Hardman Johnston International Equity

2019 SECOND QUARTER REPORT

COMPOSITE PERFORMANCE (%) (period ending June 30, 2019)	2nd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
International Equity (gross of fees)	3.99	20.00	3.11	14.68	6.94	9.78	10.92
International Equity (net of fees)	3.85	19.69	2.54	14.04	6.29	9.09	10.33
MSCI EAFE Net Index	3.68	14.03	1.08	9.11	2.25	6.90	5.06
MSCI AC World ex US Net Index	2.98	13.60	1.29	9.39	2.16	6.54	N/A

Performance is preliminary through June 30, 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 whipsaw but extend gains after June bounce
- US and China raise tariffs in the second quarter, negotiations resume as markets expect rational end to trade war
- US and European Central Banks turn increasingly dovish, pledge support to counter effects of global economic slowdown
- International Equity Composite returned 3.85%, net, outperforming the MSCI EAFE return of 3.68% and the MSCI ACWI ex US return of 2.98%

MARKET REVIEW

Trade war and central bank policy exerted opposing forces on markets throughout the second quarter. Major indices finished the volatile three-month period higher as hopes of an end to the trade conflict and the prospect of interest rate cuts underpinned a strong global rally in June. The S&P 500 was up 4.3%, breaking new records on the way, while the MSCI EAFE rose 3.7% (and the MSCI ACWI was up 3.6%). Emerging markets gains were more modest – due in part to a sharper decline in May, as well as lagging performance from China – with the MSCI Emerging Markets Index up 0.6%.

While tariffs and monetary policy pushed and pulled markets, global economic and business conditions weakened – however, they did not stall. The trade conflict and resultant slowdown in China cast a long shadow, contributing to declining output and confidence in Germany, as well as slowing economic growth across Asia-Pacific, including Australia which implemented its first interest rate cut in three years. In the US, company profits began to slip with S&P 500 earnings down -0.4% in the first quarter – nonetheless beating expectations – as wage growth and consumer spending ticked upwards in second quarter readings.

The second quarter started with high hopes of an end to the trade war between the US and China. Yet, when progress faltered, US President Donald Trump implemented tariff hikes for $200 billion of Chinese imports and threatened new levies on the remaining $325 billion of Chinese goods sent to the US. China responded in kind, increasing tariffs (to 25% and in some cases 20%) on $60 billion of mainly US farm goods. The surprise escalation had a predictable impact on equities, precipitating a 6.6% fall in the S&P 500 in May, while the Shanghai Composite slid 11.4% from its mid-April peak through the end of May.

Nevertheless, dialogue resumed and a meeting between Presidents Trump and Xi at the G20 Summit in late June paved the way for a reopening of formal talks, fueling hopes of an agreement. Following an earlier package of US measures on Huawei over national security concerns, the White House rolled back an embargo on American companies dealing with the Chinese mobile equipment maker.

Trade was also a central issue in Europe as the EU extended economic sanctions against Russia over its actions in Ukraine. Even at home, the EU raised the prospect of economic sanctions against Italy (which edged out of recession with growth of 0.1% in the first quarter) for failing to meet agreed budget targets. But as populist forces grew following European Parliament elections in May, including a sweeping victory for Italian deputy Prime Minister Matteo Salvini's eurosceptic League party, the EU eased back on its position to make room for a budget compromise .

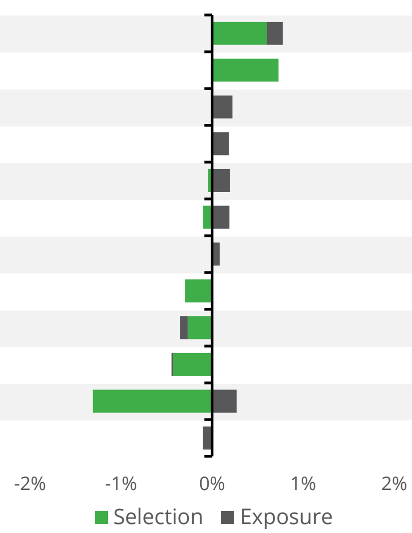
As the quarter concluded, national policymakers were arguing over key EU posts and the UK remained stuck in a rut over Brexit. Persistent failure to pass an EU exit agreement in parliament and a disastrous showing in European elections precipitated the resignation of British Prime Minister Theresa May and set up a leadership race, increasing the likelihood of a "no-deal Brexit" under favorite potential successor Boris Johnson. One positive development for the outgoing EU administration was an agreement with the South American Mercosur states after almost two decades of talks. The deal covers the trade of $100 billion of goods and services, and creates a market of 800 million consumers.

