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# Hardman Johnston

# Large Cap Equity

2018 THIRD QUARTER REPORT

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**Hardman  
Johnston**  
Global Advisors

#### COMPOSITE PERFORMANCE (%) (period ending September 30, 2018)

	3rd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Large Cap Equity (gross of fees)	6.17	10.62	14.83	16.80	12.81	12.09	11.48
Large Cap Equity (net of fees)	6.02	10.15	14.19	16.14	12.16	11.44	11.06
S&P 500 Total Return Index	7.71	10.56	17.91	17.29	13.88	11.91	9.89

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. Composite inception date: December 31, 1989.

#### KEY TAKEAWAYS

- US economy is in a good competitive position on the back of strong employment, accelerating wage growth and strong consumer confidence
- Global economic expansion is long in the tooth but we believe it can continue with US growth at the forefront
- Risks associated with equity markets include rising interest rates, a strong dollar and supply chain disruptions from international trade policies
- Large Cap Equity Composite returned 6.02%, net, relative to the S&P 500 return of 7.71% during the third quarter, with international holdings lagging strong US performance

#### MARKET REVIEW AND OUTLOOK

As usual, we visited an array of clients and their advisors in recent weeks. We have argued that the current economic environment in the United States is quite good, and the outlook for profit growth is strong. While we acknowledge numerous risks, especially the potential economic drags of trade disputes, many of the people we spoke with were not so sanguine. They perceived more risk from other factors that we discounted. The different views we encountered are a good reminder that decisions are best made with input from different sources. While we are still constructive on the economic outlook, and by association equity markets in the US, we acknowledge risks, especially those posed by rising interest rates and an unsettled environment for international trade.

On the positive side, employment is very strong, wages are rising at an accelerating pace, and both are keeping consumer confidence strong. Business confidence remains strong, so companies are willing to not only hire, but also to make investments to improve productivity. This has strong secondary effects for suppliers of technology and capital equipment. The investments are further incentivized by a tax code that rewards the long term investment decisions with full expensing of the purchases. According to some, the refresh of the plants and equipment that deliver the goods and services we consume will not only help prolong this expansion, but will help businesses recover more quickly coming out of the next recession with relatively modern and efficient capacity. Generally, the United States appears to be in a good competitive position and should enjoy a continued economic expansion for at least another year and likely more.

However, rising interest rates, a strong dollar, and supply chain disruptions from trade policies are throwing some shadows over the expansion. Ever vigilant about inflation, the Federal Reserve's Open Market Committee has been raising short term interest targets. Rising interest rates make it more expensive for businesses to fund their expansions. Rising mortgage rates makes home ownership less affordable, a drag on an important segment of the economy. Rising rates are bad news for the so called "zombie" companies that have been kept alive by cheap money, such as Sears, and are consequently failing. Additionally, energy prices are on the rise again as US foreign policies threaten the flow of cheap oil. If high prices persist, it will almost certainly curtail discretionary consumer spending on other goods and services.

Longer term we share concerns about structural items including inflation, fiscal deficits and the debt burden required to fund them, carbon emissions, and the wealth gap, to name a few. We are confident that markets and society will eventually find solutions to the problems we face, but the path is not always smooth.

Our base scenario is that the global economic expansion will continue for a couple of more years, and that corporate profits will expand accordingly. We expect the United States to lead that growth. We acknowledge that this expansion is long in the tooth, and that there are many risks that are difficult to predict. A recession could come sooner, and we will monitor events and adjust our outlook accordingly.

One thing is eminently clear to us: Good news and bad news are not spread evenly across the investment universe. Selectivity is necessary. Research is essential. A steadfast approach is vital. Our stock selection is not based on observing broad economic trends, selecting themes, and then finding securities that fit the theme. Instead we search company by company for excellence, and then decide whether they can grow and create value for both their customers and their shareholders in the process. We are more than aware of the macro-economic environment that our holdings operate in, but are long term investors and expect our holdings to perform well in most environments.

## PERFORMANCE ATTRIBUTION



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 Large Cap Equity strategy and is for informational purposes only. Exposure refers to the contribution of the active segment weights to the total relative return. 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. This material is provided for your information only.



