HARDING LOEVNER

INTERNATIONAL EQUITY RESEARCH

2019 Third Quarter Report

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

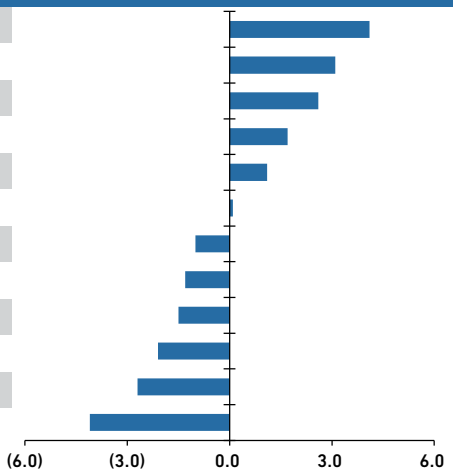
	3 MONTHS	YTD	1 YEAR	3 YEARS[2]	SINCE INCEPTION[2,3]
HL INTL EQUITY RESEARCH (GROSS OF FEES)	-1.50	13.87	0.04	8.12	9.93
HL INTL EQUITY RESEARCH (NET OF FEES)	-1.67	13.28	-0.68	7.33	9.13
MSCI ALL COUNTRY WORLD EX-US INDEX[4,5]	-1.70	12.06	-0.72	6.85	7.17
MSCI EAFE INDEX[5,6]	-1.00	13.35	-0.82	7.01	6.18

[1]The Composite performance returns shown are preliminary; [2]Annualized returns; [3]Inception Date: December 31, 2015; [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.

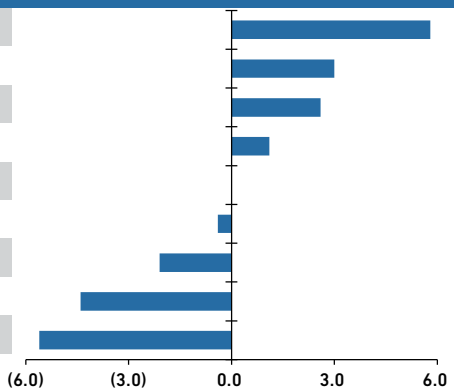
SECTOR EXPOSURE (%)

	HL IER	ACWI EX-US
CONS STAPLES	14.3	10.2
CONS DISCRETIONARY	14.5	11.4
CASH	2.6	—
INDUSTRIALS	13.6	11.9
INFO TECHNOLOGY	10.0	8.9
HEALTH CARE	8.6	8.5
MATERIALS	6.3	7.3
REAL ESTATE	1.9	3.2
COMM SERVICES	5.3	6.8
UTILITIES	1.4	3.5
ENERGY	4.0	6.7
FINANCIALS	17.5	21.6



GEOGRAPHIC EXPOSURE (%)

	HL IER	ACWI EX-US
EMERGING MARKETS	31.8	26.0
EUROPE EX-EMU	23.6	20.6
CASH	2.6	—
JAPAN	17.5	16.4
FRONTIER MARKETS[7]	0.0	—
MIDDLE EAST	0.0	0.4
PACIFIC EX-JAPAN	6.0	8.1
CANADA	2.6	7.0
EUROPE EMU	15.9	21.5



[7]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.

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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 in July 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

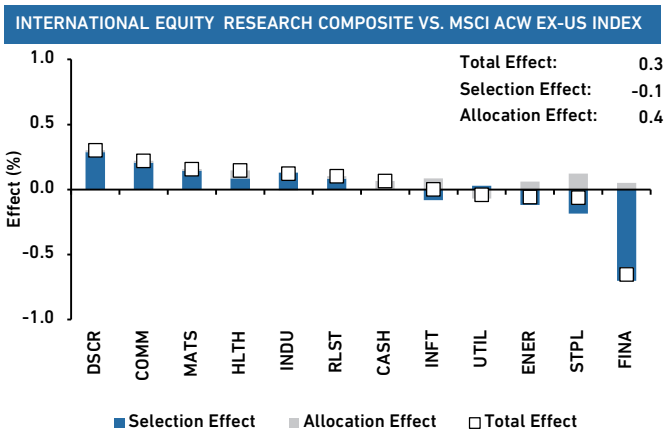
Source: FactSet (as of September 30, 2019); MSCI Inc. and S&P.

