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# Hardman Johnston

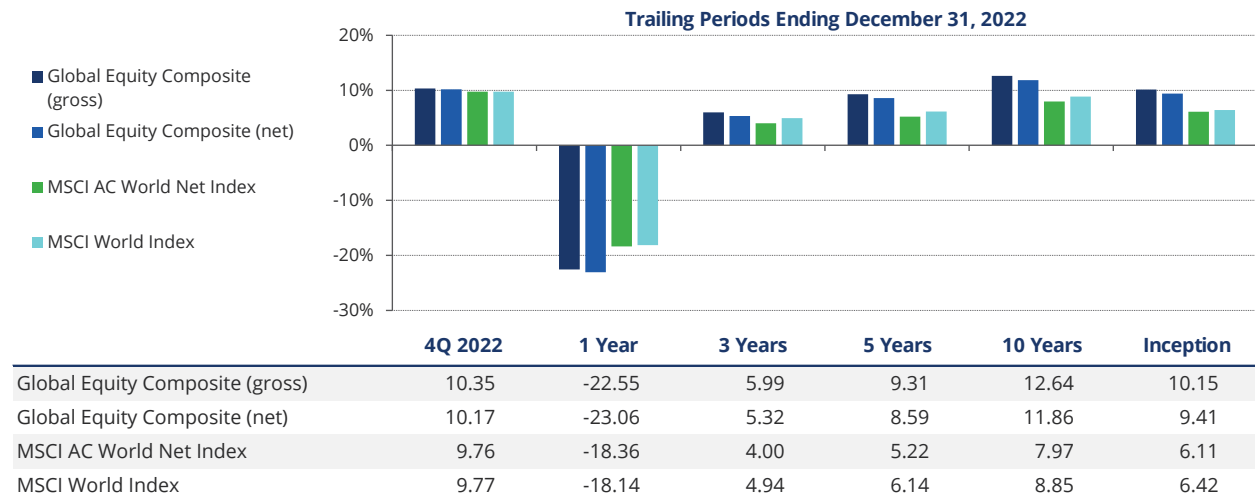
## Global Equity

### 2022 Fourth Quarter Report

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## Performance



Performance is through December 31, 2022. 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). 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

- Declining inflation data in the US and Europe raised expectations for more modest future rate hikes, leading to strong equity performance in the fourth quarter
- Different regions had idiosyncratic equity volatility; notably, China benefitted from economic reopening and less geopolitical tension
- Within the strategy, Consumer Discretionary and Industrials were the top sector contributors, while Communication Services and Materials were the top detractors
- Europe was the top contributing region, while the United Kingdom was the top detractor
- The Hardman Johnston Global Equity Strategy outperformed both the MSCI ACWI Index and the MSCI World Index during the quarter

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## Portfolio Commentary

The fourth quarter provided a welcome rebound in both absolute and relative terms despite a difficult year in 2022. Leading up to the quarter, the strategy had underperformed year-to-date, as central banks surprised the market by aggressively raising rates in successive meetings and tightening financial conditions to rein in inflation. This hurt all equities but put particular pressure on growth equities, which are often valued based on their long-term earnings potential and are therefore viewed as longer duration than the broad market. This was apparent in the results of the MSCI ACWI Growth and MSCI World Growth indices, which both materially underperformed their core index counterparts.

This changed in the fourth quarter, with our strategy staging a strong rebound to perform better than relevant equity markets. The Hardman Johnston Global Equity Composite returned 10.17%, net of fees, in the quarter, outperforming the MSCI ACWI Index by 41 bps and the MSCI World Index by 40 bps. The strategy also significantly outperformed the Growth versions of those indices during the quarter. While this did not make up for the full year's underperformance, it was great to see our portfolio end the year on the strong note with companies we own being rewarded again for strong fundamentals.

A major impetus for the turnaround in equity market performance during the quarter was declining inflation readings in the US and Eurozone. High rates are starting to work their way through the global economy. Housing markets are slowing as mortgage affordability craters. Consumers across the US and Europe are restraining spending as budgets shrink. Reduced demand, in part from Chinese COVID lockdowns and slowing global growth, has significantly dampened oil prices. Additionally, a number of metrics, including freight shipping costs, port congestion, and inventory levels, are showing that supply chain disruptions are easing. These have all put downward pressure on inflation, thereby raising expectations for more modest future rate hikes and causing equity markets to rebound.

