
Hardman Johnston Global Equity

2021 SECOND QUARTER REPORT



**Hardman
Johnston**
Global Advisors

COMPOSITE PERFORMANCE (%) (period ending June 30, 2021)

	2nd QTR	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Global Equity (gross of fees)	11.61	14.23	46.76	23.41	25.25	15.74	13.17
Global Equity (net of fees)	11.45	13.89	45.86	22.60	24.41	14.96	12.41
MSCI AC World Net Index	7.39	12.30	39.27	14.55	14.61	9.89	7.75
MSCI World Index	7.74	13.05	39.04	14.98	14.82	10.64	7.93

Performance is preliminary through June 30, 2021. 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

- International markets make gains on vaccine rollout, economic recovery and government stimulus
- Inflation spikes in second quarter, central banks remain accommodative as cost pressures are expected to ease
- Cyclical trade slowing as value stocks reach high valuations while growth stocks present higher projected earnings
- Global Equity Composite returned 11.45%, net, outperforming the MSCI ACWI return of 7.39% and the MSCI World return of 7.74%

MARKET REVIEW

In a quarter of few major shocks or surprises, the consistent themes of economic recovery from COVID-19, vaccination programs, and the ongoing effects of stimulus were again the main market drivers. The MSCI ACWI returned 7.39% in the second quarter, while the MSCI EAFE delivered 5.17%.

Economic growth picked up in many regions as countries reopened and sought to return to normal. China continued to lead the way out of the downturn, reporting 18.3% year-on-year GDP growth for the first quarter, which translated to a more modest 0.6% increase over the previous quarter. US GDP accelerated with first quarter annualized growth hitting 6.4% (up 1.6% over the previous three months), bringing the economy within proximity of its pre-pandemic level earlier than expected.

But while many economies recouped losses inflicted by COVID-19, others lagged. The Eurozone slipped into recession again in the first quarter due to a spike in infections and renewed lockdowns on businesses and individuals. However, projections for the rebound improved with the European Commission forecasting GDP growth of 4.2% for the broader EU economy in 2021, strengthening further in 2022. Japan's economy also went into reverse, albeit at a slower rate than initially reported, as it continued preparations for the rescheduled Tokyo Olympic Games.

US stimulus continued to flow into businesses and households, bolstering markets broadly while also contributing to more isolated spikes in areas such as cryptocurrencies and meme stocks. Bipartisan agreement in a slimmed down \$1 trillion infrastructure bill gave the market another bump, helping companies in infrastructure and construction among others. After a long period of gestation, the EU agreed and launched its €750 billion recovery fund, which will focus on themes including the drive to net zero and digitalization. S&P Global estimated the European initiative could add more than 4% to the region's GDP over the next five years.

One of the impacts of continued stimulus and loose monetary policy was a spike in inflation. As with economic growth, however, the effects were patchy. In the US, tightness in the labor market, rising commodity prices and materials shortages pushed consumer prices up by 5% in May. Spiking commodities were also a driving factor behind the 9% rise in Chinese factory gate prices the same month. Europe's inflation reading reflected the continent's slower growth trajectory. The broad