Against the uncertainty of trade and politics, the contrasting force driving markets upwards was increasingly dovish central bank policy. The US Federal Reserve raised the possibility of interest rate cuts before the end of the year by pledging to "act as appropriate to sustain the expansion". The European Central Bank reacted similarly to a sluggish inflation outlook with the promise of "additional stimulus".

The soothing talk and the prospect of a renewed cycle of loosening drove developed markets higher and also pushed capital back into emerging markets, supporting currencies and stock prices from Latin America to Asia. China's Shanghai Composite did slip by some 4% over the quarter due to slowing growth and worsening manufacturing indicators. Meanwhile, Indian stocks enjoyed a rally following Prime Minister Narendra Modi's landslide re-election, although concerns about flagging economic growth and the prospect for economic reform pegged back the advance of the Nifty 50 benchmark to 1.4% for the three months.

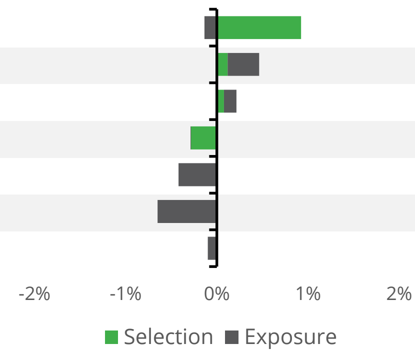
PERFORMANCE ATTRIBUTION

	Average Weight		Total Return		Relative
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
SECTOR					
Industrials	23.4	14.7	8.4	5.9	
Financials	12.4	19.1	10.4	4.3	
Real Estate	0.0	3.7	0.0	-2.2	
Energy	0.0	5.6	0.0	0.5	
Cons. Discretionary	20.4	11.1	5.7	5.9	
Consumer Staples	2.6	11.7	0.5	1.9	
Utilities	0.0	3.8	0.0	1.3	
Comm. Services	5.0	5.4	-1.6	4.0	
Health Care	15.9	11.0	0.2	2.0	
Materials	1.9	7.4	-16.0	3.9	
Info. Technology	16.2	6.5	-1.2	6.6	
Cash	2.2	0.0	0.6	0.0	



Preliminary data for the quarter ending June 30, 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.

	Average Weight		Total Return		Relative
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	Attribution
REGION					
Europe	39.7	46.6	8.2	5.7	
United Kingdom	4.8	17.0	2.5	0.9	
Japan	19.2	23.8	1.7	1.0	
Pacific Ex Japan	12.6	12.6	2.7	5.2	
North America	1.9	0.0	-16.0	0.0	
Emerging Markets	19.6	0.0	0.5	0.0	
Cash	2.2	0.0	0.6	0.0	



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PORTFOLIO COMMENTARY

- International Equity outperformed the MSCI EAFE Index by approximately 20 bps on a net basis during the second quarter
- Security selection in Industrials and Financials were the largest contributors during the quarter while security selection in Information Technology and Materials were the largest detractors
- Security selection in Europe and underweight exposure to the United Kingdom were the top contributors to relative performance from a regional perspective; exposure to Emerging Markets and North America were the largest detractors during the quarter

LARGEST CONTRIBUTORS

adidas AG (+1.3% contribution, +28.8% total return) shares rallied in the quarter on strong sales and margin visibility, resulting in a dramatic rerating. In its most recent quarter, adidas e-commerce revenue grew 40%, a testament to the improved product offering that is not yet widely available. The strong e-commerce sales also drove higher profitability due to the better economics in selling directly to consumers. Management also remains positive on an acceleration in sales in the back half of 2019 driven by improvements in mid-priced apparel in the US, wholesale demand for new product, as well as an expected recovery in Europe, all of which has also driven positive share price performance.

