HARDING LOEVNER

INTERNATIONAL EQUITY RESEARCH

2017 Third Quarter Report

COMPOSITE PERFORMANCE (%) FOR PERIODS ENDED SEPTEMBER 30, 2017[1]

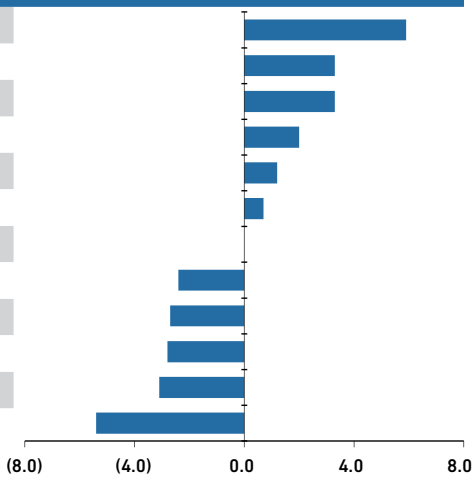
	3 MONTHS	YTD	1 YEAR	SINCE INCEPTION[2]
HL INTL EQUITY RESEARCH (GROSS OF FEES)	5.39	22.66	18.59	18.10
HL INTL EQUITY RESEARCH (NET OF FEES)	5.20	21.99	17.72	17.23
MSCI ALL COUNTRY WORLD EX-US INDEX[3,4]	6.25	21.61	20.15	14.99
MSCI EAFE INDEX[4,5]	5.47	20.47	19.65	12.18

[1]The Composite performance returns shown are preliminary; [2]Inception Date: December 31, 2015; [3]The Benchmark Index; [4]Gross of withholding taxes; [5]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.

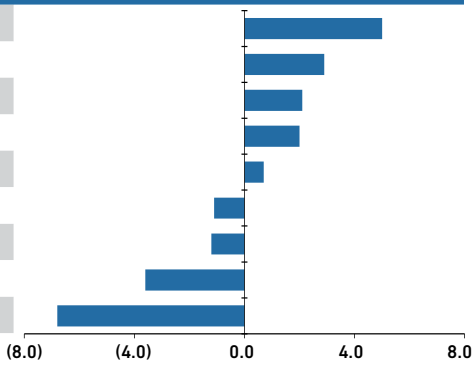
SECTOR EXPOSURE (%)

	HL IER	ACWI EX-US
INDUSTRIALS	17.7	11.8
CONS DISCRETIONARY	14.6	11.3
INFO TECHNOLOGY	14.5	11.2
CASH	2.0	-
HEALTH CARE	9.1	7.9
CONS STAPLES	10.3	9.6
REAL ESTATE	3.2	3.2
UTILITIES	0.7	3.1
TELECOM SERVICES	1.5	4.2
ENERGY	3.8	6.6
MATERIALS	4.7	7.8
FINANCIALS	17.9	23.3



GEOGRAPHIC EXPOSURE (%)

	HL IER	ACWI EX-US
EMERGING MARKETS	29.1	24.1
JAPAN	18.9	16.0
FRONTIER MARKETS[6]	2.1	-
CASH	2.0	-
MIDDLE EAST	1.0	0.3
PACIFIC EX-JAPAN	7.0	8.1
EUROPE EX-EMU	20.6	21.8
CANADA	3.1	6.7
EUROPE EMU	16.2	23.0



[6]Includes countries with less-developed markets outside the Index.

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

Source: Harding Loevner International Equity Research 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.

TABLE OF CONTENTS

MARKET REVIEW

Markets posted another quarter of solid gains. Investors have cheered positive economic data suggesting synchronized growth across all major regions, while inflation remains muted.

Better economic growth data across Europe and positive political developments in France boosted returns in the eurozone.

Value and growth stocks had similar returns in the quarter, although value outperformed growth in all regions except Emerging Markets (EMs).

PORTFOLIO HIGHLIGHTS

We pay little attention to price-to-earnings ratios. Instead, for companies our analysts have determined meet our quality and growth criteria, we build long-term financial models incorporating our assumptions about future earnings and cash flows.

We increased our exposure to EMs, which now represent our most substantial geographic overweight.

This page intentionally left blank.