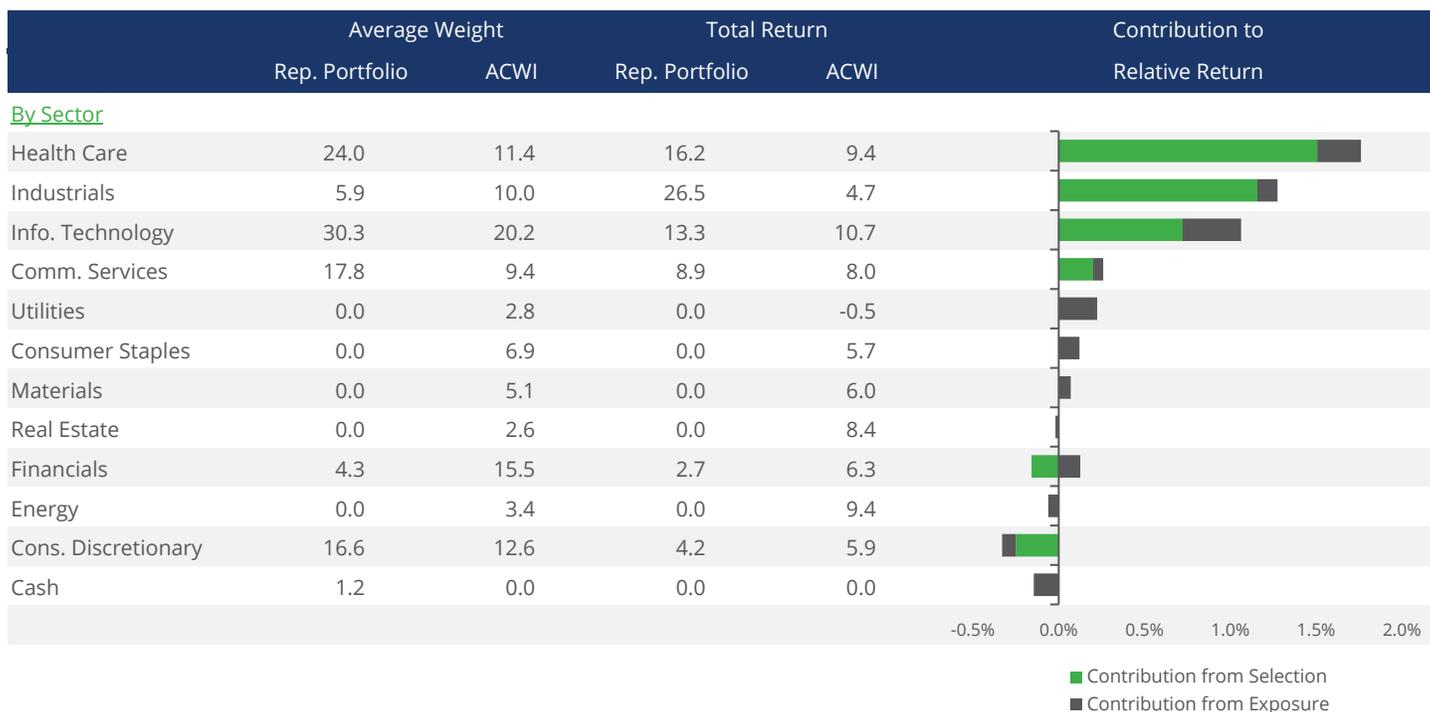
measure crossed 2.0% in May, buoyed by an increase in the number of people getting back into work and their subsequent demand, before cooling slightly in June.

Markets reacted with initial concern to rising inflation. Stocks stumbled on guidance that the Federal Reserve could start raising interest rates in 2023. However, they stabilized again after chair Jerome Powell told a Congress subcommittee that inflation should ease and that the central bank would take a patient approach to tightening. ECB president Christine Lagarde also expected inflation to drop back below the central bank's target range and continued bond-buying support, signalling the continuation of loose monetary policy in the region. In contrast, China, which had already begun tightening, enacted new policies, including an increase in the foreign currency reserve ratio for financial institutions, in an effort to control the yuan and keep a lid on export prices.

