Hardman Johnston International Equity

2018 THIRD QUARTER REPORT

Hardman Johnston Global Advisors

COMPOSITE PERFORMANCE (%) (period ending September 30, 2018)	3rd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	-2.84	-1.79	3.37	14.36	7.59	8.72	11.00
International Equity (net of fees)	-2.98	-2.20	2.80	13.68	6.92	8.02	10.41
MSCI EAFE Net Index	1.35	-1.43	2.74	9.23	4.41	5.38	5.23
MSCI AC World ex US Net Index	0.71	-3.09	1.76	9.96	4.12	5.18	N/A

Performance is preliminary through September 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 Net Index is shown as supplemental information. The MSCI AC World ex US Index inception date is 1/1/2001. Composite inception date: September 30, 1993.

KEY TAKEAWAYS

- Markets bifurcate as trade war concerns weigh heavier on emerging market stocks
- Tax cuts help spur US growth and higher company profits, leading to record share buybacks
- Companies hold off capex due to trade outlook and US mid-term election uncertainty
- International Equity Composite returned –2.98%, net, underperforming the MSCI EAFE return of 1.35% and the MSCI ACWI ex US return of 0.71%

MARKET REVIEW

It was a tough quarter for international equity investors but one which – in the longer run – should benefit those that held their nerve and exposure to emerging markets. The MSCI Emerging Markets Index was down 1.1% as trade war fears escalated. In Europe, the Stoxx 600 flatlined. US indices continued their upward march as the S&P 500 and the Nasdaq hit new highs and gained over 7%.

After a period of relatively coordinated progress, markets have bifurcated. While investors expect growth in the US, consensus suggests more turbulent times in emerging markets, as well as Europe. Our analysis differs in that we do not see such a wide divergence in performance as pricing suggests.

The US economy is doing well. GDP growth nearly doubled in Q2 to 4.2%, a performance it could sustain in Q3 (with the Atlanta Fed modeling 4.1% growth at the start of October). Consumer confidence is at levels not seen for almost two decades on the back of near-full employment and strong wage growth. Following the Fed's third interest rate hike of 2018 in September, expectations of another 0.25% hike in December are being priced in. Corporate tax cuts have clearly added fuel to the fire and are filtering into the real economy.

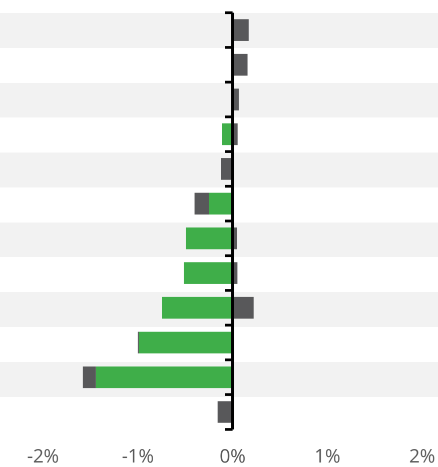
Lower taxes are also working their way into financial markets, with both positive and negative consequences. US company share buybacks could hit $1 trillion this year, led by Apple's $100 billion repurchase plan. While positive for investors' pockets, buybacks also highlight caution about the simmering US-China trade conflict. Returning cash to shareholders means companies are forgoing capital investments that could drive a steep change in productivity. There is further uncertainty for business from the finely-balanced US mid-term elections. As growth investors, we hope that companies will put more profits into capex when the outlook becomes clearer.

Conversely, we are not as bearish on emerging markets as some. China may take a hit from the extension of tariffs to another $200 billion of its US exports, but it does have growth levers it can pull on. The weakening of the Chinese Renminbi is helping offset the impact of higher export costs, while the authorities can always rekindle investment to boost GDP. It appears China is bracing for a protracted conflict and we do not underestimate its capacity to take a short-term hit to secure a long-term gain. Moreover, from a company perspective, results have been resilient and, to our mind, undervalue current performance and future prospects.

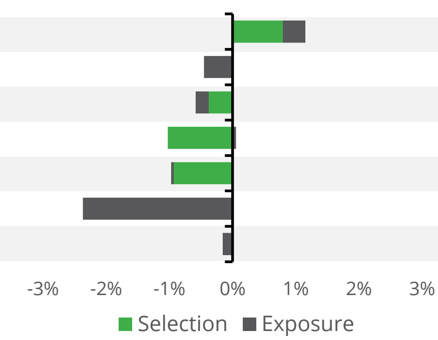
Other developed markets are not showing warning signals. In Japan, Shinzo Abe's appointment for a third term as Prime Minister is positive for the admittedly quiet reform working its way through the economy. While Europe has slowed, with Brexit and a new populist government in Italy presenting risks, the policy environment remains accommodative and growth has been solid. We do not believe synchronized global economic growth has come off the rails just yet.

