Hardman Johnston International Equity

2023 Second Quarter Report

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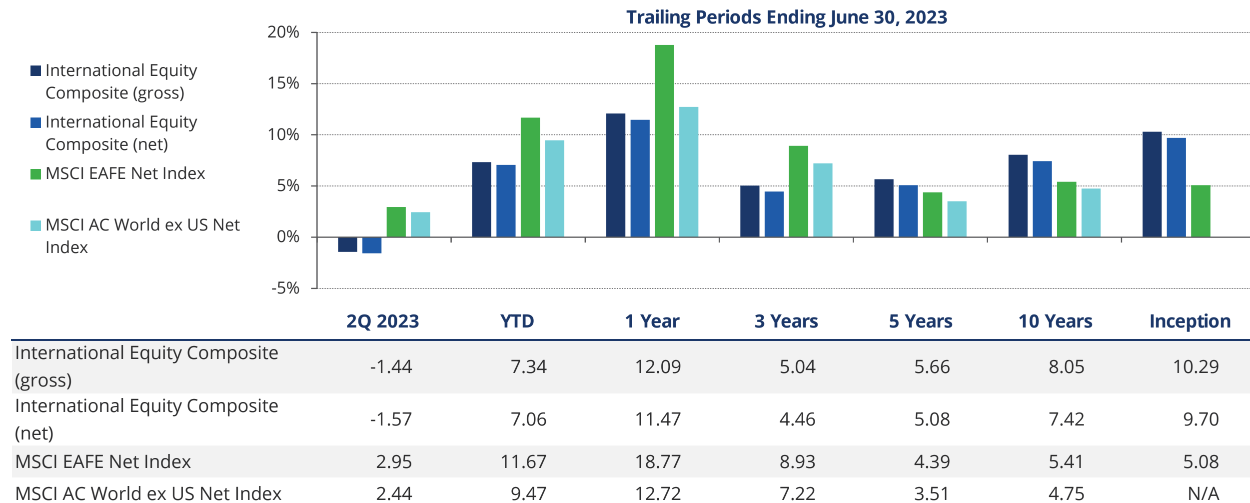
Performance



	2Q 2023	YTD	1 Year	3 Years	5 Years	10 Years	Inception
International Equity Composite (gross)	-1.44	7.34	12.09	5.04	5.66	8.05	10.29
International Equity Composite (net)	-1.57	7.06	11.47	4.46	5.08	7.42	9.70
MSCI EAFE Net Index	2.95	11.67	18.77	8.93	4.39	5.41	5.08
MSCI AC World ex US Net Index	2.44	9.47	12.72	7.22	3.51	4.75	N/A

Performance is through June 30, 2023. Periods greater than one year are annualized. **Past performance does not guarantee future results.** Net performance reflects the deduction of advisory fees and reinvestment of income (if applicable). 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

- Market headlines were dominated by familiar themes of inflation and interest rates and the new theme of artificial intelligence during the second quarter
- Within the strategy, Energy and Health Care were the top active sector contributors, while Consumer Discretionary and Communication Services were the top detractors
- The United Kingdom was the top contributing region, while Emerging Markets was the top detracting region; Chinese equities struggled during the quarter due to the slower than anticipated pace of economic reopening and geopolitical tensions
- The Hardman Johnston International Equity Strategy underperformed both the MSCI EAFE Net Index and the MSCI AC World ex US Net Index during the quarter

Portfolio Commentary

After a good first quarter that built on a strong fourth quarter of 2022, the International Equity portfolio lagged benchmarks in the second quarter. Stock selection was a significant drag on performance across much of the portfolio. Some stocks struggled because they are in a short-term period of transition despite robust long-term growth prospects. Others pulled back in a consolidation of gains after a strong first quarter. A number of holdings were also affected by the market's concerns about the pace of economic recovery in China. Given all of this, the Hardman Johnston International Equity Composite returned -1.57%, net of fees, in the quarter, compared to the MSCI EAFE Net Index return of 2.95% and the MSCI ACWI ex-US Net Index return of 2.44%.

A challenging aspect of these results is that our portfolio underperformed the growth versions of these indices by similar amounts, unlike last year's performance, which roughly mirrored that of the MSCI EAFE Growth Index. At a high level, the main drivers of underperformance for both indices relate to holdings in Consumer Discretionary and Emerging Markets which have different weightings in the indices. Our investment process is benchmark-agnostic, which leads to a high active share portfolio that can have materially different sector and regional weightings than the benchmark.

