Hardman Johnston International Equity

2018 FOURTH QUARTER REPORT

Hardman Johnston Global Advisors

COMPOSITE PERFORMANCE (%) (period ending December 31, 2018)	4th QTR	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	-11.56	-13.15	7.43	3.90	9.37	10.35
International Equity (net of fees)	-11.70	-13.64	6.79	3.26	8.67	9.76
MSCI EAFE Net Index	-12.54	-13.79	2.87	0.53	6.31	4.62
MSCI AC World ex US Net Index	-11.46	-14.20	4.47	0.68	6.57	N/A

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 ex US Net Index is shown as supplemental information. The MSCI AC World ex US Index inception date is 1/1/2001. Composite inception date: September 30, 1993.

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
- International Equity Composite returned –11.70%, net, outperforming the MSCI EAFE return of –12.54% and modestly underperforming the MSCI ACWI ex US return of -11.46%

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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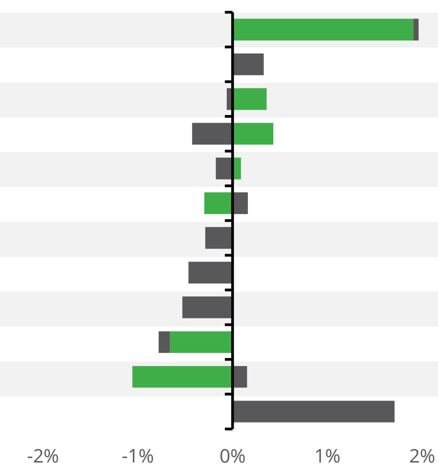
The greatest concern for markets continues to be the tariff war. The pause in the dispute following the G20 meeting between the US and China provided hope that a more permanent solution could be reached. However, stocks in China, as well as international companies with exposure to China, were hit by 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.

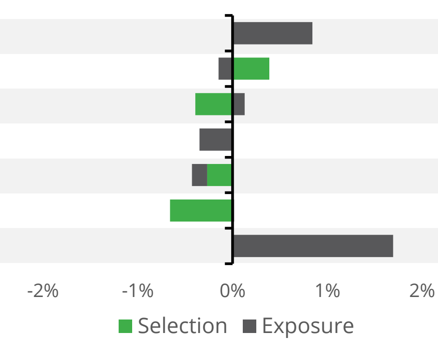
The issue of confidence also hindered business. Uncertainty surrounding trade and political issues, such as further concern about a no-deal Brexit in the UK, held back capex investment as CEOs await greater clarity. Again, there was a silver lining for equity investors. Supercharged earnings growth in 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
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
SECTOR					
Financials	11.4	19.6	0.7	-13.7	
Energy	0.0	6.0	0.0	-17.5	
Comm. Services	4.3	5.5	-2.9	-9.8	
Info. Technology	15.4	6.0	-13.6	-16.5	
Cons. Discretionary	18.5	11.3	-14.7	-14.7	
Materials	1.7	7.6	-29.0	-15.2	
Real Estate	0.0	3.6	0.0	-5.3	
Utilities	0.0	3.5	0.0	-0.1	
Consumer Staples	0.0	11.4	0.0	-8.3	
Industrials	17.8	14.3	-17.8	-14.6	
Health Care	17.5	11.2	-15.5	-10.1	
Cash	13.4	0.0	0.7	0.0	



	Average Weight		Total Return		Relative
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
REGION					
Emerging Markets	17.2	0.0	-8.9	0.0	
United Kingdom	5.5	17.4	-3.8	-11.8	
Japan	16.1	24.6	-16.6	-14.2	
North America	2.8	0.0	-28.5	0.0	
Pacific Ex Japan	9.6	12.0	-10.9	-7.9	
Europe	35.4	46.0	-14.9	-13.1	
Cash	13.4	0.0	0.7	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 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 80 bps on a net basis during the fourth quarter
- Security selection in Financials and no exposure to Energy were the largest contributors during the quarter while security selection in Health Care and Industrials were the largest detractors
- Exposure to Emerging Markets and security selection in the United Kingdom were the top contributors to relative performance from a regional perspective; security selection in Europe and the Pacific ex Japan were the largest detractors

LARGEST CONTRIBUTORS

HDFC Bank Ltd. (+0.4% 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.

ICICI Bank Ltd. (+0.3% contribution, +21.2% total return) continues to make significant progress in its turnaround. The non-performing loan book continues to fall rapidly resulting in lower credit costs. At the same time, loan growth is picking up as the banks renewed focus on consumer and small business lending, along with their ability to leverage their extensive branch network system, represents a significant advantage over most competitors. As credit costs come down and loan growth rises, bank profitability is rapidly increasing and the bank's ROE should improve to 15% over the next two years, resulting in a significant increase in EPS over the same time frame.