Not all markets shared the same path, though. In the UK, the disastrous premiership of Liz Truss caused massive volatility in bond and currency markets early in the quarter as investors balked at the idea of debt-funded tax cuts during a period of already high inflation. These proposed policies were quickly reversed, ultimately resulting in a negligible effect on our strategy given our low exposure.

Japan's policies have also been out of sync with other economies. Japan is one of the few major developed markets still holding onto easy monetary policy. Throughout the year, this has caused the Yen to weaken in historic fashion. However, by the end of the quarter, the Yen recouped some losses as the Bank of Japan widened its yield curve control bands to begin to address rising inflation.

Among the most closely watched markets this quarter was China. A seemingly continuous stream of headlines brought significant volatility to Chinese equity markets. The quarter began with concerns about President Xi Jinping's appointment to a third term in power and his selection of fiercely loyal members of the Politburo Standing Committee. Investors interpreted this as a sign of longer-lasting zero-COVID and anti-business policies from the government. However, this sentiment shifted throughout the quarter as civil unrest in response to strict COVID lockdowns caused the country to move away from its zero-COVID policy, and new members showed they were not as anti-business as perceived. While China is trying to contain the resulting spread of COVID cases, the opening of the country has been a positive development for equity investors.

These developments played into our strategy's attribution in the fourth quarter. From a sector perspective, Consumer Discretionary was the largest quarterly contributor relative to the benchmark

index. The sector's outperformance partially reflects the impact of inflation on retailers and the global consumer. TJX Companies was the top contributor within the sector. TJX is the leader in the off-price retail space. As supply chains de-clogged, retailers were receiving several shipments at once while consumers' spending preferences were becoming more cautious. TJX procured a wide variety of merchandise from larger department stores that needed to unload inventory, enhancing its "treasure hunt" appeal. This helped TJX draw in customers looking for quality products at cheap prices. At the same time, the company benefitted from falling shipping costs and was able to raise some prices while remaining well below retail.

China's reopening also helped the sector. Prosus, which owns a large stake in the Chinese internet giant, Tencent, benefitted from COVID restrictions lifting in China and a resumption of video game approvals as the regulatory process in the country normalizes. The company also reported strong revenue growth and accelerated cost cutting, driving value recognition for the non-Tencent assets of the company, which had come under pressure earlier in the year.

Industrials also contributed to outperformance during the quarter due to strong execution by our holdings within the sector. Howmet Aerospace led the sector with solid earnings results and guidance despite broader aerospace supply chain issues. As a manufacturer of critical components for commercial aircraft, Howmet is well positioned for the ongoing recovery in commercial aerospace. Vertiv, a supplier of data center infrastructure, also contributed as it reported another quarter of solid execution as it continues on its recovery path from prior supply chain difficulties.

The sector that detracted the most during the quarter was Communication Services. The sector was broadly weak as several major players struggled with a deceleration in digital advertising and regulatory headwinds related to anti-competitive behavior. These factors affected holdings such as Alphabet and Activision Blizzard, the latter of which was liquidated during the quarter.

Materials also detracted in the fourth quarter. Our sole holding within the sector, Corteva, underperformed during the quarter after outperforming for most of the year. However, we are confident in the company's growth outlook as its seed and crop protection franchises should benefit from continued demand to increase crop yields. Additionally, efficiency initiatives should drive margin expansion, and the company made a promising acquisition late in the quarter to further enhance its fast-growing biologics franchise in Latin America.

Regionally, Europe provided the strongest outperformance. Most of our European exposure comes from global multi-nationals whose revenues are concentrated outside of the continent. This provides our strategy with some insulation from economic pressures across the Eurozone. Among European stocks, ASML delivered the strongest contribution. The company posted a significant beat and raise during the quarter and gave constructive outlook despite market uncertainty in the semiconductor industry. Prosus also contributed as described above.

The United Kingdom was the worst performing region during the quarter due to our lack of exposure.