MARKET REVIEW

Markets posted another quarter of solid gains, extending the streak of consecutive positive monthly returns to ten, the longest such stretch for the MSCI All Country World (ACW) ex-US Index in the past ten years. Stock performance over the first nine months of 2017 has been the strongest since the 2009 market recovery. Although the current gains come seven years on from the last recession, investors have cheered positive economic data suggesting synchronized growth across all major regions, while inflation remains muted. Meanwhile, they have largely rationalized the threat to stability from the US Federal Reserve's staggered exit from extremely loose monetary policy as being about normalization rather than inflation taming. Markets also mostly ignored escalating tensions between North Korea and the US, illustrated by the half-percent rise in the Japanese stock market on the day the latest ICBM flew through its airspace.

Energy, Materials, and Information Technology (IT) stocks earned returns roughly double those of the other sectors. Energy stocks benefited from a rebound in oil prices due to improving demand from continued economic expansion and signs that excessive inventories are no longer building. Stocks of metals and mining companies led the good performance of Materials.

MARKET PERFORMANCE (USD %)

MARKET	3Q 2017	TRAILING 12 MONTHS
CANADA	8.1	15.8
EMERGING MARKETS	8.0	22.9
EUROPE EMU	8.2	29.5
EUROPE EX-EMU	4.8	16.9
JAPAN	4.1	14.5
MIDDLE EAST	-12.6	-12.6
PACIFIC EX-JAPAN	3.7	14.6
MSCI ACW EX-US INDEX	6.3	20.2

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

SECTOR	3Q 2017	TRAILING 12 MONTHS
CONSUMER DISCRETIONARY	7.0	20.1
CONSUMER STAPLES	1.1	6.1
ENERGY	12.9	18.0
FINANCIALS	6.2	29.5
HEALTH CARE	1.0	8.2
INDUSTRIALS	5.6	21.0
INFORMATION TECHNOLOGY	10.1	35.5
MATERIALS	10.7	25.4
REAL ESTATE	6.2	10.8
TELECOM SERVICES	2.6	5.9
UTILITIES	4.7	11.4

Source: FactSet (as of September 30, 2017); MSCI Inc. and S&P.

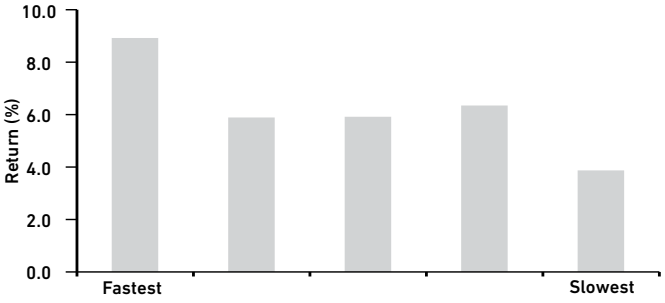
IT companies once again reported strong sales and earnings growth, with the biggest positive surprises coming from a handful of big Chinese internet companies.

The eurozone, Canada, and Emerging Markets (EMs) led regional returns. Better economic growth data across Europe, along with relief over the defeat in the French general elections of the anti-EU far-right, allowed investors to view the future more optimistically. They favored stocks of more-cyclical businesses, especially energy, autos, and banks. The euro added to its earlier gains against the US dollar, bolstering European Monetary Union (EMU) stock returns to US investors. Strong Energy and Materials companies boosted Canada and other resource-rich markets and helped EM returns, too, although the strong performance of IT stocks, especially Chinese internet stocks, were more important to EM gains.

Better economic growth data across Europe, along with relief over the defeat in the French general elections of the anti-EU far-right, allowed investors to view the future more optimistically.

For the ACW ex-US Index, the Value and Growth Indexes had very similar returns in the quarter, although the Value Index outperformed the Growth Index in all regions except EM. The performance of growth stocks within EM was strong enough to overcome the edge that the Value Index accrued from the other non-US markets. Growth leadership appears to be narrowing: drilling down using our own growth-ranking metrics, it is clear that investors favored the stocks of the fastest-growing businesses. Those stocks tend to be the priciest, so it's not surprising that, in terms of our composite-valuation metric, only