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.

LARGEST DETRACTORS

The industry leader in outsource biologic drug development, **WuXi Biologics Inc. (-1.2% 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.

Nidec Corp. (-1.1% contribution, -21.0% total return), a technology leader in brushless motors, began to experience a slowdown in topline growth as a result of the US-China trade frictions. Certain automotive products and fan motors for air conditioners that are produced in China saw a pullback in demand beginning in September. The trade frictions have impacted momentum in the near-term, but management is taking swift action to adjust. In response to trade tensions, Nidec is strategically investing in increasing its production capacity of electric power steering motors for Auto Tier 1 original equipment manufacturers (OEMs) in the US and Mexico, as well as increasing production capacity for appliance motors for major air conditioning OEMs in the US. These actions ultimately should help Nidec gain market share from Chinese exporters in the long run. Moreover, momentum in the traction motor business continues to improve as management illustrated the significant number of incoming inquiries and potential sales for electric and plug -in hybrid electric vehicle models in the next few years.

ASML Holding NV (-0.8% contribution, -17.2% total return) is a semiconductor capital equipment provider with a leading technology position in lithography. Shares of the company underperformed in the fourth quarter as sentiment has been very punitive for all equipment related companies. In particular, capex spending has been curtailed by memory manufacturing customers that have seen the environment rapidly go from a state of tight supply to one of excess inventory. As end demand appears to remain healthy for most end markets, the memory chipmakers should resume capex investments after a couple of quarters of digestion. Furthermore, the memory manufacturing process has less exposure to lithography, and should therefore be less impacted by spending swings in memory capex relative to other equipment peers. Finally, ASML also benefits from strong visibility given its leading edge EUV products are on allocation and services revenue are recurring in nature.

PORTFOLIO ACTIVITY

- During the quarter, we initiated a position in Terumo Corp. and liquidated our positions in Nippon Shinyaku Co. Ltd. and Broadcom Inc.

INITIATIONS

We initiated a position in **Terumo Corp.**, the biggest Asian med-tech company. Based in Japan, it is benefitting from rising affluence across the region. Demand for its highly profitable cardiac and vascular products is growing in-line with the spread of Western lifestyles and resultant disease patterns. We particularly like its leadership in minimally invasive surgery and will benefit from the secular shift to these devices which improve outcomes, reduce hospital stays and benefits from the push to reduce cost of care.

LIQUIDATIONS

Nippon Shinyaku Co Ltd., a Japan-based pharmaceuticals company with a strong internal R&D track record for developing innovative drugs, reported positive data on NS's key pipeline drug NS-065 for Duchenne's muscular dystrophy (DMD) in early October. We took advantage of a rebound in the share price to exit the position. Recently, longer-term growth prospects got a dose of uncertainty as Johnson & Johnson's commercialization of NS's Uptravi drug unexpectedly slowed, which is a key driver of near-term earnings growth. We have also been watching the early stage development of a DMD gene therapy treatment from competitor Sarepta Therapeutics, who reported positive data which may impact the outlook for NS-065. With these incremental risks to both near-term and longer-term earnings growth, we see better opportunities elsewhere.

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.

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.

