Hardman Johnston Global Equity

2018 SECOND QUARTER REPORT

COMPOSITE PERFORMANCE (%) (period ending June 30, 2018)							
	2nd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Global Equity (gross of fees)	4.74	9.14	25.39	18.04	16.85	11.27	10.84
Global Equity (net of fees)	4.57	8.77	24.54	17.21	16.01	10.51	10.09
MSCI AC World Net Index	0.53	-0.43	10.73	8.18	9.40	5.79	6.18
MSCI World Net Index	1.73	0.43	11.09	8.47	9.93	6.26	6.31

Performance is preliminary through June 30, 2018. Periods greater than one year are annualized. **Past performance does not guarantee future results**. Net performance reflects the deduction of advisory fees. The MSCI AC World Net is the benchmark index. Effective April 1, 2015, the Company changed the primary benchmark for its Global Equity strategy to the MSCI All Country World Net Index ("ACWI"). The Firm will continue to show historical performance versus the MSCI World Net Index ("World") and future performance will show MSCI World Net Index as a supplemental index. The inception date of the composite is December 31, 2005.

KEY TAKEAWAYS

- Volatility persists as cycle lengthens and trade tariff dispute intensifies
- US companies return excess cash to investors following tax cuts
- Interest rate rises and increasing oil prices pressure businesses and consumers
- Global Equity Composite returned 4.57%, net, beating the MSCI ACWI return of 0.53% and the MSCI World return of 1.73%
- Financials and Information Technology sectors were the largest contributors to performance in the second quarter; Kering S.A. (+28.0%) and PTC Inc. (+20.3%) were the top contributors

MARKET REVIEW

Volatility persisted throughout the second quarter with the result that no two indices – or indeed stocks – looked the same. The tech-heavy NASDAQ Composite gained 6.3% while the manufacturing-strong Dow Jones Industrial Average was all but flat (up 0.7%) and the S&P 500 and Europe's Stoxx 600 sat somewhere in between with gains of 2.9% and 2.4% respectively. We take volatility as a clear signal that investors have a healthier appreciation of risk once more.

Despite the swings, there were still positives for stockholders as tax cuts introduced at the start of the year resulted in share buybacks and higher dividends. Whether or not companies choose to invest surplus cash in much-needed capital expenditure remains to be seen. Such board-level decisions can take many months and are hampered by limited visibility over future conditions. The US did accelerate away from other developed economies again – with the Atlanta Fed modeling annualized growth for Q2 of 4.1% at the start of July – yet we think downside risks are potentially widespread and difficult to quantify.

Key among those risks is the prospect of an all-out trade war. Some analysts have estimated the hit to the US at 0.4-0.6 percentage points of GDP, while others warn of full-blown recession; the impact of either outcome could reverberate around the globe. Similarly, the range of possible political outcomes is wide. While tough tactics could win concessions on global trade, the assumption that China will back down because it has more to lose might be wrong. As a one-party state, now potentially led by a President for life, we think China could take a longer term view. Equally concerning is the fact that the world has not experienced a downturn in China, or witnessed the damage that it can do on a global scale. Nor is the EU rolling over, submitting a case to the World Trade Organization and planning to introduce tariffs in a tit-for-tat approach with the US.

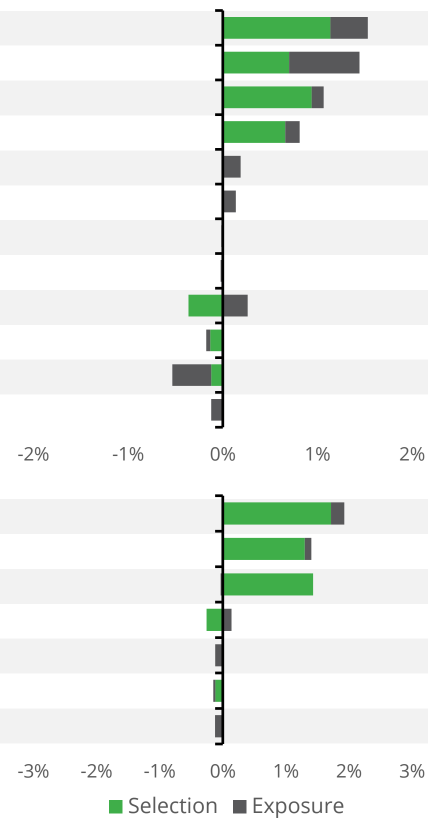
While investors are more cautious in 2018, we think that geopolitical risk is still underestimated. Markets were largely unmoved by the rise and subsequent fall in tensions between the US and North Korea over the latter's nuclear ambitions.