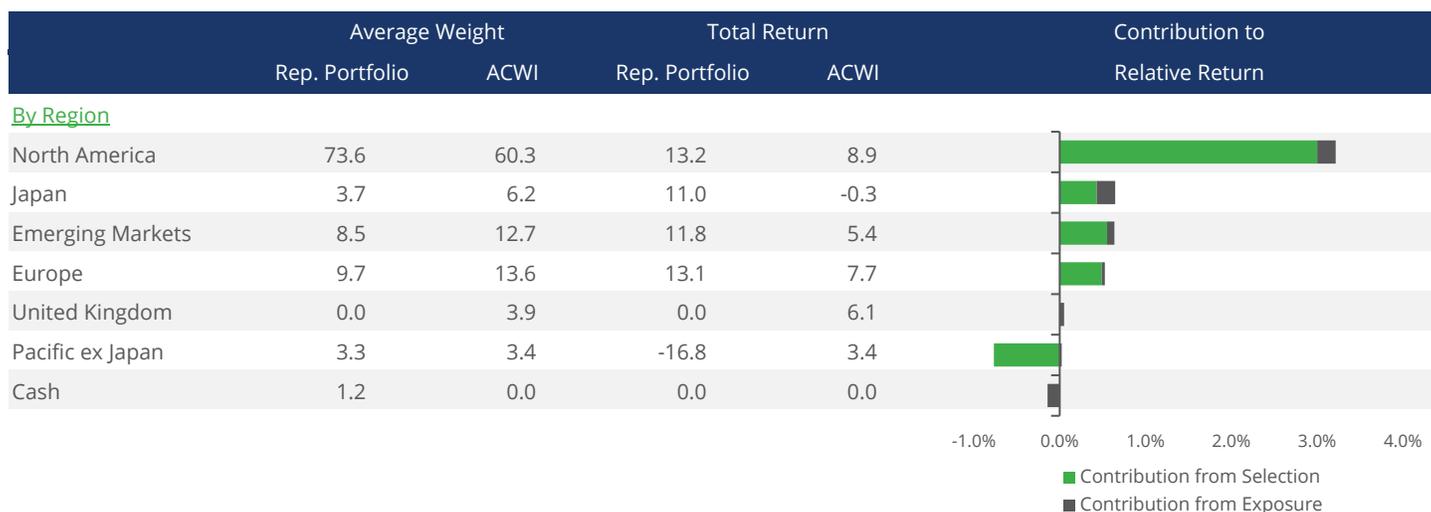
As governments and central bankers sought to manage the economic recovery, the concurrent focus on public health yielded similarly mixed results. The US vaccine program continued strongly, helping underpin the easing of restrictions, including the reopening of restaurants, theaters and sporting events. After a slow start in much of Europe, vaccinations picked up, enabling the continent to prepare for the resumption of travel for the summer season. European shares outperformed over the period as the market enjoyed the bounce seen elsewhere in late 2020 and more cyclical stocks tied to economic recovery made gains.

India became the epicenter of the COVID outbreak again as infections and fatalities surged due to the more transmissible Delta variant, prompting some localized restrictions. By mid-May, case numbers were falling, while the country took more concerted action at a national level to vaccinate citizens. The spread of the Delta variant reached across Asia, leading to the introduction of lockdown measures in Indonesia, including the tourist-centered island Bali, as well as tighter controls in Taiwan. By the end of the quarter, it was also the preeminent variant in the UK and moving quickly across Europe, prompting some delays to reopening measures, and hastening vaccination drives.

PERFORMANCE ATTRIBUTION



Preliminary data as of the quarter ending June 30, 2021. 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.



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PORTFOLIO COMMENTARY

- Global Equity outperformed the MSCI ACWI by 406 bps on a net basis during the second quarter
- Security selection and overweight exposure in Health Care and security selection and underweight exposure in Industrials were the largest contributors during the quarter while security selection and overweight exposure in Consumer Discretionary and lack of exposure to Energy were the largest detractors
- Security selection and overweight exposure in North America was the top contributor from a regional perspective while security selection in Pacific ex Japan detracted from results with underweight exposure slightly offsetting losses

LARGEST CONTRIBUTORS

NVIDIA Corp. (+1.3% total effect) – Shares of NVIDIA benefitted from a well-received NVIDIA GPU Technology Conference (GTC) in April, followed by an even better market reaction after its fiscal first quarter of 2020 earnings release in late May. NVIDIA's GTC highlighted the company's strategic importance in the evolution and adoption of artificial intelligence and investors walked away from the conference with a renewed impression of NVIDIA's opportunity within the data center. The company then followed up the conference with a blowout quarterly result, buoyed by strength in Data Center which crossed the \$2bn revenue mark for the first time in the company's history. CEO Jensen Huang articulated the need for a new architecture of the modern data center and the importance of NVIDIA's Bluefield DPU (data processing unit) which will offload non-application purpose CPU instances, benefiting the efficiency of the new modern data center and opening the potential for AI at scale. NVIDIA also guided to more strength in Gaming as 80-85% of its install base is still in need of an upgrade. We believe NVIDIA mitigated risk related to crypto mining as they reduced the hash rate of the GeForce GPU in order to get the graphics cards back in the hands of gamers. We remain very positive on NVIDIA's long-term prospects within Data Center, Gaming, as well as the potential opportunity from its auto division, which surpassed an \$8bn design win pipeline in the quarter.

