled with more diversity in applications should result in better pricing and steadier, less cyclical demand.

The share price performance of the semiconductor industry group this past quarter—down 15%—would suggest an outlook different from our own. Yet, we do not see any new fundamental evidence contrary to our thesis. No new entrants loom and, while demand has slackened cyclically and pricing is softer, the companies remain hugely profitable. Samsung's operating margins in 2019, for example, are estimated to be about 20%. Perhaps the disconnect between the falling share prices and the undimmed long-term outlook for the underlying businesses reflects the short time horizon of other investors, heedless of Ben Graham's admonition that the stock market is "a voting machine in the short run, but a weighing machine in the long run." We now own a roughly 5% weight in semiconductors, double that of the index.

Portfolio Management Team Update

As previously announced, Andrew West, a portfolio manager of the International Equity strategy since 2014, became a co-lead portfolio manager of the strategy on January 2, 2019, replacing Alec Walsh. Ferrill Roll continues as the strategy's other co-lead portfolio manager. Alec, along with Bryan Lloyd and Patrick Todd, remains a portfolio manager of the strategy. The assignment change was made in anticipation of Alec's retirement at the end of this year.

INTERNATIONAL EQUITY HOLDINGS (AS OF DECEMBER 31, 2018)

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
COMMUNICATION SERVICES		
BAIDU Internet products and services	China	2.1
DENTSU Marketing and advertising services	Japan	1.1
NASPERS Internet and media services	South Africa	2.3
YANDEX Internet products and services	Russia	1.0
CONSUMER DISCRETIONARY		
ADIDAS Athletic footwear and apparel retailer	Germany	1.0
BMW Automobile manufacturer	Germany	1.1
LVMH Luxury-goods manufacturer	France	1.6
CONSUMER STAPLES		
AMBEV Alcoholic beverages manufacturer	Brazil	0.9
FEMSA Beverages manufacturer and retail operator	Mexico	1.0
L'ORÉAL Cosmetics manufacturer	France	2.8
NESTLÉ Foods manufacturer	Switzerland	3.7
UNICHARM Consumer products manufacturer	Japan	0.8
UNILEVER Foods and consumer products producer	UK	1.7
ENERGY		
ROYAL DUTCH SHELL Oil and gas producer	UK	3.2
SCHLUMBERGER Oilfield services	US	1.0
TENARIS Steel-pipe manufacturer	Italy	0.6
FINANCIALS		
AIA GROUP Insurance provider	Hong Kong	3.9
ALLIANZ Financial services and insurance provider	Germany	3.6
BBVA Commercial bank	Spain	1.9
DBS GROUP Commercial bank	Singapore	2.9
GF BANORTE Commercial bank	Mexico	0.6
HDFC BANK Commercial bank	India	1.2
HSBC Commercial bank	UK	1.3
ICICI BANK Commercial bank	India	1.4
ITAÚ UNIBANCO Commercial bank	Brazil	1.9
HEALTH CARE		
ASPEN PHARMACARE Pharma manufacturer	South Africa	0.5
BAYER Life science products manufacturer	Germany	2.6
CHUGAI PHARMACEUTICAL Pharma manufacturer	Japan	1.0
GRIFOLS Blood plasma fractionation operator	Spain	0.9
LONZA Life science products developer	Switzerland	1.6
M3 Medical information services	Japan	1.7