Compare a similar standoff with Iran, which had much greater impact after the US called on its allies to halt imports of Iranian oil. The price of Brent Crude rose by 13% over the quarter to nearly $80, a three-and-a-half-year high. That rising price has the potential to hurt consumers and businesses alike. Moreover, it stokes inflation and creates pressure for monetary tightening. With another 0.25% hike in the federal funds rate in June, many US companies have started to feel less comfortable about the leverage they carry, while emerging markets have rising concerns about dollar-denominated debt, adding another source of potential volatility and investor caution. However, we see opportunity as caution creates openings for us to find mispriced growth stocks that we believe do not accurately reflect company prospects.

PERFORMANCE ATTRIBUTION: 2Q 2018

	Average Weight Portfolio	Average Weight ACWI	Total Return Portfolio	Total Return ACWI
SECTOR				
Financials	12.0	19.1	4.7	-4.9
Info. Technology	42.0	17.9	5.4	3.6
Cons. Discretionary	17.6	12.9	8.1	2.9
Health Care	16.9	10.8	6.5	2.7
Consumer Staples	0.0	8.0	0.0	-1.6
Telecom. Services	0.0	2.8	0.0	-4.2
Utilities	0.0	2.9	0.0	1.3
Real Estate	0.0	3.0	0.0	1.4
Industrials	3.1	10.7	-12.9	-2.7
Materials	0.7	5.4	-9.7	0.4
Energy	2.3	6.6	4.2	10.3
Cash	5.4	0.0	0.5	0.0
REGION				
North America	62.5	55.6	6.4	3.5
Europe	11.8	15.1	7.9	-2.7
Emerging Markets	12.4	11.9	3.0	-8.0
Japan	3.9	7.9	-9.1	-2.8
United Kingdom	0.2	5.7	5.8	3.1
Pacific Ex Japan	3.8	3.9	-0.5	1.8
Cash	5.4	0.0	0.5	0.0

Relative Attribution



Data as of the period ending June 30, 2018. Source: FactSet, Hardman Johnston Global Advisors LLC®. **Past performance does not guarantee future results.** The data shown is of a representative portfolio for the Hardman Johnston Global Equity strategy and is for informational purposes only. Results are not indicative of future portfolio characteristics/returns. Actual results may vary for each client due to specific client guidelines and other factors. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. Future investments may or may not be profitable.

PORTFOLIO COMMENTARY

- Global Equity outperformed the MSCI ACWI by over 400 bps during the second quarter
- Security selection in Financials and high relative exposure to Information Technology drove the outperformance while an underweight position in Energy and security selection in Materials modestly detracted from results
- Security selection in the United States and Europe were top contributors from a regional perspective; security selection in Pacific ex Japan and the United Kingdom caused marginal drags on relative results during the quarter

LARGEST CONTRIBUTORS

Results at **Kering S.A. (+1.1% contribution, +28.0% total return)** continue to be buoyed by better than expected growth at Gucci. April's Q1 earnings report showed accelerating momentum, despite tough comparisons. Gucci reported 48.7% organic growth with strong growth in all categories and nationalities. Geographically, growth was especially strong in North America (+64%) and Asia-Pacific (+49%). YSL also continued to show strong performance with organic sales growth of 19.6%. Other positive catalysts in the quarter included Kering's capital markets day where they provided medium term guidance for Gucci to achieve €10B in sales and a 40% EBIT margin while also signaling continued strong performance in Q2. Finally, during Q2 Kering distributed the bulk of its stake in Puma to shareholders. After the spinout Kering has now fully transitioned into a pure luxury house.

At the end of last year, **PTC Inc. (+0.8% contribution, +20.3% total return)** reported a solid third quarter result showing a rebound in performance in Japan, easing investors' fears regarding weak bookings in Japan during 2017. The positive results sparked a new wave of buying from investors that continued into the first and second quarters of 2018. Moreover, the quarterly earnings results reported in January and April both confirmed that PTC is firing on all cylinders, as the company continues to deliver on solid new bookings, revenue growth, and improving operating profit margins.

Automatic Data Processing Inc.'s (+0.7% contribution, +18.8 total return) strong performance in the quarter was due to better than expected Q1 results and a well-received investor day where the company provided better than expected medium term guidance. During the first quarter, ADP showed strong top line growth as they benefited from an improving platform and positive macro-economic conditions. Bookings growth accelerated to 9% from 6% while retention improved 170 basis points. Management also raised its margin guidance for FY18. The investor day highlighted ADP's improved offering and the company provided new medium term guidance of 23-25% margins by FY21 (300-500 bps improvement) and a 16-19% EPS CAGR through FY21.

