Hardman Johnston Global Equity

2018 FOURTH QUARTER REPORT

Hardman Johnston Global Advisors

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COMPOSITE PERFORMANCE (%) (period ending December 31, 2018)	4th QTR	1 Year	3 Years	5 Years	10 Years	Inception
Global Equity (gross of fees)	-13.83	-3.93	13.70	9.79	13.14	9.32
Global Equity (net of fees)	-14.00	-4.61	12.89	9.00	12.36	8.58
MSCI AC World Net Index	-12.75	-9.42	6.59	4.26	9.45	5.17
MSCI World Net Index	-13.42	-8.71	6.30	4.55	9.66	5.28

Performance is preliminary through December 31, 2018. 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

- Major indices post worst year since 2008 as trade, economic outlook and monetary policy weigh on investors
- Global growth modestly decelerates but remains positive
- Fed signals slower pace of tightening in 2019 as it continues to unwind balance sheet
- Global Equity Composite returned –14.00%, net, underperforming the MSCI ACWI return of –12.75% and the MSCI World return of –13.42%

MARKET REVIEW

Global financial markets proved to be a challenging environment during the fourth quarter of 2018. The impacts from some larger economies slowing, monetary tightening and the US-China trade dispute weighed heavily on markets during the quarter, resulting in the worst year of performance for most indices since 2008.

After hitting a new high in September, the S&P 500 lost nearly 14% during the quarter to end the year down more than 4%. The Dow was off 11% for the quarter, as was Europe's Stoxx 600. China's Shanghai Composite also lost 12% over the quarter and nearly 25% for the year. The year's sharp drawdown seemed unlikely at the outset of 2018, given the relatively robust outlook at the time. The silver lining is that share prices now look cheap from a forward price/earnings perspective compared to long-run averages and the outlook, although more challenging, is still largely positive.

Global growth slowed, rather than stalled, in the second half of 2018. The US outperformed its peers in end-of-year data with annualised GDP up 3.4% in the third quarter. In contrast, growth in the Eurozone dropped to 0.2% in Q3 (and 1.7% year-on-year) as Germany contracted due to disruption to the auto industry from tougher emissions rules and Italy stalled over its now-resolved budget standoff with the EU. China growth fell to 6.5% in Q3, although the government expects to beat its 6.5% growth target for the full year.

The extent of the deceleration is one unknown for markets, how central banks will react is another. The US Federal Reserve increased interest rates by 0.25% in December, but softened its tone on potential hikes in 2019. Nevertheless, it was too hawkish for some as it stuck to plans to unwind its balance sheet, contributing to year-end market jitters. In December, the European Central Bank ended its bond-buying program but gave no guidance when negative interest rates might end. Loose monetary conditions also remained in force in the UK and Japan as policymakers balanced the competing needs of fragile growth, inflation and the desire to wean economies off support. Despite fears of heavy-handedness, the global approach remained measured.

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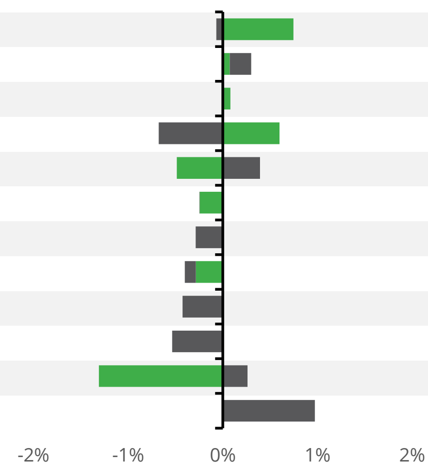
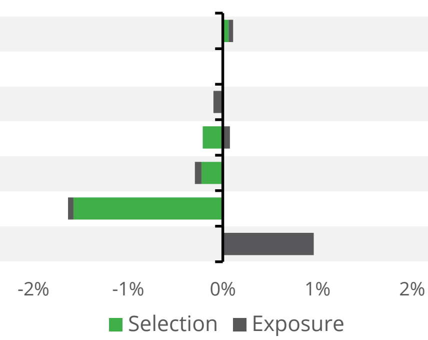
The greatest concern for markets continues to be the tariff war. The pause in the dispute following the G20 meeting between the US and China provided hope that a more permanent solution could be reached. However, stocks in China, as well as international companies with exposure to China, were hit by weakening sentiment and actual fallout. Apple became the latest US corporate to point the finger at the trade war when it announced that Q4 revenues would be lower than expected. Declining consumer confidence in China and cheaper domestic alternatives were significant factors.