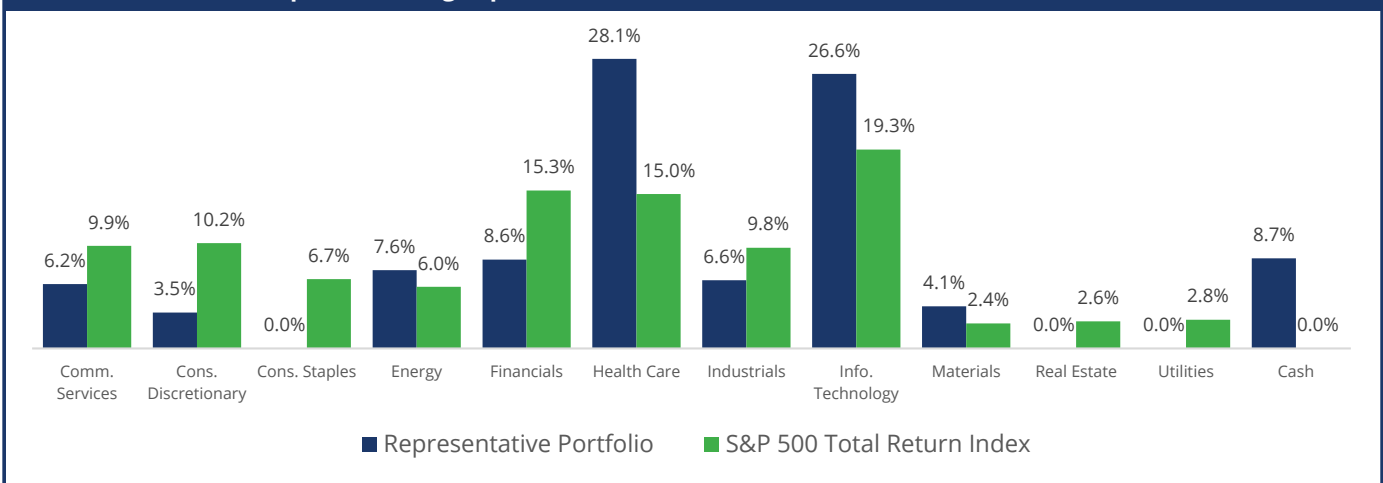
## PORTFOLIO COMMENTARY

The Large Cap Equity strategy delivered just over 6% returns for the quarter, lagging the S&P 500's 7.7% return. While the US holdings delivered over 8% returns in aggregate, the international holdings lagged substantially given weaker international markets.

Outstanding contributors included IQVIA Holdings Inc., the leading provider of clinical trial management services for pharmaceuticals companies, Microsoft Corp., and Edwards LifeSciences Corp. Microsoft remains essential to their customers and is a key partner to enterprise, mid-sized, and small customers as they migrate to cloud based software platforms, a fact that is under recognized by many. Edwards continues to enjoy strong growth with its life-saving and life-prolonging heart valves.

Detractors included Melco Resorts & Entertainment Ltd., Nevro Corp., and Schlumberger Ltd. Melco sold off on fear of reduced traffic at its properties in Macau due to both a slowdown in the Chinese economy and a powerful typhoon that swept the area in September. Nevro disappointed investors with lackluster sales and turmoil in its management team. We sold the position after losing confidence in the company's ability to attract the talent it needs to succeed in a very competitive market. Schlumberger was not unique among oil services companies that currently have overcapacity in the North American market. Higher oil prices likely indicate that some of the excess will be absorbed and should allow for stronger growth.

### PORTFOLIO EXPOSURE (period ending September 30, 2018)



THIRD QUARTER			LAST TWELVE MONTHS		
	Average Weight (%)	Contribution to Return (%)		Average Weight (%)	Contribution to Return (%)
<b>Largest Contributors</b>			<b>Largest Contributors</b>		
IQVIA Holdings Inc.	2.83	0.73	Adobe Systems Inc.	3.58	2.27
Microsoft Corp.	4.50	0.70	Microsoft Corp.	4.09	1.94
Edwards Lifesciences Corp.	2.89	0.56	Mastercard Inc.	3.04	1.50
<b>Largest Detractors</b>			<b>Largest Detractors</b>		
Melco Resorts & Ent. Ltd.	0.81	-0.25	General Electric Co.	1.46	-1.27
Nevro Corp.	0.21	-0.22	Celgene Corp.	1.75	-1.25
Schlumberger Ltd.	2.38	-0.21	Albemarle Corp.	2.15	-0.72

**Past performance does not guarantee future results.** A full list of securities held as of September 30, 2018, contribution to performance and the methodology to calculate is available upon request. This material is provided for your information only. The data shown is of a representative portfolio for the Hardman Johnston Large Cap Equity strategy and is for informational purposes only and is 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.

PURCHASES - THIRD QUARTER	LIQUIDATIONS - THIRD QUARTER	
ICICI Bank	Alps Electric Co., Ltd.	Atlas Copco AB
	Nevro Corp.	

The holdings identified represent all new positions and liquidations in the Hardman Johnston Large Cap Equity strategy for the quarter-to-date period ending September 30, 2018. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. This material is provided for your information only.