In terms of individual securities, the quarter's top contributors were Schlumberger, TJX Companies, and Howmet Aerospace. Schlumberger is a global leader in oilfield services. The company reported strong quarterly results as energy supply constraints have led to higher demand for oilfield services to increase production capacity. Energy companies are increasingly using the most technologically advanced techniques to increase production as efficiently as possible, leveraging Schlumberger's industry leading technology. TJX and Howmet's outperformance were described above.

The top detractors for the quarter were Wolfspeed, Edwards Lifesciences, and Vertex Pharmaceuticals. Wolfspeed, a top producer of silicon carbide semiconductors, sold off in the quarter after a short-term manufacturing issue affected output. This issue has been resolved. The company also raised forward capex estimates to accommodate greater demand, which raised fears of shareholder dilution. Shares came under additional pressure as all suppliers geared to the electric vehicle industry sold off after Tesla's announcement to cut production by 20% in its Shanghai facility. The announcement, along with promotional activity, raised concerns of weak demand for electric vehicles in China. Despite the underperformance, Wolfspeed made positive announcements during the quarter, including a successful capital raise, which quelled fears of further dilution, and new contracts with large customers, showcasing Wolfspeed's leadership in both the upstream and downstream segments of the growing silicon carbide industry.

Edwards Lifesciences is the global leader in coronary valve replacement and repair, including transcatheter aortic valve replacement (TAVR). The company lowered TAVR guidance due to ongoing staffing shortages impacting cardiology clinics, thus lowering the number of procedures performed. This raised concerns that the TAVR market has peaked. Physician experts echoed Edwards' management regarding staffing problems impacting TAVR procedures but generally feel TAVR will continue to grow at a double-digit pace. Edwards also spoke about ongoing trials of asymptomatic TAVR patients and a new mitral valve repair platform as paths towards increasing their total addressable market and supplementing and lengthening TAVR growth well into the future.

Vertex Pharmaceuticals is the strategy's top contributing stock for the year. The biopharmaceutical company performed well for most of the quarter until early December, but then faced weakness related to company-specific valuation concerns and a rotation away from 2022 outperformers. The company has a strong path ahead in its cystic fibrosis franchise and is working on a timeline for its new potential blockbuster, exa-cell for sickle cell disease and beta thalassemia.

As long-term investors who take a three- to five-year view on our holdings, we tend to have fairly low turnover. We are highly selective in the stocks we purchase and believe it is important to be patient in order to find an attractive valuation entry point. During the fourth quarter, we had no initiations and two liquidations of Micron Technology and Activision Blizzard.

Micron is a market leader in the production of memory semiconductors. Slowing demand and the worsening outlook for consumer electronics, particularly PCs and smartphones, coincided with significant levels of inventory built both on Micron's balance sheet and its customers'. We have concerns about negative cash burn at the company potentially lasting for an extended duration, causing us to liquidate the stock. The video game maker, Activision Blizzard, reported strong fundamental results during the quarter. However, its stock price is currently trading based on developments in its acquisition by Microsoft. During the quarter, the FTC sued to block the acquisition. While this was not entirely unexpected and can be overcome, it may extend the timeline for the acquisition. We decided to liquidate the position in favor of more compelling opportunities.

Additionally, we made a number of adjustments to existing positions during the quarter. Sharp movements in share prices generally afford us opportunities to trim positions to lock in gains and to top-up positions where we view more potential for price appreciation. The volatility in equity markets during the fourth quarter allowed us to take these actions on several of our stocks.

## Quarterly Attribution

Sector Attribution	Average Weight		Total Return		Total Effect
	Rep. Portfolio	ACWI	Rep. Portfolio	ACWI	
Cons. Discretionary	17.9	10.9	15.2	-0.8	2.1%
Industrials	7.3	9.9	31.7	17.5	0.8%
Energy	3.4	5.6	49.4	17.8	0.5%
Consumer Staples	1.2	7.6	35.4	11.2	0.1%
Real Estate	0.0	2.6	0.0	5.9	0.1%
Utilities	0.0	3.1	0.0	10.3	0.0%
Financials	4.0	16.0	22.5	14.7	-0.2%
Info. Technology	21.2	19.5	3.3	5.0	-0.2%
Health Care	27.0	13.1	9.5	13.2	-0.3%
Materials	4.7	4.9	3.1	16.2	-0.4%
Comm. Services	10.6	6.9	-1.6	2.4	-0.5%
Cash	2.8	0.0	0.8	0.0	-0.2%