LARGEST DETRACTORS

Stanley Black & Decker, Inc. (-0.4% contribution, -12.9% contribution) continued to underperform in the second quarter after a weak start to the year, driven by concerns around import tariffs, cost inflation, and the potential impact of rising rates on the US housing market. Cost inflation in the first quarter negatively impacted Stanley's earnings result, reported on April 20th. Despite higher costs in the quarter, price increases are not expected to take full effect until the third quarter. Stanley reaffirmed its EPS guidance in April for the full year, citing that price increases, productivity, and accretion from M&A would fully offset the cost headwinds. However, near term sentiment worsened as we now wait for evidence of those offsets in the back half of the year. Plus, worsening trade tensions between the US and China threaten to further burden Stanley's global supply chain. As macro headwinds grow, we continue to review Stanley's outlook over the next 3-5 years.

Keyence Corp. (-0.4% contribution, -9.1% total return) marginally underperformed towards the end of the quarter, in part, due to negative FX impacts. The fundamental concern is that some automation companies with high exposure to China's electronics market, similar to Keyence's exposure, reported a slowdown in June to single-digit growth from high double-digit growth in April and May. Concerns have grown around the potential impact of US-China trade relations, which could be driving customers to take a wait-and-see stance. Moreover, the company faced a tough year-over-year comparison in June due to the current slowdown in the smartphone industry relative to the robust landscape in 2017. The market is beginning to recognize and price in a slowdown in Chinese automation orders for the electronics end market, and Keyence is not immune. However, China is aggressively pursuing a strategy to upgrade its manufacturing capabilities, and automation remains an important component of that. In the long run, Keyence will remain a key supplier to China, across many manufacturing applications.

Starbucks Corp.'s (-0.3% contribution, -15.2% total return) stock lagged during the quarter due to a plethora of negative news including founder Howard Schultz stepping down, a negative earnings pre-announcement, and a surprise resignation from the company's CFO. During the quarter, Starbucks preannounced disappointing sales in both the US and China and reduced FY18 guidance as Starbucks US comps have yet to re-accelerate. The company plans for same-store-sales to accelerate in the future due to improved innovation and more digital relationships. The company also made several tweaks to their financial algorithm including increasing store closures, slowing licensed store growth, reducing G&A, and increasing cash returns to $25B over FY18-FY20 from prior guidance of $20B. Due to the lack of acceleration in the US business and changes in management our current position is under review.

PORTFOLIO ACTIVITY

- During the quarter, we initiated positions in WuXi Biologics Inc. and First Quantum Minerals Ltd. and liquidated our position in Shire plc
- Kering S.A. shareholders received an in-kind distribution of Puma shares during the quarter

INITIATIONS

WuXi Biologics Inc. is a China-based, global provider of biologic drug contract development and manufacturing outsourced (CDMO) services. The company enjoys leading market share in China, and is becoming a CDMO service provider of choice for US and EU based biotech companies who lack integrated clinical-stage development capabilities. Globally, long-term trends are strongly supportive and structural in nature for accelerating investment in both biologic drug R&D and outsourcing services. These secular trends are present in China and biotech is becoming a rapidly rising sector for investment in the country as the Chinese FDA has moved to align the new drug development process with the western framework. Each of these forces improves the predictability of medical innovation for investors and entrepreneurs. We also expect the change of rules by the Hong Kong stock exchange to increase the flow of capital to R&D driven biotech companies, which will directly benefit Wuxi as a recipient of R&D spending.

First Quantum Minerals Ltd. is a mining company that engages in the exploration, development, and production of mineral properties, with 85% of revenue coming from copper. The company's compelling organic growth pipeline in copper is poised to drive earnings growth given (1) a significant 55% expected increase in production volume in the next 1.5 years, and (2) a favorable structural supply/demand outlook for the industrial metal that should support prices. While project execution risk is present, the start up at the Cobre Panama copper project and the ramp up of the Sentinel Mine in Zambia have achieved important milestones and increased production targets as they near the final stages of completion. The upcoming period of strong free cash flow and balance sheet deleveraging contribute to our conviction in the quality and the earnings growth prospects that are well in excess of 10% over the next three years.