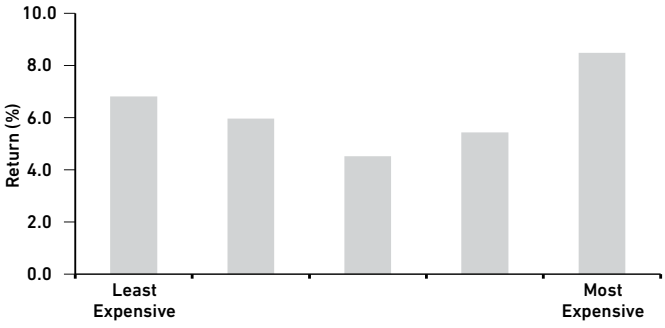
MSCI ACW EX-US INDEX PERFORMANCE BY GROWTH 3Q17



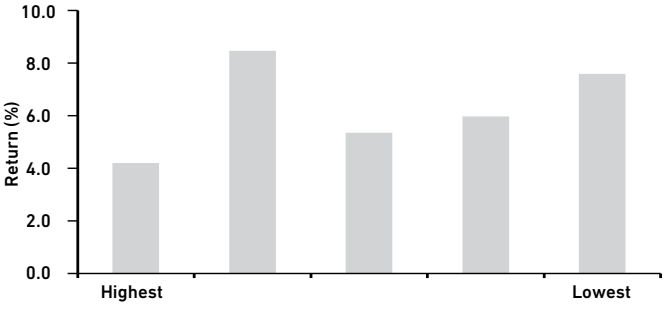
Please see the footnote on the following page, which pertains to the charts displaying performance by Growth, Value, and Quality.

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 since inception, please contact Harding Loevner. A list of the 25 largest holdings at September 30, 2017 is available on page 9 of this report.

MSCI ACW EX-US INDEX PERFORMANCE BY VALUE 3Q17



MSCI ACW EX-US INDEX PERFORMANCE BY QUALITY 3Q17



Source: FactSet. Data as of September 30, 2017. MSCI Inc. and S&P.

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

the most-expensive quintile of stocks showed significant outperformance. Quality showed no pattern of effect on returns. Within developed markets, the growth preference waned late in the quarter as US bond yields rose from the lowest levels of the year after Congress revealed plans for a large tax cut, and the Fed reiterated its intention to continue tightening monetary policy.

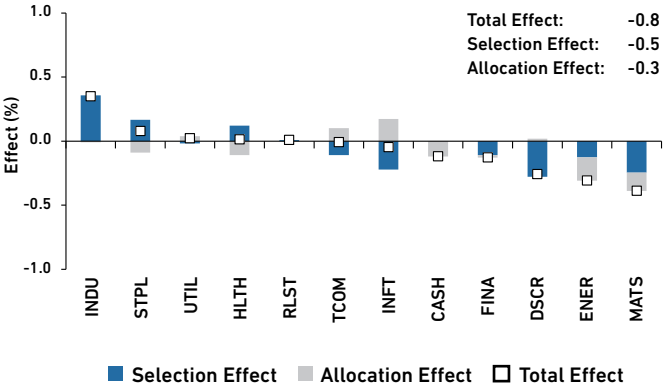
PERFORMANCE AND ATTRIBUTION

The International Equity Research composite underperformed its benchmark, the MSCI ACW ex-US Index, rising 5.4% versus the 6.3% gain of the Index. The charts to the right illustrate the sources of relative return for the quarter by sector and region, respectively. For the year to date, the composite is up 22.7%, ahead of the 21.6% return of the Index.

Looking at performance by sector, our usual underweighting of the lower-quality Materials and Energy sectors was a drag on performance. Both sectors outperformed this quarter as energy and metals prices rebounded, but the rallying shares of mining and steel companies were completely absent from the portfolio. The main detractor to relative returns was stock selection within Consumer Discretionary, Materials, and IT. Within Consumer Discretionary, Japanese stocks **Rinnai**, **Asics**, **ABC-MART**, and **Dentsu** all dragged on performance. Within Materials, shares of Pakistan's **Lucky Cement** declined significantly. In IT, declines in China's **NetEase**, South Korea's **NAVER**, Japan's **Kakaku**, and India's **Infosys** more than offset large advances in our holdings of Chinese companies **Tencent**, **Weibo**, and **Sunny Optical**, and the Netherlands' **ASML**. We had positive stock selection in Industrials, with strong returns by Japan's **Nidec** and **Misumi** as well as China's **51Job Inc**.

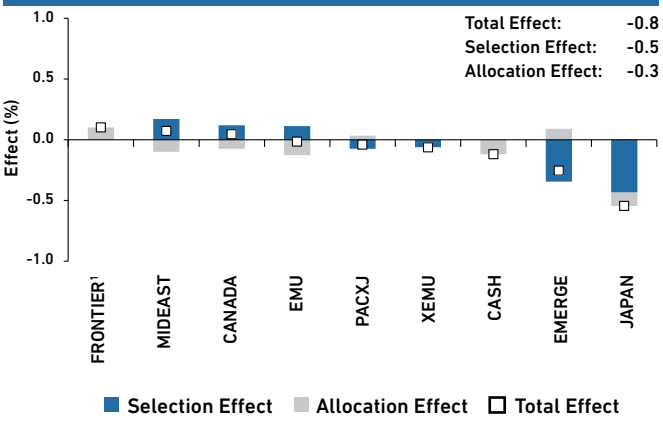
SECTOR PERFORMANCE ATTRIBUTION
THIRD QUARTER 2017

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



GEOGRAPHIC PERFORMANCE ATTRIBUTION
THIRD QUARTER 2017

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



[1]Includes countries with less-developed markets outside the Index. Source: FactSet; Harding Loevner International Equity Research 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 page 1 of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS presentation.