SECTOR/COMPANY/DESCRIPTION	COUNTRY	END WT (%)
HEALTH CARE (continued)		
ROCHE Pharma and diagnostic equipment manufacturer	Switzerland	2.6
SONOVA HOLDING Hearing aids manufacturer	Switzerland	1.2
SYSMEX Clinical laboratory equipment manufacturer	Japan	1.1
INDUSTRIALS		
ALFA LAVAL Industrial equipment manufacturer	Sweden	1.2
ATLAS COPCO Industrial equipment manufacturer	Sweden	2.2
CANADIAN NATIONAL RAILWAY Railway operator	Canada	2.2
EPIROC Industrial equipment manufacturer	Sweden	0.5
FANUC Industrial robot manufacturer	Japan	0.9
JGC CORP Industrial facilities engineer and operator	Japan	0.8
KOMATSU Industrial equipment manufacturer	Japan	0.8
KUBOTA Industrial and consumer equipment manufacturer	Japan	1.6
MONOTARO Factory materials supplier	Japan	1.7
PARK24 Automated parking lot operator	Japan	0.8
INFORMATION TECHNOLOGY		
CHECK POINT Cybersecurity software developer	Israel	2.7
DASSAULT SYSTÈMES CAD/CAM software designer	France	2.3
INFINEON TECHNOLOGIES Semiconductor manufacturer	Germany	2.0
KEYENCE Sensor and measurement equipment manufacturer	Japan	1.7
SAMSUNG ELECTRONICS Electronics manufacturer	South Korea	3.0
SAP Enterprise software developer	Germany	2.1
TEMENOS GROUP Banking software developer	Switzerland	1.2
TSMC Semiconductor manufacturer	Taiwan	2.7
MATERIALS		
AIR LIQUIDE Industrial gases producer	France	2.6
FUCHS PETROLUB Lubricants manufacturer	Germany	0.8
LINDE Industrial gases supplier and engineer	US	1.8
NOVOZYMES Biotechnology producer	Denmark	1.0
SASOL Energy and chemical technology developer	South Africa	0.9
SYMRISE Fragrances and flavors manufacturer	Germany	1.3
REAL ESTATE		
No Holdings		
UTILITIES		
No Holdings		
CASH		3.4

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

4Q18 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
ITAÚ UNIBANCO	FINA	1.7	0.30
ICICI BANK	FINA	1.3	0.24
HDFC BANK	FINA	1.1	0.11
LINDE	MATS	0.5	0.11
ROCHE	HLTH	2.4	0.03

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
DASSAULT SYSTÈMES	INFT	3.3	0.43
MONOTARO	INDU	1.0	0.30
ITAÚ UNIBANCO	FINA	1.6	0.18
LINDE	MATS	1.2	0.14
CSL LIMITED	HLTH	1.1	0.13

4Q18 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
M3	HLTH	2.0	-1.05
BAIDU	COMM	2.3	-0.77
SYSMEX	HLTH	1.3	-0.73
BAYER	HLTH	2.7	-0.64
DASSAULT SYSTÈMES	INFT	2.5	-0.60

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
BAYER	HLTH	3.2	-1.48
FANUC	INDU	2.8	-0.97
BBVA	FINA	2.3	-0.84
SAMSUNG ELECTRONICS	INFT	3.2	-0.82
SCHLUMBERGER	ENER	1.4	-0.68

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL INTL	ACWI EX-US
PROFIT MARGIN[1] (%)	13.9	11.1
RETURN ON ASSETS[1] (%)	8.0	5.4
RETURN ON EQUITY[1] (%)	16.0	13.7
DEBT/EQUITY RATIO[1] (%)	43.0	57.4
STD DEV OF 5 YEAR ROE[1] (%)	2.7	2.9
SALES GROWTH[1,2] (%)	2.8	0.3
EARNINGS GROWTH[1,2] (%)	9.4	8.5
CASH FLOW GROWTH[1,2] (%)	9.5	6.8
DIVIDEND GROWTH[1,2] (%)	5.8	3.9
SIZE & TURNOVER	**HL INTL**	**ACWI EX-US**
WTD MEDIAN MKT CAP (US $B)	53.1	31.0
WTD AVG MKT CAP (US $B)	76.2	60.9
TURNOVER[3] (ANNUAL %)	13.9	—