Prior to diving into attribution, a brief review of the market backdrop will help to provide context for drivers of performance. The prior quarter saw investors continue to closely monitor the pace of inflation in the US and Europe and to extrapolate impacts on central bank policy. Across both markets, inflation has been declining, albeit at a slower pace than some were hoping. Based on that, consensus is projecting a peak in rates over the coming quarters.

While inflation and rates have been prominent themes for the past several quarters, a new subject has grabbed investors' attention recently: the sudden explosion of demand for artificial intelligence (AI) technology. Companies that manufacture AI technology, or are levered towards it in their businesses, have seen sharp spikes in their valuations. Given many of the leaders in this space are based in the US, this topic has not been as relevant in our International Equity portfolio, other than building an incrementally more positive long-term view on the broad semiconductor space. This provided a modest boost during the quarter to some of our holdings, such as Taiwan Semiconductor and ASML.

Among international markets, Japan was the strongest performing region in the benchmark index in the second quarter. Japanese equities rose on signs of inflation, renewed efforts for companies to implement governance changes to increase shareholder returns, and economic benefits from China's economy reopening. Japan is also one of the only major markets still stimulating its economy.

On the flip side, Japan's neighbor, China, was one of the toughest places to be invested in during the second quarter. Chinese equities struggled as markets came to terms with a slower economic reopening than initially expected. The country's spending patterns post-pandemic have not aligned with the precedent set by other regions around the world. Our firm's Director of Research, Henry Woo, was in China recently for some on-the-ground research. One important insight he gathered from locals is that the psychological impact of the lockdown is very real for Chinese consumers. They did not have the same support from government transfer payments as many western consumers did

during the pandemic, and the resulting wealth destruction led to more cautious budgeting than foreign investors anticipated.

Geopolitical tensions were another key drag for China. Public spats with the US and European nations hit sentiment for the overall Chinese equity market. The recent visits to China by US Secretary of State Antony Blinken and US Secretary of the Treasury Janet Yellen helped start the new quarter on a hopeful note for reduced tensions. We feel both nations understand the other's importance for their own economic growth. China, in particular, needs the US in order to meet its growth targets and achieve its national security goals. This creates room for optimism that geopolitical relations will improve going forward. However, optimism came too late to remedy the performance of our Chinese holdings this quarter.

Looking more deeply into the portfolio's quarterly performance attribution, the top active sector contributors relative to the benchmark were Energy and Health Care. Our outperformance in Energy was due to TechnipFMC plc. TechnipFMC performed well in the quarter, despite oil continuing its multi-quarter correction. The oilfield services company is benefitting from a large and growing backlog from international customers who invest based on a long-dated view, regardless of near-term oil price volatility. The company pioneered an integrated approach to offshore oil exploration, which leverages standardization and modularization in order to reduce project execution costs and time to first oil. This has led to strong market share capture for new projects as the company continues expanding its margins from operating leverage and increased throughput, potentially surpassing its mid-term margin targets.

Within Health Care, our largest contributor was Grifols, S.A. Grifols is a leader in the manufacturing and supply of plasma-derived products. The stock had strong performance in the quarter, as plasma collections returned to pre-pandemic levels, with donors returning to collection centers. Additionally, donor fees have been reduced, which helps the company's margins. The company is also executing on operational improvements. Management announced a €450 million cost savings plan focused on operational efficiencies and margin improvement. They also announced a partial asset sale of Shanghai RAAS for $1.5B. The proceeds from this sale will significantly reduce the company's leverage.

The portfolio also benefitted from a lack of exposure to Consumer Staples and Materials, as both sectors performed poorly.

The quarter's top detracting sectors relative to the benchmark were Consumer Discretionary and Communication Services. Within Consumer Discretionary, we had significant exposure to the Broadline Retail industry, which generally underperformed. This was exacerbated by a large portion of exposure being in Chinese retail, which was a difficult area due to slowing Chinese economic data. We were also underweight Auto OEM's, which was the best performing industry in the sector. We have low exposure in that space because most of those stocks do not have the 10% secular earnings growth required as part of our process.