The issue of confidence also hindered business. Uncertainty surrounding trade and political issues, such as further concern about a no-deal Brexit in the UK, held back capex investment as CEOs await greater clarity. Again, there was a silver lining for equity investors. Supercharged earnings growth in 2018 resulted in record share buybacks as announced US stock repurchases broke through the $1 trillion mark in December. Following the market retreat in the fourth quarter, more buybacks can be anticipated in the future. At the very least, the challenges of the fourth quarter present active investors with a more reasonable valuation and a very attractive starting point for 2019.

PERFORMANCE ATTRIBUTION

	Average Weight		Total Return		Relative Attribution
	Rep. Portfolio	ACWI	Rep. Portfolio	ACWI	
SECTOR					
Financials	12.3	18.3	-6.4	-12.0	
Industrials	3.5	10.4	-11.3	-15.6	
Comm. Services	9.5	8.8	-11.2	-11.5	
Info. Technology	27.7	14.1	-15.4	-17.4	
Energy	1.8	6.5	-40.1	-20.2	
Materials	1.3	4.9	-29.0	-13.4	
Real Estate	0.0	3.0	0.0	-4.0	
Cons. Discretionary	13.8	10.4	-17.5	-15.1	
Utilities	0.0	3.1	0.0	0.8	
Consumer Staples	0.0	8.3	0.0	-6.5	
Health Care	20.7	12.1	-15.4	-9.6	
Cash	9.3	0.0	0.6	0.0	
REGION					
Japan	3.8	7.5	-12.6	-14.2	
Europe	10.3	14.3	-13.7	-13.3	
United Kingdom	0.0	5.3	0.0	-11.8	
Emerging Markets	12.7	11.2	-9.4	-7.5	
Pacific Ex Japan	3.0	3.7	-16.0	-7.9	
North America	60.8	58.0	-16.3	-13.8	
Cash	9.3	0.0	0.6	0.0	





Preliminary data as of the quarter ending December 31, 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 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 underperformed the MSCI ACWI by approximately 125 bps on a net basis during the fourth quarter
- Security selection in Financials and underweight exposure to Industrials were the largest contributors during the quarter while security selection in Health Care and no exposure to Consumer Staples were the largest detractors
- Security selection and underweight exposure in Japan was the only contributor to relative performance from a regional perspective; security selection in North America and Pacific ex Japan detracted from performance

LARGEST CONTRIBUTORS

HDFC Bank Ltd. (+0.5% contribution, +10.1% total return) results continue to be very strong. The bank has demonstrated excellent cost control as the investment in technology over the past several years has paid off. This investment has resulted in better loan growth, increased opportunities in cross-selling and better insight into their loan book as non-performing loans have been very low. In addition, it has allowed the bank to lower its labor costs materially. Recent updates on balance sheet growth, loan growth, deposits and the loan to deposit ratio all indicate very strong trends. In addition, the Indian economy is benefiting from lower energy prices which acts as a tailwind given the country is one of the largest importers of energy in the world.

Puma SE (-0.0% contribution, -1.1% total return), the sportswear retailer, was a top performer in the quarter after reporting strong organic revenue growth largely due to apparel acceleration. The better than expected Q3 results indicated a healthy sporting industry backdrop in which Puma will be able to gain market share particularly in the underpenetrated markets of North America and China. The company is in the midst of a brand turnaround and is focused on strengthening their product pipeline. This along with margin expansion opportunities will continue to be growth drivers for the sporting apparel leader.

