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# Hardman Johnston

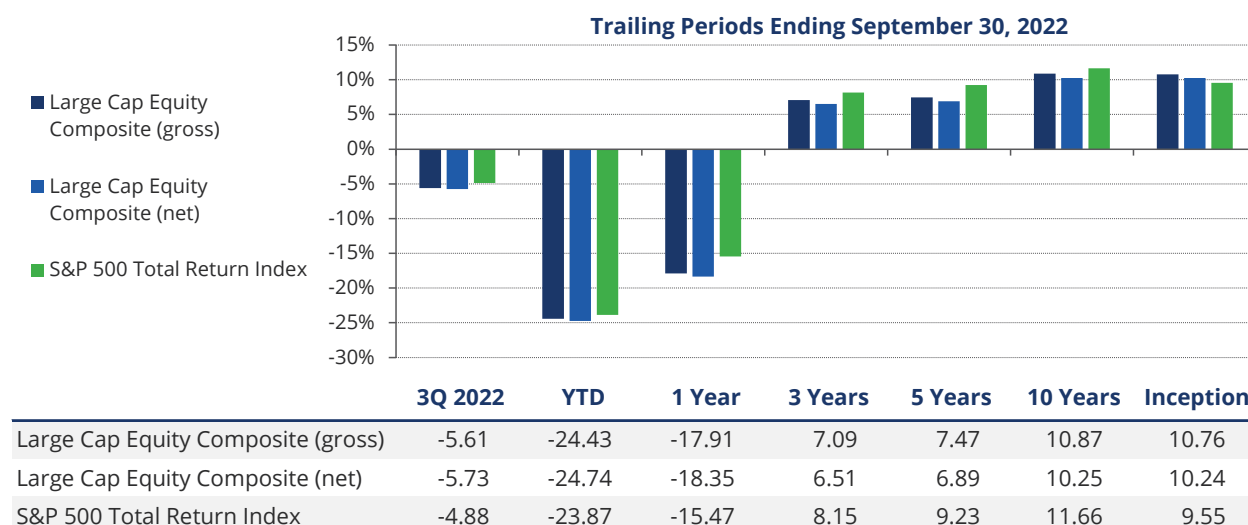
## Large Cap Equity

### 2022 Third Quarter Report

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## Performance



Performance is through September 30, 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). Composite inception date: December 31, 1989.

## Key Takeaways

- Inflation and rising rates were key themes that drove markets in the third quarter
- Against this backdrop, equities struggled, with all but two sectors within the S&P 500 Index posting negative returns
- Within the strategy, Materials and Information Technology were the top sector contributors, while Consumer Discretionary and Health Care were the top detractors

## Portfolio Commentary

The Large Cap Equity Composite returned -5.73%, net of fees, in the third quarter, compared to -4.88% for the S&P 500. The largest detractors included Adobe, IQVIA, and Stanley Black & Decker. Unsurprisingly, these three companies were all beneficiaries from the pandemic's stay at home and accelerated life sciences investment trends and have since seen a slowdown in business. We expect all three to resume double digit profit growth over our investment horizon.

On the positive side, Wolfspeed, Albemarle, and Automatic Data Processing appreciated strongly. Wolfspeed is able to demonstrate that the significant investments it made in capacity additions are starting to pay off and will allow it to provide critical energy optimizing components to electric vehicle manufacturers, among others. Albemarle continues to be the preferred supplier of battery grade lithium to a growing list of electric vehicle suppliers. Their reliable supply of high quality materials is driving higher profit growth in absolute terms and relative to many peers. ADP remains a key payroll partner for many companies, and rising interest rates allows them to earn higher profits on funds deposited with them for short periods.