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.

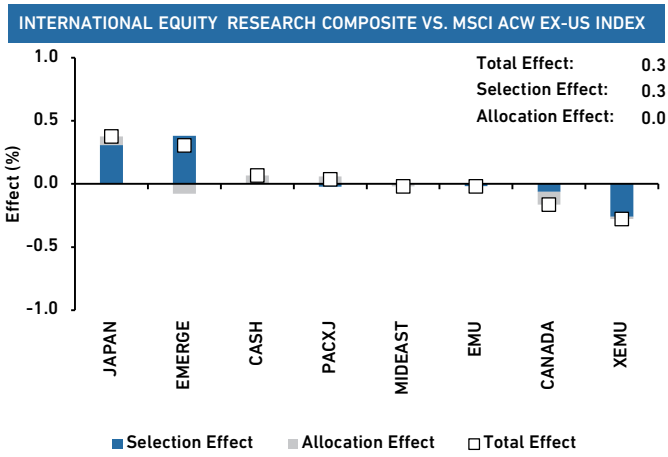
While sector leadership shifted during the quarter, by the end of September, Information Technology (IT) gained the most, thanks to semiconductor stocks. Consumer Staples, Utilities, and Health Care also outperformed. Materials and Energy were the weakest-performing sectors amid declines in the prices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

SECTOR PERFORMANCE ATTRIBUTION THIRD QUARTER 2019



GEOGRAPHIC PERFORMANCE ATTRIBUTION THIRD QUARTER 2019



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 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.

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, with the result that 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 Research composite fell 1.5% in the quarter, slightly less than the 1.7% decline of the MSCI All Country World ex-US Index. For the year to date, the portfolio rose 13.9%, compared with the benchmark's 12.1% return. The charts to the left attribute the quarter's performance by sector and region.

Our strong stock selection in Japan, along with our overweight to that outperforming country, contributed to relative returns. Shares of **Nomura Research Institute**, an IT systems integrator for financial companies, rose after the company reported improved margins after a large brokerage firm signed up for its cloud-based accounting system. Shares of **NITORI**, Japan's largest home-furnishing retailer, jumped after the company reported an increase in same-store sales in the first quarter.

Our strong stock selection in Japan contributed to relative returns.

Our stock selection was also strong in EMs, especially China. **Wuxi AppTec**, a provider of contract R&D and manufacturing services to the pharmaceutical industry, posted strong growth in its lab services unit for the first half of the year. The company also said that it can expand the capacity of its facilities after passing regulatory inspections. **Sunny Optical**, the global leader in camera lenses and other optical components, delivered strong results for the first half of the year. Revenue from smartphone camera sets was higher than expected, and management revised upward its shipment target for the year.

Europe ex-EMU stocks were the largest detractors. Shares of UK-based antibodies distributor **Abcam** fell after the company unveiled a five-year investment plan that will likely compress margins in the short term. Our analyst believes these investments will help Abcam improve its market position in the long term, but the market took a shorter view.

By sector, our weak stocks in Financials also detracted significantly. Shares of Argentine bank **Banco Macro** plummeted after business-friendly President Mauricio Macri unexpectedly lost a primary election in August and subsequently sought to delay sovereign debt payments as the country once again teetered on the edge of default. Concerned about the prospect of a run on banks in light of these conditions, we sold our position. In the UK, shares of wealth management

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, 2019 is available on page 9 of this report.

company **St. James's Place** fell amid the continued uncertainty surrounding Brexit, and on higher taxes and expenses for back-office operations.

Strong stock selection in Communication Services helped offset the sector's drag on our relative performance. **NAVER**, a South Korean social media company, reported higher advertising revenue from a redesigned app, which increased click-through rates and allowed the company to charge more for ads. Investors also were cheered by the company's announcement that it will spin off its margin-depressing payments business, NAVER Pay.

