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# Hardman Johnston Select 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
Select Equity (gross of fees)	11.32	32.38	15.28	12.21	13.30	13.14
Select Equity (net of fees)	11.15	31.58	14.57	11.50	12.56	12.46
S&P 500 Total Return Index	9.07	31.49	15.27	11.66	13.50	10.41
Russell 1000 Growth Index	10.62	36.39	20.49	14.62	15.21	10.36

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. Composite inception date: December 31, 1990.

## KEY TAKEAWAYS

- US equity indices post their strongest annual performance since 2013
- Key economic metrics point to a good business environment in 2020
- Geopolitical issues are most likely the key risks to financial markets going forward

## MARKET REVIEW AND OUTLOOK

Given portfolio and major equity index returns north of 30% last year it is hard to argue that the stock market isn't anticipating a strong 2020 for global businesses. If nothing else, the elimination of some of 2019's drags on economic growth, achieved with a truce in the trade war, an impeachment proceeding that is likely to end in the Senate, and a moderate tone emerging in the US presidential candidate field, should bode well for a good business environment in the US and an improving one overseas. And why not? Interest rates are low, employment in the US is strong, wages are rising, and consumer confidence is good.

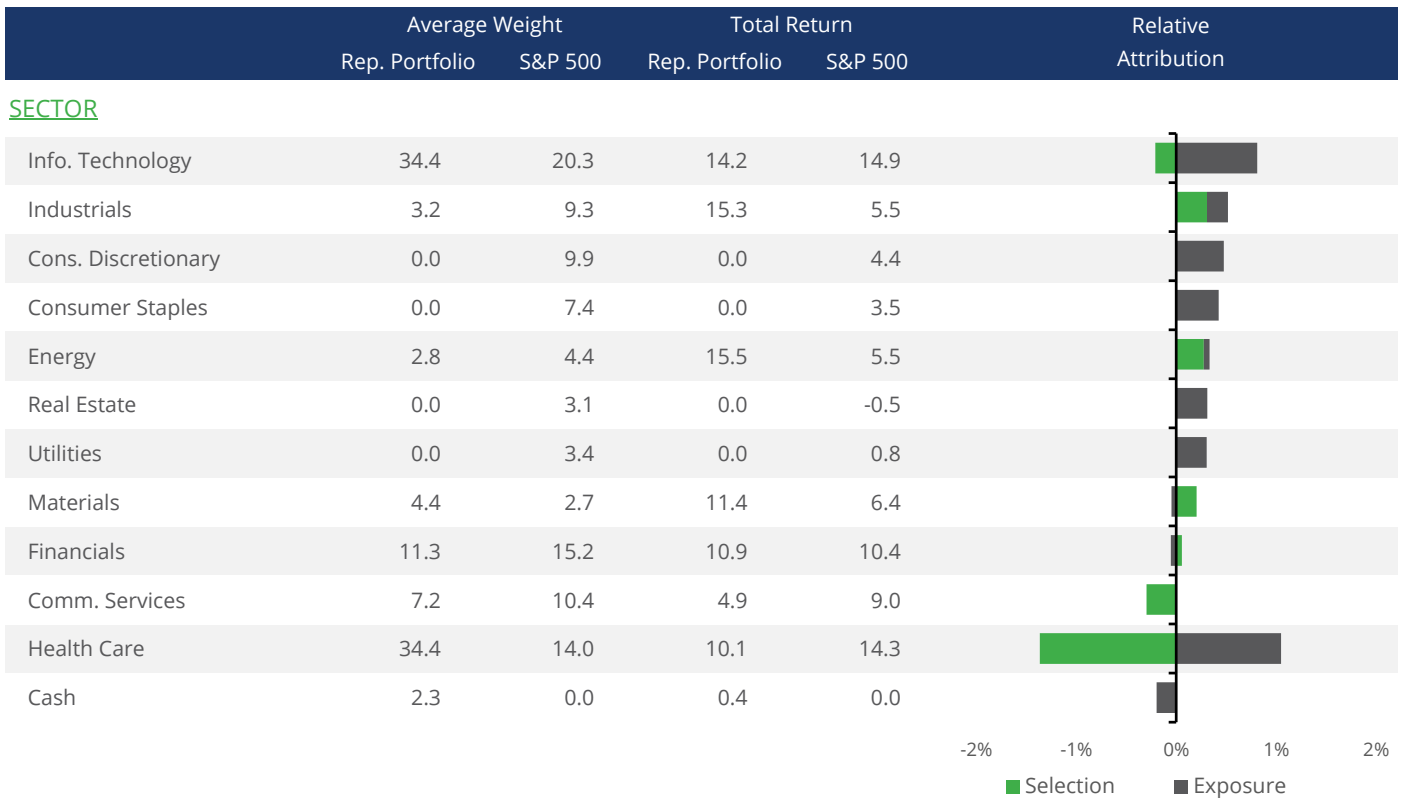
A laggard in 2019 was business confidence. While low confidence didn't prevent hiring, it did dampen investments in new equipment to get the most out of an increasingly scarce supply of labor. We are now seeing signs of improving business confidence, which coupled with strong housing and stock markets, should create a virtuous pattern of consumption.