Regional Attribution	Average Weight		Total Return		Total Effect
	Rep. Portfolio	ACWI	Rep. Portfolio	ACWI	
Europe	10.9	12.5	28.7	19.7	0.8%
Emerging Markets	6.9	10.9	13.1	9.6	0.7%
North America	76.1	64.3	7.4	7.0	0.2%
Japan	3.3	5.4	17.8	13.2	0.0%
Pacific ex Japan	0.0	3.1	0.0	15.8	-0.2%
United Kingdom	0.0	3.8	0.0	17.0	-0.3%
Cash	2.8	0.0	0.8	0.0	-0.4%

## Contributors & Detractors

Fourth Quarter	Average Weight (%)	Total Effect (%)	Last Twelve Months	Average Weight (%)	Total Effect (%)
<b>Largest Contributors</b>			<b>Largest Contributors</b>		
Schlumberger NV	3.38	0.88	Vertex Pharmaceuticals Inc.	4.68	1.41
TJX Companies Inc.	4.95	0.85	T-Mobile US, Inc.	5.01	1.33
Howmet Aerospace, Inc.	4.42	0.72	Howmet Aerospace, Inc.	3.93	1.06
<b>Largest Detractors</b>			<b>Largest Detractors</b>		
Wolfspeed, Inc.	3.32	-1.79	Vertiv Holdings Co.	2.67	-1.10
Edwards Lifesciences Corp.	2.92	-0.73	Edwards Lifesciences Corp.	3.93	-1.05
Vertex Pharmaceuticals Inc.	5.66	-0.57	Micron Technology Inc.	2.97	-0.93

## Portfolio Activity

### Quarterly Initiations

None

### Quarterly Liquidations

Activision Blizzard Inc.  
Micron Technology Inc.

Data for the quarter ending December 31, 2022. 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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## Market Outlook

Monetary policy remains front and center as we enter 2023. The mood among central bankers is predominantly hawkish and the pace of interest rate hikes continues to be aggressive when compared with historical standards. Inflation is cooling slowly, so monetary policymakers will likely remain cautious for longer, and that will dampen economic growth in the near term.

Not all markets are in the same place, however. High prices and uncertainty about energy supply are contributing to more persistent inflation in Europe, while a slower start to interest rate rises means that tightening has further to run, which in turn increases the risk of recession. Indications are that the UK, further hindered by Brexit and a weak pound, has already entered a downturn which could last throughout most of the year.

In contrast, the US appears nearer the end of its rate hiking phase than the beginning. Inflation data is improving and could enable the Federal Reserve to steer the economy to a soft landing. The fly in the ointment is continued low unemployment, which is driving wages and consumer spending. In that respect, data that is normally seen as good news, could in fact prolong the tightening cycle and push rates higher.

Japan is a notable outlier in developed markets. Lower inflation has enabled the Bank of Japan to persist with loose monetary policy in support of small and medium-sized businesses. The result is likely to be positive real GDP growth in 2023, although the yen will remain under pressure so long as Japanese interest rates remain well below the global norm.

The other big focus for investors is China, which is poised to offer more support to the global economy in 2023. While there is disruption to factory output and the global supply chain from the recent spike in COVID cases, markets have responded well to the government's pivot away from its zero-COVID policy. There is a lot of recovery potential left in both consumer demand and share prices that still remain well below pre-COVID levels.

If monetary policy and China are key considerations at a macro level, earnings will increasingly become the main determinant of share price performance at a company level. P/E multiples have declined substantially and should begin to stabilize as the tightening cycle ends. Nonetheless, we remain vigilant; valuations are only fair so long as earnings estimates are accurate. Those forecasts have been trimmed but still project growth of 5.5% for the S&P 500 in 2023. During an environment of slowing economic growth, company earnings typically contract, so there may yet be a disconnect between expectations and reality. We are confident in the potential of our portfolio to outperform but visibility for many companies is low, with businesses exposed to consumer spending or industrial output among the most uncertain.