WuXi Biologics Inc. (+1.2% total effect) – The stock performed well in the second quarter spurred by multiple positive news events. The company closed on a series of manufacturing plant acquisitions (Pfizer, Bayer and CMAB Biopharma) for drug substance and drug product facilities. WuXi's partner, Vir Biotechnology, announced FDA emergency use

authorization for their COVID antibody therapeutic which WuXi will produce. The company announced a collaboration with sister company WuXi AppTec for complex biologics (cellular therapy, CART cells, and antibody drug conjugates), including a US plant for these class of biologics agents. WuXi also announced a global mRNA vaccine manufacturing collaboration with further details by year-end 2021. Finally, management raised 2021 guidance from 50% revenue growth to 75% growth based on continued core strength and new pipeline competitive wins. The company also indicated their expectations of >50% revenue growth over the next few years.

Vertiv Holdings Co. (+1.1% total effect) – Shares of the stock were higher during the quarter as trends remained strong in the data center market, where Vertiv provides the most complete thermal and electrical system solutions. At the latest earnings result, management highlighted that stronger-than-expected bookings were due to higher data requirements from the pandemic and work-from-home trends. In addition to strong demand from its colocation and hyperscale customers, the company's core enterprise clientele have also indicated an increased willingness to spend after years of IT underinvestment. Along with increasing adoption of edge computing, a recovery in the enterprise market provides additional tailwinds as it boasts higher margins, bolstering the earnings growth opportunity for Vertiv.

LARGEST DETRACTORS

Melco Resorts & Entertainment Ltd. (-0.9% total effect) – Despite a better-than-expected Golden Week holiday in May, shares in Melco were lower during the quarter as cross-border regulations were not significantly eased further, despite the absence of any locally originated COVID cases in Macau. Furthermore, a small cluster of COVID cases in the Guangdong province in early June stoked fears of another wave of infections, although the flare up quickly dissipated. If anything, the key Golden Week period demonstrated that there remains significant pent-up demand for gambling in Macau, and that casinos can provide a safe gaming environment as there were no infections from Golden Week. Recently, the Macanese government has engaged in discussions with Hong Kong and Shenzhen on border easing and we expect this initiative to gain gradual traction over the coming months. Longer-term, we remain confident on the structural growth opportunity for Macau as Asia's premier gaming and entertainment hub.

Universal Display Corp. (-0.6% total effect) – The stock declined modestly during the quarter following a conservative guide during its fiscal first quarter results, despite a strong beat on revenues, margin and EPS. Management has historically been conservative during its fiscal year guide, so we believe there is likely upside to the company's outlook as we move through its fiscal year. The company called out good progress on continued OLED smartphone penetration, more foldable launches to come, and new SKUs in IT growing off a small base. Shares may come under some pressure as broad market for demand for smartphones, TVs, and IT devices like tablets decline but we believe that the long-term penetration of OLED as well as potential future catalysts in organic vapor jet printing and the development of a blue phosphorescent OLED emitter should lead earnings higher over our investment horizon.

Alibaba Health Information Technology Ltd. (-0.5% total effect) – The stock fell in the second quarter with the announcement of disappointing earnings. The company still grew by 62% but missed targets due to post-pandemic adjustments to online healthcare use patterns. Their Dr. DEER app grew in only 6 months to 1MM active monthly users. This is a positive development for their ecosystem capability to efficiently deliver health products, prescriptions, and consultations via the internet. We remain positive on Alibaba Health given their strong platform capabilities coupled with the large and growing need for healthcare efficiencies in China.