Despite their performance to date, we have high conviction in our Chinese holdings. Each of them are leaders in their industries with avenues towards strong earnings growth. They also operate in one of the few major worldwide economies that is stimulating. In fact, at the end of the second quarter, the

Chinese government showed new signs of stimulus by lowering its prime rate and talking about boosting household consumption. Additionally, any potential thawing of geopolitical relations with the West could be a significant tailwind to Chinese equities.

Communication Services also detracted but was more stock-specific, with our holdings underperforming for idiosyncratic reasons. One of the sector's positions, Sea Ltd., was the top detracting stock within the portfolio during the quarter. Despite Sea reporting earnings that showed a continued trend of positive profitability, the stock gave back much of the first quarter's gains. Accounting allocations of one-off charges last year obscured underlying cost trends and made current results less impressive due to inflated comparisons. Gaming results were also weaker than expected this quarter. However, early signs of stabilization in average users are encouraging. We see a renewed focus by management on quality growth and believe that positive profitability is sustainable and gives the company flexibility to be proactive and to respond to competition on a targeted basis. At this early stage of market development in e-commerce and fintech, we see plenty of penetration gains and market growth still to come.

From a regional standpoint, the top contributor to relative performance was the United Kingdom. This was primarily due to the strong performance of TechnipFMC. The top detracting region was Emerging Markets. China accounts for the bulk of the underperformance in this region for the reasons described above.

From the perspective of individual holdings, the top contributors during the quarter were TechnipFMC plc, Grifols, S.A., and Airbus SE. Shares in Airbus were strong in Q2, after the company beat estimates and reaffirmed full-year guidance. The aircraft manufacturer was able to accelerate the delivery of its planes throughout the quarter, despite ongoing supply chain headwinds. Furthermore, the highlight of the Paris Airshow was a mega order of 500 A320's by India's Interglobe, adding to Airbus' massive backlog that stretches until the end of the decade.

The top detractors were Sea Ltd., Meituan, and WuXi Biologics Inc. Meituan underperformed, despite its core businesses of Food Delivery and In-Store performing strongly. Last quarter, management introduced stronger In-Store merchant rebates and subsidies, which have been effective in regaining market share from Douyin (China's TikTok). While we believe management made the right decision based on the competitive environment, the market reacted negatively to the cost of these measures, which will temporarily reduce In-Store margins to approximately 30% for the next two quarters. However, we expect full year margins of around 35%, a level which can be sustained for the next several years. Additionally, market penetration in the food delivery industry is still quite low at this early stage of development, giving Meituan a long runway for growth over the next 5 years and beyond. We remain optimistic about the company's market position and management's ability to execute. WuXi Biologics struggled on disappointing earnings guidance for the first half of 2023, related to a temporary increase in costs. Their full year guidance was reiterated, but investors had concerns about execution in the second half. Additionally, the stock was caught in the overall weakness of the Chinese equity market described earlier. We feel confident in the company going forward. WuXi has been expanding capacity globally, supporting its order book and achieving "Win-the-Molecule" late-

stage share gains in pharmaceutical projects. Management also noted that the funding environment in the US and EU has stabilized, and that the funding slowdown in China should reverse late this year.

During the quarter, we had no initiations and one liquidation. We liquidated Puma SE during the first week of the quarter as the apparel maker was hit by widespread market promotions and discounting in the athletic wear industry. Its two largest competitors, Nike and Adidas, did not navigate supply chain challenges as efficiently as Puma did during COVID and were both aggressively clearing out inventories, pulling down the overall market pricing. As a smaller player, Puma is a price taker, so it was affected by these events. On top of that, Puma had an abrupt change in management. The company's former CEO, Bjorn Gulden, crossed the street to Adidas in December 2022. Puma immediately appointed an internal replacement, but he is unknown to the market, causing substantial uncertainty. Under these conditions, we decided to exit the position.

When we have a difficult quarter, we always deal with it by sticking to our tried and tested process and examining our assumptions on stocks in the portfolio that faced headwinds. The price of aiming for long-term gains is having to deal with occasional short-term bumps in the road. We are comfortable that the portfolio is in the right place in terms of risk-reward balance. The fundamentals of the companies we hold are solid, and their growth prospects are good. Price volatility can generate opportunities, and we will be looking to take advantage of those going forward.