Viewed by geography, the portfolio suffered from both unfavorable regional weightings and negative stock selection. Our overweighting of underperforming Japan coupled with the underweighting of the top-performing EMU region was a drag on performance. Our most harmful stock selection was in Japan, where our holdings gained 1.7% versus 4.1% in the benchmark, hurt by declines at Asics, Rinnai, ABC-MART, **MonotaRO**, and **Mitsubishi Estate**. Stock selection in EMs was also negative, particularly in India (**ITC Limited**) and South Korea (**Hans-**

sem). We enjoyed positive stock selection from our relatively small investment in the Middle East (where we hold only the Israeli IT company Check Point) and Canada, where previously weak energy companies Cenovus Energy and EnCana saw substantial rebounds on higher oil prices.

PERSPECTIVE AND OUTLOOK

Aeolus, in Greek mythology, restrained the ocean winds to allow the halcyon birds to lay their eggs upon the beach. Equity investors are enjoying what they may one day refer to as the "Halcyon Teens"—a near-decade of gently rising stock prices. Observed volatility near record lows encourages investors to extrapolate today's benign financial conditions. Expected future volatility, as reflected in the VIX (American) or the DVX (German) option-price-implied volatility indexes, is thus likewise very low. These conditions lead investors generally to favor the kind of long-duration growth companies that we tend always to like. But, to us, present conditions invite comparison to previous periods in which the market was similarly calm—like early 2007, just before a bout of extraordinary volatility. Often, those earlier serene periods preceded painful episodes of monetary tightening by central banks. We've earned grey hair living through the sudden violent turning of serene markets, so count us among those who, in Matt Levine's (derisive) description, "are worried about people not being worried." Aeolus, after all, restrained his winds *only for seven days*.

Investors have persisted in their quietude despite a number of inauspicious signs, including high valuations and increasing concentration of market leadership. And while the fastest-growing companies with new business models are creating new growth as well as taking share from traditional companies in many industries, the "legacy" operations of those traditional businesses are still generating ample profits and even bigger free cash flows, funding share buybacks and underpinning the broader market's resilience. Incompetent or corrupt political leadership may threaten the long-term prosperity of the US, the UK, Brazil, and Japan, yet limited government interference is considered positive for business by investors in their stock markets. Even bellicose invective between the US and nuclear-armed North Korea has failed to drain investors' sanguinity.

The stock market is first and foremost a discounting mechanism, employing the wisdom of crowds financially incentivized to price accurately the future cash flows of businesses. Perhaps the markets believe that politics in the developed countries don't matter, that the Korean Peninsula is a carnival show, that tepid economic growth is nonetheless fast enough to support consumer and corporate spending—thereby sustaining corporate profit growth—and that very low discount rates will persist, rendering the value of the fastest-growing companies particularly lofty. Certainly, there is little competition coming from bonds or cash, with German ten-year bunds yielding just 0.5% versus a 2.4% dividend yield from the diversified Euro Stoxx 300 Index, and Japanese ten-year JGBs a microscopic 0.05% against 1.7% on Japan's TOPIX Index.

During this year, the portfolio has held two stocks, Weibo and WPP, which are useful lenses through which to examine the intersecting issues of profit growth, discount rates, and valuation. Weibo, whose shares are listed in New York, owns a Chinese social media platform that combines elements of Facebook, Instagram, and Twitter. Its rapidly growing active user base reached 365 million at the end of June. Weibo's revenues come primarily from advertisers, who are anxious to access its growing audience of young consumers. Weibo's revenues have grown tenfold over the last four years, including a 72% year-on-year rise in the latest quarter, while its earnings per share have grown even faster (184% year-over-year in the latest release). The stock has risen in 2017 to date. Though its users include members of the Chinese diaspora globally, the platform, so far, has held little appeal to non-Chinese-speakers.

While the fastest-growing companies with new business models are creating new growth as well as taking share from traditional companies in many industries, the "legacy" operations of those traditional businesses are still generating ample profits and even bigger free cash flows.

