

---

# Hardman Johnston

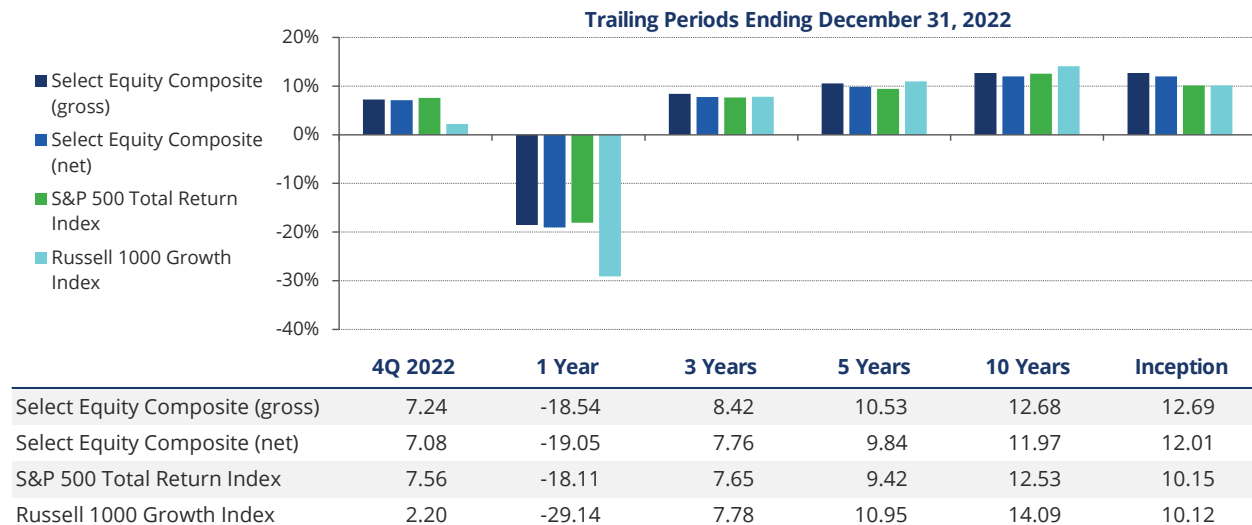
## Select Equity

### 2022 Fourth Quarter Report

---



## 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). Composite inception date: December 31, 1990.

## Key Takeaways

- The fight against inflation continues to weigh on stocks. A shallow recession in the US may be in the cards for 2023
- Global growth is challenging, but some bright spots are appearing, and elsewhere strong medicine is being administered
- Valuations are improved, and we expect earnings growth to remain the driver of appreciation

## Market Review & Outlook

Equity markets rallied in the fourth quarter of 2022, even though December was a soft month. The Federal Reserve Bank has started to slow their interest rate increases, but we have no illusions that they will stop increasing in the near term. The small but important change to the pace of tightening is consistent with inflation beginning to slow, and with a softening labor market as well. American consumers are starting to restrain their spending, and more and more companies are either slowing hiring or laying off workers. Once more, good news is bad news and apparently bad news is good news. While the US yield curve points to a recession, perhaps the Fed can use recovering service industries and strengthening domestic capacity investments to engineer a soft landing and avoid a contraction.

Outside the US, the ongoing global tightening cycle will dampen economic growth during 2023. Inflation may decelerate slowly, causing central banks to remain restrictive for longer, despite the economic slowdown. Advanced economies, led by Europe and the UK, are more likely to contract, driven by the lagged impact of rapid rate hikes, higher energy costs, and tighter financial conditions. The Bank of Japan's easy monetary policy in support of small and medium-sized businesses will likely result in positive real GDP growth in 2023. China's economy will gradually recover after Beijing's pivot

on its zero-COVID strategy. China's citizens are likely to remain cautious during the winter months but will eventually resume a more normal life, as the rest of the world already has. China's recovery will in turn provide some support for global growth.

