Hardman Johnston International Equity

2019 FIRST QUARTER REPORT

Hardman Johnston Global Advisors

COMPOSITE PERFORMANCE (%) (period ending March 31, 2019)	1st QTR	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	15.39	-1.08	13.67	7.28	11.88	10.87
International Equity (net of fees)	15.25	-1.64	13.02	6.63	11.17	10.27
MSCI EAFE Net Index	9.98	-3.71	7.27	2.33	8.95	4.96
MSCI AC World ex US Net Index	10.31	-4.22	8.09	2.57	8.85	N/A

Performance is preliminary through March 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 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

- Global equity markets rebound strongly, largely reversing late 2018 declines
- US and European monetary policymakers adopt a more dovish tone to offset tariffs and deceleration in China which weighed on growth
- US first quarter corporate profit forecasts turn negative as the tax effect for 2018 waivers
- International Equity Composite returned 15.25%, net, outperforming the MSCI EAFE return of 9.98% and the MSCI ACWI ex US return of 10.31%

MARKET REVIEW

Global equity markets rebounded strongly from their sharp declines at the end of 2018 to record one of the strongest first quarters in the past two decades. Concerns about the slowing global economy resurfaced towards the end of the period, cooling rather than stamping out early 2019 enthusiasm. The S&P 500 gained over 13% for the three months and the MSCI ACWI gained more than 12% while most equity benchmarks around the world followed suit.

The US continued to motor along in early 2019, buoyed by a more dovish tone from the US Federal Reserve, strong reported fourth quarter earnings, and hopes for a positive outcome to US-China trade tensions. Employment growth exceeded expectations for January. However, it was a tale of two quarters as job creation flagged again in February, and expected first quarter earnings at S&P 500 companies turned negative as companies begin to run up against last year's tax-cut fueled comparatives. Reported GDP growth slowed to 2.2% in the fourth quarter, taking growth for 2019 to 2.9%. In the face of weakening global performance, the Fed cut its outlook for 2019 to 2.1% and signaled that there may be no interest rate hikes at all in 2019.

Late in the quarter, the yield on 10-year treasuries dropped below that of three-month paper, signaling investor anxiety about the near-term outlook. An inverted yield curve typically is a useful guide to impending recession in the next couple of years. However, one of the main risks is that it precipitates rather than predicts the next downturn. Businesses that start watching the indicator too closely could hold off investment and hiring decisions, ultimately causing the economy to stall.

A catalyst for growing investor concern was weak IHS Markit data for Germany, which showed that manufacturing declined at the fastest rate in over six years. The picture was not all gloomy in the Eurozone as data that measures business confidence and activity improved incrementally, arresting share price falls and the flight into safer securities. Nevertheless, the worsening outlook across the Eurozone prompted the European Central Bank to echo the Fed's more dovish stance on interest rates and pledge a new round of cheap liquidity for banks.

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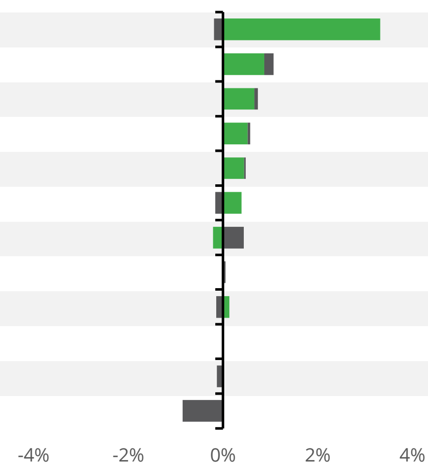
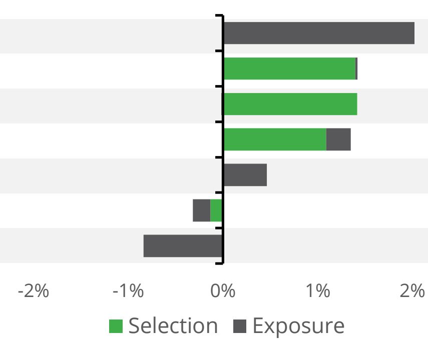
While Brexit and ensuing political uncertainty created distractions in Europe, the trade war and the slowdown in China weighed more heavily on the global economy. China's reported GDP growth slowed to 6.4% in the final three months of 2018, while an official state newspaper guided to growth of 6% in the first quarter. Profits at Chinese industrial companies slumped by 14% in January and February, according to the National Bureau of Statistics, while imports from its neighbor Japan also fell back sharply by 8.4% in January. We witnessed solid profits from Chinese companies in our portfolio, as well as international groups selling luxury goods into China, highlighting a potential bifurcation in the market.

