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# Hardman Johnston Global Equity

2019 FOURTH QUARTER REPORT

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**Hardman  
Johnston**  
Global Advisors

## FIRM UPDATE

Hardman Johnston is pleased to announce the Firm now sub-advises a mutual fund called the Hardman Johnston International Growth Fund. Effective January 1, 2020, Hardman Johnston entered into a subadvisory agreement with Marmont Partners LLC who is advisor to the Hardman Johnston International Growth Fund. The fund is structured with an EM limit of MSCI AC World ex-US +10%, which differs slightly from our current International strategy. The Hardman Johnston International Growth Fund is distributed by Quasar Distributors, LLC. If you are interested in obtaining additional information, you can find details from them at [www.hardmanjohnstonfunds.com](http://www.hardmanjohnstonfunds.com).

## COMPOSITE PERFORMANCE (%) (period ending December 31, 2019)

	4th QTR	1 Year	3 Years	5 Years	10 Years	Inception
Global Equity (gross of fees)	15.05	36.45	22.01	15.97	12.41	11.06
Global Equity (net of fees)	14.84	35.53	21.17	15.15	11.63	10.31
MSCI AC World Net Index	8.95	26.60	12.44	8.40	8.78	6.57
MSCI World Net Index	8.56	27.67	12.57	8.73	9.46	6.74

Performance is preliminary through December 31, 2019. 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 performance for the MSCI World Net Index ("World") is shown as a supplemental index. The inception date of the composite is December 31, 2005.

## KEY TAKEAWAYS

- Developed and emerging markets advance strongly in fourth quarter and full year 2019 as global investor sentiment improves
- US and China agree on a Phase One trade deal and partial roll-back of previous tariffs while UK confirms Brexit deal
- Economic indicators signal modest pick-up in growth in 2020 as central banks maintain accommodative monetary policy and governments deploy fiscal measures
- Global Equity Composite returned 14.84%, net, outperforming the MSCI ACWI return of 8.95% and the MSCI World return of 8.56%

## MARKET REVIEW

The year ended strong as global markets surged again in the fourth quarter, in stark contrast to the sell-off that preceded the close of 2018. Improving sentiment, fueled by positive movements on trade between the US and China and greater certainty surrounding Brexit, pushed developed international equity markets up 8.2% for the final quarter and 22.0% for the year. US indices also achieved new records while stocks in Europe and emerging markets made strong gains.

The agreement of Phase One of the trade deal between the US and China in December halted planned tariff rises that would have hit some \$150 billion of mainly consumer goods imported into the US and rolled back September tariffs to 7.5% from 15%. The deal committed China to the purchases of US goods and contained concessions on forced technology transfer, as well as the partial opening of the Chinese market for US financial groups.

While some issues remain to be negotiated in future phases, such as Chinese industrial subsidies and cybertheft, the accord was the first concrete de-escalation in the trade conflict that has caused market volatility for the last two years. The news underpinned an end-of-year equities rally that saw the S&P 500 turn in its best year since 2013, up over 31%. Emerging



markets began the year depressed by trade tensions and slowing economic performance but rebounded with a strong final quarter as the MSCI Emerging Markets Index returned 11.8%, finishing up 18.4% for the year.

Europe also bounced back thanks to both easing global trade tensions as well as progress regarding Brexit. Boris Johnson's landslide election win in December cleared the way for the passage of his EU divorce bill through Parliament, confirming the UK's exit date from the EU for January 31, 2020. While he stuck to a tight deadline for agreeing to a subsequent trade deal, keeping a "no-deal Brexit" scenario on the table, the pound, UK equities and bonds all surged.

Although global economic growth remained sluggish, concerns about widespread slowdown in 2020, or even contraction, lessened over the course of the quarter. The yield curve for US treasuries, which many had feared was the harbinger of near-term recession, normalized during the quarter as the spread between ten-year and two-year paper turned positive and widened. Other closely-watched indicators showed signs of improvement, or at least of bottoming out. The JPMorgan Global Manufacturing PMI rose to 50.3 in November, the first expansion reading since April. PMIs improved in 18 of the 30 markets that IHS Markit tracks, including the US, China and India, while slowing rates of decline were recorded in Germany and Japan.