PERSPECTIVE AND OUTLOOK

We have been concerned about President Trump's approach to trade policy from the outset of his administration. 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."

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.

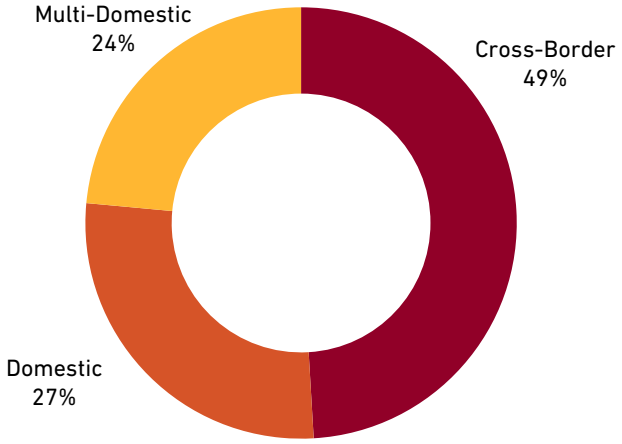
As a result of these actions, the discount of Naspers's shares to its readily valued holdings (mainly the Tencent stake) has decreased by about 15 percent. Gratified but not yet satisfied, we continue to press for conversion to a single class of shares.

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.

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

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.

GLOBAL VALUE CHAIN CLASSIFICATION
INTL EQUITY RESEARCH MODEL END WEIGHT



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

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.

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 Nestlé'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 Nestlé'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 models. As can be seen in the chart on page 6, our portfolio's exposure to cross-border businesses is sizable, with nearly 50% by portfolio weight so classified.

Over the last twelve months, the share prices of companies that we have categorized as cross-border have performed worse than the rest of the portfolio. This effect was particularly pronounced in the fourth quarter of last year. Unfortunately, without a similar classification 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 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

The International Equity Research portfolio's holdings are directly determined by analysts' recommendations among Harding Loevner's collection of researched companies. In addition to responding to changes in analysts' ratings, we also adjust individual position weights to maintain our desired risk profile (moderately lower expected volatility compared with the benchmark and constrained tracking error).

During this quarter, our analysts recommended buying 32 companies and selling 28, resulting in a modest increase in the number of holdings in Consumer Discretionary, Health Care, and Industrials compared with the second quarter. The number of holdings fell slightly in Financials, Materials, and Communication Services. The portfolio ended the quarter with 193 holdings.

Our exposure to Consumer Discretionary increased the most after we purchased seven companies, including leading Philippine home-improvement retailer **Wilcon Depot** and Japanese furniture retailer **NITORI**. Over more than 40 years, Wilcon has grown from a single shop in Manila selling building materials to become the leading "big box" home-improvement retailer with 52 stores throughout the country. Wilcon's strong brand, extensive store footprint, and wide assortment of leading local and international brands make it the top destination for the Philippines' rising middle class. The company enjoys long-standing relationships with over 400 domestic and foreign suppliers. Its size enables it to source products at lower prices than regional chains and "mom and pop" stores. Wilcon's in-house brands, making up 49% of its sales, set it apart from other home-improvement retailers and carry higher margins.

Wilcon Depot's size enables it to source products at lower prices than regional chains and "mom and pop" stores.

NITORI continues to grow even as demand for furniture shrinks amid Japan's aging population. The company continues to add to its industry-leading 12% market share by offering high-quality and low-cost products. It is vertically integrated: NITORI designs and builds its furniture, operates retail stores, and delivers merchandise to customers' homes. Its extensive transportation network can reach 98% of Japan's population.

Our exposure to Utilities also rose in the quarter. We purchased **Rubis**, a France-based company that specializes in the storage, distribution, and sale of petroleum, chemical, and food products. Our analyst believes the company is resilient to economic and oil-market downturns thanks to its long-term contracts with customers and stable demand for its services.