PORTFOLIO ACTIVITY

- During the second quarter, we initiated a position in PayPal Holdings, Inc. and liquidated our positions in Advanced Energy Industries and Infineon Technologies AG

INITIATIONS

PayPal Holdings, Inc. – PayPal is a global leader in financial technology, offering a two-sided network that connects



merchants and consumers in payment processing. The company is expanding into additional financial services and a contextual shopping experience, benefitting from its immense transaction data. PayPal hosted an Investor Day in February 2021 where management outlined a 5-year plan to achieve over 750 million active users and total processing volume (TPV) of \$2.8 trillion. We have confidence in PayPal's ability to achieve those targets based on the proliferation of its core offering, opportunities for international expansion, monetization of Venmo, and the entrance into the world of a "Super App" which would encompass a digital wallet, a financial services platform, and a targeted shopping experience. Like other long duration growth companies, the share price of PayPal sold off notably during the rapid rise of the US 10-year Treasury rate that started in late February. The stock gave back all its share price appreciation it achieved leading up to and exiting their well-received investor day, providing a particularly attractive entry point.

LIQUIDATIONS

Advanced Energy Industries – The company announced the departure and replacement of CEO, Yuval Wasserman, during their first quarter earnings call. We found the departure and the transition to be abrupt, where the company could have better supported shareholders had they provided a longer-term transition plan. This change signaled a modest concern on the governance at AEIS. Additionally, the largest end market for AEIS is semiconductors and with the cycle potentially long in the tooth, we determined it was appropriate to lighten our exposure to the cyclical industry.

Infineon Technologies AG – Infineon is a market leader in power semiconductors, whose primary end markets include autos, industrials, sensors, and renewable energy. Infineon was particularly well positioned to benefit from the semiconductor shortage because Infineon is less reliant on external manufacturing for the majority of its production. During its fiscal second quarter earnings results, Infineon posted very strong results with the total company book-to-bill ratio crossing 2x. We believe these fundamentals and current supply tightness create a potential, short-term peak in the market environment for Infineon, and with shares trading at a valuation premium relative to power semiconductor peers, it was an appropriate point to liquidate the position. Moreover, as Silicon Carbide continues to gain traction, it threatens Infineon's stronghold on the IGBT market and challenges the company's dominant share position in power semiconductors over the medium term.

MARKET OUTLOOK

As vaccination programs have accelerated, they have also more clearly emerged as the way out of the pandemic both physically and economically. Countries with high vaccination levels, such as the US, are recovering more quickly as infections fall and more normal activity is able to return. Progress is likely to be mixed however, reflecting differences from country to country.

Europe will continue to lag due to slower vaccine distribution and some degree of hesitancy among members of the public. There is potential for renewed restrictions that would impact summer vacations and economies more heavily reliant on tourism. However, any further downturn in economic performance should be met with renewed stimulus, while the region will ultimately follow others on the path to a fuller recovery. The UK, a positive regional outlier for its quick vaccine rollout and high uptake, is likely to see the potential economic advantages eroded by higher costs and trade disruption caused by Brexit.

For Japan, the Olympic Games starting in July could turn out to be a burden rather than a benefit. The exclusion of international spectators will deprive the country of an influx of tourist dollars, while events raise the risk of COVID outbreaks and tougher measures in a country where vaccination levels are low and hesitancy high. International economic performance, particularly that of China and the US, will be the most important factor for Japanese business as demonstrated by the near 50% increase in exports in May from 2020's pandemic-depressed level.

Stimulus will gradually be withdrawn in developed economies as income support measures are reined back in the US and Europe, although markets are primed to expect a rapid response in the case of future lockdowns and worsening economic conditions. Having endured sharp declines in GDP in 2020, developed markets could outperform the broad sweep of emerging markets in 2021, particularly as they return to normal more quickly. That said, China's economy is positioned to



grow strongly in 2021, despite having set a relatively low bar for economic growth of 6%. India is also likely to experience a sharp snap-back, although the World Bank cut its GDP forecast to 8.3% for the fiscal year from over 10%, due the second quarter COVID surge.

Inflation will be a persistent factor so long as growth continues to pick up. However, there is little to indicate that it is a long-term trend rather than a transient effect, in part reflecting the low base comparison of last year. Labor supply constraints will ease as working habits go back to normal, while shortages for goods as diverse as lumber and semiconductors should also work their way through the system. As a result, we would expect central banks to retain their accommodative monetary stance with low and, in some cases, negative policy rates for some time.