Part of the improvement was due to monetary policy intervention. The US Federal Reserve cut interest rates for the third time in three meetings at the end of October and then signaled that it planned no interest rate movements in 2020. Its continued interventions in the repo market in an attempt to fix short-term funding issues boosted liquidity and sent positive signals to the market. That support helped equities and boosted confidence; CEO Magazine's business confidence index marked its third straight monthly increase in November, while US consumer confidence measures also improved in December.

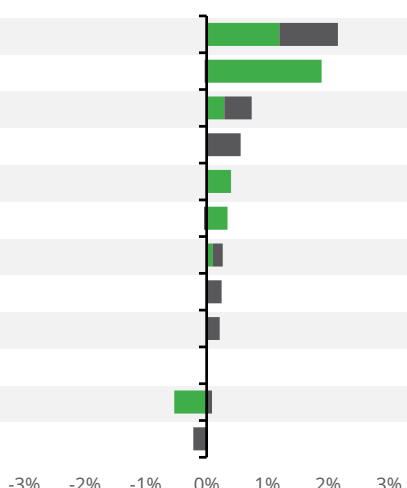
Central banks around the world also stepped up easing measures, while maintaining a responsible approach. The Reserve Bank of India cut interest rates for a fifth time in October but stopped short of a widely-expected cut in December, instead choosing to focus on keeping inflation within its target range, while giving September's tax cuts an opportunity to reignite growth. Brazil, meanwhile, took interest rates to a new low as it looked to fire up its economy on the back of news regarding the passage of President Jair Bolsonaro's pension reform bill, an initiative which could save the country some \$200bn over the next decade.

In some cases, where monetary policy was at its limits, governments unleashed fiscal measures. Shinzo Abe's government launched a larger-than-expected \$120 billion stimulus package to repair typhoon damage, improve infrastructure and back new technologies, also countering the expected impact of its long-planned sales tax increase for Japan. While confidence in the manufacturing sector continued to slide, services remained solid, pointing to resilient consumer demand.

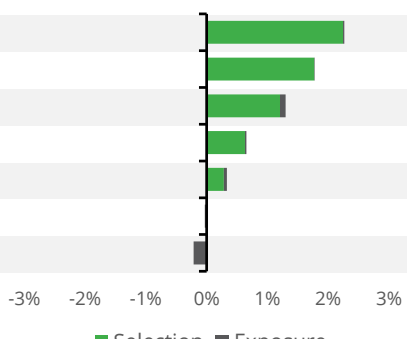
There was no such response in Europe, however. Despite a renewed call from incoming central bank president Christine Lagarde for countries with budget surpluses, notably Germany and the Netherlands, to use fiscal measures to drive growth, neither obliged.

## PERFORMANCE ATTRIBUTION

SECTOR	Average Weight		Total Return		Relative Attribution
	Rep. Portfolio	ACWI	Rep. Portfolio	ACWI	
Info. Technology	33.3	15.6	18.8	14.9	1.9%
Cons. Discretionary	15.4	10.8	21.1	8.2	1.3%
Health Care	21.0	11.6	15.0	13.7	0.1%
Consumer Staples	0.0	8.3	0.0	2.6	0.0%
Financials	8.3	17.9	13.7	9.0	0.0%
Comm. Services	12.3	8.8	10.9	8.3	0.0%
Energy	0.7	5.3	19.3	5.8	0.0%
Utilities	0.0	3.4	0.0	2.3	0.0%
Real Estate	0.0	3.3	0.0	2.8	0.0%
Materials	0.1	4.7	0.7	9.3	0.0%
Industrials	5.9	10.5	-0.9	7.4	-0.9%
Cash	3.0	0.0	0.4	0.0	0.0%



REGION	Average Weight		Total Return		Relative Attribution
	Rep. Portfolio	ACWI	Rep. Portfolio	ACWI	
North America	62.1	58.4	12.5	8.7	3.8%
Europe	12.6	14.1	23.4	8.5	1.7%
Emerging Markets	14.8	11.8	20.6	11.8	0.8%
Pacific Ex Japan	3.3	3.6	25.4	5.8	0.0%
Japan	4.1	7.3	14.4	7.6	0.0%
United Kingdom	0.0	4.8	0.0	10.0	0.0%
Cash	3.0	0.0	0.4	0.0	0.0%