Tencent Holdings Ltd. (-0.0% contribution, -2.9% total return), China's dominant internet giant, reported a sharp positive earnings surprise during the quarter. All year long, Tencent has been under pressure from lack of regulatory game approvals preventing it from monetizing its record-setting launch of the global gaming hit, PUBG, as well as from launching any new games. However, online advertising delivered a big surprise of 47% y/y growth to help offset the shortfall from gaming revenue down 3% y/y. WeChat user growth continues to impress, growing 10.5% y/y. We anticipate gaming approvals to restart in early 2019 and for gaming revenue growth to gradually recover. Meanwhile Tencent's results remind us of the significant potential growth from increasing advertising load, which is significantly below that of global peers.

LARGEST DETRACTORS

Amazon.com Inc. (-1.1% contribution, -25.0% total return), the market leader in e-commerce, underperformed during the quarter after providing disappointing revenue guidance. Although the e-commerce leader's overall results were strong, Amazon now expects 11-21% revenue growth in the fourth quarter vs consensus expectations of low 20% growth. This disappointing guidance caused the stock to fall in a turbulent quarter for investors. However, our investment rationale remains intact as the company's evolving business mix towards higher margin segments such as AWS and advertising are leading to enhanced profitability.

The industry leader in outsource biologic drug development, **WuXi Biologics Inc. (-1.0% contribution, -36.7% total return)** suffered from both headlines and overall biotech sector weakness. The foremost headline, US-China trade tension and additional foreign investment restrictions required by the Committee on Foreign Investment in the United States (CFIUS) in October should not affect US pharma continuing to outsource R&D to Wuxi. Wuxi's protections for client intellectual property have garnered long-term relationships with many major pharma companies, including AstraZeneca and Genentech. Wuxi has also been building out manufacturing plants outside China (Worcester, MA, Ireland, Singapore) to provide confidence to clients and provide future flexibility. A second headline related to Chinese drug pricing cuts should actually prove to be beneficial as the cuts were focused on lowering generic prices and drugs that are not innovative, to create budget space for innovative drugs, particularly biologics. This will give even more incentive for Wuxi's Chinese clients to accelerate drug development. We remain confident in Wuxi's long-term growth potential.

In late October **PTC Inc. (-0.9% contribution, -21.9% total return)**, a leader in standardized IoT software, reported quarterly results for the July-Sept. quarter and gave guidance for the forward year that were both in line with consensus expectations. Nonetheless, PTC sold off as market concerns grew about potential macro headwinds given the company’s exposure to industrial end markets. We continue to believe PTC is well-equipped to withstand a slowdown in economic growth for several reasons. First, independent of macro conditions, the company is driving new channel opportunities with high potential partnerships with Microsoft Azure, Rockwell Automation, and ANSYS. All of these partnerships are excluded from the company’s long term forecast so the forward-looking estimates remain conservative. Second, IoT spending by PTC customers should be more resilient given its strategic importance for competitive, secular growth and lack of dependence on macro events. Additionally, PTC’s business transition to a subscription based model continues to progress well. Despite the weak stock performance in Q4, PTC is the top performer in the Global strategy for the year, returning over 36%.

PORTFOLIO ACTIVITY

- During the quarter, we initiated positions in Lockheed Martin Corp., Microsoft Corp. and UnitedHealth Group Inc. and liquidated our positions in Broadcom Inc. and Cognizant Technology Solutions.