Notwithstanding the pressure, Chinese stocks made strong gains as the Shanghai Composite climbed almost 24% over the quarter. The market received a boost from MSCI's decision to increase the China weighting in its benchmarks fourfold, although part of the rally may also have stemmed from investors optimistically pricing in an end to the trade spat. The US extended its pause on higher tariffs and dubbed ongoing talks as "constructive." It also warned that it could keep some existing levies in place for an extended period as an enforcement mechanism, even in the case of a deal.

PERFORMANCE ATTRIBUTION

	Average Weight		Total Return		Relative
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
SECTOR					
Cons. Discretionary	20.2	11.1	25.1	7.5	
Financials	13.2	19.4	14.8	6.9	
Health Care	16.7	11.2	15.4	11.2	
Comm. Services	5.1	5.5	14.7	4.3	
Industrials	20.3	14.4	12.9	10.6	
Materials	2.0	7.4	40.3	13.2	
Info. Technology	15.8	6.1	14.0	15.3	
Utilities	0.0	3.7	0.0	9.0	
Consumer Staples	1.2	11.5	25.0	12.4	
Energy	0.0	5.9	0.0	10.4	
Real Estate	0.0	3.8	0.0	14.0	
Cash	5.5	0.0	0.5	0.0	
REGION					
Emerging Markets	19.6	0.0	21.3	0.0	
Pacific Ex Japan	12.2	12.5	24.7	12.2	
Europe	38.6	46.1	14.2	10.4	
Japan	16.9	24.4	13.6	6.7	
North America	2.0	0.0	40.3	0.0	
United Kingdom	5.1	17.0	9.4	11.9	
Cash	5.5	0.0	0.5	0.0	





Preliminary data for the quarter ending March 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 more than 500 bps on a net basis during the first quarter
- Security selection in Consumer Discretionary and Financials were the largest contributors during the quarter while no exposure to Real Estate and Energy were modest detractors
- Exposure to Emerging Markets and security selection in Pacific ex Japan were the top contributors to relative performance from a regional perspective; an underweight position and security selection in the United Kingdom was the largest detractor

LARGEST CONTRIBUTORS

Alibaba Group Holding Ltd. (+1.5% contribution, +33.1% total return) stock experienced a strong rebound in the first quarter after a weak fourth quarter, where US-China trade war and China macro weakness were significant overhangs. The company reported strong retail eCommerce sales and robust growth across its other key segments, including advertising, cloud, and payments, driving outperformance.

Melco Resorts & Entertainment Ltd. (+1.4% contribution, +29.1% total return) was up 29% in the first quarter as the share price bounced back sharply after underperforming in 2018. Expectations were low going into the year and a series of industry and company specific data points surprised to the upside. Specifically, December-February monthly Gross Gaming Revenue (GGR) came in above or in-line with market expectations. Melco's fourth quarter earnings also were better than the market expected driven by improved operations at City of Dreams as a result of the new Morpheus tower. These positive fundamental developments combined with undemanding valuation led to a strong performance in the first quarter.

AIA Group Ltd. (+1.1% contribution, 19.9% total return) is the largest pan-Asian life insurer with the premier agent network giving them opportunities for expansion in many underpenetrated markets. The company continues to take advantage of the strong growth opportunities in China. January sales data was robust and the company now has expanded opportunities. It received regulatory approval on February 1st to expand into the large metropolitan cities of Tianjin and Shijiazhuang as well as other opportunities in the Hebei province. These are the first of many additional markets that are expected to be open to AIA given the close relationship AIA has with regulators as a result of the core base they have held for decades in China.

LARGEST DETRACTORS

A position in **Murata Manufacturing Co., Ltd. (-0.2% contribution, -3.9% total return)** was initiated during the quarter, and therefore the relative performance attributes are difficult to justify in such a short duration. Nonetheless, investors were likely to show some concern around the softer data that was prevalent around smartphones and autos, the two largest end markets for Murata. While the headwinds in these markets are challenging, Murata will have price increases as a tailwind, along with its strong position in the high-end of the multi-layer ceramic capacitors (MLCC) and technological advantages in its communications business that should position the company well during the adoption of 5G technology.