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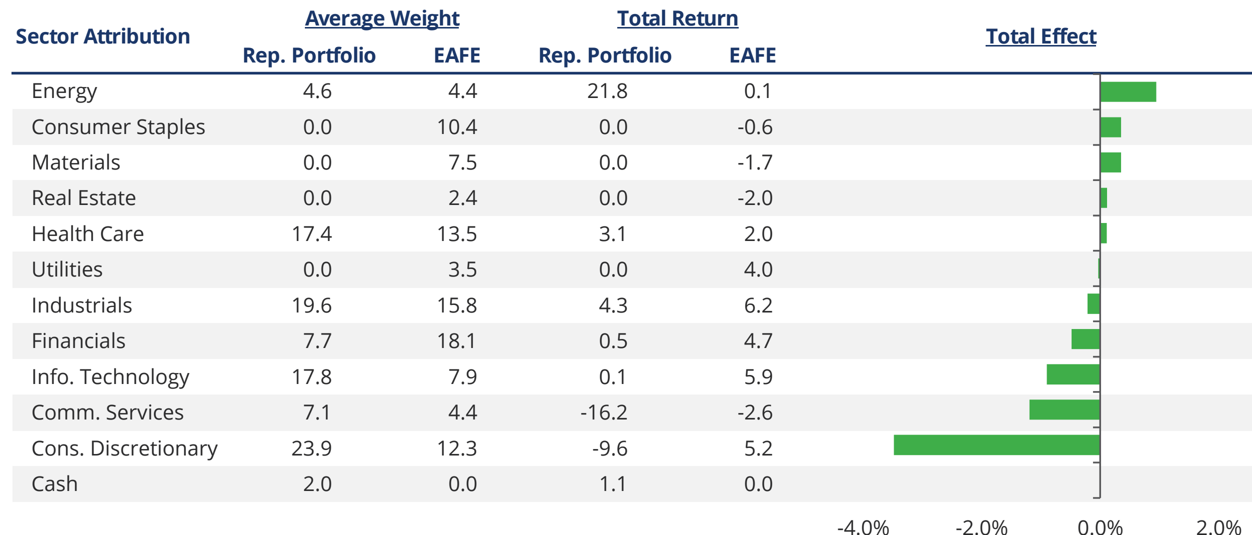
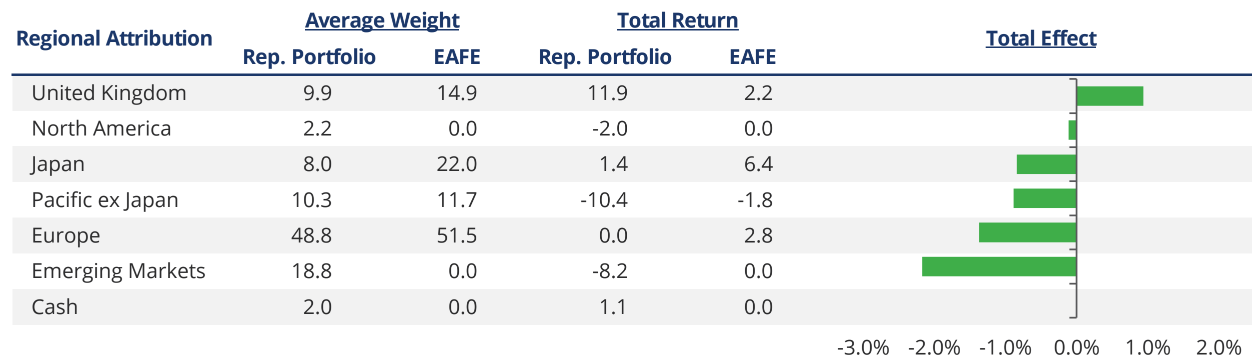
2023 SECOND QUARTER REPORT

Quarterly Attribution



Sector Attribution	Average Weight		Total Return		Total Effect
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	
Energy	4.6	4.4	21.8	0.1	
Consumer Staples	0.0	10.4	0.0	-0.6	
Materials	0.0	7.5	0.0	-1.7	
Real Estate	0.0	2.4	0.0	-2.0	
Health Care	17.4	13.5	3.1	2.0	
Utilities	0.0	3.5	0.0	4.0	
Industrials	19.6	15.8	4.3	6.2	
Financials	7.7	18.1	0.5	4.7	
Info. Technology	17.8	7.9	0.1	5.9	
Comm. Services	7.1	4.4	-16.2	-2.6	
Cons. Discretionary	23.9	12.3	-9.6	5.2	
Cash	2.0	0.0	1.1	0.0	



