
Hardman Johnston Select Equity

2020 THIRD QUARTER REPORT



**Hardman
Johnston**
Global Advisors

COMPOSITE PERFORMANCE (%) (period ending September 30, 2020)

| | 3rd QTR | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Inception |
|-------------------------------|---------|-------|--------|---------|---------|----------|-----------|
| Select Equity (gross of fees) | 9.61 | 10.60 | 23.12 | 13.84 | 14.92 | 13.92 | 13.17 |
| Select Equity (net of fees) | 9.46 | 10.12 | 22.38 | 13.14 | 14.20 | 13.18 | 12.49 |
| S&P 500 Total Return Index | 8.93 | 5.57 | 15.15 | 12.27 | 14.13 | 13.68 | 10.33 |
| Russell 1000 Growth Index | 13.22 | 24.33 | 37.53 | 21.65 | 20.08 | 17.24 | 10.90 |

Performance is preliminary through September 30, 2020. 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

- Several industries may be permanently dislocated as a result of the pandemic but our portfolio holdings are predominately beneficiaries of accelerated shifts toward their products and services
- The primary factors looking forward are the path of the pandemic and the result of the US elections
- Our focus remains on identifying innovative companies as they are most likely to deliver value to their shareholders

MARKET REVIEW AND OUTLOOK

US equity markets delivered strong performances in the third quarter as economic activity in America and around the globe rebounded sharply. While the averages performed well, averages can be deceiving, and in this case they mask weak performances from many companies given soft current results and outlooks for their particular businesses. In particular, leisure and travel related stocks remain moribund as demand for their services remains a small fraction of what one would expect in a normal year. The outlook for banks and other interest rate sensitive companies is similarly weak as interest rates remain low and are forecast to stay low for years to come. Dozens of retailers are declaring bankruptcy, unable to survive the abrupt drop in traffic through their stores. These, unfortunately, are but a few of the areas of the economy that have been devastated by the deep and abrupt recession brought on by the Covid-19 pandemic.

Fortunately, the portfolios have relatively little exposure to these sectors and instead benefited from the performance of stocks whose companies are in many cases benefiting from an accelerated shift to their products and services as a result of the pandemic. Enablers of the digital economy, whether it be semiconductors, phone displays, or cloud based software and services generally performed well as their outlooks improved. Housing related stocks did well, as many city dwellers are moving to find more distance and interior space in suburban and rural areas. We think these trends have legs and will remain in place for a while.

Looking forward, there are two obvious near term factors that will affect how the market proceeds from here. The first is the path of the pandemic. While all expect a second wave, the severity of the wave, and whether policies that severely restrict economic activity will be necessary are unknown. Compliance with virus inhibiting rules varies across the country, and outbreaks are happening in some areas. We will see if that snowballs into a larger caseload that threatens to overwhelm the healthcare system and compels a partial shutdown. We do believe that healthcare workers and policy makers have gained valuable experience in dealing with the disease that both improves the prognosis for those who contract it and helps prevent its spread. Additionally, while expectations are probably too high for an effective vaccine in the very near term, it is likely that something will be available in the next twelve months and will allow life to start to return to

normal in some regions.

The second significant factor for the near- and medium-term outlook for markets is the outcome of the US elections in early November, and the change in policies that will likely result from different outcomes. In the event that Democrats gain control of the presidency and both houses of Congress, as most polls are predicting, it is anticipated that corporate tax rates will increase significantly. This will, of course, cause a sharp drop in corporate profits in the near term and will serve to make the United States a relatively less attractive destination for corporate investment as expected returns will necessarily be reduced. In the event the Republicans retain either the White House, the Senate, or both, the corporate tax rate is likely to remain unchanged in the medium term and the business environment could be slightly more constructive. Whoever the nation decides to entrust with its leadership for the next four years will inherit a massively scaled up national debt that demands attention, even as interest rates are forecast to remain low.

We have found that in any environment the key success factor in investing remains innovation. Companies that innovate to help their customers solve problems, make themselves more productive, or deliver fresh and interesting products and services to a fast changing public almost always create value for their shareholders as well. We remain committed to our customers to identify those companies that drive growth through innovation which, when coupled with our valuation discipline, have served our clients well for the past 35 years.

PERFORMANCE ATTRIBUTION



Preliminary data as of the quarter ending September 30, 2020. 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.