LIQUIDATIONS

After several bids, **Shire plc** and Takeda came to an agreement in May 2018 for Takeda to acquire Shire for £46 billion in cash and stock. Takeda's strategic rationale was driven by a paucity of late-stage candidates in its drug pipeline, which it hoped to fill through Shire's pipeline in rare diseases such as hemophilia. Additionally, the deal increases Takeda's exposure to the U.S. (the world's largest drug market) and would help diversify its investor base beyond Japan, to global institutional investors. Shire's shares rose on both the rumor and formal announcement of the acquisition. Given uncertainty around deal completion, and the longer-term earnings growth potential of the consolidated company, we used the acquisition announcement as a catalyst to exit our position in Shire.

MARKET OUTLOOK

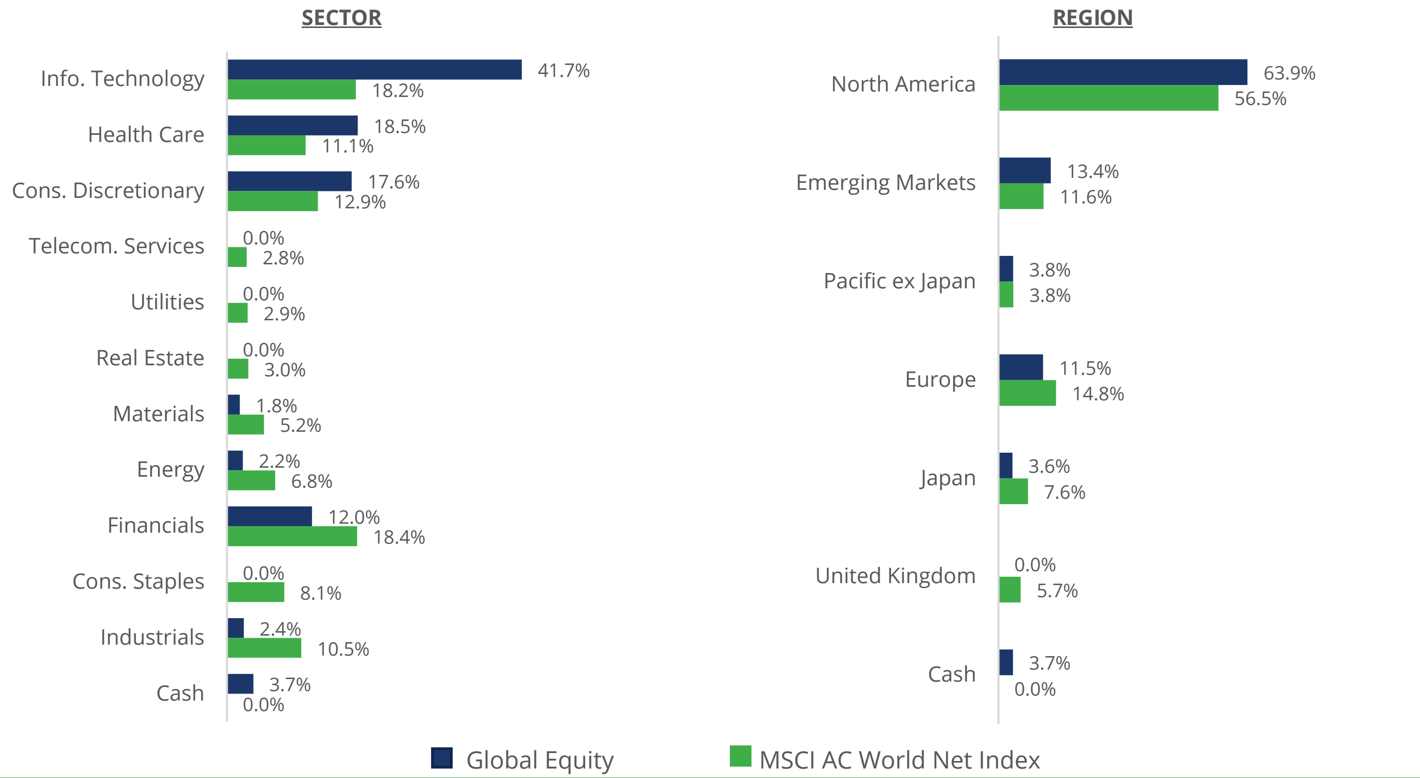
The underlying economic recovery should continue through the second half of 2018 with regional differences narrowing further. However, threats to synchronized global growth are growing. Weakening PMIs in Europe mean that growth may have peaked. Meanwhile, Japan's decision to ditch its 2% inflation target is admission of the struggle it faces to reignite GDP growth for the long term. Against this backdrop, the US should perform well as fiscal stimulus extends the second longest post-war growth spell.