Preliminary data as of the quarter ending December 31, 2019. 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 approximately 590 basis points on a net basis during the fourth quarter
- Security selection and overweight exposure in Information Technology and security selection in Consumer Discretionary were the largest contributors during the quarter while security selection in Industrials was the largest detractor
- Security selection in North America and Europe were the largest contributors to relative performance from a regional perspective; no broad region detracted from relative results during the quarter



### LARGEST CONTRIBUTORS

Shares of **NVIDIA Corp. (+1.4% contribution, +35.3% total return)** rallied as the new line of Turing graphics processors was well received in the market. NVIDIA's Gaming segment is benefiting from a full line-up of the new Turing GPUs, from a low-end product sub-\$300 to the super high-end GPUs. Further, more encouraging evidence of a rebound in data center spending has also led investors to think NVIDIA's Datacenter segment will start to show signs of recovery.

**Alibaba Group Holding Ltd. (+1.1% contribution, +26.8% total return)** stock had a strong quarter as Single's Day sales did not disappoint showing 26% growth year over year in the face of macro and trade war uncertainty. In addition, the long awaited and heavily oversubscribed (42x) offering of Alibaba shares debuted in Hong Kong and rose 8% on the first day of trading. This represented the first time shares could be bought in the region where the company dominates and investors enthusiastically piled in.

**Vertex Inc. (+1.1% contribution, +29.2% total return)** benefitted from a series of positive developments for their cystic fibrosis (CF) franchise. The company received early approval for their triple combination CF therapy TRIKAFTA (5-months early, broad label). This boosts the addressable patient pool by 50%, improves pricing and extends the patent life of their CF franchise. The company also received reimbursement approval from the UK NICE (National Institute for Health and Care Excellence) for CF doublet therapies ORKAMBI and SYMKEVI. Other regional positive reimbursement decisions came from France, Spain, Scotland, Ireland, and Australia as well as European Medical Agency (EMA) acceptance of their drug application for TRIKAFTA. Additionally, the company released positive early phase II results for CTX001 a gene editing (CRISPR CAS9) medicine for severe blood diseases, which is a key initial step of diversifying the company away from purely CF driven revenues. Finally, the company reported a solid quarter towards the end of October and initiated a full US launch of TRIKAFTA.

### LARGEST DETRACTORS

**PTC Inc. (-0.1% contribution, -1.9% total return)** underperformed during the fourth quarter and was subsequently liquidated. Please refer to the liquidation rationale for additional information.

**Kratos Defense & Security Solutions, Inc. (-0.1% contribution, -3.1% total return)** traded down after their third quarter earnings release when the company reported a slight revenue and earnings miss, despite beating on EBITDA. Our investment rationale for Kratos remains intact given the company's competitive advantages of owning their own intellectual property on their products and being the sole source for their customers on a majority of their programs. .

**Puma SE (0.0% contribution, -0.9% total return)** was a detractor to performance in the quarter despite the stock being roughly flat. The muted share price performance came in spite of a robust third quarter earnings result that showed continued strong growth momentum in both China (+50%) and the Americas (+18%) as the company struck a cautious tone due to potential cost pressures from tariffs. However, we continue to be positive on Puma's top line growth potential as they gain share in the highly attractive sportswear market.

## PORTFOLIO ACTIVITY

- During the fourth quarter, we initiated positions in Activision Blizzard, Inc., Advanced Energy Industries, Inc. and Micron Technology, Inc. and liquidated our positions in First Quantum Minerals Ltd. and PTC Inc.



## INITIATIONS

**Activision Blizzard, Inc.** is a leading developer and publisher of video game software across all major platforms on PC console and mobile, and is a leader in eSports. Its portfolio of owned titles includes well-known, durable franchises, such as Call of Duty, Candy Crush, and World of Warcraft. Valuation has hit multi-year lows as earnings growth slowed due to the impact of Fortnite's success and the divestiture of an underperforming title. We believe that Activision is one of the best positioned players to capitalize on significant industry growth in video gaming and eSports as engagement continues gaining momentum.