## Quarterly Attribution & Portfolio Activity

Sector Attribution	Average Weight		Total Return		Total Effect
	Rep. Portfolio	S&P 500	Rep. Portfolio	S&P 500	
Materials	9.5	2.5	10.7	-7.1	1.6%
Info. Technology	27.3	25.5	-1.6	-6.0	4.4%
Real Estate	0.0	2.8	0.0	-11.1	1.1%
Consumer Staples	0.0	6.8	0.0	-6.6	0.6%
Utilities	0.0	3.1	0.0	-6.0	0.0%
Comm. Services	6.8	8.5	-16.8	-12.7	-0.4%
Financials	9.5	12.7	-6.7	-4.1	0.2%
Energy	0.0	4.4	0.0	2.4	0.2%
Industrials	11.9	7.8	-7.6	-4.8	0.2%
Health Care	27.6	14.5	-9.5	-5.2	-0.4%
Cons. Discretionary	3.8	11.4	-14.5	4.4	-0.4%
Cash	3.5	0.1	0.6	0.6	0.0%

### Contributors & Detractors

Third Quarter	Average Weight (%)	Total Effect (%)	Last Twelve Months	Average Weight (%)	Total Effect (%)
<b>Largest Contributors</b>			<b>Largest Contributors</b>		
Wolfspeed, Inc.	2.28	1.03	Vertex Pharmaceuticals Inc.	3.52	1.80
Albemarle Corp.	3.48	0.97	Albemarle Corp.	3.18	1.04
Automatic Data Processing, Inc.	3.59	0.40	Cerner Corp.	1.75	0.96
<b>Largest Detractors</b>			<b>Largest Detractors</b>		
Adobe Inc.	2.91	-0.48	Vertiv Holdings Co.	1.89	-1.22
IQVIA Holdings Inc.	3.95	-0.46	Adobe Inc.	3.38	-1.21
Stanley Black & Decker Inc.	1.44	-0.36	Stanley Black & Decker Inc.	1.97	-0.93

## Portfolio Activity

### Quarterly Initiations

None

### Quarterly Liquidations

Embecta Corporation  
Sea Ltd.

Data for the quarter ending September 30, 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 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

It is not often that you hear the economy is too strong, but that is the environment we find ourselves in today. The too strong economy is, of course, a stimulant to inflation and will cause policy makers to continue to raise interest rates. This will slow the economy, and likely cause a recession. This is unfortunate, but unavoidable. Persistent high inflation is awful and needs to be dealt with forcefully. However, we hope the governors of the Federal Reserve can strike the right balance and tighten enough to stop inflation without sending the economy into a very deep recession.

For the time being we are in an environment where good news is bad news for markets. Strong labor market? Higher interest rates. Good consumer spending? Higher interest rates. Higher rates also hurt the housing market, as mortgage payments become less affordable and builders have a harder time financing their projects. Similarly, companies may shelve expansion projects due to higher financing costs and economic uncertainty. All of these are painful but necessary consequences of curing high inflation.

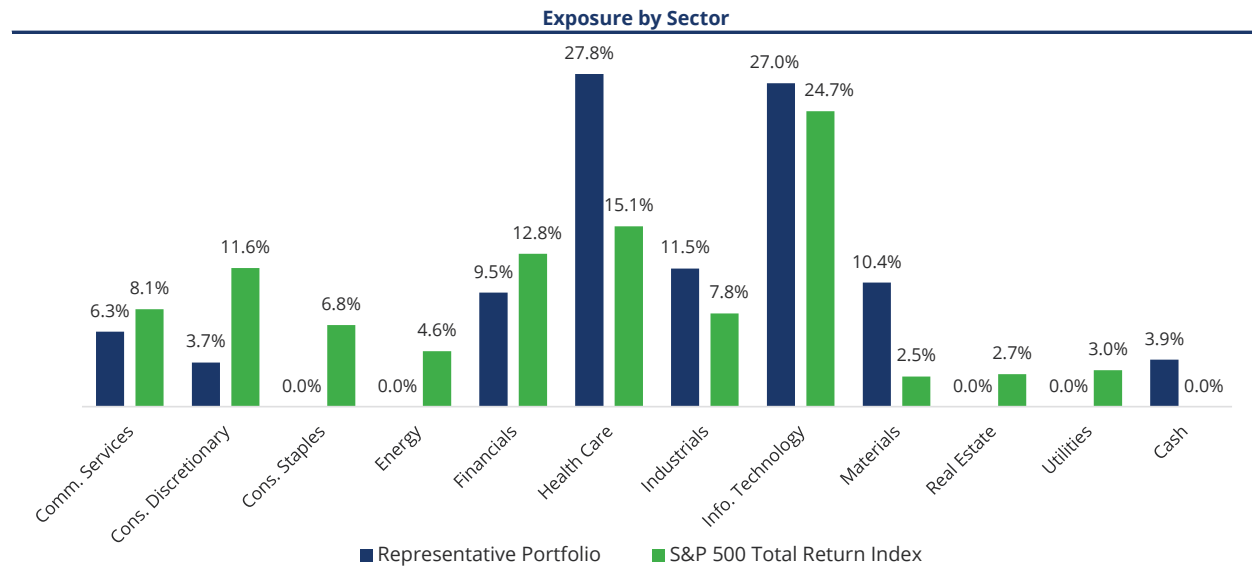
We see signs that inflation is slowing, but monetary policy has a significant lag and it may be that the Fed will overshoot its goal and cause a deeper recession than necessary to arrest the inflationary spiral. Additionally, US interest rates affect the global economy, and it is evident that a global recession is unfolding. On top of that, Europe is struggling with skyrocketing energy costs and Asia is subject to contagion from China's rolling COVID-19 shut-downs. It all sounds very gloomy.