Yet market volatility (consistent with the late stage of the market cycle) shows little sign of abating with trade concerns pressuring commodities and stocks broadly. The full extent of trade tariffs and their impact has yet to be defined. However, what started as a war of words is rapidly becoming a real trade conflict with potentially far-reaching consequences for interconnected markets and international companies with global supply chains. The potential for a serious escalation will keep markets on edge for the foreseeable future – history has demonstrated that there are no winners in trade wars and it is unlikely to be any different this time around.

In the absence of an all-out trade conflict, inflation will grind higher, particularly in the US, but we do not expect it to accelerate sharply in the near term. The second quarter rally in the US dollar should fade, taking immediate pressure off emerging market currencies. Rising interest rates in the US – along with higher oil prices – are becoming a headwind for industry and consumers, although in Europe and Japan, central bank tightening is still at an early stage and will not disrupt growth. Still, when the expansion cycle ultimately turns, the US will have more leverage to exit through monetary policy than other developed markets.

The timing and extent of any downturn could be the result of political actions. The global economy is in a relatively strong place, but the wrong policies have the potential to undermine it. For now, robust growth and contained inflation provide a supportive backdrop for global equities.

PORTFOLIO ALLOCATIONS (period ending June 30, 2018)



PORTFOLIO CHARACTERISTICS (period ending June 30, 2018)

	Global Equity	MSCI AC World Net Index
Capitalization		
Weighted Average Market Cap ($B)	186.0	142.6
Median Market Cap ($B)	68.5	10.3
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	19.5	11.5
EPS Growth: 5 year trailing (%)[1]	15.2	8.2
Value Fundamentals		
P/E Ratio: 12 Months - forward[1]	25.2	16.9
P/E Ratio: 12 Months - trailing[1]	32.4	21.2
PEG Ratio: forward[1]	1.4	1.7
Dividend Yield (%)[2]	0.8	2.4
Price/Book[3]	4.9	2.2
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	14.5	15.0
Return on Invested Capital: 5 Year (%)[1]	10.8	10.5
Other		
Number of Stock Holdings	28	2,781
Beta: 3 year portfolio[4]	1.14	1.00

[1]Interquartile weighted mean, [2]Weighted mean, [3]Weighted harmonic mean, [4]MPT beta (daily).

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PORTFOLIO HOLDINGS (period Ending June 30, 2018)			
Sector / Company	**Country**	**Weight (%)**	**Industry**
Consumer Discretionary			
Alibaba Group Holding Ltd.	China	3.7	Internet & Direct Marketing Retail
Amazon.com, Inc.	United States	4.5	Internet & Direct Marketing Retail
Kering S.A.	France	3.8	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	3.8	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Starbucks Corp.	United States	1.6	Hotels, Restaurants & Leisure
Energy			
Schlumberger Ltd.	United States	2.2	Energy Equipment & Services
Financials			
HDFC Bank Ltd.	India	3.9	Banks
JPMorgan Chase & Co.	United States	3.8	Banks
Mastercard Inc.	United States	4.4	Consumer Finance
Health Care			
Becton, Dickinson & Co.	United States	4.3	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	4.2	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	3.9	Life Sciences Tools & Services
Vertex Pharmaceuticals Inc.	United States	4.1	Biotechnology
WuXi Biologics	China	2.0	Life Sciences Tools & Services
Industrials			
Stanley Black & Decker Inc.	United States	2.4	Machinery
Information Technology			
Adobe Systems Inc.	United States	4.4	Software
Alphabet Inc. Class A	United States	3.0	Internet Software & Services
Alphabet Inc. Class C	United States	1.2	Internet Software & Services
ASML Holding N.V.	Netherlands	3.7	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	4.3	IT Services
Broadcom Inc.	United States	3.8	Semiconductors & Semiconductor Equipment
Cognizant Technology Solutions	United States	3.8	IT Services
Facebook Inc.	United States	2.3	Internet Software & Services
Infineon Technologies AG	Germany	3.6	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	3.6	Electronic Equipment, Instruments & Components
PTC Inc.	United States	4.0	Software
Tencent Holdings Ltd.	China	3.9	Internet Software & Services
Materials			
First Quantum Minerals Ltd.	Canada	1.8	Metals & Mining
Cash & Equivalents			
Cash		3.7	

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