PERFORMANCE ATTRIBUTION

	Average Weight		Total Return		Relative Attribution
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	
SECTOR					
Consumer Staples	0.0	11.3	0.0	-0.1	
Real Estate	0.0	3.5	0.0	-3.1	
Utilities	0.0	3.3	0.0	-0.6	
Industrials	20.4	14.4	2.0	2.5	
Energy	0.0	6.0	0.0	3.3	
Info. Technology	21.0	6.2	-0.7	0.3	
Financials	10.3	19.8	-3.7	0.9	
Materials	2.1	8.0	-22.7	0.5	
Health Care	16.5	11.0	1.0	5.6	
Comm. Services	4.4	5.5	-17.7	3.2	
Cons. Discretionary	19.0	11.1	-7.9	-0.5	
Cash	6.2	0.0	0.5	0.0	



	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	
REGION					
United Kingdom	5.8	17.6	13.4	-1.7	
North America	6.9	0.0	-5.4	0.0	
Japan	16.5	23.9	1.5	3.7	
Pacific Ex Japan	9.6	11.9	-10.6	-0.5	
Europe	38.6	46.6	-0.6	1.8	
Emerging Markets	16.3	0.0	-12.4	0.0	
Cash	6.2	0.0	0.5	0.0	



Preliminary data as of the quarter ending September 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 underperformed the MSCI EAFE Index by approximately 430 bps during the third quarter
- Security selection in Consumer Discretionary and Communication Services were the largest detractors during the quarter while no exposure to Consumer Staples and Real Estate were modest contributors
- Exposure to Emerging Markets and security selection in Europe were the top detractors to performance from a regional perspective; security selection in the United Kingdom was the lone contributor during the quarter

LARGEST CONTRIBUTORS

A renewed focus on **Safran S.A.'s (+0.9% contribution, +15.4% total return)** strong organic growth potential came through this year after reporting two consecutive results ahead of expectations. In Q1, 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. In Q2, Safran reported first half EBIT of 8% ahead of already rising consensus expectations, and the company raised guidance for the civil aftermarket organic growth from high single-digit growth to 10-12% for FY18. Management also guided to solid operational performance on the LEAP program, while maintaining prior cost guidance. Safran also completed the acquisition of Zodiac and reported that the integration was proceeding according to plan.

AstraZeneca (+0.7% contribution, +13.4% total return) delivered strong results during the quarter, driving growth from their portfolio of newly introduced, high-margin drugs as well as upside from exposure to China. Importantly, their oncology segment (driven by three key recently launched drugs) grew +37% while revenue in China grew +24%, both ahead of consensus. AstraZeneca is delivering better than expected results across their pipeline and reinforcing our confidence in management's strategy of growing through pipeline development. The portfolio transformation the company has undertaken over the last five years is nearing completion and has translated into the best R&D productivity among the global pharmaceutical companies.

adidas AG (+0.5% contribution, +12.2% total return) stock rallied after reporting stronger than expected Q2 results in July. The company's earnings showed revenue growth of 10% and EPS growth of 20%. These results confirmed our investment thesis that strong, but moderating revenue growth will be supplemented by margin expansion. By segment, footwear growth accelerated to +9% from +5% in Q1, despite tougher comps while company operating margin expanded by 120 basis points. The strong results were also accompanied by a slate of new product initiatives that will continue to propel market share gains.

LARGEST DETRACTORS

Melco Resorts and Entertainment Ltd. (-1.2% contribution, -24.0% total return) stock has underperformed with the rest of the Macau gaming operators due to investor concern of a deteriorating Chinese economy as a result of the trade tensions between the US and China. Although we have yet to see any major slowdown in Chinese spending or travelling, we are actively monitoring the situation. We continue to believe that Melco's recent opening of the Morpheus Hotel Tower will create significant value over time.

Tencent Holdings Ltd. (-0.8% contribution, -17.7% total return) shares underperformed in the third quarter due to delays in approval for the monetization of new online games as China restructures the relevant government agencies that oversee the video game industry. This approval process should resume soon after the restructuring is complete, which is expected to be done by the year-end. Moreover, trade war rhetoric has also weighed heavily on sentiment across all China-related holdings. While Tencent is not directly impacted by any potential disruption in trade, the derivative effect of a trade war could lead domestic companies to reign in advertising spending.

Alibaba Group Holding Ltd. (-0.5% contribution, -11.2% total return) stock underperformed during the quarter due to macro and regulatory uncertainty in China and concerns over increased investments. These negatives overshadowed strong quarterly results of revenue growth of over 60% and a well-received investor day that highlighted the long-term prospects for the company. Although we are seeing short term volatility, Alibaba continues to gain incremental market share, is capturing a larger share of the digital wallet market and is seeing strong growth across all segments.