RISK AND VALUATION	HL INTL	ACWI EX-US
ALPHA[2] (%)	2.57	—
BETA[2]	1.03	—
R-SQUARED[2]	0.92	—
ACTIVE SHARE[3] (%)	86	—
STANDARD DEVIATION[2] (%)	12.63	11.83
SHARPE RATIO[2]	0.24	0.05
TRACKING ERROR[2] (%)	3.5	—
INFORMATION RATIO[2]	0.73	—
UP/DOWN CAPTURE[2]	104/89	—
PRICE/EARNINGS[4]	15.9	12.1
PRICE/CASH FLOW[4]	11.7	8.0
PRICE/BOOK[4]	2.3	1.5
DIVIDEND YIELD[5] (%)	2.4	3.4

[1]Weighted median; [2]Trailing five years, annualized; [3]Five-year average; [4]Weighted harmonic mean; [5]Weighted mean. Source (Risk characteristics): eVestment Alliance (eA); Harding Loevner International Equity Composite, based on the Composite returns; MSCI Inc. Source (other characteristics): FactSet (Run Date: January 9, 2019); Harding Loevner International Equity Model, based on the underlying holdings; MSCI Inc.

COMPLETED PORTFOLIO TRANSACTIONS

POSITIONS ESTABLISHED	COUNTRY	SECTOR
ADIDAS	GERMANY	DSCR
CHUGAI PHARMACEUTICAL	JAPAN	HLTH
DENTSU	JAPAN	COMM
FEMSA	MEXICO	STPL
KOMATSU	JAPAN	INDU
YANDEX	RUSSIA	COMM

POSITIONS SOLD	COUNTRY	SECTOR
BBA AVIATION	UK	INDU
CSL LIMITED	AUSTRALIA	HLTH
DAITO TRUST	JAPAN	RLST
FRESENIUS MEDICAL CARE	GERMANY	HLTH
WEIBO	CHINA	COMM
WPP	UK	COMM

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

INTERNATIONAL EQUITY COMPOSITE PERFORMANCE (AS OF DECEMBER 31, 2018)

	HL INTL EQUITY GROSS (%)	HL INTL EQUITY NET (%)	MSCI ACWI EX-US[1] (%)	MSCI EAFE[2] (%)	HL INTL EQUITY 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	COMPOSITE ASSETS ($M)	FIRM ASSETS (%)
2018[5]	-13.26	-13.82	-13.78	-13.36	11.79	11.40	11.27	0.2	39	16,908	33.64
2017	30.86	30.00	27.77	25.62	12.45	11.88	11.85	0.2	36	15,777	29.21
2016	6.18	5.49	5.01	1.51	13.28	12.53	12.48	0.1	40	10,316	26.45
2015	-0.46	-1.06	-5.25	-0.39	12.83	12.13	12.47	0.1	41	8,115	24.37
2014	-0.12	-0.68	-3.44	-4.48	11.98	12.78	12.99	0.2	43	9,495	27.12
2013	15.99	15.35	15.78	23.29	14.91	16.20	16.22	0.4	44	9,504	28.68
2012	19.97	19.36	17.39	17.90	17.61	19.22	19.32	0.6	40	6,644	29.32
2011	-8.30	-8.91	-13.33	-11.73	21.13	22.74	22.45	0.5	36	2,468	18.15
2010	18.38	17.56	11.60	8.21	25.88	27.33	26.28	0.5	26	1,646	14.95
2009	44.12	43.09	42.14	32.46	23.95	25.30	23.65	0.6	24	779	12.17
2008	-38.90	-39.34	-45.24	-43.06	20.05	20.90	19.26	0.3	21	490	15.00

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the composite and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]The 2018 performance returns and assets shown are preliminary.

The International Equity Composite contains fully discretionary, fee-paying accounts investing in non-US equity and equity-equivalent securities and cash reserves and is measured against the MSCI All Country World ex-US 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 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 46 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 September 30, 2018.

Verification assesses whether (1) the firm has complied with all composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policy and procedures are designed to calculate and present performance in compliance with GIPS standards. The International Equity Composite has been examined for the periods January 1, 1990 through September 30, 2018. The verification and performance examination reports are available upon request.

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

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

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate International 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 International Equity Composite was created on December 31, 1989.

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