
Hardman Johnston Select 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
Select Equity (gross of fees)	15.75	13.16	13.93	11.55	15.96	12.98
Select Equity (net of fees)	15.59	12.46	13.22	10.83	15.20	12.30
S&P 500 Total Return Index	13.65	9.50	13.51	10.86	15.85	10.13
Russell 1000 Growth Index	16.10	12.75	16.53	13.49	17.51	10.02

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. Composite inception date: December 31, 1990.

KEY TAKEAWAYS

- Equity markets rallied in the first quarter, recovering nearly all losses from fourth quarter sell-off
- Improving global sentiment points to brighter outlook for US equities
- Data out of US labor markets signal continued strength in the domestic business environment
- Risks to equity markets remain a focus as slowing growth in Europe and uncertainty in the UK cannot be overlooked

MARKET REVIEW AND OUTLOOK

Somewhat dramatically, the portfolio reversed the declines from the fourth quarter of 2018, and equity markets rallied almost all the way back to September's levels. Something has changed in six months. Remember that equity markets always look forward. Since stock prices are predictions of a company's future earnings and capital deployment, obviously, the future must be brighter than we thought at the turn of the year. What is driving the optimism? Certainly the outlook for global growth has improved since the fourth quarter. We have gone from fears of the Fed quelling the US and other dependent economies by raising interest rates too quickly to a "pause" in tightening. On the other side of the globe, over the last year the Chinese government has taken dozens of policy steps to stimulate both business and consumer growth. As the world's second largest economy and the primary driver of growth in the western Pacific, China's recovery will have ripple effects around the world.

At home in the US, the business environment remains strong. Employment growth continues to surprise economists and market participants. Many employers are cautious about a tightening supply of labor and a shortage of the skills they seek, but workers keep coming off the sideline to drive the labor participation rate to levels we have not seen since the 1960s. Wages are starting to grow again, causing companies to search for more productivity. Therefore, we were not surprised to read that information technology led other sectors in market performance in the first quarter, as new software and computing are often the low hanging fruit for making employees more efficient. More traditional capital expenditures for US businesses are on their way as well, as business machinery investment grew at a high single digit rate last year, and will continue to fuel productivity growth.

While global economic conditions are generally improving, and markets have responded, risks remain. Across the Atlantic we see European growth that never seems to get far from stall speed, seemingly perpetual muddiness around Brexit, and a Russian government intent on re-establishing regional hegemony. A miscalculation in monetary policy at any central bank could trip up markets, as we saw last quarter. In the US, consumers appear to be taking a breather after the government shutdown delayed tax returns, and the environment in Washington, D.C. remains tumultuous.

After proofreading the prior three paragraphs, it occurred to us that they sound familiar to prior commentaries, and a glance back through our writings from 2018 makes us realize that the themes are recurring. Yet we have experienced six months of anything but straight lines. We think that is good news as near term swings create opportunities to get into franchises that we admire but traded at prices deemed too high. In aggregate, we feel that valuations are reasonable, and we hope that we have conveyed that prospects for growth remain bright.

Finally, we have changed the name of the strategy from Growth Equity to Select Equity. Only the name has changed, and nothing about the way the portfolio is managed has changed in the least. We endeavor always to build and nurture a portfolio of innovative, growing, and expertly managed companies that we have managed to buy at attractive prices. They are, indeed, a select few, hence the name change.

After discussions with clients and their advisors, it became clear that the appropriate primary benchmark for the strategy was the S&P 500, rather than the Russell 100 Growth (which remains a secondary benchmark). Generally our clients have used us as a core manager, and the broader S&P was a more relevant yardstick for performance.