In Materials, we sold cement manufacturer **Loma Negra** in light of the sharp fall in the Argentine peso and rapid drawdown of foreign reserves following President Macri's primary-election loss. The company has high levels of debt denominated in foreign currencies, and our analyst was doubtful of the company's ability to pass the sharply higher cost of servicing that debt to customers who are struggling with high inflation and recession. The decrease in our relative weight to Materials was also the product of market movements; the sector underperformed the benchmark during the quarter.

By region, our exposure to Europe ex-EMU decreased. We sold Swedish debt collector **Intrum Justitia** due to concerns over the departure of the company's CFO. We also exited two positions due to high valuations: **Assa Abloy**, a Swedish security-equipment manufacturer, and **Rightmove**, a UK-based online real estate marketplace. Also in the UK, we sold financial company St. James's Place due to concerns over regulatory and competitive pressures. Our exposure to Pacific ex-Japan also fell, mainly due to the region's underperformance.

In EM, we added to several existing holdings, including India's **ITC** (a conglomerate with interests in tobacco, food, and personal care products) and **Bharti Infratel** (a telecom tower operator). We also bought additional shares in **Siam Commercial Bank** in Thailand, **Walmart de Mexico**, and **BDO Unibank** in the Philippines.

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INTERNATIONAL EQUITY RESEARCH 25 LARGEST HOLDINGS (AS OF SEPTEMBER 30, 2019)

COMPANY	COUNTRY	SECTOR	END WT.(%)
NOMURA RESEARCH INSTITUTE IT consultant	JAPAN	INFO TECHNOLOGY	1.2
NITORI Home-furnishings retailer	JAPAN	CONS DISCRETIONARY	1.2
ROCHE Pharma and diagnostic equipment manufacturer	SWITZERLAND	HEALTH CARE	1.2
ALLIANZ Financial services and insurance provider	GERMANY	FINANCIALS	1.1
COMPASS GROUP Contract food services	UNITED KINGDOM	CONS DISCRETIONARY	1.1
ANHEUSER-BUSCH INBEV Alcoholic beverage manufacturer	BELGIUM	CONS STAPLES	1.1
HOMESERVE Emergency repair services	UNITED KINGDOM	INDUSTRIALS	1.1
SONOVA HOLDING Hearing aids manufacturer	SWITZERLAND	HEALTH CARE	1.0
QATAR NATIONAL BANK Commercial Bank	QATAR	FINANCIALS	1.0
RUBIS Liquid chemical storage and distribution	FRANCE	UTILITIES	1.0
CANADIAN NATIONAL RAILWAY Railway operator	CANADA	INDUSTRIALS	1.0
ESSILORLUXOTTICA Eyewear manufacturer and retailer	FRANCE	CONS DISCRETIONARY	1.0
BHARTI INFRATEL Telecom infrastructure provider	INDIA	COMM SERVICES	1.0
UNICHARM Consumer products manufacturer	JAPAN	CONS STAPLES	1.0
DENTSU Marketing and advertising services	JAPAN	COMM SERVICES	1.0
UNILEVER Foods and consumer products producer	UNITED KINGDOM	CONS STAPLES	1.0
SHIMANO Bicycle component manufacturer	JAPAN	CONS DISCRETIONARY	1.0
KUEHNE + NAGEL Transportation systems operator	SWITZERLAND	INDUSTRIALS	1.0
ABC-MART Footwear retailer	JAPAN	CONS DISCRETIONARY	1.0
ALIMENTATION COUCHE-TARD Convenience stores operator	CANADA	CONS STAPLES	1.0
ASML Semiconductor equipment manufacturer	NETHERLANDS	INFO TECHNOLOGY	1.0
ALCON Eye care products manufacturer	SWITZERLAND	HEALTH CARE	1.0
SE BANKEN Commercial bank	SWEDEN	FINANCIALS	1.0
OVERSEA-CHINESE BANKING CORP Financial services	SINGAPORE	FINANCIALS	1.0
NESTLÉ Foods manufacturer	SWITZERLAND	CONS STAPLES	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.