ASML Holding NV (+0.6% contribution, +11.6% total return) shares traded up in the second quarter after reporting better than expected first quarter results. The company's next generation EUV tool (3400C) is expected to drive better pricing and margins in the second half of 2019. As customers prove out 3400C in production, this is likely to drive orders from Memory customers and help fill out the order book for 2020.

ICICI Bank Ltd. (+0.5% contribution, 9.9% total return) continues to benefit from restructuring its lending portfolio and lowering its cost structure. As a result of these actions, ICICI is seeing an expansion of its net interest margins and significantly improved earnings. The bank continues to focus its lending on retail and both small and medium sized businesses. Additionally, the bank continues to cross sell customers, deepening existing relationships. Numerous opportunities still exist which should keep ICICI on its current growth trajectory. ICICI also benefited during the quarter from the landslide victory of Modi which should keep the Indian economy in an expansion mode.

LARGEST DETRACTORS

Shares of **Infineon Technologies AG (-0.5% contribution, -10.8% total return)** were pressured by macroeconomic headwinds that are likely to impact the stock's near-term performance. The semiconductor company's quarterly report showed revenues increased 8% YoY despite a significant slowdown in end markets. With its technology leadership in power semis, Infineon is well-positioned for long-term growth due to increasing demand for semis from auto and industrial applications, although near-term revenue and margin pressures may impact stock performance. We are continuing to monitor these risks for both the company and the semiconductor industry. Additionally, Infineon entered an agreement to purchase Cypress Semiconductor for a 46% premium. The acquisition brings complementary microcontroller and connectivity technologies to the Infineon portfolio that will enable the company to compete for a full solution sale to end customers.

Alibaba Group Holding Ltd. (-0.4% contribution, -7.1% total return) underperformed during the second quarter for two reasons. As with many Chinese stocks, Alibaba was caught up in concerns about US-China trade tension and its impact on the Chinese economy as the US threatened to raise tariffs from 10% to 25% for $200 billion of Chinese goods as well as the ban on US companies selling goods to Huawei. Further, Altaba, the stub holding company for the Alibaba shares previously held by Yahoo, announced that it would sell half its Alibaba stake valued at about $25 billion, representing 10 days of average daily trading volume. These two factors drove shares lower for all of May, but by June, the selling pressure relieved and the stock began to rebound and overshadowed a positive earnings report, where both sales and profits beat expectations.

First Quantum Minerals Ltd. (-0.4% contribution, -16.0% total return), along with most copper producers, experienced a negative second quarter as sentiment weakened due to increasing trade tensions between China and the U.S. However, shares have already recovered some lost ground on renewed hope from the G-20 meeting in Japan. In terms of company specifics, First Quantum reached a key milestone on the ramp up at Cobre Panama. The company announced its first shipment of copper concentrate from Cobre Panama in June, which was in line with management's expectations and positive for the outlook. Continued success in the ramp up should lead to re-rating of the shares, absent negative trade-related headlines.

PORTFOLIO ACTIVITY

- There were no positions initiated or liquidated during the second quarter.

MARKET OUTLOOK

The deceleration in global growth is likely to continue in the second half of 2019, with the Fed and ECB poised to unleash stimulus to prolong the expansion in the face of trade war fallout. The resumption of talks between the US and China holds out the prospect of a trade deal, although negotiations are likely to be slow and always harbor the threat that tariffs could escalate suddenly. Moreover, tariffs may be directed at other markets, most notably Europe, as the US has outlined $4 billion of potential levies on goods. As yet, we see no looming recession on the horizon and our portfolio of growth companies should continue to benefit from our focus on secular trends and business advantages like international reach and market position.

