Hardman Johnston International Equity

2019 FOURTH QUARTER REPORT

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.

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

	4th QTR	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	13.81	34.56	17.47	11.03	8.53	11.19
International Equity (net of fees)	13.65	33.82	16.82	10.37	7.85	10.59
MSCI EAFE Net Index	8.17	22.01	9.56	5.67	5.50	5.23
MSCI AC World ex US Net Index	8.92	21.51	9.87	5.50	4.96	N/A

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

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
- International Equity Composite returned 13.65%, net, outperforming the MSCI EAFE return of 8.17% and the MSCI ACWI ex US return of 8.92%

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.

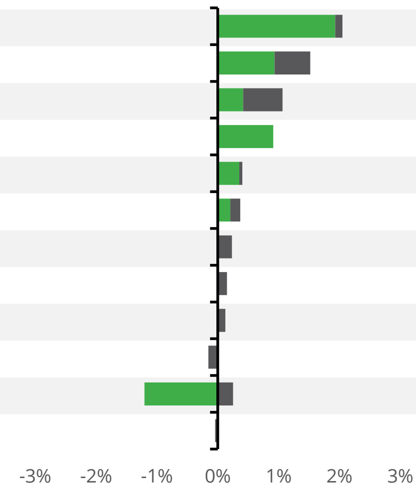
Central banks around the world also stepped up easing measures, while maintaining a responsible approach. The Reserve Bank of India cut interest rates for a fifth time in October but stopped short of a widely-expected cut in December, instead choosing to focus on keeping inflation within its target range, 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.

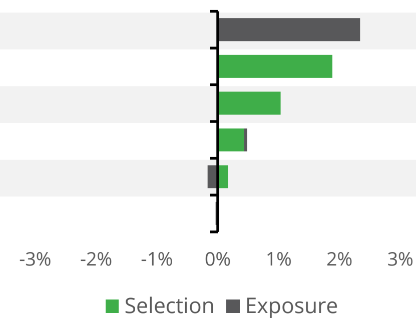
In some cases, where monetary policy was at its limits, governments unleashed fiscal measures. Shinzo Abe's government launched a larger-than-expected $120 billion stimulus package to repair typhoon damage, improve infrastructure and back new technologies, also countering the expected impact of its long-planned 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

	Average Weight		Total Return		Relative
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
SECTOR					
Cons. Discretionary	19.8	11.6	20.0	9.3	
Info. Technology	20.5	6.9	17.5	12.7	
Consumer Staples	2.1	11.5	22.6	1.9	
Financials	11.7	18.5	16.5	8.4	
Comm. Services	4.3	5.3	14.4	4.8	
Health Care	15.3	11.8	13.5	12.4	
Energy	0.0	5.0	0.0	3.8	
Real Estate	0.0	3.6	0.0	4.2	
Utilities	0.0	3.7	0.0	5.3	
Materials	0.0	7.1	0.0	10.5	
Industrials	25.3	15.0	4.9	10.0	
Cash	1.0	0.0	0.3	0.0	
REGION					
Emerging Markets	19.5	0.0	21.1	0.0	
Europe	41.2	47.0	13.0	8.4	
Pacific Ex Japan	13.0	12.0	13.8	5.8	
Japan	19.9	24.8	9.5	7.6	
United Kingdom	5.4	16.2	12.6	10.0	
Cash	1.0	0.0	0.3	0.0	





Preliminary data for 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 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 approximately 550 bps on a net basis during the fourth quarter
- Security selection in Consumer Discretionary and Information Technology were the largest contributors during the quarter while security selection in Industrials and no exposure to Materials were the largest detractors
- Exposure to Emerging Markets and security selection in Europe were the top contributors to relative performance from a regional perspective; underweight exposure to the United Kingdom modestly detracted during the quarter

LARGEST CONTRIBUTORS

Alibaba Group Holding Ltd. (+1.3% 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.

Kering S.A. (+1.3% contribution, +28.9% total return) stock outperformed during the quarter following a better than expected third quarter sales release that showed strong growth momentum across the company's luxury brands. Gucci, the company's biggest profit driver, delivered 11% revenue growth, despite its tremendous growth over the past few years. Yves Saint Laurent, Balenciaga, and Alexander McQueen all showed continued robust growth as well. Finally, Bottega Veneta, which recently appointed a new Creative Director, showed an acceleration of growth to 7%.