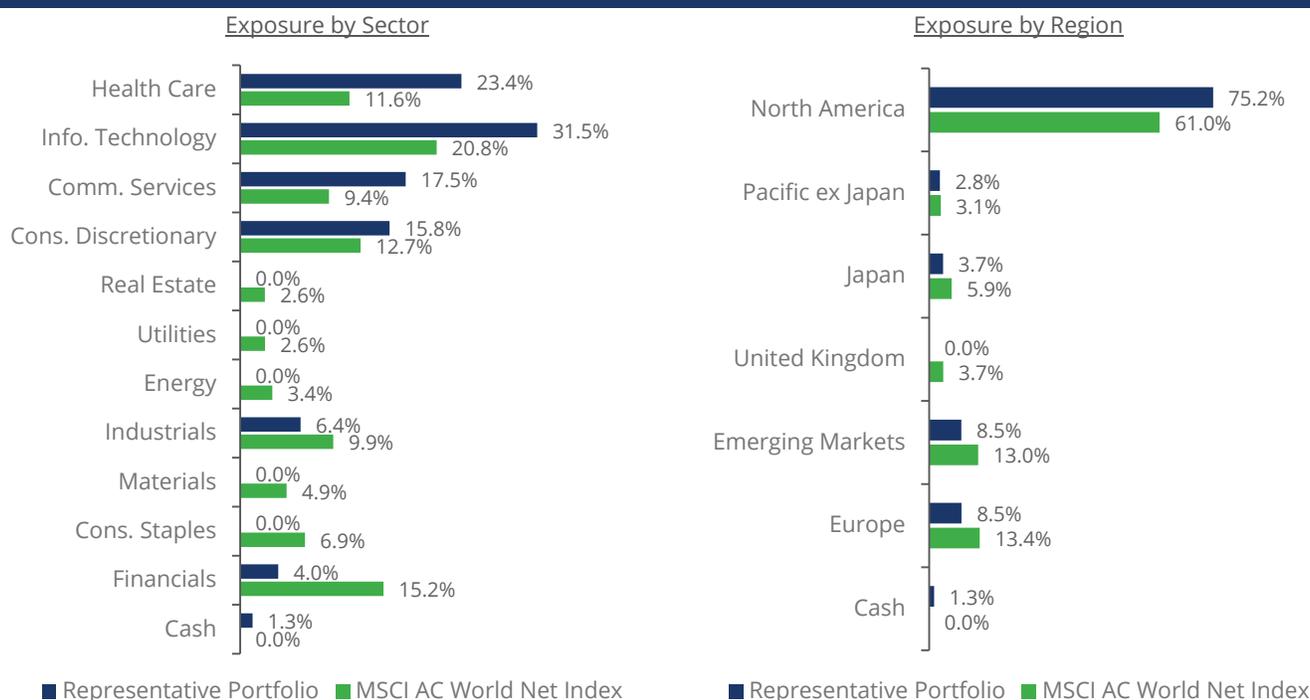
While markets tend to get nervous when inflation moves up, it is also worth noting that low inflation has been more of the norm in developed markets since the financial crisis. Indeed, deflationary pressures, such as declining working populations, can be more of a risk in regions like Europe and Japan. And in the context of rising national balance sheets (US public debt to GDP was 127% as of the end of the first quarter) a little inflation can be a useful tool for reducing the burden more rapidly.

The inflationary effect in commodities will also persist. However, the rally is unlikely to develop into a new super-cycle, particularly as China, the world's largest commodities buyer, moves away from sustained infrastructure investment to more moderate growth fed by internal consumption.

The rotation into value that started in the first quarter began to ease in the second quarter. Though cyclicals continue to have tailwinds in the recovery, we believe that many value stocks are fully priced. For instance, while the prospect of rising interest rates may produce a boost for financial services in developed markets, there is little differentiation within the sector, limiting pricing power or first mover advantage in the longer run. As a result, we expect future returns from value stocks to be more modest.

In contrast, growth stocks are looking more attractive. Long-term shareholder value comes from earnings growth and those earnings are looking better. A record number of S&P 500 companies issued positive guidance for second quarter EPS, according to FactSet data, led by the IT sector which is projecting earnings growth in excess of 30% for the period.