In late February, **Prysmian S.p.A. (-0.1% contribution, -1.8% total return)** announced that the Western Link project had additional complications, which derailed the progress Prysmian shares had begun to make since the beginning of the year. Fortunately, the cable fault has already been repaired, and given the location of the fault on land, the cost was covered by previous provisions taken in the fourth quarter of last year. Despite the limited financial impact on a forward basis, investor sentiment continues to be challenged by weak execution on the project. We now look to future catalysts in the coming months as the valuation remains depressed, namely the Viking link contract and reduced fears about global growth, to improve sentiment for Prysmian.

Bayer AG (-0.1% contribution, -6.6% total return) continued to struggle in the first quarter after the company lost its second trial over the safety of its Roundup product. A San Francisco jury found that Monsanto, now owned by Bayer, acted negligently in failing to warn about the dangers of Roundup and awarded the plaintiff $80.3 million in damages. While scientific evidence seems to favor Bayer on the alleged carcinogenicity of glyphosate, the potential downside from future legal settlements is mounting after the second trial loss. We continue to closely monitor the litigation risk and the potential impact to the share price as we evaluate Bayer's future prospects against its low valuation.

- During the quarter, we initiated positions in A2 Milk Co. Ltd., Airbus SE and Murata Manufacturing Co., Ltd. and liquidated our position in Epiroc AB

PORTFOLIO ACTIVITY

INITIATIONS

A2 Milk Co., Ltd., produces a completely natural cows' milk that some people find easier on digestion. The A2 Milk Company is the market leader in selling milk and milk products without the a1 milk protein. The company is in a strong position to take share, particularly in the Chinese infant formula market, because of its first mover advantage, patent protection, strong brand, and supplier agreements. This market is massive and despite A2's strong growth over the past few years, it is still a small player with plenty of growth opportunities ahead due to its unique health benefits and strong international brand appeal. We believe the company will continue to gain share through both the C2C and B2C markets as well as through expanding distribution at mom and baby stores. Towards the end of 2018 shares were under pressure due to concerns over recent regulations designed to better monitor the C2C channel in China. As a result, we initiated a position as we believed these concerns were overdone and provided a compelling entry point into this differentiated consumer company.

Airbus SE, is a global aerospace and defense company that produces commercial jets, helicopters, and defense and space systems. We expect Airbus's commercial aircraft deliveries to ramp up significantly in the next few years, underpinned by a large backlog, continued passenger traffic growth and elevated load factors. Upside potential exists from higher production rates for the A320 narrowbody family, which looks increasingly likely as strong demand continued throughout 2018 and suppliers discussed plans to achieve higher rates. Risks from engine deliveries for the A320neo remain in view but will ultimately prove to be only a small disruption in the short term, given the strength of the market longer term. Moreover, order intake for widebodies progressed well this year, and the successful ramp up of the A350 is underappreciated as the program is on target to breakeven in 2019 and contribute positive earnings in 2020.

Murata Manufacturing Co., Ltd., is a supplier of multi-layer ceramic capacitors and communications components and modules. Murata has a leading market share position in the MLCC market, which is even more prominent in higher end capacitors. The company's dominant position in high end capacitors allows it to capture more growth in this segment with higher prices, which is now driving up total average selling prices from a mix benefit. The two secular trends that are the most significant drivers for high end capacitor growth are in autos and communications, which are also the two largest segments for Murata. The market opportunity is expected to double in autos over the next five years as legacy internal combustion engines are replaced by hybrids and fully electric vehicles. Autonomous driving features are also adding significantly more sensor and semiconductor content, which will require more MLCC content from a highly reliable provider. The communications industry is on the cusp of a significant shift as it introduces the next generation 5G wireless technology. As with previous transitions, 5G will likely lead to use of several more frequency bands, which in itself will require more MLCCs, power amplifiers, diversity modules and filters. Furthermore, certain areas of the radio technology will undergo major redesign to adopt features such as millimeter wave, massive MIMO and beamforming. This will require advanced expertise in ceramic filter and antenna technology, both of which are strongholds for Murata.

LIQUIDATIONS

We were left with a subscale position in **Epiroc AB** following the spin out from Atlas Copco. During the first quarter, we liquidated the remaining shares.