There is, predictably, a new crop of worries that we are watching. They are mostly of a geopolitical nature and include renewed sabre rattling from North Korea and a threat that Iran will seek to disrupt the global energy supply to avenge the death of one of its generals. Boeing has ceased production of its 737 Max aircraft, and, given that vast and widely dispersed supply chain and customer base, that will be a discernable drag on growth until they are able to resolve their issues with the FAA and other regulators. To be sure, while things are generally good, this is not a time for complacency.



As we look across the portfolio, the long term value creation prospects of the companies we invest in look good, and we are able to discern a few long lived themes. These include an aging global population, an emerging middle class and rising standards of living, and the need for better stewardship of the environment and resources required to satisfy growing global demand. In turn these trends drive an insatiable thirst for improved productivity, be it in the form of better medical care or increasing the output of a day's labor in the construction industry. There are precious few instances in the portfolio where the productivity theme is not central to the investment thesis. We persist in our research to find, buy, and monitor companies that meet our strict criteria for growth, competitive advantage, and quality. We thank you for your continued commitment to us and our approach.

## PERFORMANCE ATTRIBUTION



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 Select 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.



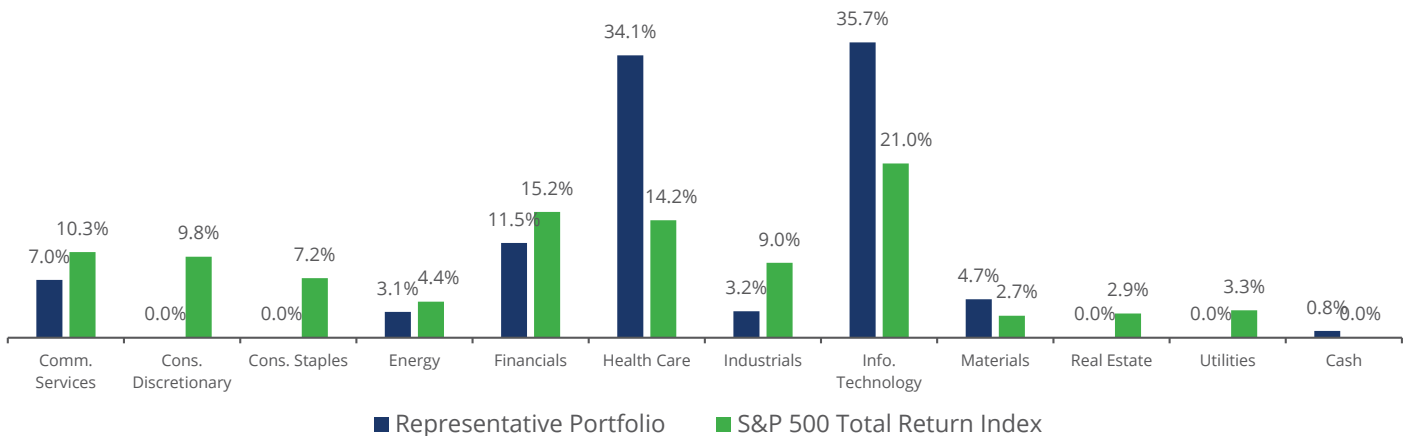
## PORTFOLIO COMMENTARY

The Select Equity composite enjoyed 11.2% appreciation in the quarter, net of fees, outpacing the S&P 500, which rose 9.1%. As usual, we highlight the best and worst performers. The top contributors this quarter were NVIDIA, Apple, and Vertex Pharmaceuticals. NVIDIA is a semiconductor company that is well positioned in high performance computing applications such as gaming, AI, and auto. They reported a strong quarter with better than expected results as they move past inventory and product cycle issues. Apple also performed well as the company continues to excite consumers and grow its ecosystem with better than expected quarterly results in wearables, smart phones, and services. Finally, Vertex benefitted from a series of positive developments for their cystic fibrosis (CF) franchise with the company receiving early approval for their triple combination CF therapy. This important therapy allows the company to alleviate the suffering of many more young patients while keeping competition at bay.

Detractors included Cisco, FLIR Systems, and Comcast. Cisco Systems underperformed after reporting disappointing sales guidance, partly attributable to macro uncertainty. Nothing particularly went wrong at FLIR or Comcast, but flattish performances earned them each a position among the bottom three.

We started a position in Advanced Energy Industries, whose products are essential to companies in the semiconductor supply chain. Customers rely on AEI's products to consistently deliver exquisitely tuned electrical currents to power the processes that are creating the latest and most refined generation of electronic products.