There are other trends that will benefit companies and investors with long-term vision. ESG is moving from a topic of discussion to a point of action. Companies globally are taking concerted action on measurement and disclosure of social and environmental impacts, while technology will also play an important role in the greening of the economy, adding to the sector's secular growth story. Good governance, an increased focus on sustainability and being a good corporate neighbor will increasingly mark out successful companies and investments in the long run.

PORTFOLIO EXPOSURE (period ending June 30, 2021)

PORTFOLIO CHARACTERISTICS (period ending June 30, 2021)

	Representative Portfolio		MSCI AC World Net Index	
	Current	5 Year Average	Current	5 Year Average
Capitalization				
Weighted Average Market Cap (\$B)	375.3	220.5	347.5	183.5
Median Market Cap (\$B)	95.3	75.7	13.4	10.5
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%) ¹	22.0	17.7	15.6	12.0
EPS Growth: 5 year trailing (%) ¹	21.0	17.4	11.4	9.2
Value Fundamentals				
P/E Ratio: 12 Months - forward ¹	36.7	30.7	24.5	21.4
P/E Ratio: 12 Months - trailing ¹	48.1	37.7	26.8	22.1
PEG Ratio: forward ¹	1.7	1.7	1.6	1.8
Dividend Yield (%) ²	0.2	0.8	1.6	2.2
Price/Book ³	7.0	4.9	3.0	2.3
Quality Fundamentals				
Return on Equity: 5 Year (%) ¹	18.6	17.6	17.3	15.4
Return on Invested Capital: 5 Year (%) ¹	14.4	13.9	11.6	9.7
Other				
Number of Positions	29	30	2,975	2,762
Beta: 3 year portfolio ⁴	1.2	1.1	1.0	1.0

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

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PORTFOLIO HOLDINGS (period ending June 30, 2021)

	Country	Weight (%)	Industry
Communication Services			
Activision Blizzard Inc.	United States	2.8	Entertainment
Alphabet Inc.	United States	4.5	Interactive Media & Services
Pinterest, Inc.	United States	3.0	Interactive Media & Services
Tencent Holdings Ltd.	China	2.9	Interactive Media & Services
T-Mobile US, Inc.	United States	4.3	Wireless Telecommunication Services
Consumer Discretionary			
Amazon.com, Inc.	United States	3.4	Internet & Direct Marketing Retail
Kering S.A.	France	2.1	Textiles, Apparel & Luxury Goods
Melco Resorts & Entertainment Ltd.	Hong Kong	2.8	Hotels, Restaurants & Leisure
Puma SE	Germany	2.0	Textiles, Apparel & Luxury Goods
Royal Caribbean Group	United States	1.8	Hotels, Restaurants & Leisure
TJX Companies Inc.	United States	3.7	Specialty Retail
Financials			
Mastercard Inc.	United States	4.0	Consumer Finance
Health Care			
Alibaba Health Information Technology Ltd.	China	1.3	Health Care Technology
Boston Scientific Corp.	United States	4.2	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	4.5	Health Care Equipment & Supplies
IQVIA Holdings Inc.	United States	4.0	Life Sciences Tools & Services
UnitedHealth Group Inc.	United States	3.3	Health Care Providers & Services
Vertex Pharmaceuticals Inc.	United States	1.8	Biotechnology
WuXi Biologics Inc.	China	4.3	Life Sciences Tools & Services
Industrials			
Kratos Defense & Security Solutions, Inc.	United States	1.6	Aerospace & Defense
Vertiv Holdings Co.	United States	4.8	Electrical Equipment
Information Technology			
Adobe Inc.	United States	4.2	Software
ASML Holding N.V.	Netherlands	4.5	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	3.7	Electronic Equipment, Instruments & Components
Micron Technology Inc.	United States	3.4	Semiconductors & Semiconductor Equipment
Microsoft Corp.	United States	4.2	Software
NVIDIA Corp.	United States	4.9	Semiconductors & Semiconductor Equipment
PayPal Holdings, Inc.	United States	2.9	IT Services
Universal Display Corp.	United States	3.8	Semiconductors & Semiconductor Equipment
Cash & Equivalents			
Cash		1.3	

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