Regional Attribution	Average Weight		Total Return		Total Effect
	Rep. Portfolio	EAFE	Rep. Portfolio	EAFE	
United Kingdom	9.9	14.9	11.9	2.2	
North America	2.2	0.0	-2.0	0.0	
Japan	8.0	22.0	1.4	6.4	
Pacific ex Japan	10.3	11.7	-10.4	-1.8	
Europe	48.8	51.5	0.0	2.8	
Emerging Markets	18.8	0.0	-8.2	0.0	
Cash	2.0	0.0	1.1	0.0	

Contributors & Detractors

Second Quarter	Average Weight (%)	Total Effect (%)
Largest Contributors		
TechnipFMC plc	4.60	0.82
Grifols, S.A.	2.27	0.50
Airbus SE	5.31	0.29
Largest Detractors		
Sea Ltd.	2.17	-0.85
Meituan	3.55	-0.66
WuXi Biologics Inc.	2.11	-0.56

Last Twelve Months	Average Weight (%)	Total Effect (%)
Largest Contributors		
Melco Resorts & Entertainment Ltd.	2.90	2.00
Safran S.A.	5.33	1.76
Airbus SE	5.03	1.32
Largest Detractors		
Meituan	3.79	-2.75
WuXi Biologics Inc.	3.33	-2.72
JD.com, Inc.	1.59	-1.46

Portfolio Activity

Quarterly Initiations	Quarterly Liquidations
None	Puma SE

Data for the quarter ending June 30, 2023. 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.

Market Outlook

Inflation is not giving up without a fight. The pace of price increases is slowing in most markets, giving hope that the past 15 months of rising interest rates is having the required effect. Yet, from another perspective, inflation remains stubbornly above the Fed's adopted 2% target, with a tight labor market and wage increases feeding potential for further price increases.

In the face of conflicting data, often with quite stark regional variations, interest rate policy is diverging. The Federal Reserve's decision to pause rate hikes in June was swiftly followed by guidance that two more rises may be needed this year, underlining the challenge of cooling inflation without going too far. The longer the situation persists, the harder it becomes for the Fed to stick a soft landing.

Other markets are facing similar struggles. The European Central Bank has signaled that it will increase rates again in July, although the Eurozone and its largest economy, Germany, are already in recession. The Bank of England has drawn criticism for its apparent failure to deal with an increasingly entrenched bout of stagflation, with UK wage growth and sharp price increases at odds with an economy teetering on the brink of downturn.

Asia's largest economies are plotting a somewhat different course. The Bank of Japan is guiding to a slow end to low interest rates and yield curve control measures, despite signs of more persistent inflation. Meanwhile Chinese policymakers are actively applying stimulus measures to fend off the threat of deflation and strengthen their economic recovery.

If there is an upside to aggressive tightening in most developed markets, then it's that central banks have built up capacity to deal with a downturn. This may in part explain why markets have run up this year in the face of one of the most widely forecast recessions in memory. Many investors may believe that a slump will in fact be avoided or at least quickly shaken off. Still, the process of interest rate normalization will be long. When rates do eventually peak, and inflation is declared beaten, the downward trend could be equally protracted, marked by more "wait and see" moments before settling at a "new normal".

Another source of uncertainty is China's path back to growth. Progress may be slower than some would like but is panning out largely as we expected. Consumer companies are reporting that spending is evolving positively. After the country's quick U-turn on its zero-COVID policy, it is not surprising that some nervousness remains about health implications or a pivot back to restrictions. Amid the still-budding recovery, we expect more targeted stimulus and a continued focus on accelerating the country's green transition. The fly in the ointment is geopolitical tension with the US, which is also weighing on sentiment towards Chinese stocks. As discussed in the Portfolio Commentary, we believe there are reasons for optimism in this regard going forward.

Against this backdrop of geopolitical uncertainty and mixed macro messages, the environment is ripe for stock pickers. The rising tide that lifted all boats has gone out, making the focus on company fundamentals and growth drivers all the more critical.