WPP is a UK-based advertising agency, with operations or local agencies in 112 countries, including storied agencies of nostalgic advertising fame, such as J. Walter Thompson and Ogilvy & Mather, acquired during a long wave of consolidation of the ad industry in the late twentieth century. In the last two decades, WPP has invested heavily in two key areas, acquiring technology and expertise in online-ad creation and measurement, and buying and building its franchises across EMs. Last year, more than 40% of its revenue came from digital businesses, while a third came from EMs (slicing geographically instead of functionally). The company's revenues have compounded at 7% over the past five years, and its earnings have grown 11% annualized. The stock has fallen year to date, and management has twice warned that revenue growth this year would be flat due to constrained spending on marketing and promotions by many of its consumer-goods clients. Investors have punished the shares, worried that the company is losing its place as both creator of ad content and arbiter of ad spending for large enterprises. The company generated free cash flow in the latest twelve months approximating almost 10% of its market value. It pays out 50% of its profits in dividends, so the shares yield more than 4% currently.

We pay little attention to price-to-earnings ratios (P/E). Instead, for those companies that analysts have determined meet our quality and growth criteria we build long-term financial models incorporating our assumptions about future earnings and cash flows, then discount these values into the present to help us estimate their value. The reason is straightforward: P/E ratios are snapshots of a single year. P/E ratios account for neither the rate of profit growth nor its duration, whereas a model can at least attempt to do so, with all the usual caveats

about the limitations of forecasts. Obsessing about P/E ratios can have high opportunity costs. In Weibo's case, its stock's high P/E ratio relative to the market average P/E turns out to have been understating its true value. We have modeled an earnings growth rate that declines over the next ten years from 107% this year to a still-healthy 10%, and formulaically fades down to market-average levels thereafter. It was the expectation of rapid and sustained growth that led our analyst to rate the stock *Buy* and led us to own it in our portfolio. While our analyst is constrained by our house rules to use a discount rate that starts with a baseline required annualized rate of return of 6% real (or before inflation), the "crowd" in its "wisdom" is free to use any discount rate, including materially lower ones. That brings another potential pitfall for the disciplined investor: we, along with others, may be underestimating how long interest rates can remain low in a world where governments actively engage in "financial repression," favoring debtors over lenders, which may in turn drive equity investors generally to accept lower prospective returns than the 6% real returns we seek.

The equity discount rate implied by current weighted-average global stock prices (that is, the discount rate that, using standardized growth and profitability assumptions, sets the median stock to be fairly valued at its current share price) is very low, certainly lower than our 6% real goal. The implication of the market's lower discount rate for ultra-high-growth companies such as Weibo is that positive growth surprises (as happened this year) or small (additional) declines in the discount rate applied by the marketplace each result in sharply higher share prices. This is the arithmetical result of the fact that, for Weibo and other long-duration growth stocks, the economic value is overwhelmingly (more than 90%) derived from the cash flows projected to be generated in the distant future rather than the near future. Lower discount rates penalize the future less than do higher discount rates, with very low discount rates making the cash profits expected ten or more years hence to be little different in present value from profits earned tomorrow.

WPP, in contrast, is generating lots of free cash right now and paying it out in dividends. Hence, more of the value of its shares is derived from near-term cash flows, which are less affected by changes in the rate at which those cash flows are discounted. And because fewer years need to be discounted, any change to the (lower) expected growth rate of those cash flows ought to have a more muted effect on its fair value. The difference in resulting effects is magnified further when a near-term "earnings surprise" is added to the equation: in Weibo's case a large and positive one that seemed to reinforce the most optimistic expectations of future growth. WPP, on the other hand, has suffered a downgrade of earnings growth expectations. The job of Harding Loevner's analysts is to judge how much weight to place on their estimations of fair value, which can so quickly be rendered hopelessly obsolete (in either a positive or negative direction) by new information.

The judgments we make about growth and discount rates on price are really judgments about just how long these companies can sustain the faster, more-profitable growth that delineates what we like to call "high-quality, growth businesses." While WPP's own management has pointed out the near-term challenges to its profit growth in the coming quarters, internet companies face their own set of emerging challenges. One emerging threat is increased regulation. Just this quarter, Google was fined US$2.7 billion by the European Commission's antitrust authorities, Uber was banned in September from operating in London, Facebook has seen its WhatsApp operations banned in China (where its own original platform has long been banned), and US President Donald Trump has tweeted that Amazon's destruction of traditional brick-and-mortar retail businesses could face targeted government reprisal.