**Advanced Energy Industries, Inc. (AEIS)** is a leading provider of components for process and unprocessed power for several end markets including semiconductor capital equipment, solar, medical, industrial, communications and auto. Semiconductor capital equipment spending has been in a decline over the last several quarters as semiconductor companies slowed capex to work through an inventory adjustment. As inventories normalize and end demand improves, semi-cap spending will rebound over the next 2-3 years, which will drive demand for AEIS components. Historically through these semi-cap cycles, AEIS has demonstrated the ability to outgrow the semi-cap market by gaining wallet share through new components sold into these systems. Business momentum will be further driven by the company's recent acquisition of Artesyn, which will be immediately accretive and presents potential revenue synergies from cross selling that is above and beyond the targets AEIS has currently laid out. Artesyn also brings exposure to wireless infrastructure that will benefit from the 5G buildout, as well as the secular growth in data center spending.

We initiated a position in **Micron Technology, Inc.**, a global leader in both DRAM and NAND memory chip market. We see strong signs that the industry downturn over the past few years is coming to an end. Big cloud players have consumed their excess stock of memory and, as a result, spot pricing has started to rebound. Meanwhile, we see strong secular demand driving growth for the next several years. NAND-based solid state drives are continuing to displace hard disk drives as 3D-NAND has pushed cost-per-bit towards parity with hard disk. 5G mobile technology should result in higher memory intensity in smartphones. And Artificial Intelligence applications all require massive amounts of memory to function properly.

## LIQUIDATION

We liquidated **First Quantum Minerals Ltd.** as copper prices continued to struggle as a result of the slowdown in China. While the ramp-up of Cobre Panama continues to occur resulting in higher production, which was a major part of the thesis, copper prices need to stay in a normalized band for the stock to work. We liquidated the partial position as we saw better use of the funds to start the new position in Afterpay.

Following a weak quarter where **PTC Inc.** continued to suffer from execution issues and missed expectations on bookings, we have become concerned that the issues may reflect a longer-term set of problems. The process of converting the customer base to a subscription model has encountered resistance particularly in Asia as well as with customers who were happy paying maintenance on previously purchased licenses. Future subscription conversions look to be more difficult than in the past. In addition, we have yet to see any impact from slower macro trends, which is an added risk. Although we still believe that PTC's strong positioning in the IoT market is an attractive opportunity, we liquidated the position due to an uncertain recovery period from current execution problems as well as a macro overhang.



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## MARKET OUTLOOK

The partial lifting of heavy geopolitical clouds in December sets the scene for a brighter 2020. Coming to agreement on Phase Two of a US-China agreement, as well as a UK-EU trade deal, will undoubtedly be hard to achieve and ups and downs in negotiations could bring more market volatility. Nevertheless, the path is somewhat clearer for investors to navigate.

Central banks and governments have demonstrated, to varying degrees, their willingness to administer monetary and fiscal stimulus. That accommodative stance should continue in 2020. The US Federal Reserve has already signaled its intention to keep interest rates on hold, providing more certainty for businesses. The re-convergence of US interest rates with other developed markets will reduce upward pressure on the dollar. In addition, the impact of looser monetary policy, combined with a better trade backdrop, could spur the necessary investment and reform to fuel increased labor force participation and renewed productivity improvements.

China should also pick up some steam thanks to the trade agreement and its own extensive monetary and fiscal stimulus, including tax cuts and lower reserve ratios for banks. The government is likely to continue with targeted measures, while taking care not to add to its already large debt pile. Japan's sizeable fiscal package should give GDP a multi-year boost and fend off the downturn that accompanied its previous sales tax increase in 2014. India's corporate tax cuts should encourage more inward investment and could be supplemented by personal income tax reductions. Plus, planned disposals of state-owned companies and infrastructure would free up funds for further investment without increasing the government deficit any further.

Boris Johnson's election victory in the UK may herald tax cuts and drive pent-up investment kept on the sidelines by Brexit uncertainty. However, of the large global economies, Germany is likely to remain reluctant to commit to spending or tax cuts, at least so long as easing trade tensions provide an alternative boost to its manufacturing sector.