One of the big growth drivers will be AI. While there has been undeniable hype around AI bots that can replicate everything from software code to classical music, the pace of adoption is likely to be far

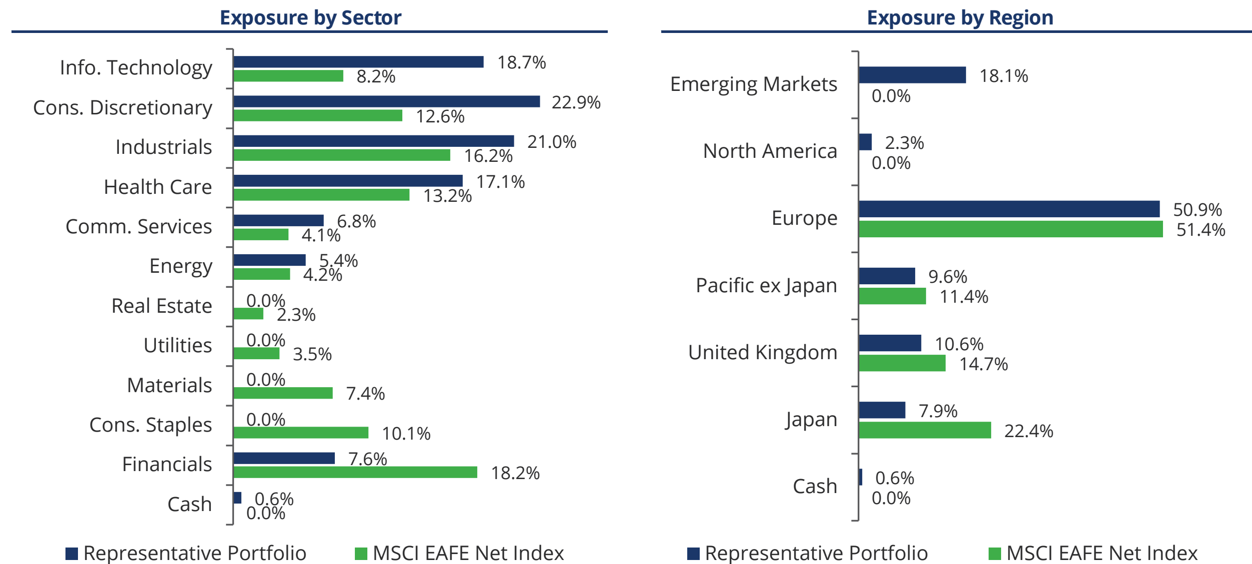
faster than any other technology we have seen in recent years. Some companies may have been wrongfooted by the speed of development and investors' view of the threats they face, but those that lean into the technology stand to build a serious competitive advantage.

At this early stage, many companies are talking a good game. The test will be whether or not they can develop useful applications for AI and do it in a productive and cost-effective manner. Our thesis is not to get dragged into discussion of whether one company's tech is better than another's, but instead to focus on the enabling technologies, such as processors that will power the trend.

There are risks, notably the possibility of regulation or societal pushback against the potential loss of jobs. These are issues we should be able to see coming and navigate accordingly. The benefits of AI to the economy should not go unstated either. In a period of intense labor shortages, AI could provide companies with a welcome boost to productivity.

Despite some resilient performance for companies and market recovery in the first half, the near term threatens to be challenging. Earnings estimates may continue to be revised down, with margins squeezed as interest rates bite even further. Against this, our portfolio has low levels of leverage, with many companies having taken advantage of previous low rates to refinance their debt. We feel comfortable that our portfolio has a strong risk-reward balance, and we continue to research new opportunities that offer attractive entry points to long-term growth potential.

Exposures & Characteristics



	Representative Portfolio		MSCI EAFE Net Index	
	2Q 2023	5 Year Average	2Q 2023	5 Year Average
Capitalization				
Weighted Average Market Cap ($B)	108.5	100.8	87.5	72.2
Median Market Cap ($B)	53.2	47.8	12.7	11.8
Growth Fundamentals				
EPS Growth: 3 to 5 year forecast (%)[1]	14.6	18.6	8.6	9.3
Revenue Growth: 3 to 5 year forecast (%)[1]	11.6	10.2	4.4	4.3
Value Fundamentals				
P/E Ratio: 12 Months - forward[1]	22.6	26.1	17.4	17.9
P/E Ratio: 12 Months - trailing[1]	28.0	32.0	18.8	20.1
PEG Ratio: forward[1]	1.6	1.4	2.0	2.0
Dividend Yield (%)[2]	1.0	1.0	3.2	3.1
Price/Book[3]	3.3	4.3	1.7	1.6
Quality Fundamentals				
Return on Equity: 5 Year (%)[1]	11.8	14.4	13.8	13.0
Return on Invested Capital: 5 Year (%)[1]	8.9	10.0	9.4	9.0
Long-Term Debt / Equity (%)	57.4	53.1	66.6	70.7
Other				
Number of Positions	29	26	798	867
Beta: 3 year portfolio[4]	1.1	1.1	1.0	1.0
Tracking Error: 5 Year Trailing (%)	9.2	--	--	--
Turnover: 12 Months - Trailing (%)	27.7	26.7	--	--