The implication of the market's lower discount rate for ultra-high-growth companies such as Weibo is that positive growth surprises (as happened this year) or small (additional) declines in the discount rate applied by the marketplace each result in sharply higher share prices.

WPP and Weibo were downgraded to *Sell* by the responsible analysts in the second and third quarter, respectively. The International Equity Research strategy follows analysts' buy and sell recommendations, so the portfolio did not hold these companies as of the end of this reporting period. These downgrades reflected how our analysts care not only about a company's future growth potential based on their understanding of company fundamentals and industry trends, but also about the future returns implied by current stock prices. In the case of WPP, our colleague was concerned about heightening risks of rivalry, and substitution, despite what appeared to be an inexpensive valuation. In contrast, despite forecasting years of rapid business growth for Weibo, our analyst thought its shares appeared overvalued.

Returning to the equanimity of markets, the general precursors to resurgent volatility fall into four main categories: a withdrawal of liquidity through monetary-policy tightening, the onset of a recession, a substantial change of tax or regulatory policy, or the onset of hostilities (i.e., war). Each of these would appear to us to have higher probability today than a year ago, although the Trump administration's inability to achieve anything on the legislative front might be taken as a signal that substantive US policy changes are not in the cards near term. At any rate, it seems foolish to bet heavily that volatility will remain subdued over any reasonable investment horizon. The Fed has signaled that it wants to continue to withdraw monetary stimulus by gradually shrinking its balance sheet, and any Fed Chair appointed by a Republican president and confirmed by a Republican Senate would likely be even more hawkish than the current Chair Janet Yellen. And more than one grow-

ing economy has in the past slipped off into recession while walking the tightrope of withdrawing liquidity. Markets have been optimistic about US government tax policies and relieved that President Trump has not been pressing forward with his most unorthodox proposals on trade policy. But, given the track record of the Trump administration so far, nothing should be taken for granted on those fronts.

What puzzles us at Harding Loevner, however, is that, while our risk models estimate our portfolio's volatility to be below that of the Index, its realized (observed) standard deviation of returns has actually been marginally higher than that of the Index, at 7.0% versus 6.4% for the last twelve months. The Index is showing unusually low volatility relative to history, as its 6.4% standard deviation is far below the 20-year average of 17.0%. Such a low level was last seen only during the summer of 2007. We suspect that our portfolio's observed volatility would dip below that of the Index in an environment where markets were not so serene. The current phenomenon is in part related to the magnified effect of even small discount rate changes on the fair values of long-duration, rapid-growth companies and of changes to expectations for the rate of growth of the fastest-growing such as Weibo: that magnification results in their stocks exhibiting higher stock price volatility than the average. On the other hand, cyclical companies have been priced more cheaply than highly stable companies; in our view, their stock prices reflect their more-variable earnings trajectory. Indeed, what we have seen over the past 12 months is that "value" stock indexes have shown lower volatility than "growth" stock indexes, while "quality" stock indexes have shown higher volatility than either. We think that market volatility is more likely to rise toward its historical average than to fall further, and thus expect an environment that would be more likely to reward our focus on purchasing at reasonable prices only high-quality, growing stocks and combining them into a portfolio managed with a goal of below-market expected volatility.

PORTFOLIO HIGHLIGHTS

The portfolio's holdings are directly determined by analysts' recommendations among Harding Loevner's collection of researched companies. During the quarter, analysts' rating upgrades led us to increase the portfolio's number of holdings and sector weights in Industrials, Consumer Discretionary, and Energy, while downgrades led us to decrease our exposure to Consumer Staples, Health Care, and IT.

Industrials became the portfolio's largest sector overweight this quarter, displacing IT from the top spot. Our new purchases in this sector included Australian online job site **SEEK** and **Canadian National Railway**. We also purchased two Japanese companies: **SMC**, a manufacturer of pneumatic equipment, and **Fanuc**, one of the world's leading producers of industrial automation equipment, including computer numerical controls and servo motors used in machine tools and robots. Roughly half of Fanuc's customers are automakers and their suppliers, but it has also been gaining new customers in other industries such as food production. The analyst thought the share price, which had been mostly flat year-to-date, had become attractive relative to other Japanese stocks, particularly following Fanuc's reports of a recent strong uptick in orders. We also sold Japanese parking lot operator **Park24**.

We also increased our Consumer Discretionary holdings by purchasing South Korean home-furnishings company Hanssem and Japanese clothing retailer **Fast Retailing**.