- During the quarter, we initiated a position in ICICI Bank Ltd. and liquidated our positions in Alps Electric Co. Ltd. and Atlas Copco.

PORTFOLIO ACTIVITY

INITIATIONS

ICICI Bank Ltd. is India's largest private sector bank with the most extensive branch network in the country and a diversified presence across business segments. The bank has been focused on improving its operating efficiency and asset quality while dramatically reducing its large non-performing loans (NPL's) and assets (NPA's). We initiated a position as a result of the bank cleaning up their loan book and reducing their exposure to large, risky credits. Furthermore, they have utilized their vast network presence to increase exposure to higher quality retail clients and small and medium businesses. This provides diversification, an opportunity to cross sell and a low cost of funding from deposits which should result in higher profitability going forward. Earnings troughed in early 2018 and should grow significantly over the next several years as profitability ramps up off very depressed levels.

LIQUIDATIONS

We exited our position in **Alps Electric Co. Ltd.** after the company reported better-than-expected June quarter results that were helped by improving margins in its automotive module business. While Alps Electric's auto-related business has potential over the long run, the smartphone business appears increasingly less attractive. Triple cameras are expected to be more pervasive in high-end smartphones going into 2019. However, it is not clear that the third camera module would have an OIS actuator, an image stabilizer that has been a key driver of the company's growth. Further, the haptics opportunity was also becoming less attractive as more challengers have been entering the space, which is likely to pressure margins over time.

After the spin out of **Atlas Copco's** Epiroc division, which is engaged in selling mining equipment, the remaining company was comprised mainly of the compressor and vacuum technique businesses. While we continue to believe in the long term prospects of the core business and the overall quality of the company and management team, the core company failed to meet our 10% earnings growth hurdle. Moreover, the company has high exposure to automotive and semiconductor end markets, which both face risks of slowing in the near and medium term.

MARKET OUTLOOK

Global growth should remain strong through the end of the year and into 2019, led by a robust US economy and resilience elsewhere in the world. That is not to say there aren't potholes to avoid along the road.

Looming largest is the US-China trade dispute, which will stymie long-term company planning and weigh on markets for the foreseeable future. It will have other negative effects, contributing to inflation as businesses pass on higher costs from tariffs, as well as the rising oil price and wage increases. While the US consumer is feeling good, higher prices – from goods to gasoline – will create increasingly strong headwinds.

That inflation will also be a double-edged sword with potential international repercussions. It provides the Fed with the impetus to continue normalizing interest rates, but will keep the dollar trading at high levels, making life tougher for exporters and heaping pressure on emerging markets debt.

We expect the Chinese economy to continue to slow at a modest pace – rather than alarming speed. Similarly in Europe, we see growth moderating, not collapsing, in spite of political uncertainty and Brexit negotiations going down to the wire.

Japan could be a bright light. After a testing summer of natural disasters, we expect solid growth to resume, helped by a stable political outlook and the relatively weak yen. The opening of bilateral trade talks with the US will keep Japan out of the direct firing line for tariffs and potentially underpin exports.

It is worth reiterating, as in previous quarters, that the outlook is broadly supportive of equities. Although valuations in the US are above long-term trends, pricing is not extreme. Meanwhile, in emerging markets, we believe the sell-off is overdone and that resilient company performance paves the way for a potential rebound in stocks.

