Hardman Johnston International Equity

2018 SECOND QUARTER REPORT

COMPOSITE PERFORMANCE (%) (period ending June 30, 2018)	2nd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	-0.23	1.09	15.10	10.84	10.49	7.52	11.25
International Equity (net of fees)	-0.37	0.81	14.46	10.18	9.81	6.82	10.66
MSCI EAFE Net Index	-1.24	-2.75	6.84	4.90	6.44	2.84	5.22
MSCI AC World ex US Net Index	-2.61	-3.77	7.28	5.06	5.99	2.54	N/A

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 ex US Index inception date is 1/1/2001. Composite inception date: September 30, 1993.

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
- International Equity Composite returned –0.37%, net, beating the MSCI EAFE return of –1.24% and the MSCI ACWI ex US return of –2.61%
- Financials and Consumer Discretionary sectors were the largest contributors to performance in the second quarter; Kering S.A. (+28.0%) and Safran S.A. (+16.7%) 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.

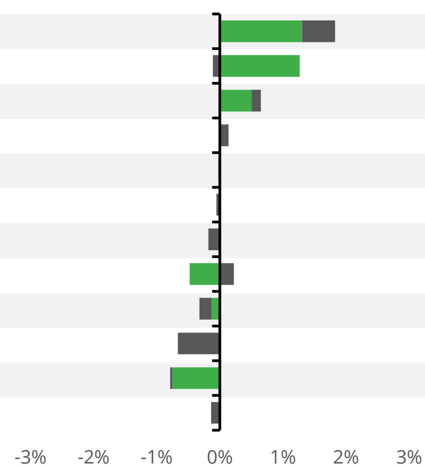
Key among those risks is the prospect of an all-out trade war. Some analysts have estimated the hit to the US at 0.4-0.6 percentage points of GDP, while others warn of full-blown recession; the impact of either outcome could reverberate around the globe. Similarly, the range of possible political outcomes 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.

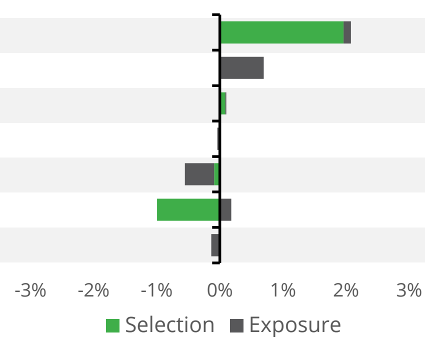
While investors are more cautious in 2018, we think that geopolitical risk is still underestimated. Markets were largely unmoved by the rise and subsequent fall in tensions between the US and North Korea over the latter's nuclear ambitions.

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		Total Return		Relative Attribution
	Portfolio	EAFE	Portfolio	EAFE	
SECTOR					
Financials	10.3	20.6	6.1	-6.2	
Cons. Discretionary	19.8	12.6	4.0	-2.6	
Health Care	14.6	10.2	5.7	1.9	
Telecom. Services	0.0	3.7	0.0	-4.8	
Real Estate	0.0	3.5	0.0	-0.4	
Utilities	0.0	3.3	0.0	0.5	
Consumer Staples	0.0	10.9	0.0	0.4	
Info. Technology	27.7	6.7	-2.1	-0.2	
Materials	0.7	8.2	-14.1	0.7	
Energy	0.0	5.8	0.0	11.2	
Industrials	21.0	14.5	-5.8	-2.2	
Cash	5.9	0.0	0.0	0.0	
REGION					
Europe	37.4	46.1	2.7	-2.7	
Emerging Markets	15.9	0.0	3.0	0.0	
Pacific Ex Japan	10.9	11.9	1.8	1.8	
North America	5.4	0.0	0.7	0.0	
United Kingdom	5.7	17.8	1.7	3.0	
Japan	18.8	24.3	-8.4	-2.8	
Cash	5.9	0.0	0.0	0.0	





Preliminary 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 International 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

- International Equity outperformed the MSCI EAFE Index by nearly 90 bps during the second quarter
- Security selection in Financials and Consumer Discretionary drove positive relative results while security selection in Industrials and no exposure to Energy detracted
- Security selection in Europe and exposure to Emerging Markets were top contributors from a regional perspective; security selection in Japan and the United Kingdom detracted from results during the quarter

LARGEST CONTRIBUTORS

Results at **Kering S.A. (+1.3% 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.

A renewed focus on **Safran S.A.'s (+0.8% contribution, +16.7% total return)** strong organic growth potential came through in the second quarter after reporting Q1 results well ahead of expectations. The Propulsion business reported +12% organic revenue growth, ahead of high-single-digit growth expectations, and the Defense business also accelerated to +12% organic revenue growth. Management guided to solid operational performance on the LEAP program, expecting delays to be made up by the third quarter of 2018, while maintaining prior cost guidance. In other news, Safran completed the acquisition of Zodiac and reported that the integration was proceeding according to plan.