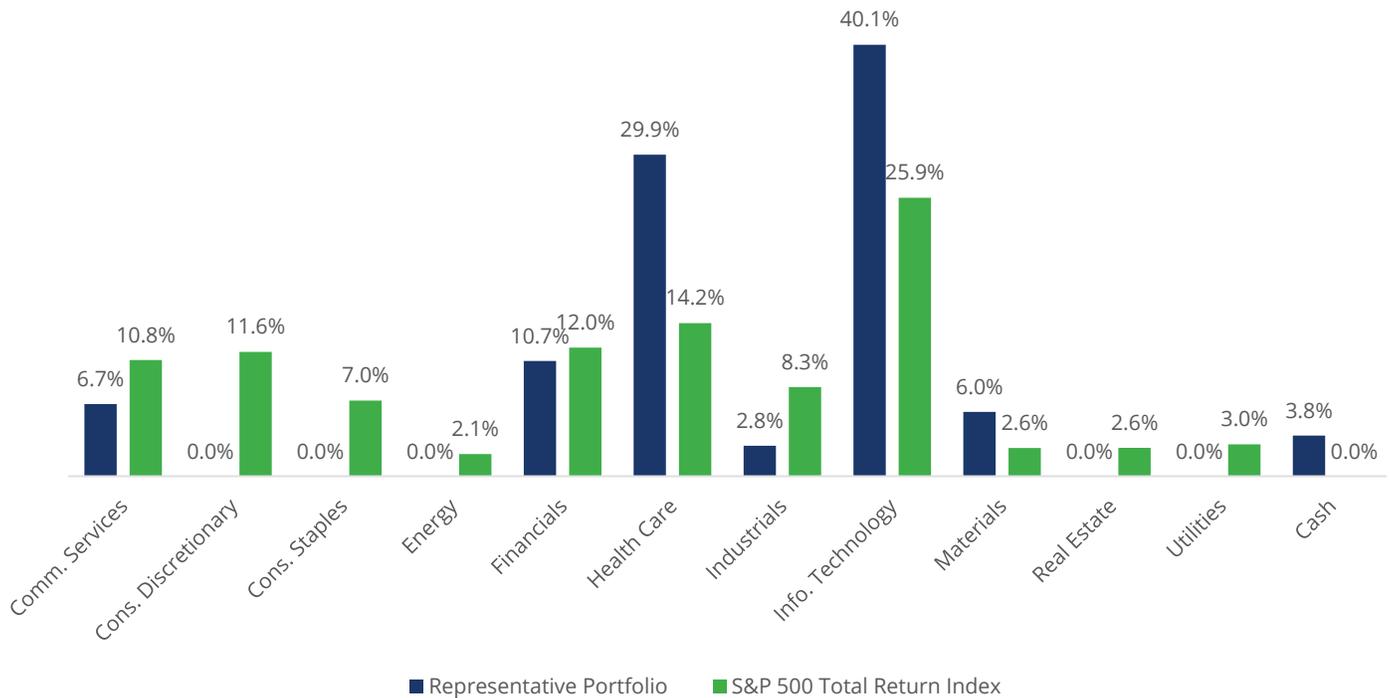


PORTFOLIO COMMENTARY

The Hardman Johnston Select Equity composite delivered investment returns of 9.46% in the third quarter of 2020, net of fees. This compares to a return of 8.93% from the S&P 500. While the performance was driven by holdings from a variety of industries, standouts included NVIDIA, Varian Medical Systems, and Universal Display. NVIDIA continues to help its customers implement next generation technology in artificial intelligence and machine learning while maintaining a strong core business in graphics processing. Varian Medical received a buyout offer from Siemens Healthineers of Germany, likely spelling the end of its long and successful tenure as an independent company. Universal Display is benefiting from accelerating adoption of organic light emitting diode (OLED) displays in smartphones and other electronic devices. It provides its customers with the key enabling ingredients to produce these highly power efficient displays.

Detractors include Vertex Pharmaceuticals, Automatic Data Processing, and Advanced Energy Industries. Vertex has slowed as the market digests its strong advance after releasing its breakthrough triple therapy for treating Cystic Fibrosis. ADP pulled back as payrolls have shrunk with recession. Employment has bottomed and continues to make steady gains, and ADP's customers will continue to rely on them for payroll processing and a multitude of human resources services. Finally, Advanced Energy sold off after concerns arose about restrictions on the sale of semiconductor technology to China. While this may impact near term sales, the outlook for the company remains strong.

PORTFOLIO EXPOSURE (period ending September 30, 2020)



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CONTRIBUTORS & DETRACTORS (period ending September 30, 2020)

| Third Quarter | Average Weight (%) | Total Effect* (%) | Last Twelve Months | Average Weight (%) | Total Effect* (%) |
|---------------------------------|--------------------|-------------------|-----------------------------|--------------------|-------------------|
| Largest Contributors | | | Largest Contributors | | |
| NVIDIA Corp. | 4.99 | 1.15 | NVIDIA Corp. | 4.50 | 4.65 |
| Varian Medical Systems, Inc. | 3.59 | 0.88 | Adobe Inc. | 4.95 | 2.09 |
| Universal Display Corp. | 2.88 | 0.32 | Vertex Pharmaceuticals Inc. | 3.56 | 1.35 |
| Largest Detractors | | | Largest Detractors | | |
| Vertex Pharmaceuticals Inc. | 3.66 | -0.55 | FLIR Systems Inc. | 2.28 | -1.24 |
| Automatic Data Processing, Inc. | 2.97 | -0.45 | Dentsply Sirona Inc. | 2.75 | -1.03 |
| Advanced Energy Industries | 2.92 | -0.44 | Apple Inc. | 3.67 | -0.97 |