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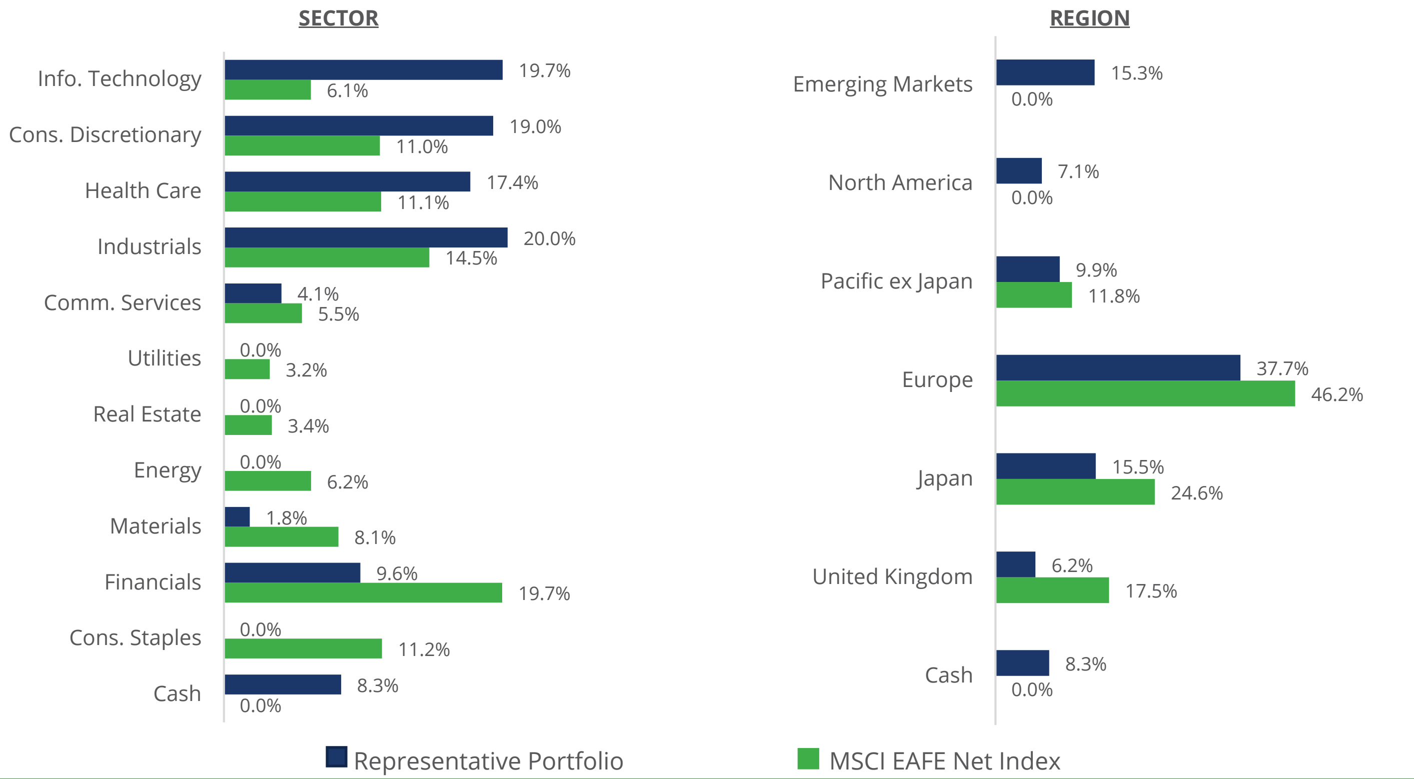
PORTFOLIO EXPOSURE (period ending September 30, 2018)



PORTFOLIO CHARACTERISTICS (period ending September 30, 2018)

	Representative Portfolio	MSCI EAFE Net Index
Capitalization		
Weighted Average Market Cap ($B)	88.0	62.1
Median Market Cap ($B)	42.6	11.0
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	15.7	8.6
EPS Growth: 5 year trailing (%)[1]	17.5	7.1
Value Fundamentals		
P/E Ratio: 12 Months - forward[1]	21.6	16.0
P/E Ratio: 12 Months - trailing[1]	25.2	16.9
PEG Ratio: forward[1]	1.4	1.9
Dividend Yield (%)[2]	1.3	3.2
Price/Book[3]	3.9	1.7
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	15.0	12.0
Return on Invested Capital: 5 Year (%)[1]	10.8	8.6
Other		
Number of Positions	25	924
Beta: 3 year portfolio[4]	0.82	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 September 30, 2018)			
Sector / Company	**Country**	**Weight (%)**	**Industry**
Communication Services			
Tencent Holdings Ltd.	China	4.1	Interactive Media & Services
Consumer Discretionary			
adidas AG	Germany	5.1	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	4.5	Internet & Direct Marketing Retail
Kering S.A.	France	4.8	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	4.4	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Financials			
AIA Group Ltd.	Hong Kong	5.6	Insurance
HDFC Bank Ltd.	India	3.3	Banks
ICICI Bank Ltd.	India	0.7	Banks
Health Care			
AstraZeneca	United Kingdom	6.2	Pharmaceuticals
Bayer AG	Germany	2.0	Pharmaceuticals
Nippon Shinyaku Co. Ltd.	Japan	1.2	Pharmaceuticals
Orpea S.A.	France	2.3	Health Care Providers & Services
Qiagen N.V.	Netherlands	3.1	Life Sciences Tools & Services
WuXi Biologics	China	2.7	Life Sciences Tools & Services
Industrials			
Epiroc AB	Sweden	0.7	Machinery
Fanuc Corp.	Japan	4.0	Machinery
Nidec Corp.	Japan	5.1	Electrical Equipment
Prysmian S.p.A.	Italy	3.6	Electrical Equipment
Safran S.A.	France	6.8	Aerospace & Defense
Information Technology			
ASML Holding N.V.	Netherlands	4.8	Semiconductors & Semiconductor Equipment
Broadcom Inc.	United States	5.3	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	4.4	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	5.2	Electronic Equipment, Instruments & Components
Materials			
First Quantum Minerals Ltd.	Canada	1.8	Metals & Mining
Cash & Equivalents			
Cash		8.3	

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