The value of **AIA Group Ltd.'s (+0.4% contribution, +4.5% total return)** business is growing strongly in China which remains an underpenetrated insurance market. In addition, AIA should reap additional rewards in China as ownership limits are being lifted on foreign companies over the next few years thus creating an additional secular tailwind as AIA adds additional licenses. The growth in new business AIA has enjoyed over the past number of years is a reflection of a superior agent network. It has translated into a virtuous cycle as higher sales have raised the embedded value of the insurance policies in-force which translates into higher profits and increased dividend growth in the future. AIA remains an extremely well-managed, high quality company with secular growth potential from the low insurance penetration in China and other markets which will remain a dominant driver over the next several years.

LARGEST DETRACTORS

After a sharp run up at the end of 2017 and into January, **Fanuc Corp. (-1.0% contribution, -21.6% total return)** began to underperform over the past few months, characterized by increasing trouble in the smartphone machining / electronics end markets, specifically in the Apple supply chain. The multiple has fallen sufficiently to recognize the increased uncertainty in those markets, and management issued very cautious guidance, which called for approximately 65-70% YoY decline in IT demand. Given the sharp price correction and very downbeat outlook, the near-term potential for a positive quarterly surprise is growing, and the medium and long term outlooks remain bright as we move towards next year's cycle in smartphone related demand, as well as positive secular growth drivers in robots and IoT.

Political uncertainty in Italy has weighed on **Prysmian S.p.A.'s (-0.9% contribution, -19.2% total return)** shares throughout 2018. In the early part of the year, the election uncertainty itself weighed on sentiment, followed by post-election deadlock between political parties as no single party won a majority of the vote. The deadlock finally resolved with the formation of a populist government. Sentiment further weakened in May by leaked documents that outlined the more radical ideas of the new government. On top of uninterrupted political wrangling, competitors of Prysmian had reported concerns that low utilization in their High Voltage businesses would negatively impact their results in the second half of 2018. As a result, sentiment for the cable sector overall soured, even though Prysmian was not experiencing similar issues. Finally, at the end of June, Prysmian reported a write-off of €50M for its Western Link project, which encountered a fault in the cable during testing. However, despite these three unrelated issues in the first half of 2018, we believe Prysmian remains an attractive long-term investment with robust end market fundamentals in fiber optic cables, as well as offshore wind and interconnect energy projects, and an expected recovery in volumes in commodity energy products in 2018. The outlook remains positive in the medium term, and Prysmian trades at an attractive valuation.

While **adidas AG (-0.5% contribution, -8.5% total return)** posted in-line Q1 results, top-line commentary was weaker than expected, putting pressure on the shares. By region, North America and Asia-Pacific showed strong results, +21% and +15%, respectively, but this was offset by weaker than expected results in Western Europe (+5%). The weakness in Western Europe was due to newer franchises not offsetting the sales declines in some of the more mature models. While brand momentum has started to normalize, we remain confident that adidas will continue to gain share in the US driven by increasing share in the mid-tier channel. We also remain confident adidas will be able to narrow the margin gap with Nike in North America.

- During the quarter, we initiated positions in WuXi Biologics Inc., First Quantum Minerals Ltd., and Orpea S.A. and liquidated our position in Shire plc.
- Shares of Epiroc AB were distributed to Atlas Copco shareholders during the quarter as a result of the company's decision to split the group into two listed companies.
- Kering S.A. shareholders received an in-kind distribution of Puma shares during the quarter

PORTFOLIO ACTIVITY

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.

Orpea S.A. is a French-based, leading operator of healthcare facilities caring for dependent people (including nursing homes), and a buyer and manager of premium real estate. This dual model combines both attributes for short-term performance backed by best-in-class operational efficiency and long-term value creation through real estate. It affords a unique integrated model the company has been able to scale across Europe, and is now preparing to grow in transcontinental markets including Latin America. Moreover, while the company continues to grow, it displays defensive characteristics as it is a beneficiary of the transformation in the European and developed global age demographics, especially the growing elderly population (+80 years old). Over the last decade, the company has demonstrated steady execution in acquiring, targeting, and integrating new healthcare facilities, which has improved its cash generation ability year over year.