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



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FOURTH QUARTER	LAST TWELVE MONTHS			
	Average Weight (%)	Contribution to Return (%)	Average Weight (%)	Contribution to Return (%)
<b>Largest Contributors</b>			<b>Largest Contributors</b>	
NVIDIA Corp.	3.55	1.13	Microsoft Corp.	5.44
Apple Inc.	3.37	1.02	Mastercard Inc.	4.94
Vertex Pharmaceuticals Inc.	3.10	0.86	Apple Inc.	3.18
<b>Largest Detractors</b>			<b>Largest Detractors</b>	
Cisco Systems, Inc.	2.82	-0.10	Livent Corp.	0.13
FLIR Systems Inc.	2.73	-0.01	Albemarle Corp.	1.60
Comcast Corp.	3.59	0.00	EOG Resources, Inc.	2.19

Past performance does not guarantee future results. A full list of securities held as of December 31, 2019, contribution to performance and the methodology to calculate is available upon request. The data shown is of a representative portfolio for the Hardman Johnston Select 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 - FOURTH QUARTER	LIQUIDATIONS - FOURTH QUARTER
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Advanced Energy Industries

The holdings identified represent all new positions and liquidations in the Hardman Johnston Select Equity strategy for the quarter-to-date period ending December 31, 2019. 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.

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

	Representative Portfolio		S&P 500	
	Current	5-Year Average	Current	5-Year Average
<b>Capitalization</b>				
Weighted Average Market Cap (\$B)	232.9	148.6	292.7	186.1
Median Market Cap (\$B)	64.9	53.6	23.9	21.1
<b>Growth Fundamentals</b>				
EPS Growth: 3 to 5 year forecast (%) <sup>1</sup>	12.6	12.3	10.3	10.4
EPS Growth: 5 year trailing (%) <sup>1</sup>	12.9	8.1	9.7	8.0
<b>Value Fundamentals</b>				
P/E Ratio: 12 Months - forward <sup>1</sup>	23.5	21.2	20.7	19.4
P/E Ratio: 12 Months - trailing <sup>1</sup>	34.9	28.7	25.9	24.0
PEG Ratio: forward <sup>1</sup>	1.9	1.7	2.0	1.9
Dividend Yield (%) <sup>2</sup>	1.2	1.3	1.8	2.0
Price/Book <sup>3</sup>	5.4	4.2	3.4	2.9
<b>Quality Fundamentals</b>				
Return on Equity: 5 Year (%) <sup>1</sup>	19.1	16.8	20.3	18.6
Return on Invested Capital: 5 Year (%) <sup>1</sup>	14.2	12.6	12.7	12.1
<b>Other</b>				
Number of Positions	32	33	507	506
Beta: 3 year portfolio <sup>4</sup>	1.11	1.01	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>			
Alphabet Inc. Class A	United States	3.5	Interactive Media & Services
Comcast Corp.	United States	3.5	Media
<b>Energy</b>			
EOG Resources, Inc.	United States	2.0	Oil, Gas & Consumable Fuels
Schlumberger Ltd.	United States	1.1	Energy Equipment & Services
<b>Financials</b>			
HDFC Bank Ltd.	India	2.2	Banks
Marsh & McLennan Cos. Inc.	United States	3.8	Insurance
Mastercard Inc.	United States	5.4	Consumer Finance
<b>Health Care</b>			
AstraZeneca	United Kingdom	3.5	Pharmaceuticals
Becton, Dickinson & Co.	United States	2.9	Health Care Equipment & Supplies
Cerner Corp.	United States	2.1	Health Care Technology
Dentsply Sirona Inc.	United States	2.9	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	3.8	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	3.6	Life Sciences Tools & Services
Johnson & Johnson	United States	3.0	Pharmaceuticals
Medtronic plc	Ireland	3.4	Health Care Equipment & Supplies
Qiagen N.V.	Netherlands	2.3	Life Sciences Tools & Services
Varian Medical Systems, Inc.	United States	3.5	Health Care Equipment & Supplies
Vertex Pharmaceuticals Inc.	United States	3.1	Biotechnology
<b>Industrials</b>			
Stanley Black & Decker Inc.	United States	3.2	Machinery
<b>Information Technology</b>			
Adobe Inc.	United States	4.4	Software
Advanced Energy Industries	United States	1.5	Semiconductors & Semiconductor Equipment
Apple Inc.	United States	3.2	Technology Hardware, Storage & Peripherals
ASML Holding N.V.	Netherlands	2.3	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	3.9	IT Services
Broadcom Inc.	United States	3.2	Semiconductors & Semiconductor Equipment
Cisco Systems, Inc.	United States	2.7	Communications Equipment
Cognizant Technology Solutions	United States	2.3	IT Services
FLIR Systems Inc.	United States	2.6	Electronic Equipment, Instruments & Components
Microsoft Corp.	United States	5.6	Software
NVIDIA Corp.	United States	3.9	Semiconductors & Semiconductor Equipment
<b>Materials</b>			
Albemarle Corp.	United States	1.5	Chemicals
FMC Corp.	United States	3.2	Chemicals
<b>Cash &amp; Equivalents</b>			
Cash		0.8	

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