PERFORMANCE ATTRIBUTION



Preliminary data as of 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 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

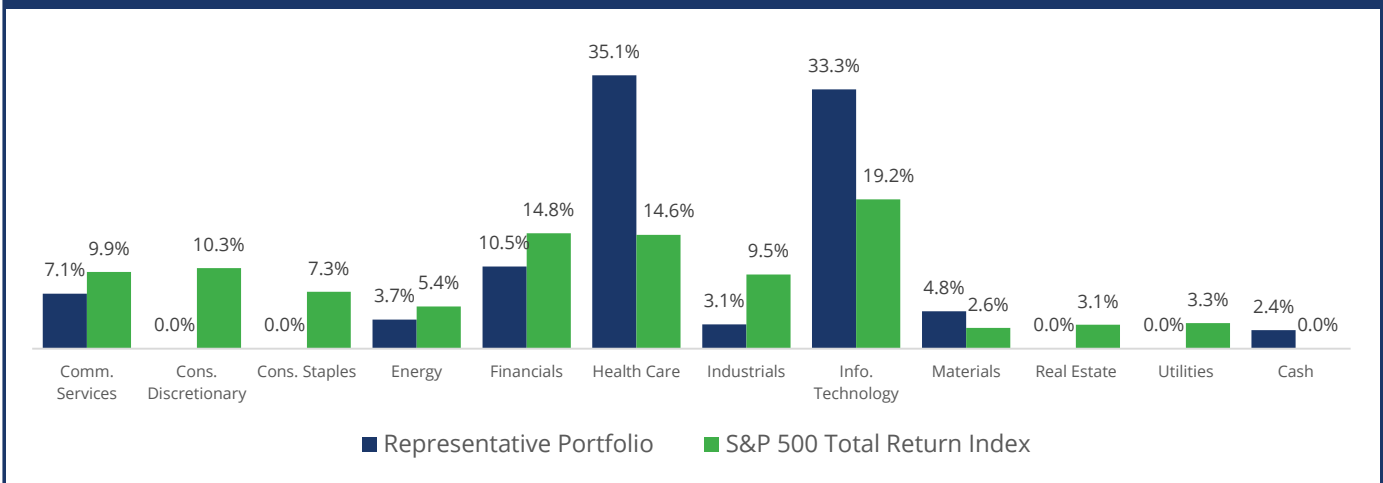
The Select Equity composite delivered a 15.6% return in the first quarter (net of fees), compared to 13.7% for the S&P 500 Total Return. Healthcare was the standout sector in the quarter, with the outperformance driven by innovation at the individual company level rather than by a wholesale policy change or any change in the sector’s environment.

Individual names that had strong quarters included Mastercard Inc., with continued strong momentum in electronic payments, Edwards Lifesciences Corp., who showed strength leading up to the March release of favorable data on its transcatheter heart valves, and Varian Medical Systems, Inc., whose line-up of cancer fighting machines continues to gain share globally. Only Medtronic plc and Livent Corp. detracted from returns, albeit minimally. The outlook for both companies remains favorable.

We initiated a position in NVIDIA Corp. in the quarter. NVIDIA makes highly engineered semiconductors that use a parallel processing architecture to deliver high speed computing for applications such as high definition graphics. Increasingly technologists are finding exciting new applications for these products, including artificial intelligence and self-driving cars. As the undisputed leader in the field we feel that NVIDIA is well positioned to help deliver the next wave of technology breakthroughs.

Finally, Livent Corp., a producer of battery grade lithium for electric vehicles and other applications, was spun out from FMC Corp. We like the lithium story longer term, and are hanging on to the position as a complement to our holding in Albemarle Corp.

PORTFOLIO EXPOSURE (period ending March 31, 2019)



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FIRST QUARTER			LAST TWELVE MONTHS		
	Average Weight (%)	Contribution to Return (%)		Average Weight (%)	Contribution to Return (%)
Largest Contributors			Largest Contributors		
Mastercard Inc.	4.43	1.06	IQVIA Holdings Inc.	3.47	1.42
Edwards Lifesciences Corp.	4.12	0.98	Mastercard Inc.	4.21	1.39
Varian Medical Systems, Inc.	3.72	0.92	Automatic Data Processing, Inc.	3.63	1.36
Largest Detractors			Largest Detractors		
Livent Corp.	0.12	-0.01	Schlumberger Ltd.	1.81	-0.64
Medtronic plc	3.49	-0.01	General Electric Co.	0.65	-0.52
Albemarle Corp.	1.92	0.13	Nevro Corp.	0.27	-0.34