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

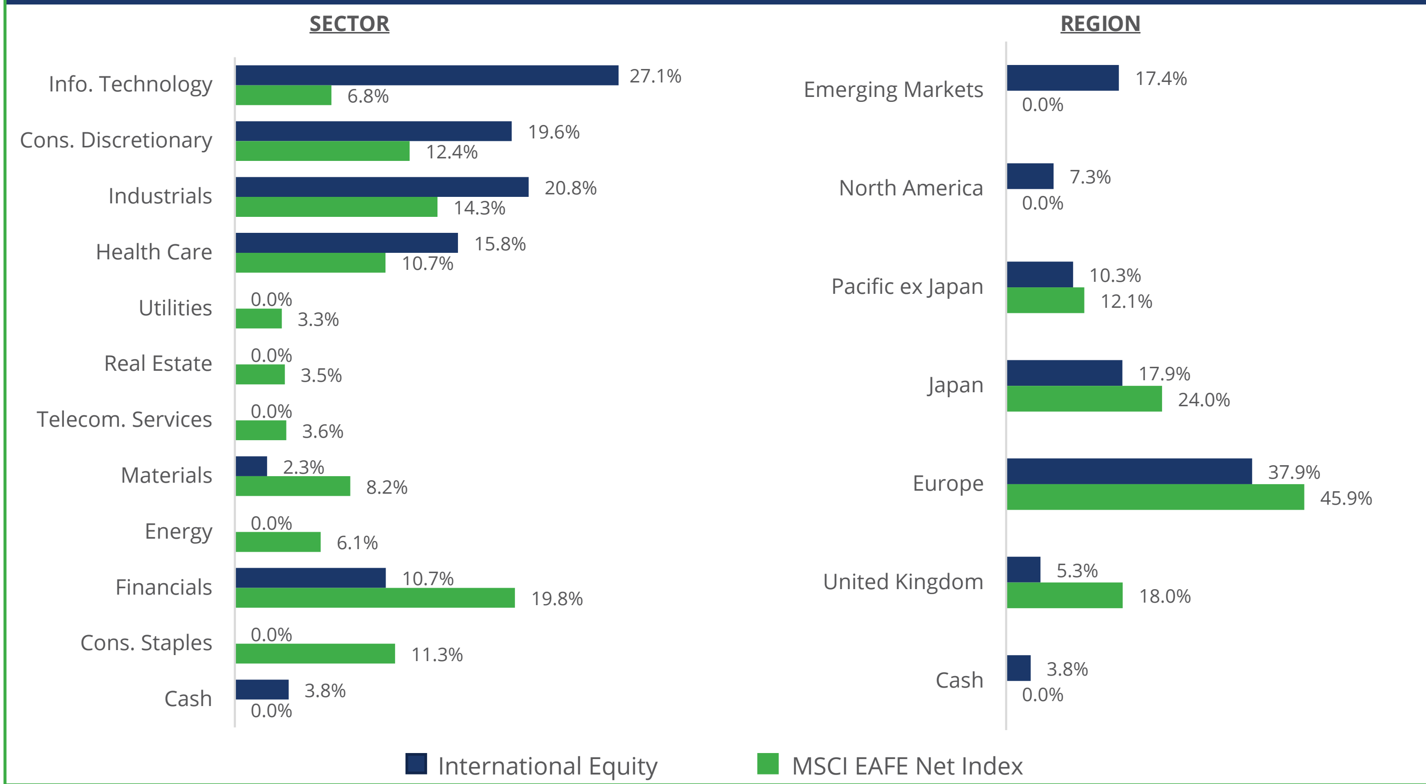
The underlying economic recovery should continue through the second half of 2018 with regional differences narrowing further. However, threats to synchronized global growth are growing. Weakening PMIs in Europe mean that growth may have peaked. Meanwhile, Japan's decision to ditch its 2% inflation target 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)

	International Equity	MSCI EAFE Net Index
Capitalization		
Weighted Average Market Cap ($B)	95.7	61.0
Median Market Cap ($B)	41.5	11.2
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	17.1	8.9
EPS Growth: 5 year trailing (%)[1]	17.7	7.2
Value Fundamentals		
P/E Ratio: 12 Months - forward[1]	21.9	15.9
P/E Ratio: 12 Months - trailing[1]	26.6	17.7
PEG Ratio: forward[1]	1.6	2.0
Dividend Yield (%)[2]	1.3	3.2
Price/Book[3]	4.0	1.6
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	15.6	12.0
Return on Invested Capital: 5 Year (%)[1]	11.2	8.5
Other		
Number of Stock Holdings	26	926
Beta: 3 year portfolio[4]	0.89	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			
adidas AG	Germany	4.4	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	4.9	Internet & Direct Marketing Retail
Kering S.A.	France	4.9	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	5.1	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Financials			
AIA Group Ltd.	Hong Kong	5.3	Insurance
HDFC Bank Ltd.	India	5.4	Banks
Health Care			
AstraZeneca	United Kingdom	5.3	Pharmaceuticals
Bayer AG	Germany	2.3	Pharmaceuticals
Nippon Shinyaku Co. Ltd.	Japan	1.1	Pharmaceuticals
Orpea S.A.	France	1.8	Health Care Providers & Services
Qiagen N.V.	Netherlands	2.9	Life Sciences Tools & Services
WuXi Biologics Inc.	China	2.3	Life Sciences Tools & Services
Industrials			
Atlas Copco AB	Sweden	1.7	Machinery
Epiroc AB	Sweden	0.6	Machinery
Fanuc Corp	Japan	4.0	Machinery
Nidec Corp.	Japan	5.1	Electrical Equipment
Prysmian S.p.A.	Italy	3.7	Electrical Equipment
Safran S.A.	France	5.7	Aerospace & Defense
Information Technology			
Alps Electric Co., Ltd.	Japan	2.8	Electronic Equipment, Instruments & Components
ASML Holding N.V.	Netherlands	4.9	Semiconductors & Semiconductor Equipment
Broadcom Inc.	United States	5.1	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	4.8	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	4.9	Electronic Equipment, Instruments & Components
Tencent Holdings Ltd.	China	4.8	Internet Software & Services
Materials			
First Quantum Minerals Ltd.	Canada	2.3	Metals & Mining
Cash & Equivalents			
Cash		3.8	

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