In Consumer Staples, analyst concerns about unjustifiably high valuations led us to sell Indian personal products makers **Godrej** and **Hindustan Unilever** as well as Japanese cosmetics maker **Shiseido**. In Health Care, we sold **Roche Holding**.

Our major underweights relative to the Index include Financials, Energy, and Materials, as we find a limited number of companies with high quality-growth characteristics in these sectors. We widened our Financials underweight slightly through the sale of **Qatar National Bank**. However, we modestly increased our weights in the other two sectors by adding three Energy companies (**Oil & Gas Development Company of Pakistan**, **Pakistan Petroleum**, and China's **CNOOC**) and three Materials companies (Pakistan conglomerate **Engro**, German lubricants producer **Fuchs Petrolub**, and Australian paint company **DuluxGroup**).

It seems foolish to bet heavily that volatility will remain subdued over any reasonable investment horizon.

Viewed by region, the most notable change to our portfolio in the quarter was an increase in its exposure to EMs, which overtook Japan this quarter as the portfolio's largest regional overweight. This increase was supported by the new adjustments to the strategy's portfolio guidelines that came into effect on June 30. As noted in last quarter's report, we designed these adjustments to reflect shifts in the relative sizes and risk profiles of the markets within the strategy's investment universe. Most notably, the guideline change increased the portfolio's maximum weight in EMs from 30% to 35% and established a maximum combined weight in China and Hong Kong of 20%.

Our increased weight in EMs came partly from adding five new Pakistani companies recommended by our analysts. (These additions were spurred by the decision at the end of second quarter by Index provider MSCI to re-classify Pakistan from a Frontier Market to an EM). We bought Engro, Pakistan's largest conglomerate with interests in fertilizer, dairy, power generation, and petrochemicals, as well as two banks (**United Bank of Pakistan** and **MCB Bank**) and two Energy companies (Oil & Gas Development Company of Pakistan and Pakistan Petroleum). In December 2016, Pakistan Petroleum entered an agreement with the Pakistani government to extend the lease on its Sui gas field, one of the largest natural gas fields in Pakistan, on terms favorable to the company. The agreement also

includes a large contractual price increase for gas, enhancing the company's profitability.

Further adding to our EM weight, we increased our positions in some Chinese holdings and purchased some new holdings, including **Alibaba**, China's leading (and fast-growing) e-commerce company, and oil company CNOOC.

Within developed markets, we decreased our Japanese weight, despite increasing our number of positions in the country, in response to information from our risk models. We will consider making such weighting adjustments whenever the models indicate they will help achieve our goal of maintaining moderately lower expected volatility in comparison to the Index and restrained tracking error.

INTERNATIONAL EQUITY RESEARCH 25 LARGEST HOLDINGS (AS OF SEPTEMBER 30, 2017)

COMPANY/DESCRIPTION	SECTOR	COUNTRY	END WT.(%)
NIDEC Motor manufacturer	Industrials	Japan	1.2
AMADEUS Global distribution systems	Info Technology	Spain	1.1
BAYER Crop chemicals and pharmaceuticals	Health Care	Germany	1.1
ALLIANZ Multiline insurance	Financials	Germany	1.1
ATLAS COPCO Industrial compressors and mining equipment	Industrials	Sweden	1.1
BMW Automobile manufacturer	Cons Discretionary	Germany	1.1
NOVOZYMES Enzymes producer	Materials	Denmark	1.1
STANLEY ELECTRIC Auto lighting and LED packaging	Cons Discretionary	Japan	1.1
RICHEMONT Luxury goods company	Cons Discretionary	Switzerland	1.1
DAITO TRUST Construction and real estate	Real Estate	Japan	1.1
LINDE Industrial gases and engineering	Materials	Germany	1.1
JIANGSU EXPRESSWAY Toll road operator	Industrials	China	1.1
OCBC Commercial bank	Financials	Singapore	1.0
GRIFOLS Biopharmaceutical and diagnostics	Health Care	Spain	1.0
SAP Enterprise software provider	Info Technology	Germany	1.0
DIAGEO Alcoholic beverages producer, distiller, and marketer	Cons Staples	United Kingdom	1.0
EMAAR PROPERTIES Real estate developer	Real Estate	United Arab Emirates	1.0
BANKINTER Diversified bank	Financials	Spain	1.0
MAKITA Power tool manufacturer	Industrials	Japan	1.0
DASSAULT SYSTÈMES CAD/CAM software designer	Info Technology	France	1.0
MISUMI GROUP Machinery parts distributor	Industrials	Japan	1.0
HSBC Multinational commercial bank	Financials	United Kingdom	1.0
CANADIAN NATIONAL RAILWAY Railway operator	Industrials	Canada	1.0
KOMATSU Construction and mining machinery manufacturer	Industrials	Japan	1.0
NOMURA RESEARCH INSTITUTE IT consulting	Info Technology	Japan	1.0

Model Portfolio holdings are supplemental information only and complement the fully compliant International Equity Research 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.