INITIATIONS

We initiated a position in **Lockheed Martin Corp.**, which is a U.S. defense prime contractor with accelerating growth across multiple programs such as the F-35 Lightning II, various missiles and missile defense programs, as well as classified Space and R&D programs. While future Department of Defense budget increases remain a key area of debate, supportive U.S. defense budgets over the last few years have left Lockheed Martin well-positioned to grow topline through 2021 in the mid-to-high single digits without interruption, even if future budgets do not grow. With the recent sell off in the shares, it was clear that souring sentiment driven by headlines in the news led to a mispricing of the opportunity to own one of the highest quality defense companies globally with unchanged long-term growth prospects.

Microsoft Corp., a provider of software and services to both enterprise and consumer customers, has emerged from being a legacy provider to a strong cloud competitor. As the cloud market becomes more established, Microsoft is well positioned to grow and take share, as enterprises are likely to take a hybrid approach and maintain workloads on private clouds in addition to public cloud deployments. Microsoft’s strong incumbent position leads many customers down a natural path of choosing the company as its provider for next generation technology. As part of the transition to cloud, most enterprise customers are also converting applications from traditional license software to SaaS subscription offerings. This allows Microsoft to garner more revenue through the lifecycle of the customer engagement, in addition to chances for the company to upsell more offerings. Given its strong position, Microsoft is also investing long-term opportunities in large user platforms, such as LinkedIn, GitHub and Xbox, that are likely to help drive incremental earnings over time. Finally, as Microsoft’s cloud initiatives have scaled, these business lines have gone from being a margin headwind to becoming margin accretive.

UnitedHealth Group Inc. is the leading Managed Care Organization (MCO) in terms of market share, and enjoys the associated operating efficiencies and economies of scale. The business uniquely encompasses both a medical insurance segment (UnitedHealth) and a healthcare services segment (Optum). Both segments are market leaders, and have demonstrated synergies and become a model for their MCO competitors to follow. The breadth of the population served, across commercial/Medicare/Medicaid lives, provides substantial scale that UNH leverages to extract best pricing for its customers. During the quarter we initiated a position because we believe that the valuation relative to growth presented an opportunity. UNH trades at a P/E below historical peak valuation, which we believe is unwarranted due to management's solid track record of operational execution. Going forward, we see good visibility on top-line growth driven by a growing addressable market as well as upside from Optum. Combined with strong performance on medical loss ratio management and Opex cost containment we see a path for sustainable double digit earnings growth.

LIQUIDATIONS

Broadcom Inc. has historically been a semiconductor company with exposure to the communications market. The company has traditionally been a shrewd acquirer, moving into tangential markets. Management had started to change the dialogue with investors – expressing that an increasing portion of free cash flow would go towards returning capital to shareholders. In a quick about-face, the company made a failed hostile attempt at acquiring Qualcomm, a semiconductor peer that is a leader in wireless. After that acquisition attempt was blocked by the Committee on Foreign Investment in the United States, Broadcom soon followed up with a bid for a software company, Computer Associates, which historically has shown little to no growth given its exposure to legacy systems. The far departure from its historical record and an erratic spree of M&A activity lent little confidence to a long-term cohesive growth strategy, and we therefore exited the position given this significant shift from our original investment thesis.

Cognizant Technology Solutions is an IT services company that leverages high-touch onshore personnel along with low-cost offshore engineers to deliver solutions to customers. The company has been pivoting towards growth areas related to efforts of digital transformation for its customers in major end markets, such as Financial Services, Health Care, and Communications, Technology and Media. While the new digital transformation business offers strong growth prospects, legacy core lines of service are showing declines. This yields a mid-single digit revenue growth rate. Moreover, Cognizant has already pulled several levers to drive margins higher, and going forward margin improvement will be more limited. Compounding a slower revenue growth outlook and more limited margin improvement, we exited the position in favor of allocating to other positions with more favorable growth and value dynamics.

MARKET OUTLOOK

Global economic growth is likely to slow modestly in 2019, but we think investors' worst fears are overplayed as most of the world's economies will continue to expand rather than contract. For the time being at least, we don't see a recession on the horizon.