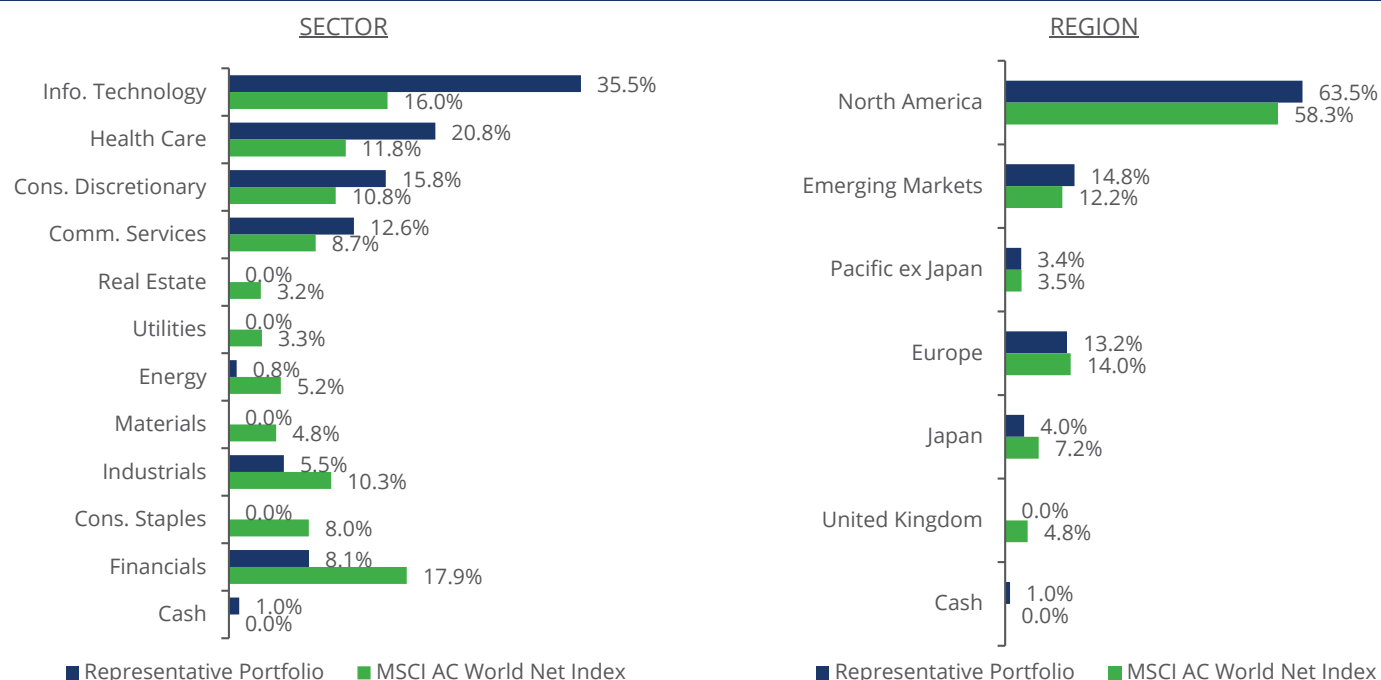
Taken in aggregate, the improved geopolitical backdrop and stimulus measures should support a modest acceleration in global growth this year. That growth, in turn, should lead to a moderate increase in demand for oil, putting a floor under the price, especially when global demand is met with sensible supply-side control from OPEC. For now, we do not see recession in the cards for 2020.

Political risk, both at national and international levels, remains the great unknown. The long-term path of US-China trade and cooperation is uncertain. A damaging "no-deal Brexit" is not entirely off the table. Tensions in the Middle East could risk sparking full-blown conflict. At the same time, this year's primaries and Presidential elections in the US will create uncertainty and could cause volatility as markets react to the policies and promises of the various candidates.

On balance, we feel comfortable and quietly confident looking ahead. As a bottom-up investor, we see continued earnings growth across our portfolio of companies, thanks to their competitive advantages and scope for expansion. Valuations for high growth stocks are full but fair. The strong final quarter rally in 2019 may have pulled some share price gains forward from 2020, but we still see scope for further positive performance in international equities this year. Nevertheless, we maintain a watchful eye. We make sure the companies we invest in have sound balance sheets and that our portfolio is built to withstand potential turbulence ahead.