MARKET OUTLOOK

Global economic growth is likely to slow as we move through 2019, although most of the world's major economies should continue to expand. We do not believe that the brief, partial inversion of the US treasuries yield curve in March heralds imminent recession.

There is always the risk that central bank policy can choke growth. Yet, given its awareness of the global slowdown and falling inflation in the US, the Fed is likely to stick to its recent guidance and keep interest rates on hold for the rest of the year. Moreover, while unemployment appears low, there is evidently still some slack in the jobs market, which means that cost pressures should remain subdued as both productivity and labor force participation improve.

Markets clearly now believe that a trade agreement between the US and China is likely, although a deal that leads to much greater and more open trade is not widely expected. A disappointing outcome to those talks could spark an equities sell-off. The US's proposal to levy $11 billion of tariffs on EU goods in response to European subsidies for aircraft maker Airbus also illustrates that the hardball approach to global trade may not be over.

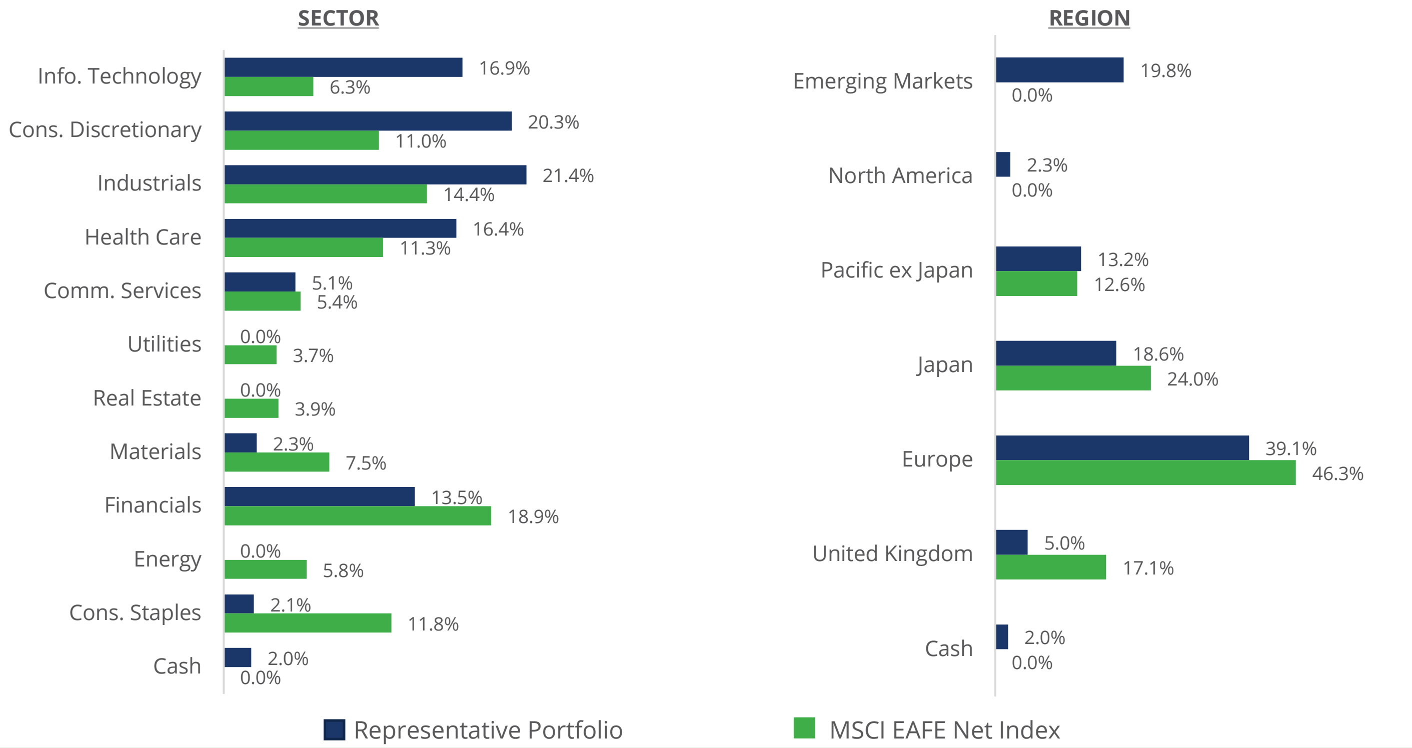
Despite a slow start to 2019, Chinese indicators are showing signs of improvement, with better manufacturing and services PMIs in March. Nevertheless, we see the economy continuing to ease back, rather than stall, as the authorities focus on tax cuts and monetary support over large spending programs.