3Q19 CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
NOMURA RESEARCH INSTITUTE	INFT	1.1	0.26
KAKAKU.COM	COMM	0.8	0.18
ASML	INFT	0.9	0.17
NITORI	DSCR	1.1	0.15
ASM PACIFIC TECHNOLOGY	INFT	0.7	0.13

LAST 12 MOS CONTRIBUTORS TO ABSOLUTE RETURN (%)

LARGEST CONTRIBUTORS	SECTOR	AVG. WT.	CONTRIBUTION
ICTSI	INDU	0.6	0.37
NESTLÉ	STPL	1.0	0.31
ASML	INFT	0.8	0.27
ALIMENTATION COUCHE-TARD	STPL	1.0	0.26
ROCHE	HLTH	1.1	0.24

3Q19 DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
BANCO MACRO	FINA	0.2	-0.29
ABCAM	HLTH	0.6	-0.17
LOMA NEGRA	MATS	0.1	-0.16
SAP	INFT	0.9	-0.13
HAKUHODO	COMM	0.9	-0.13

LAST 12 MOS DETRACTORS FROM ABSOLUTE RETURN (%)

LARGEST DETRACTORS	SECTOR	AVG. WT.	CONTRIBUTION
HOSHIZAKI	INDU	0.2	-0.61
MAKITA	INDU	0.8	-0.43
ASOS	DSCR	0.1	-0.39
ENCANA	ENER	0.3	-0.38
BANKINTER	FINA	0.8	-0.32

PORTFOLIO CHARACTERISTICS

QUALITY & GROWTH	HL IER	ACWI EX-US
PROFIT MARGIN[1] (%)	11.4	11.1
RETURN ON ASSETS[1] (%)	8.4	5.2
RETURN ON EQUITY[1] (%)	15.4	13.2
DEBT/EQUITY RATIO[1] (%)	44.7	65.2
STD DEV OF 5 YEAR ROE[1] (%)	2.5	3.4
SALES GROWTH[1,2] (%)	4.8	1.7
EARNINGS GROWTH[1,2] (%)	9.6	7.8
CASH FLOW GROWTH[1,2] (%)	8.0	6.0
DIVIDEND GROWTH[1,2] (%)	7.3	5.1
SIZE & TURNOVER	**HL IER**	**ACWI EX-US**
WTD MEDIAN MKT CAP (US $B)	18.5	34.8
WTD AVG MKT CAP (US $B)	41.6	69.2
TURNOVER[3] (ANNUAL %)	44.8	—

RISK & VALUATION	HL IER	ACWI EX-US
ALPHA[4] (%)	1.40	—
BETA[4]	0.97	—
R-SQUARED[4]	0.95	—
ACTIVE SHARE[3] (%)	82	—
STANDARD DEVIATION[4] (%)	11.23	11.29
SHARPE RATIO[4]	0.59	0.47
TRACKING ERROR[4] (%)	2.4	—
INFORMATION RATIO[4]	0.52	—
UP/DOWN CAPTURE[4]	100/92	—
PRICE/EARNINGS[5]	18.8	14.5
PRICE/CASH FLOW[5]	13.5	8.8
PRICE/BOOK[5]	2.5	1.6
DIVIDEND YIELD[6] (%)	2.3	3.2

[1]Weighted median; [2]Trailing five years, annualized; [3]Three-year average; [4]Trailing three years annualized; [5]Weighted harmonic mean; [6]Weighted mean. Source: FactSet (Run date: October 4, 2019); Harding Loevner International Equity Research Model, based on the underlying holdings; MSCI Inc.

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 Research Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

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

	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 (%)
2019 YTD[5]	13.87	13.28	12.06	13.35	11.23	11.29	10.91	N.A.[6]	1	12	0.02
2018	-12.08	-12.74	-13.78	-13.36	11.45	11.40	11.27	N.M.[7]	1	10	0.02
2017	30.59	29.64	27.77	25.62	+	+	+	N.M.	1	11	0.02
2016	9.09	8.28	5.01	1.51	+	+	+	N.M.	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 2019 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 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 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. 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.

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