Therefore, we think it is appropriate that markets have corrected as much as they have. Our clients are familiar with our conviction that profit growth drives stock price appreciation over the long term. High wage inflation, high goods inflation, and high interest rates all weigh on profit growth. Yes, our companies generally have pricing power, but there is usually a lag between input costs and price increases, so our expectations for profit growth have been lowered in the near to medium term.

The silver lining, and there is always a silver lining, is that a handful of excellent companies that have always had too high valuations are on sale. We are taking advantage of these opportunities. We are also ever vigilant in making sure that existing holdings remain sound companies, and that their long term prospects are unchanged. Our internal analysts remain in regular contact with both the companies and the experts that follow them and are always on the look out for changes in expectations, both positive and negative. We remain bullish on their long-term prospects.

We understand that the drawdown in portfolio values is troubling, and we are not taking it lightly. We will happily spend time with our clients to help you understand our point of view and our outlook.

## Exposures & Characteristics



Portfolio Characteristics	Representative Portfolio		S&P 500 Total Return Index	
	3Q 2022	5 Year Average	3Q 2022	5 Year Average
<b>Capitalization</b>				
Weighted Average Market Cap (\$B)	320.7	267.4	469.5	376.7
Median Market Cap (\$B)	51.2	56.5	27.0	25.5
<b>Growth Fundamentals</b>				
EPS Growth: 3 to 5 Year Forecast (%) <sup>1</sup>	12.8	14.0	12.1	11.8
Revenue Growth: 3 to 5 Year Forecast (%) <sup>1</sup>	8.6	9.4	7.3	7.4
<b>Value Fundamentals</b>				
P/E Ratio: 12 Months - Forward <sup>1</sup>	18.5	23.9	18.4	21.9
P/E Ratio: 12 Months - Trailing <sup>1</sup>	21.2	27.7	19.2	24.1
PEG Ratio: 12 Months - Forward <sup>1</sup>	1.7	1.8	1.8	2.1
<b>Quality Fundamentals</b>				
Return on Equity: 5 Year (%) <sup>1</sup>	19.5	20.1	20.3	22.1
Return on Invested Capital: 5 Year (%) <sup>1</sup>	14.4	13.6	13.4	13.7
Long-Term Debt / Equity (%)	72.6	67.3	79.2	87.4
<b>Other</b>				
Number of Positions	51	51	502	506
Beta: 3 year portfolio <sup>2</sup>	1.0	0.9	1.0	1.0
Turnover: 12 Months - Trailing (%) <sup>3</sup>	10.5	11.9	--	--