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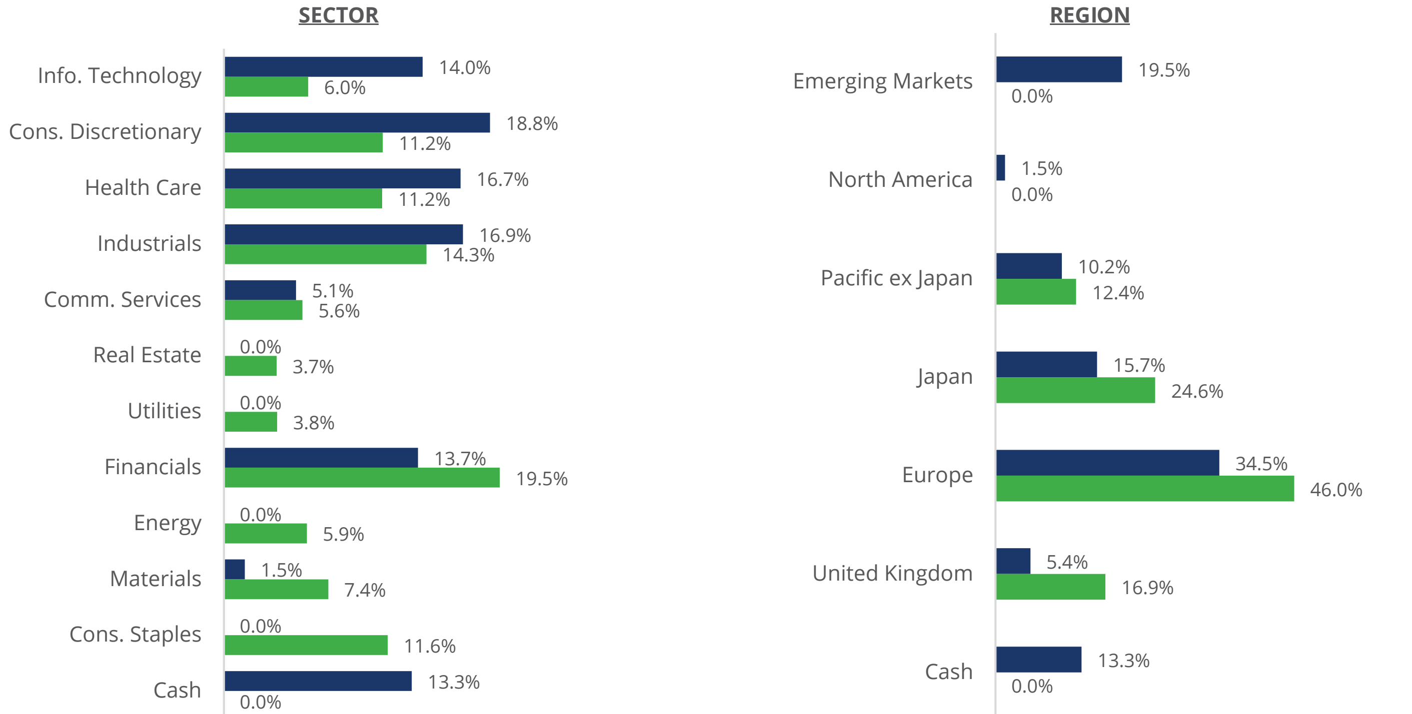
PORTFOLIO EXPOSURE (period ending December 31, 2018)



PORTFOLIO CHARACTERISTICS (period ending December 31, 2018)

	Representative Portfolio	MSCI EAFE Net Index
Capitalization		
Weighted Average Market Cap ($B)	81.5	56.4
Median Market Cap ($B)	33.3	9.3
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	15.4	7.8
EPS Growth: 5 year trailing (%)[1]	16.9	6.7
Value Fundamentals		
P/E Ratio: 12 Months - forward[1]	19.9	14.2
P/E Ratio: 12 Months - trailing[1]	27.2	16.4
PEG Ratio: forward[1]	1.3	1.8
Dividend Yield (%)[2]	1.4	3.6
Price/Book[3]	3.3	1.4
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	15.4	11.9
Return on Invested Capital: 5 Year (%)[1]	10.9	8.6
Other		
Number of Positions	24	920
Beta: 3 year portfolio[4]	0.83	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			
Tencent Holdings Ltd.	China	5.1	Interactive Media & Services
Consumer Discretionary			
adidas AG	Germany	4.9	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	4.3	Internet & Direct Marketing Retail
Kering S.A.	France	4.8	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	4.4	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Financials			
AIA Group Ltd.	Hong Kong	5.8	Insurance
HDFC Bank Ltd.	India	4.1	Banks
ICICI Bank Ltd.	India	3.8	Banks
Health Care			
AstraZeneca	United Kingdom	5.4	Pharmaceuticals
Bayer AG	Germany	1.7	Pharmaceuticals
Orpea S.A.	France	2.0	Health Care Providers & Services
Qiagen N.V.	Netherlands	2.9	Life Sciences Tools & Services
Terumo Corp.	Japan	2.5	Health Care Equipment & Supplies
WuXi Biologics	China	2.2	Life Sciences Tools & Services
Industrials			
Epiroc AB	Sweden	0.6	Machinery
Fanuc Corp.	Japan	3.6	Machinery
Nidec Corp.	Japan	4.4	Electrical Equipment
Prysmian S.p.A.	Italy	3.3	Electrical Equipment
Safran S.A.	France	5.0	Aerospace & Defense
Information Technology			
ASML Holding N.V.	Netherlands	4.5	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	4.3	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	5.2	Electronic Equipment, Instruments & Components
Materials			
First Quantum Minerals Ltd.	Canada	1.5	Metals & Mining
Cash & Equivalents			
Cash		13.3	

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