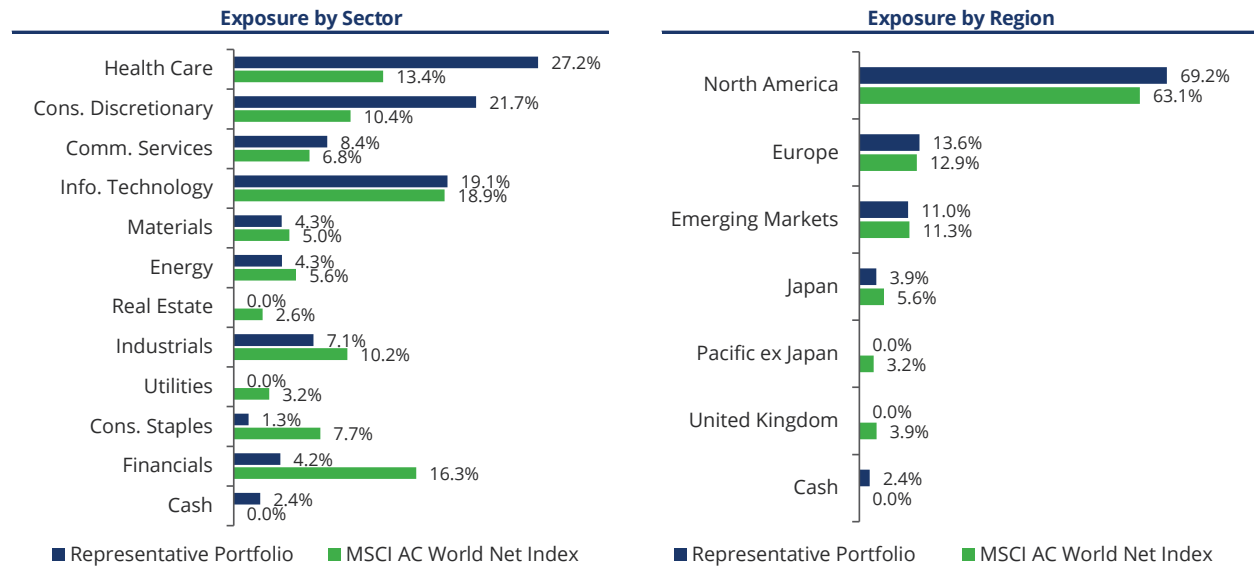
That said, secular trends continue to generate opportunities. Decarbonization is a theme that crosses many sectors and drives many businesses. For instance, the long-term trend to increased air travel, fed in part by rising demand in emerging markets, requires investment in more efficient aircraft and engines, regardless of the volatility in leisure spending and fuel costs. Recent advances in nuclear fusion shine a new light on its potential role in the energy transition, while US legislation including the Inflation Reduction Act are also feeding investment in a range of low-carbon technologies.

Even ongoing instability can unearth new opportunities. In a more uncertain world, companies are shortening supply chains and near-shoring operations and manufacturing, which in turn supports more investment in productivity via Artificial Intelligence and Machine Learning. More directly, geopolitical tensions also raise the prospect of increased spending on defense and the enabling technologies that support it. We are not thematic investors, but our bottom-up analysis can pinpoint companies that have the right fundamentals to grow strongly with the help of secular trends.

After a challenging 2022, the outlook is likely to remain uncertain. However, we remain confident about the potential of our holdings over a three- to five-year timeframe. We have constructed a portfolio that has a strong risk-reward balance, and we continue to research and identify new growth opportunities.



## Exposures & Characteristics



Portfolio Characteristics	Representative Portfolio		MSCI AC World Net Index	
	4Q 2022	5 Year Average	4Q 2022	5 Year Average
<b>Capitalization</b>				
Weighted Average Market Cap (\$B)	215.1	263.6	275.9	257.6
Median Market Cap (\$B)	70.2	73.6	10.8	10.9
<b>Growth Fundamentals</b>				
EPS Growth: 3 to 5 Year Forecast (%) <sup>1</sup>	20.4	18.8	10.4	12.5
Revenue Growth: 3 to 5 Year Forecast (%) <sup>1</sup>	11.0	13.9	6.8	8.1
<b>Value Fundamentals</b>				
P/E Ratio: 12 Months - Forward <sup>1</sup>	22.2	27.5	18.7	20.4
P/E Ratio: 12 Months - Trailing <sup>1</sup>	26.0	32.9	19.7	22.9
PEG Ratio: 12 Months - Forward <sup>1</sup>	1.5	1.7	1.8	2.0
<b>Quality Fundamentals</b>				
Return on Equity: 5 Year (%) <sup>1</sup>	25.6	18.8	21.4	16.3
Return on Invested Capital: 5 Year (%) <sup>1</sup>	17.4	13.8	18.0	12.1
Long-Term Debt / Equity (%)	66.8	61.9	86.5	75.0
<b>Other</b>				
Number of Positions	30	30	2,885	2,894
Beta: 3 year portfolio <sup>2</sup>	1.1	1.2	1.0	1.0
Turnover: 12 Months - Trailing (%) <sup>3</sup>	30.2	30.0	--	--