Despite tight labor markets in the US, cost pressures should remain subdued as both productivity and labor force participation continue to improve. Politics will loom ever larger on the horizon as the country prepares for Presidential elections at the end of 2020. Industries like health care, a perennial battleground for contenders, will come into focus. Policymakers will need to continue to walk a fine line between boosting growth and choking industry.

China is likely to continue stimulating its economy to counter the impact of tariffs and slowing growth. The emphasis should be on tax cuts over spending as its economic model shifts from investment to consumption and services. China's monetary authorities have also signaled a willingness to move into easing mode in the second half, which could include reductions in bank reserve ratios, as well as interest rates.

Any recovery in China should bolster Japan whose exports have suffered as a result of its neighbor's slowdown. India may also benefit from improving trade with China – leveraging its strength in industries including auto parts and natural resources. However, recently re-elected Prime Minister Narendra Modi will need to push ahead with reforms that make it easier for international and domestic businesses to operate.

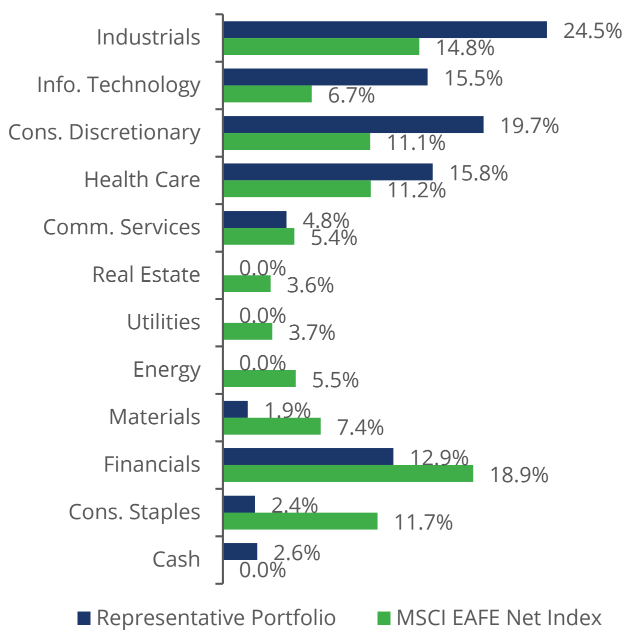
Sluggish inflation in Europe should act as a stimulus for consumer spending, while the German economy is likely to continue to bounce back gently after flirting with recession late last year. Nevertheless, structural issues remain, such as heavy debt burdens in many Eurozone countries, and political fractures will continue to open up. The damage inflicted by the still-uncertain Brexit outcome – a lack of consumer confidence and business investment – will take time to clean up and will be felt across its closest EU neighbors. House prices, often a barometer of the national mood, have fallen for eight consecutive quarters in London , and will likely remain subdued in the event of a "no-deal Brexit" and any further softening in the already-weak economy.

Oil, often the canary in the coal mine when it comes to global downturn, should benefit from supply-side restraint from OPEC and other producing nations, as well as stabilizing global demand. Sensible stockpiling on the demand side will hold prices in check, creating benefits which should flow into consumer spending and support continued GDP growth in turn.

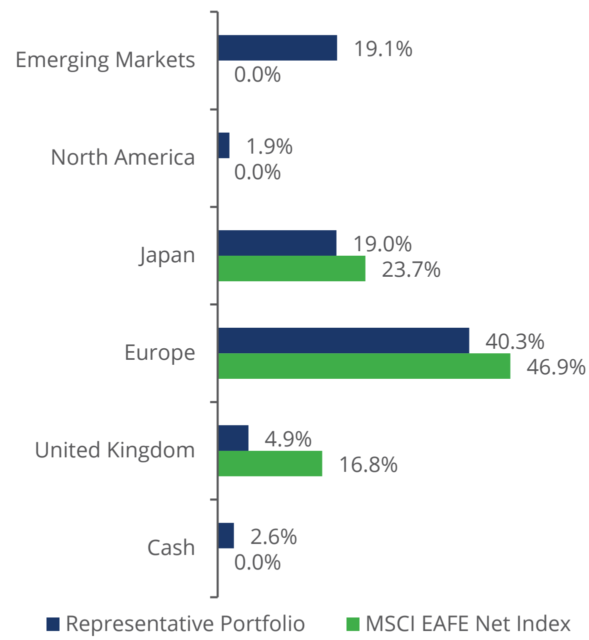
Despite the equities rally since Christmas Eve last year, our view is that valuations – while not stretched – are clearly well up with events. Barring positive surprises on issues like Brexit and trade negotiations, we believe earnings are likely to be the driver of share price performance for the remainder of the year.