Past performance does not guarantee future results. Securities reflect the period's three largest contributors and detractors of portfolio holdings to total effect. Total effect reflects a position's total contribution to excess performance relative to the stated benchmark. *Total effect includes only securities that were held in the Hardman Johnston representative account and excludes benchmark-only securities that may have contributed or detracted from relative results. A full list of securities held as of September 30, 2020, 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 - THIRD QUARTER

None

LIQUIDATIONS - THIRD QUARTER

None

The holdings identified represent all new positions and liquidations in the Hardman Johnston Select Equity strategy for the quarter-to-date period ending September 30, 2020. 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 September 30, 2020)

| | Representative Portfolio | | S&P 500 Total Return Index | |
|---|--------------------------|----------------|----------------------------|----------------|
| | Current | 5 Year Average | Current | 5 Year Average |
| Capitalization | | | | |
| Weighted Average Market Cap (\$B) | 327.3 | 174.0 | 454.5 | 222.4 |
| Median Market Cap (\$B) | 69.1 | 57.2 | 23.1 | 21.3 |
| Growth Fundamentals | | | | |
| EPS Growth: 3 to 5 year forecast (%) ¹ | 12.7 | 12.4 | 10.0 | 10.3 |
| EPS Growth: 5 year trailing (%) ¹ | 13.0 | 8.8 | 14.1 | 12.0 |
| Value Fundamentals | | | | |
| P/E Ratio: 12 Months - forward ¹ | 28.2 | 24.4 | 25.8 | 22.6 |
| P/E Ratio: 12 Months - trailing ¹ | 41.9 | 34.7 | 29.4 | 24.7 |
| PEG Ratio: forward ¹ | 2.2 | 2.0 | 2.6 | 2.2 |
| Dividend Yield (%) ² | 1.1 | 1.3 | 1.8 | 2.0 |
| Price/Book ³ | 5.9 | 4.5 | 3.6 | 3.0 |
| Quality Fundamentals | | | | |
| Return on Equity: 5 Year (%) ¹ | 18.9 | 16.9 | 21.7 | 19.8 |
| Return on Invested Capital: 5 Year (%) ¹ | 13.9 | 12.2 | 13.9 | 12.6 |
| Other | | | | |
| Number of Positions | 30 | 32 | 506 | 506 |
| Beta: 3 year portfolio ⁴ | 1.0 | 1.0 | 1.0 | 1.0 |

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

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PORTFOLIO HOLDINGS (period ending September 30, 2020)

| | Country | Weight (%) | Industry |
|---------------------------------|----------------|------------|--|
| Communication Services | | | |
| Alphabet Inc. | United States | 3.5 | Interactive Media & Services |
| Comcast Corp. | United States | 3.3 | Media |
| Financials | | | |
| HDFC Bank Ltd. | India | 1.6 | Banks |
| Marsh & McLennan Cos. Inc. | United States | 3.6 | Insurance |
| Mastercard Inc. | United States | 5.6 | Consumer Finance |
| Health Care | | | |
| AstraZeneca plc | United Kingdom | 3.5 | Pharmaceuticals |
| Becton, Dickinson & Co. | United States | 2.3 | Health Care Equipment & Supplies |
| Cerner Corp. | United States | 1.9 | Health Care Technology |
| Dentsply Sirona Inc. | United States | 2.5 | Health Care Equipment & Supplies |
| Edwards Lifesciences Corp. | United States | 3.5 | Health Care Equipment & Supplies |
| IQVIA Holdings Inc. | United States | 3.4 | Life Sciences Tools & Services |
| Johnson & Johnson | United States | 2.8 | Pharmaceuticals |
| Medtronic plc | Ireland | 2.8 | Health Care Equipment & Supplies |
| Varian Medical Systems, Inc. | United States | 3.9 | Health Care Equipment & Supplies |
| Vertex Pharmaceuticals Inc. | United States | 3.5 | Biotechnology |
| Industrials | | | |
| Stanley Black & Decker Inc. | United States | 2.8 | Machinery |
| Information Technology | | | |
| Adobe Inc. | United States | 5.9 | Software |
| Advanced Energy Industries | United States | 2.6 | Semiconductors & Semiconductor Equipment |
| Apple Inc. | United States | 4.6 | Technology Hardware, Storage & Peripherals |
| ASML Holding N.V. | Netherlands | 2.7 | Semiconductors & Semiconductor Equipment |
| Automatic Data Processing, Inc. | United States | 2.9 | IT Services |
| Broadcom Inc. | United States | 3.3 | Semiconductors & Semiconductor Equipment |
| Cisco Systems, Inc. | United States | 2.0 | Communications Equipment |
| FLIR Systems Inc. | United States | 1.6 | Electronic Equipment, Instruments & Components |
| Leidos Holdings Inc. | United States | 1.2 | IT Services |
| Microsoft Corp. | United States | 5.4 | Software |
| NVIDIA Corp. | United States | 5.0 | Semiconductors & Semiconductor Equipment |
| Universal Display Corp. | United States | 3.0 | Semiconductors & Semiconductor Equipment |
| Materials | | | |
| Albemarle Corp. | United States | 3.0 | Chemicals |
| FMC Corp. | United States | 3.0 | Chemicals |
| Cash & Equivalents | | | |
| Cash | | 3.8 | |

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