3Q17 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
SUNNY OPTICAL TECHNOLOGY	INFT	0.4	0.21
YOOX	DSCR	0.6	0.21
NIDEC	INDU	1.1	0.21
ADIDAS	DSCR	1.0	0.20
ASML	INFT	0.7	0.19

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
RICHEMONT	DSCR	1.0	0.48
CHECK POINT	INFT	1.0	0.47
ALLIANZ	FINA	0.9	0.47
ASM PACIFIC TECHNOLOGY	INFT	0.8	0.47
TEMENOS	INFT	0.8	0.44

3Q17 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
ASICS	DSCR	0.5	-0.12
ABC-MART	DSCR	0.9	-0.10
RECKITT BENCKISER	STPL	1.0	-0.09
SURUGA BANK	FINA	0.8	-0.09
QATAR NATIONAL BANK	FINA	0.7	-0.08

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
TPG TELECOM	TCOM	0.7	-0.39
ABC-MART	DSCR	0.9	-0.27
PARK24	INDU	0.6	-0.19
ABERDEEN	FINA	0.3	-0.18
CENOVUS ENERGY	ENER	0.5	-0.17

The portfolio holdings identified above do not represent all of the securities held in the portfolio. 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 period. 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 Research Composite GIPS Presentation.

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL IER	ACWI EX-US
PROFIT MARGIN[1] (%)	11.8	9.1
RETURN ON ASSETS[1] (%)	7.2	4.5
RETURN ON EQUITY[1] (%)	14.7	12.0
DEBT/EQUITY RATIO[1] (%)	41.4	65.1
STD DEV OF 5 YEAR ROE[1] (%)	3.0	3.6
SALES GROWTH[1,2] (%)	3.1	-0.9
EARNINGS GROWTH[1,2] (%)	9.2	5.1
CASH FLOW GROWTH[1,2] (%)	11.3	6.8
DIVIDEND GROWTH[1,2] (%)	6.3	2.6

RISK & VALUATION	HL IER	ACWI EX-US
PRICE/EARNINGS[3]	20.2	16.3
PRICE/CASH FLOW[3]	14.9	9.7
PRICE/BOOK[3]	2.7	1.7
DIVIDEND YIELD[4] (%)	2.0	2.8
SIZE	**HL IER**	**ACWI EX-US**
WTD MEDIAN MKT CAP (US $B)	16.6	35.7
WTD AVG MKT CAP (US $B)	34.6	67.9

[1]Weighted median; [2]Trailing five years, annualized; [3]Weighted harmonic mean; [4]Weighted mean. Source: FactSet (Run Date: October 4, 2017); Harding Loevner International Equity Research Model, based on the underlying holdings; MSCI Inc.

Characteristics are supplemental information only and complement the fully compliant International Equity Research Composite GIPS Presentation.

INTERNATIONAL EQUITY RESEARCH COMPOSITE PERFORMANCE (AS OF SEPTEMBER 30, 2017)

	INTL EQUITY RESEARCH GROSS (%)	INTL EQUITY RESEARCH NET (%)	MSCI ACWI EX-US[1] (%)	MSCI EAFE[2] (%)	INTL EQUITY RESEARCH 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 (%)
2017 YTD[5]	22.66	21.99	21.61	20.47	+	+	+	N.A.[6]	1	10	0.02
2016	9.09	8.28	5.01	1.51	+	+	+	N.M.[7]	1	8	0.02

[1]Benchmark Index; [2]Supplemental Index; [3]Variability of the Composite and the Index returns over the preceding 36-month period, annualized; [4]Asset-weighted standard deviation (gross of fees); [5]The 2017 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; +Less than 36 months of return data.

The International Equity Research Composite contains fully discretionary, fee paying international equity accounts investing in non-US equity and equity-equivalent securities with the objective of long-term capital appreciation. For comparison purposes, the Composite is measured against the MSCI All Country World ex-US Index (gross of withholding taxes). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI All Country World 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 & 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, 2017.

Verification assesses whether (1) the firm has complied with all the 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 the GIPS standards. Verification does not ensure the accuracy of any composite presentation. The verification 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 Research 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 Research Composite was created on December 31, 2015.

This page intentionally left blank.