ICICI Bank Ltd. (+1.2% contribution, +23.9% total return) has continued to move higher since the government announced a surprise corporate tax cut that occurred late in September. The tax cut should directly impact healthy, well positioned banks like ICICI in their ability to increase lending. In addition, ICICI provided perspective during its Analyst Day on its investment in technology and its increasing use throughout the various areas of the bank, such as loan origination, product delivery and monitoring and collection of loans. ICICI sees a significant opportunity in cross selling products to current customers and an ability to take market share from poorly positioned state-owned banks. Technology is allowing them to approve credit applications faster with a lower incidence of defaults. Taken together, these factors are leading to lower cost ratios and improving ROE which is reflected in better EPS growth.

LARGEST DETRACTORS

Afterpay Ltd. (-0.2% contribution, -14.9% total return) is an Australia-based payment services company offering consumers interest-free installments in Australia, U.S. and U.K. that is funded by merchant transaction fees. While Afterpay continues to deliver better-than-expected metrics on user growth and volume growth, regulatory concerns weighed on the shares. The buy-now-pay-later space is a relatively new market and regulators are still devising the appropriate requirements and regulations. Afterpay has shown an ability to navigate the developing regulatory environment. Earlier this year, AUSTRAC, the Australian regulator with anti-money laundering and counter-terrorism financing oversight, mandated an independent audit of Afterpay's procedures, which were deemed compliant. The Reserve Bank of Australia's Payment System Board will now review whether merchants can pass the Afterpay surcharge on to consumers using the service, as merchants can do with credit cards. We believe this will prove to be a non-event, as a Reserve Bank of Australia study showed that merchants pass on the surcharge of only 3% of credit card transactions to consumers.

Safran S.A. (-0.1% contribution, -1.9% total return) is the exclusive engine supplier to Boeing's 737 Max with its Leap 1-B. As Boeing continues to encounter roadblocks with global air regulators pushing out expectations for when 737 Max will return to service as well as pausing production in December, Safran's results have been resilient with conservative and achievable guidance. While 737 Max will cause moderate pushouts in the 2020 forecast, we continue to believe that growth in civil aftermarket is very strong and still has high potential to surprise positively. Safran’s highly visible growth and positive earnings momentum should support and drive the shares over time.

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 quarter, we initiated no new positions and liquidated our position in Terumo.

LIQUIDATION

Shares of **Terumo** have been strong, but during the quarter moved solidly into the fourth quartile. Strength has come from China as well as new launches for Terumo's peripheral and neurovascular franchises in the US. Terumo is a solid, well-performing company but we felt there are more attractive portfolio alternatives in terms of growth and PEG.

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.

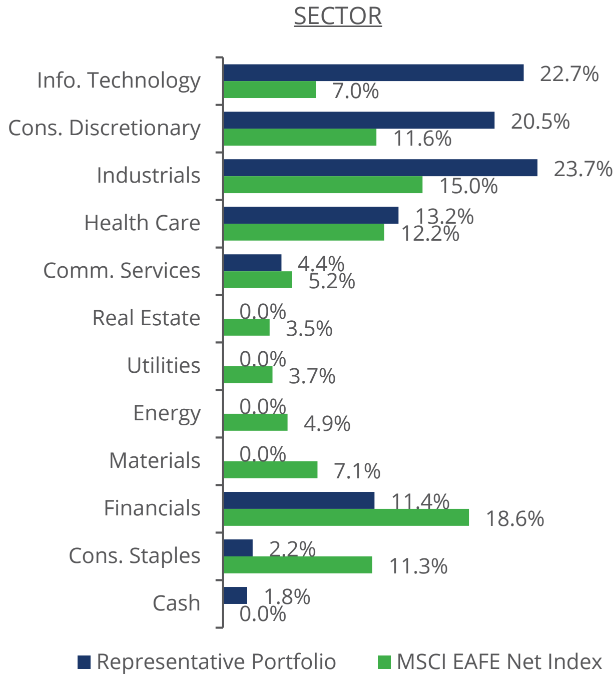
Boris Johnson's election victory in the UK may herald tax cuts and drive pent-up investment kept on the sidelines by Brexit uncertainty. However, of the large global economies, Germany is likely to remain reluctant to commit to spending or tax cuts, at least so long as easing trade tensions provide an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