<sup>1</sup>Interquartile weighted mean, <sup>2</sup>MPT beta (daily), <sup>3</sup>Based on aggregate purchases and sales over prior 12 months. Data as of December 31, 2022. **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 Global 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 Global 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
<b>Communication Services</b>				
Alphabet Inc.	United States	2.9	Interactive Media & Services	Jan. 2011
T-Mobile US, Inc.	United States	5.5	Wireless Telecommunication Services	Jun. 2020
<b>Consumer Discretionary</b>				
Amazon.com, Inc.	United States	2.2	Internet & Direct Marketing Retail	Mar. 2016
JD.com, Inc.	China	4.0	Internet & Direct Marketing Retail	Jan. 2022
Meituan	China	4.0	Internet & Direct Marketing Retail	Jun. 2022
Prosus NV	Netherlands	4.1	Internet & Direct Marketing Retail	Feb. 2022
Puma SE	Germany	1.8	Textiles, Apparel & Luxury Goods	May 2018
Royal Caribbean Group	United States	1.5	Hotels, Restaurants & Leisure	Mar. 2021
TJX Companies Inc.	United States	4.1	Specialty Retail	Aug. 2020
<b>Consumer Staples</b>				
Coty Inc.	United States	1.3	Personal Products	Jun. 2022
<b>Energy</b>				
Schlumberger NV	United States	4.3	Energy Equipment & Services	Jun. 2022
<b>Financials</b>				
Mastercard Inc.	United States	4.2	Consumer Finance	May 2015
<b>Health Care</b>				
Alkermes plc	Ireland	1.8	Biotechnology	Aug. 2021
Boston Scientific Corp.	United States	5.0	Health Care Equipment & Supplies	Jan. 2020
Edwards Lifesciences Corp.	United States	2.0	Health Care Equipment & Supplies	Jul. 2006
Grifols, S.A.	Spain	2.1	Biotechnology	May 2022
IQVIA Holdings Inc.	United States	4.0	Life Sciences Tools & Services	May 2017
UnitedHealth Group Inc.	United States	4.1	Health Care Providers & Services	Oct. 2018
Vertex Pharmaceuticals Inc.	United States	5.3	Biotechnology	Feb. 2018
WuXi Biologics Inc.	China	3.1	Life Sciences Tools & Services	Apr. 2018
<b>Industrials</b>				
Howmet Aerospace, Inc.	United States	4.3	Aerospace & Defense	Nov. 2021
Vertiv Holdings Co.	United States	2.9	Electrical Equipment	Dec. 2020
<b>Information Technology</b>				
ASML Holding N.V.	Netherlands	3.8	Semiconductors & Semiconductor Equipment	Dec. 2005
Keyence Corp.	Japan	3.9	Electronic Equipment, Instruments & Components	Mar. 2015
Microsoft Corp.	United States	3.7	Software	Nov. 2018
NVIDIA Corp.	United States	2.0	Semiconductors & Semiconductor Equipment	Jan. 2019
PayPal Holdings, Inc.	United States	1.1	IT Services	Apr. 2021
Universal Display Corp.	United States	2.2	Semiconductors & Semiconductor Equipment	Jun. 2020
Wolfspeed, Inc.	United States	2.5	Semiconductors & Semiconductor Equipment	Oct. 2021
<b>Materials</b>				
Corteva, Inc.	United States	4.3	Chemicals	Mar. 2022
<b>Cash &amp; Equivalents</b>				
Cash		2.4		

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