Past performance does not guarantee future results. A full list of securities held as of March 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 - FIRST QUARTER	LIQUIDATIONS - FIRST QUARTER
NVIDIA Corp.	None

The holdings identified represent all new positions and liquidations in the Hardman Johnston Select Equity strategy for the quarter-to-date period ending March 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 March 31, 2019)				
	Representative Portfolio		S&P 500 Total Return	
	Current	5-Year Average	Current	5-Year Average
Capitalization				
Weighted Average Market Cap (\$B)	185.4	129.5	230.6	164.6
Median Market Cap (\$B)	63.7	50.2	21.6	19.4
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%) ¹	12.7	12.3	10.4	10.5
EPS Growth: 5 year trailing (%) ¹	8.4	7.3	8.2	7.1
Value Fundamentals				
P/E Ratio: 12 Months - forward ¹	22.8	20.6	19.3	17.8
P/E Ratio: 12 Months - trailing ¹	27.8	24.0	22.5	19.5
PEG Ratio: forward ¹	1.8	1.7	1.9	1.7
Dividend Yield (%) ²	1.2	1.3	1.9	2.0
Price/Book ³	4.8	4.1	3.2	2.9
Quality Fundamentals				
Return on Equity: 5 Year (%) ¹	15.3	16.9	18.0	17.7
Return on Invested Capital: 5 Year (%) ¹	13.6	12.3	12.5	11.8
Other				
Number of Positions	32	33	506	505
Beta: 3 year portfolio ⁴	1.07	0.99	1.00	1.00

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

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PORTFOLIO HOLDINGS (period ending March 31, 2019)

Sector / Company	Country	Weight (%)	Industry
Communication Services			
Alphabet Inc.	United States	3.7	Interactive Media & Services
Comcast Corp.	United States	3.4	Media
Energy			
EOG Resources, Inc.	United States	2.4	Oil, Gas & Consumable Fuels
Schlumberger Ltd.	United States	1.3	Energy Equipment & Services
Financials			
HDFC Bank Ltd.	India	2.2	Banks
March & McLennan Cos. Inc.	United States	3.8	Insurance
Mastercard Inc.	United States	4.6	Consumer Finance
Health Care			
AstraZeneca	United Kingdom	3.2	Pharmaceuticals
Becton, Dickinson & Co.	United States	2.9	Health Care Equipment & Supplies
Cerner Corp.	United States	1.8	Health Care Technology
Edwards Lifesciences Corp.	United States	4.4	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	4.0	Life Sciences Tools & Services
Johnson & Johnson	United States	3.1	Pharmaceuticals
Medtronic plc	Ireland	3.3	Health Care Equipment & Supplies
Qiagen N.V.	Netherlands	3.0	Life Sciences Tools & Services
Quest Diagnostics Inc.	United States	2.7	Health Care Providers & Services
Varian Medical Systems, Inc.	United States	3.8	Health Care Equipment & Supplies
Vertex Pharmaceuticals Inc.	United States	3.1	Biotechnology
Industrials			
Stanley Black & Decker Inc.	United States	3.1	Machinery
Information Technology			
Adobe Inc.	United States	4.4	Software
Apple Inc.	United States	3.1	Technology Hardware, Storage & Peripherals
ASML Holding N.V.	Netherlands	1.9	Semiconductors & Semiconductor Equipment
Automatic Data Processing, Inc.	United States	3.9	IT Services
Broadcom Inc.	United States	3.3	Semiconductors & Semiconductor Equipment
Cisco Systems, Inc.	United States	3.6	Communications Equipment
Cognizant Technology Solutions	United States	2.9	IT Services
Flir Systems Inc.	United States	2.6	Electronic Equipment, Instruments & Components
Microsoft Corp.	United States	5.1	Software
NVIDIA Corp.	United States	2.7	Semiconductors & Semiconductor Equipment
Materials			
Albemarle Corp.	United States	1.8	Chemicals
FMC Corp.	United States	2.6	Chemicals
Livent Corp.	United States	0.4	Chemicals
Cash & Equivalents			
Cash		2.4	

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