**PORTFOLIO EXPOSURE (period ending December 31, 2019)**



**PORTFOLIO CHARACTERISTICS (period ending December 31, 2019)**

	Representative Portfolio		MSCI AC World Net Index	
	Current	5-Year Average	Current	5-Year Average
<b>Capitalization</b>				
Weighted Average Market Cap (\$B)	236.5	159.8	192.0	124.8
Median Market Cap (\$B)	82.5	61.8	10.1	10.0
<b>Growth Fundamentals</b>				
EPS Growth: 3 to 5 year forecast (%) <sup>1</sup>	15.5	16.8	9.9	10.3
EPS Growth: 5 year trailing (%) <sup>1</sup>	19.5	16.9	10.2	7.9
<b>Value Fundamentals</b>				
P/E Ratio: 12 Months - forward <sup>1</sup>	26.6	23.6	19.6	18.0
P/E Ratio: 12 Months - trailing <sup>1</sup>	35.3	29.0	22.4	20.0
PEG Ratio: forward <sup>1</sup>	1.7	1.4	2.0	1.8
Dividend Yield (%) <sup>2</sup>	0.6	1.0	2.3	2.5
Price/Book <sup>3</sup>	5.5	4.0	2.4	2.1
<b>Quality Fundamentals</b>				
Return on Equity: 5 Year (%) <sup>1</sup>	16.4	16.5	16.2	15.1
Return on Invested Capital: 5 Year (%) <sup>1</sup>	14.0	12.7	11.0	10.2
<b>Other</b>				
Number of Positions	30	31	3,050	2,608
Beta: 3 year portfolio <sup>4</sup>	1.51	1.14	1.00	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 December 31, 2019)**

Sector / Company	Country	Weight (%)	Industry
<b>Communication Services</b>			
Activision Blizzard, Inc.	United States	3.8	Entertainment
Alphabet Inc.	United States	4.2	Interactive Media & Services
Facebook Inc.	United States	2.0	Interactive Media & Services
Tencent Holdings Ltd.	China	2.6	Interactive Media & Services
<b>Consumer Discretionary</b>			
Alibaba Group Holding Ltd.	China	4.5	Internet & Direct Marketing Retail
Amazon.com, Inc.	United States	3.3	Internet & Direct Marketing Retail
Kering S.A.	France	4.0	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	3.4	Hotels, Restaurants & Leisure
Puma SE	Germany	0.5	Textiles, Apparel & Luxury Goods
<b>Energy</b>			
Schlumberger Ltd.	United States	0.8	Energy Equipment & Services
<b>Financials</b>			
HDFC Bank Ltd.	India	2.3	Banks
ICICI Bank Ltd.	India	2.0	Banks
Mastercard Inc.	United States	3.8	Consumer Finance
<b>Health Care</b>			
Becton, Dickinson & Co.	United States	3.5	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	4.0	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	3.9	Life Sciences Tools & Services
UnitedHealth Group Inc.	United States	2.2	Health Care Providers & Services
Vertex Pharmaceuticals Inc.	United States	3.8	Biotechnology
WuXi Biologics Inc.	China	3.4	Life Sciences Tools & Services
<b>Industrials</b>			
Kratos Defense & Sec. Solutions	United States	2.0	Aerospace & Defense
Lockheed Martin Corp.	United States	3.5	Aerospace & Defense
<b>Information Technology</b>			
Adobe Inc.	United States	4.3	Software
Advanced Energy Industries, Inc.	United States	2.1	Semiconductors & Semiconductor Equipment
ASML Holding N.V.	Netherlands	4.5	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	3.8	IT Services
Infineon Technologies AG	Germany	4.2	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	4.0	Electronic Equipment, Instruments & Components
Micron Technology, Inc.	United States	4.1	Semiconductors & Semiconductor Equipment
Microsoft Corp.	United States	4.1	Software
NVIDIA Corp.	United States	4.5	Semiconductors & Semiconductor Equipment
<b>Cash &amp; Equivalents</b>			
Cash		1.0	

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