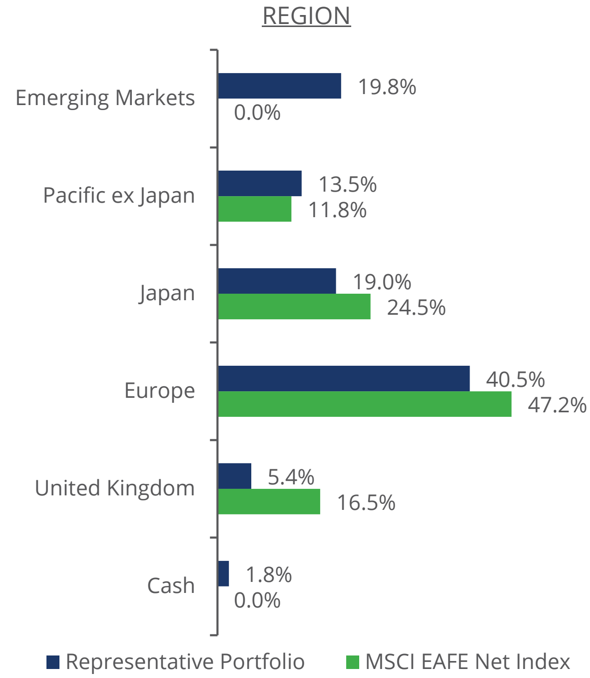
Taken in aggregate, the improved geopolitical backdrop and stimulus measures should support a modest acceleration in global growth this year. That growth, in turn, should lead to a moderate increase in demand for oil, putting a floor under the price, especially when global demand is met with sensible 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 EAFE Net Index	
	Current	5-Year Average	Current	5-Year Average
Capitalization				
Weighted Average Market Cap ($B)	107.5	71.3	68.2	61.0
Median Market Cap ($B)	48.8	41.0	11.4	10.2
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%)[1]	16.3	14.7	7.2	8.5
EPS Growth: 5 year trailing (%)[1]	13.2	14.3	7.4	6.2
Value Fundamentals				
P/E Ratio: 12 Months - forward[1]	24.1	21.6	17.5	16.4
P/E Ratio: 12 Months - trailing[1]	32.3	27.2	18.2	17.1
PEG Ratio: forward[1]	1.5	1.5	2.4	2.0
Dividend Yield (%)[2]	1.1	1.5	3.2	3.2
Price/Book[3]	4.3	3.0	1.6	1.5
Quality Fundamentals				
Return on Equity: 5 Year (%)[1]	16.9	15.6	12.1	11.6
Return on Invested Capital: 5 Year (%)[1]	11.7	10.9	9.0	8.3
Other				
Number of Positions	25	25	918	923
Beta: 3 year portfolio[4]	1.16	0.92	1.00	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 December 31, 2019)

	Country	Weight (%)	Industry
Communication Services			
Tencent Holdings Ltd.	China	4.4	Interactive Media & Services
Consumer Discretionary			
adidas AG	Germany	5.0	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	5.6	Internet & Direct Marketing Retail
Kering S.A.	France	5.0	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	4.4	Hotels, Restaurants & Leisure
Puma SE	Germany	0.5	Textiles, Apparel & Luxury Goods
Consumer Staples			
A2 Milk Co., Ltd.	New Zealand	2.2	Food Products
Financials			
AIA Group Ltd.	Hong Kong	4.6	Insurance
HDFC Bank Ltd.	India	1.9	Banks
ICICI Bank Ltd.	India	4.9	Banks
Health Care			
AstraZeneca	United Kingdom	5.4	Pharmaceuticals
Bayer AG	Germany	1.5	Pharmaceuticals
Orpea S.A.	France	1.9	Health Care Providers & Services
Qiagen N.V.	Netherlands	1.4	Life Sciences Tools & Services
WuXi Biologics Inc.	China	3.0	Life Sciences Tools & Services
Industrials			
Airbus SE	France	4.8	Aerospace & Defense
Fanuc Corp.	Japan	4.5	Machinery
Nidec Corp.	Japan	4.7	Electrical Equipment
Prysmian S.p.A.	Italy	5.0	Electrical Equipment
Safran S.A.	France	4.8	Aerospace & Defense
Information Technology			
Afterpay Ltd.	Australia	2.3	IT Services
ASML Holding N.V.	Netherlands	5.8	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	4.8	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	4.8	Electronic Equipment, Instruments & Components
Murata Manufacturing Co., Ltd.	Japan	5.0	Electronic Equipment, Instruments & Components
Cash & Equivalents			
Cash		1.8	

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