PORTFOLIO CHARACTERISTICS (period ending September 30, 2018)		
	Representative Portfolio	S&P 500 Total Return
<b>Capitalization</b>		
Weighted Average Market Cap (\$B)	180.8	249.5
Median Market Cap (\$B)	61.9	21.8
<b>Growth Fundamentals</b>		
EPS Growth: 3 to 5 year forecast (%) <sup>1</sup>	13.8	11.4
EPS Growth: 5 year trailing (%) <sup>1</sup>	5.3	6.7
<b>Value Fundamentals</b>		
P/E Ratio: 12 Months - forward <sup>1</sup>	22.5	18.7
P/E Ratio: 12 Months - trailing <sup>1</sup>	32.5	24.6
PEG Ratio: forward <sup>1</sup>	1.6	1.6
Dividend Yield (%) <sup>2</sup>	1.2	1.8
Price/Book <sup>3</sup>	4.7	3.3
<b>Quality Fundamentals</b>		
Return on Equity: 5 Year (%) <sup>1</sup>	15.3	17.4
Return on Invested Capital: 5 Year (%) <sup>1</sup>	11.1	12.2
<b>Other</b>		
Number of Positions	50	506
Beta: 3 year portfolio <sup>4</sup>	0.90	1.00

<sup>1</sup>Interquartile weighted mean, <sup>2</sup>Weighted mean, <sup>3</sup>Weighted harmonic mean, <sup>4</sup>MPT beta (daily).

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**PORTFOLIO HOLDINGS (period ending September 30, 2018)**

Sector / Company	Country	Weight (%)	Industry
<b>Communication Services</b>			
Alphabet Inc. Class A	United States	2.9	Interactive Media & Services
Comcast Corp.	United States	2.6	Media
Tencent Holdings Ltd.	China	0.7	Interactive Media & Services
<b>Consumer Discretionary</b>			
adidas AG	Germany	0.9	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	0.8	Internet & Direct Marketing Retail
LVMH	France	1.0	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	0.8	Hotels, Restaurants & Leisure
<b>Energy</b>			
EOG Resources, Inc.	United States	2.6	Oil, Gas & Consumable Fuels
Occidental Petroleum Corp	United States	2.8	Oil, Gas & Consumable Fuels
Schlumberger Ltd.	United States	2.2	Energy Equipment & Services
<b>Financials</b>			
AIA Group Ltd.	Hong Kong	1.2	Insurance
HDFC Bank Ltd.	India	0.6	Banks
ICICI Bank Ltd.	India	0.1	Banks
Marsh & McLennan Cos. Inc.	United States	3.1	Insurance
Mastercard Inc.	United States	3.6	Consumer Finance
<b>Health Care</b>			
AstraZeneca	United Kingdom	1.1	Pharmaceuticals
Bayer AG	Germany	0.4	Pharmaceuticals
Becton, Dickinson & Co.	United States	3.6	Health Care Equipment & Supplies
Celgene Corp.	United States	1.3	Biotechnology
Cerner Corp.	United States	1.6	Health Care Technology
Edwards Lifesciences Corp.	United States	3.4	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	3.0	Life Sciences Tools & Services
Johnson & Johnson	United States	2.4	Pharmaceuticals
Koninklijke Philips N.V.	Netherlands	0.6	Health Care Equipment & Supplies
Medtronic plc	Ireland	2.5	Health Care Equipment & Supplies
Nippon Shinyaku Co. Ltd.	Japan	0.2	Pharmaceuticals
Qiagen N.V.	Netherlands	0.9	Life Sciences Tools & Services
Quest Diagnostics Inc.	United States	1.8	Health Care Providers & Services
Varian Medical Systems, Inc.	United States	2.1	Health Care Equipment & Supplies
Vertex Pharmaceuticals Inc.	United States	2.8	Biotechnology
WuXi Biologics	China	0.5	Life Sciences Tools & Services
<b>Industrials</b>			
Fanuc Corp	Japan	0.7	Machinery
General Electric Co.	United States	1.0	Industrial Conglomerates
Nidec Corp.	Japan	0.9	Electrical Equipment
Prysmian S.p.A.	Italy	0.6	Electrical Equipment
Safran S.A.	France	1.3	Aerospace & Defense
Stanley Black & Decker Inc.	United States	2.2	Machinery
<b>Information Technology</b>			
Adobe Systems Inc.	United States	3.9	Software
Apple Inc.	United States	2.6	Technology Hardware, Storage & Peripherals
ASML Holding N.V.	Netherlands	0.9	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	3.7	IT Services
Broadcom Inc.	United States	1.0	Semiconductors & Semiconductor Equipment
Cisco Systems, Inc.	United States	2.8	Communications Equipment
Cognizant Technology Solutions	United States	2.7	IT Services
FLIR Systems Inc.	United States	2.8	Electronic Equipment, Instruments & Components
Hexagon AB	Sweden	1.0	Electronic Equipment, Instruments & Components
Infineon Technologies AG	Germany	0.8	Semiconductors & Semiconductor Equipment
Microsoft Corp.	United States	4.6	Software
<b>Materials</b>			
Albemarle Corp.	United States	1.8	Chemicals
FMC Corp.	United States	2.3	Chemicals
<b>Cash &amp; Equivalents</b>			
Cash		8.7	

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