PORTFOLIO EXPOSURE (period ending June 30, 2019)

SECTOR



REGION



PORTFOLIO CHARACTERISTICS (period ending June 30, 2019)

	Representative Portfolio		MSCI EAFE Net Index	
	Current	5-Year Average	Current	5-Year Average
Capitalization				
Weighted Average Market Cap ($B)	90.5	77.0	66.8	61.1
Median Market Cap ($B)	40.5	40.7	10.5	10.1
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%)[1]	13.2	14.6	7.4	8.7
EPS Growth: 5 year trailing (%)[1]	11.7	12.8	7.2	6.1
Value Fundamentals				
P/E Ratio: 12 Months - forward[1]	23.2	19.4	16.6	15.3
P/E Ratio: 12 Months - trailing[1]	31.8	25.5	17.4	16.2
PEG Ratio: forward[1]	1.8	1.3	2.2	1.8
Dividend Yield (%)[2]	1.3	1.5	3.3	3.2
Price/Book[3]	3.6	2.9	1.5	1.4
Quality Fundamentals				
Return on Equity: 5 Year (%)[1]	16.0	15.3	12.0	11.5
Return on Invested Capital: 5 Year (%)[1]	11.4	10.6	8.8	8.2
Other				
Number of Positions	26	25	923	922
Beta: 3 year portfolio[4]	1.08	0.91	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 June 30, 2019)

Sector / Company	Country	Weight (%)	Industry
Communication Services			
Tencent Holdings Ltd.	China	4.8	Interactive Media & Services
Consumer Discretionary			
adidas AG	Germany	5.3	Textiles, Apparel & Luxury Goods
Alibaba Group Holding Ltd.	China	4.4	Internet & Direct Marketing Retail
Kering S.A.	France	5.1	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	4.5	Hotels, Restaurants & Leisure
Puma SE	Germany	0.5	Textiles, Apparel & Luxury Goods
Consumer Staples			
A2 Milk Co., Ltd.	New Zealand	2.4	Food Products
Financials			
AIA Group Ltd.	Hong Kong	5.3	Insurance
HDFC Bank Ltd.	India	2.2	Banks
ICICI Bank Ltd.	India	5.4	Banks
Health Care			
AstraZeneca	United Kingdom	4.9	Pharmaceuticals
Bayer AG	Germany	1.4	Pharmaceuticals
Orpea S.A.	France	2.0	Health Care Providers & Services
Qiagen N.V.	Netherlands	2.9	Life Sciences Tools & Services
Terumo Corp.	Japan	2.2	Health Care Equipment & Supplies
WuXi Biologics Inc.	China	2.4	Life Sciences Tools & Services
Industrials			
Airbus SE	France	5.2	Aerospace & Defense
Fanuc Corp.	Japan	5.0	Machinery
Nidec Corp.	Japan	5.2	Electrical Equipment
Prysmian S.p.A.	Italy	4.0	Electrical Equipment
Safran S.A.	France	5.1	Aerospace & Defense
Information Technology			
ASML Holding N.V.	Netherlands	5.2	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	3.5	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	4.7	Electronic Equipment, Instruments & Components
Murata Manufacturing Co., Ltd.	Japan	2.0	Electronic Equipment, Instruments & Components
Materials			
First Quantum Minerals Ltd.	Canada	1.9	Metals & Mining
Cash & Equivalents			
Cash		2.6	

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