Given China's economic scale and power, its actions will increasingly have global knock-on effects. Stockpiling of oil in China, combined with rising demand, sanctions on Iran and Venezuela, and supply restraint from OPEC, will continue to underpin the price of crude. Recovering demand in China should also benefit Japanese exporters, although a planned VAT increase in the fourth quarter of 2019 is likely to hamper Japanese consumer spending into 2020.

We expect Europe to pick up again in 2019, although Brexit remains a concern. Consumer confidence and industrial production are among the indicators that improved towards the end of the first quarter in the Eurozone. We think lower inflation should help lift purchasing power, acting as a tailwind for consumer spending and GDP growth in turn. However, ongoing Brexit uncertainty will have an impact across Europe, and has the potential to cause lasting economic damage to the UK.

Despite the rally in stocks over the first quarter, we do not believe equity valuations are stretched, but rather up to date with events. Barring any positive surprises on issues including trade talks and Brexit, we expect company earnings performance to be the driver of share price growth for the remainder of 2019.

PORTFOLIO EXPOSURE (period ending March 31, 2019)



PORTFOLIO CHARACTERISTICS (period ending March 31, 2019)

	Representative Portfolio		MSCI EAFE Net Index	
	Current	5-Year Average	Current	5-Year Average
Capitalization				
Weighted Average Market Cap ($B)	91.8	73.6	62.6	59.3
Median Market Cap ($B)	37.1	38.8	10.2	9.7
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%)[1]	14.8	14.9	6.9	8.8
EPS Growth: 5 year trailing (%)[1]	16.6	18.0	8.3	7.1
Value Fundamentals				
P/E Ratio: 12 Months - forward[1]	23.1	19.2	16.0	15.1
P/E Ratio: 12 Months - trailing[1]	27.1	21.6	15.9	15.5
PEG Ratio: forward[1]	1.6	1.3	2.3	1.7
Dividend Yield (%)[2]	1.3	1.5	3.4	3.1
Price/Book[3]	3.7	2.9	1.6	1.6
Quality Fundamentals				
Return on Equity: 5 Year (%)[1]	16.3	16.5	12.3	11.9
Return on Invested Capital: 5 Year (%)[1]	11.4	11.3	8.7	8.3
Other				
Number of Positions	26	25	920	921
Beta: 3 year portfolio[4]	1.00	0.90	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 March 31, 2019)			
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	4.6	Internet & Direct Marketing Retail
Kering S.A.	France	5.4	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	5.1	Hotels, Restaurants & Leisure
Puma SE	Germany	0.4	Textiles, Apparel & Luxury Goods
Consumer Staples			
A2 Milk Co., Ltd.	New Zealand	2.1	Food Products
Financials			
AIA Group Ltd.	Hong Kong	6.0	Insurance
HDFC Bank Ltd.	India	2.4	Banks
ICICI Bank Ltd.	India	5.1	Banks
Health Care			
AstraZeneca	United Kingdom	5.0	Pharmaceuticals
Bayer AG	Germany	1.4	Pharmaceuticals
Orpea S.A.	France	2.1	Health Care Providers & Services
Qiagen N.V.	Netherlands	3.0	Life Sciences Tools & Services
Terumo Corp.	Japan	2.3	Health Care Equipment & Supplies
WuXi Biologics	China	2.7	Life Sciences Tools & Services
Industrials			
Airbus SE	France	4.5	Aerospace & Defense
Fanuc Corp.	Japan	3.5	Machinery
Nidec Corp.	Japan	5.0	Electrical Equipment
Prysmian S.p.A.	Italy	3.5	Electrical Equipment
Safran S.A.	France	4.9	Aerospace & Defense
Information Technology			
ASML Holding N.V.	Netherlands	4.9	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	4.1	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	5.6	Electronic Equipment, Instruments & Components
Murata Manufacturing Co., Ltd.	Japan	2.3	Electronic Equipment, Instruments & Components
Materials			
First Quantum Minerals Ltd.	Canada	2.3	Metals & Mining
Cash & Equivalents			
Cash		2.0	

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