<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 September 30, 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 Large Cap 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 Large Cap 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
<b>Communication Services</b>			
Alphabet Inc.	United States	3.8	Interactive Media & Services
Comcast Corp.	United States	1.8	Media
Deutsche Telekom AG	Germany	0.7	Diversified Telecommunication Services
<b>Consumer Discretionary</b>			
Aptiv plc	Ireland	0.6	Auto Components
JD.com, Inc.	China	0.2	Internet & Direct Marketing Retail
LVMH	France	0.7	Textiles, Apparel & Luxury Goods
Meituan	China	0.6	Internet & Direct Marketing Retail
Melco Resorts & Entertainment Ltd.	Hong Kong	0.4	Hotels, Restaurants & Leisure
Prosus NV	Netherlands	0.8	Internet & Direct Marketing Retail
Puma SE	Germany	0.5	Textiles, Apparel & Luxury Goods
<b>Financials</b>			
AIA Group Ltd.	Hong Kong	0.7	Insurance
ICICI Bank Ltd.	India	0.6	Banks
Marsh & McLennan Cos. Inc.	United States	4.6	Insurance
Mastercard Inc.	United States	3.6	Consumer Finance
<b>Health Care</b>			
Alkermes plc	Ireland	0.3	Biotechnology
AstraZeneca plc	United Kingdom	1.0	Pharmaceuticals
Becton, Dickinson & Co.	United States	2.8	Health Care Equipment & Supplies
Dentsply Sirona, Inc.	United States	1.4	Health Care Equipment & Supplies
Edwards Lifesciences Corp.	United States	3.0	Health Care Equipment & Supplies
Genmab AS	Denmark	0.8	Biotechnology
Grifols, S.A.	Spain	0.2	Biotechnology
IQVIA Holdings Inc.	United States	3.6	Life Sciences Tools & Services
Johnson & Johnson	United States	2.7	Pharmaceuticals
Medtronic plc	United States	1.9	Health Care Equipment & Supplies
UnitedHealth Group Inc.	United States	4.9	Health Care Providers & Services
Vertex Pharmaceuticals Inc.	United States	4.7	Biotechnology
WuXi Biologics Inc.	China	0.5	Life Sciences Tools & Services
<b>Industrials</b>			
Airbus SE	France	0.6	Aerospace & Defense
Daifuku Co., Ltd.	Japan	0.4	Machinery
Howmet Aerospace, Inc.	United States	3.6	Aerospace & Defense
Leidos Holdings Inc.	United States	2.5	Professional Services
Nidec Corp.	Japan	0.4	Electrical Equipment
Prysmian S.p.A.	Italy	0.7	Electrical Equipment
Safran S.A.	France	0.7	Aerospace & Defense
Stanley Black & Decker Inc.	United States	1.3	Machinery
Vertiv Holdings Co.	United States	1.4	Electrical Equipment
<b>Information Technology</b>			
Adobe Inc.	United States	2.4	Software
Advanced Energy Industries	United States	3.8	Electronic Equipment, Instruments & Components
Apple Inc.	United States	4.6	Technology Hardware, Storage & Peripherals
ASML Holding N.V.	Netherlands	0.6	Semiconductors & Semiconductor Equipment
Atlassian Corp.	Australia	0.5	Software
Automatic Data Processing, Inc.	United States	3.8	IT Services
Microsoft Corp.	United States	4.0	Software
Nordic Semiconductor ASA	Norway	0.2	Semiconductors & Semiconductor Equipment
NVIDIA Corp.	United States	2.2	Semiconductors & Semiconductor Equipment
Taiwan Semiconductor Mfg. Co., Ltd.	Taiwan	0.6	Semiconductors & Semiconductor Equipment
Universal Display Corp.	United States	1.4	Semiconductors & Semiconductor Equipment
Wolfspeed, Inc.	United States	2.9	Semiconductors & Semiconductor Equipment
<b>Materials</b>			
Albemarle Corp.	United States	3.6	Chemicals
Corteva, Inc.	United States	3.2	Chemicals
FMC Corp.	United States	3.6	Chemicals
<b>Cash &amp; Equivalents</b>			
Cash		3.9	

Green text indicates the security has been in the portfolio for greater than five years.

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