[1]Interquartile weighted mean, [2]MPT beta (daily). [3]Based on aggregate purchases and sales over prior 12 months. Data as of June 30, 2023. **Past performance does not guarantee future results.** Source: FactSet, Hardman Johnston Global Advisors LLC®. The data shown is of a representative portfolio for the Hardman Johnston International 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. The representative portfolio was chosen as most representative of the International Equity strategy. 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. In the event the portfolio holds multiple share classes of a company, the total number of positions reflects the multiple share classes as a single position. Hardman Johnston Global Advisors generally uses Global Industry Classification Standard ("GICS") to determine sector classification. Hardman Johnston may reclassify a company into a more suitable sector if it believes that the GICS classification for a specific company does not accurately classify the company from our perspective.

Portfolio Holdings

	Country	Weight (%)	Industry	Initiation Date
Communication Services				
Deutsche Telekom AG	Germany	5.0	Diversified Telecommunication Services	Apr. 2022
Sea Ltd.	Singapore	1.8	Entertainment	Apr. 2021
Consumer Discretionary				
Alibaba Group Holding Ltd.	China	2.0	Broadline Retail	Mar. 2023
Aptiv plc	Ireland	1.6	Auto Components	Oct. 2020
JD.com, Inc.	China	0.9	Broadline Retail	Jun. 2022
Kering S.A.	France	2.1	Textiles, Apparel & Luxury Goods	Mar. 2023
LVMH	France	2.7	Textiles, Apparel & Luxury Goods	Jul. 2022
Meituan	China	3.4	Hotels, Restaurants & Leisure	Oct. 2021
Melco Resorts & Entertainment Ltd.	Hong Kong	3.0	Hotels, Restaurants & Leisure	Oct. 2017
MercadoLibre, Inc.	Brazil	2.1	Broadline Retail	Jan. 2023
Prosus NV	Netherlands	5.0	Broadline Retail	Oct. 2021
Energy				
TechnipFMC plc	United Kingdom	5.4	Energy Equipment & Services	Nov. 2022
Financials				
AIA Group Ltd.	Hong Kong	4.8	Insurance	Oct. 2014
ICICI Bank Ltd.	India	2.8	Banks	Aug. 2018
Health Care				
Alkermes plc	Ireland	2.8	Biotechnology	Aug. 2021
AstraZeneca plc	United Kingdom	5.2	Pharmaceuticals	Oct. 2017
Genmab AS	Denmark	4.7	Biotechnology	May 2020
Grifols, S.A.	Spain	2.6	Biotechnology	Apr. 2022
WuXi Biologics Inc.	China	1.7	Life Sciences Tools & Services	Apr. 2018
Industrials				
Airbus SE	France	5.5	Aerospace & Defense	Jan. 2019
Daifuku Co., Ltd.	Japan	2.8	Machinery	Feb. 2020
Prysmian S.p.A.	Italy	2.7	Electrical Equipment	Sep. 2016
Rheinmetall AG	Germany	4.6	Aerospace & Defense	Feb. 2023
Safran S.A.	France	5.4	Aerospace & Defense	Jun. 2017
Information Technology				
ASML Holding N.V.	Netherlands	3.9	Semiconductors & Semiconductor Equipment	Jun. 2003
Atlassian Corp.	United States	2.3	Software	Jun. 2020
Keyence Corp.	Japan	5.2	Electronic Equipment, Instruments & Components	Mar. 2015
Nordic Semiconductor ASA	Norway	2.1	Semiconductors & Semiconductor Equipment	Apr. 2021
Taiwan Semiconductor Mfg. Co., Ltd.	Taiwan	5.2	Semiconductors & Semiconductor Equipment	Jan. 2021
Cash & Equivalents				
Cash		0.6		

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