There are many reasons to be positive. US corporate profit margins should remain high after the boost from 2018 tax cuts, which should result in earnings growth in the high single-digits or better. Furthermore, a more dovish stance from the Fed could signal a cyclical peak for the US dollar, helping US manufacturing and also providing some welcome relief for embattled emerging markets companies facing higher dollar-denominated borrowing costs.

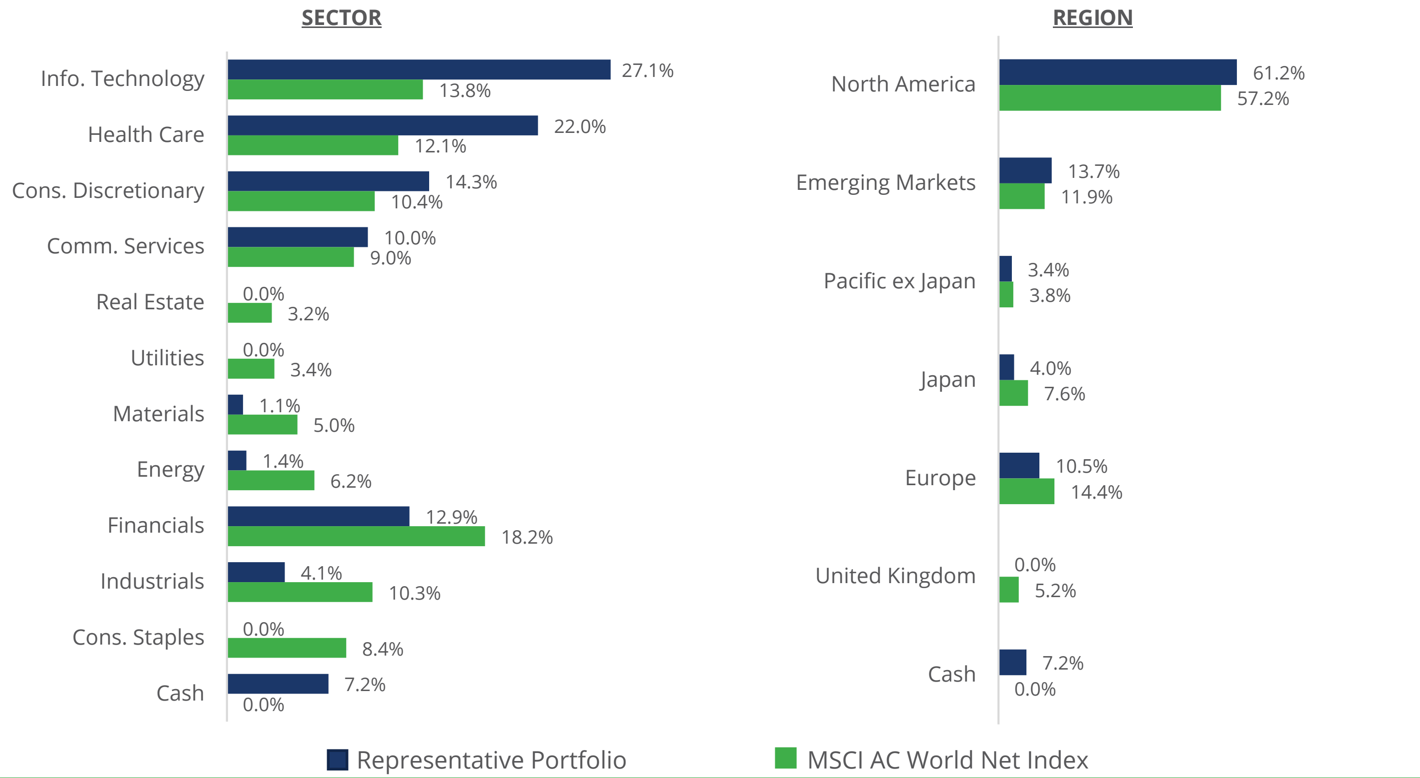
The Eurozone should pick up in the first half of 2019. Disruption to the German auto industry from new emissions standards, potential for increased fiscal stimulus across major economies in the bloc and the positive developments in Italy signaling a stronger unity in the EU can be potential catalysts for improving growth. Nevertheless, the intense uncertainty around Brexit will be a drag on the UK in the first quarter of 2019 and may extend its impact across Europe should Britain leave the EU without a deal on March 29.

An agreement between OPEC and its oil-producing allies to cut output can lead to greater price stability in 2019. But oil, and the broader commodity sector, remains a leading indicator of global growth concerns.

Intense uncertainty on global trade remains the big issue gripping investors. The pause in the US-China trade war could pave the way for a more comprehensive agreement. Nonetheless, significant obstacles remain, such as China's real desire to follow through on promises to open up its economy and end forced technology transfers.

There can be little doubt there are multiple risks globally in this late-cycle phase. However, we think the outlook is far from bleak, and believe 2019 could be a good time to sharpen the pencil to hunt for oversold opportunities.

PORTFOLIO EXPOSURE (period ending December 31, 2018)



PORTFOLIO CHARACTERISTICS (period ending December 31, 2018)

	Representative Portfolio	MSCI AC World Net Index
Capitalization		
Weighted Average Market Cap ($B)	194.4	131.5
Median Market Cap ($B)	61.5	9.0
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	18.2	10.9
EPS Growth: 5 year trailing (%)[1]	12.2	7.8
Value Fundamentals		
P/E Ratio: 12 Months - forward[1]	23.0	15.4
P/E Ratio: 12 Months - trailing[1]	33.9	20.2
PEG Ratio: forward[1]	1.3	1.4
Dividend Yield (%)[2]	0.9	2.7
Price/Book[3]	4.5	2.0
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	14.2	15.2
Return on Invested Capital: 5 Year (%)[1]	10.9	10.5
Other		
Number of Positions	28	2,758
Beta: 3 year portfolio[4]	1.18	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, 2018)			
Sector / Company	**Country**	**Weight (%)**	**Industry**
Communication Services			
Alphabet Inc. Class A	United States	3.2	Interactive Media & Services
Alphabet Inc. Class C	United States	1.3	Interactive Media & Services
Facebook Inc.	United States	1.7	Interactive Media & Services
Tencent Holdings Ltd.	China	3.8	Interactive Media & Services
Consumer Discretionary			
Alibaba Group Holding Ltd.	China	3.2	Internet & Direct Marketing Retail
Amazon.com, Inc.	United States	3.7	Internet & Direct Marketing Retail
Kering S.A.	France	3.6	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	3.4	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Energy			
Schlumberger Ltd.	United States	1.4	Energy Equipment & Services
Financials			
HDFC Bank Ltd.	India	4.9	Banks
JPMorgan Chase & Co.	United States	4.1	Banks
Mastercard Inc.	United States	4.0	Consumer Finance
Health Care			
Becton, Dickinson & Co.	United States	4.0	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	4.6	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	4.0	Life Sciences Tools & Services
UnitedHealth Group Inc.	United States	3.7	Health Care Providers & Services
Vertex Pharmaceuticals Inc.	United States	3.9	Biotechnology
WuXi Biologics	China	1.8	Life Sciences Tools & Services
Industrials			
Kratos Defense & Sec. Solutions	United States	2.3	Aerospace & Defense
Lockheed Martin Corp.	United States	1.8	Aerospace & Defense
Information Technology			
Adobe Inc.	United States	4.1	Software
ASML Holding N.V.	Netherlands	3.3	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	4.4	IT Services
Infineon Technologies AG	Germany	3.2	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	4.0	Electronic Equipment, Instruments & Components
Microsoft Corp.	United States	3.9	Software
PTC Inc.	United States	4.1	Software
Materials			
First Quantum Minerals Ltd.	Canada	1.1	Metals & Mining
Cash & Equivalents			
Cash		7.2	

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