After a draw down in market values over the last year in the face of a deteriorating economic backdrop, we expect economic conditions to normalize in the US this year. Avoiding a US recession will be difficult, but still quite possible. Any recession is likely to be shallow in the absence of further shocks. The Federal Reserve has made clear their resolve to stop inflation in its tracks, so we do not expect support for growth from monetary policy, and a divided government makes fiscal support unlikely. Since stock valuations have contracted and profit forecasts are decreasing at slower rates, we are looking for a bottom in the markets. We are back at a point where appreciation can be driven by growth, which, as you know, is expected from all our holdings.

We remain confident in the fundamentals of our portfolio holdings over the coming three- to five-year time frame. The near-term may prove challenging from an earnings perspective for many companies, but the portfolio has a strong risk-reward balance, and we are continually researching new opportunities.

---

### **Portfolio Commentary**

In the fourth quarter the Select Equity composite delivered a return of 7.1% net of fees, compared to 7.6% for the S&P 500. Outperformers were led by Howmet, a manufacture of critical components for commercial aircraft, including engine parts, structures, and fasteners. Air travel continues to climb back and so does demand for aircraft. ASML, the enabler of advanced semiconductor manufacturing, predicted strong demand for its products over the next decade. The stock rallied into year end after selling off for the first part of the year. Astra Zeneca continues to deliver impressive results from its portfolio of marketed drugs and its products in development. Investors continue to reward the consistent performance with higher stock prices, but the valuation remains reasonable.

Drags on performance included Wolfspeed, Albemarle, and Edwards LifeSciences. Wolfspeed fell sharply in October after announcing plans to expand capacity for its silicon carbide products. While this bodes well for the long-term growth of the company, it will affect profit margins in the near term and will require additional capital. Albemarle has sold off in sympathy with electric vehicle stocks after a strong run in the 3rd quarter. They maintain their leadership in supplying battery grade lithium to fuel the world's growing demand for EVs. Finally, Edwards Lifesciences, one of our best long-term performers, had a hiccup after revealing that heart valve procedures, and therefore demand for their replacement valves, remained sluggish due to staffing shortages in hospitals.

Portfolio turnover was relatively high in the quarter. We took advantage of the drawdown in the market to initiate positions in Illumina and PayPal. Illumina is the vendor of choice for research scientists, pharmaceutical manufacturers and any other field looking to extract high quality, consistent genetic information from any number of samples. Their new product line continues to drive down the cost of genetic sequencing and will help create cures for more and more diseases. PayPal continues to help merchants provide a seamless and convenient experience for their online customers and continues to invest in newer areas of e-commerce such as digital wallets. We exited our stub position in Embecta, which had been spun out of Becton Dickinson.

## Quarterly Attribution\* & Portfolio Activity

| Sector Attribution  | Average Weight |         | Total Return   |         | Total Effect |
|---------------------|----------------|---------|----------------|---------|--------------|
|                     | Rep. Portfolio | S&P 500 | Rep. Portfolio | S&P 500 |              |
| Cons. Discretionary | 0.0            | 10.6    | 0.0            | -10.2   | 1.2          |
| Industrials         | 9.8            | 8.4     | 24.5           | 19.2    | 0.4          |
| Comm. Services      | 6.0            | 7.5     | 1.6            | -1.4    | 0.1          |
| Financials          | 11.8           | 13.2    | 17.0           | 14.5    | 0.3          |
| Real Estate         | 0.0            | 2.6     | 0.0            | 3.6     | -0.4         |
| Utilities           | 0.0            | 3.0     | 0.0            | 8.2     | -0.8         |
| Info. Technology    | 30.6           | 24.2    | 3.7            | 3.7     | 0.0          |
| Consumer Staples    | 0.0            | 7.0     | 0.0            | 12.7    | -1.3         |
| Energy              | 0.0            | 5.2     | 0.0            | 23.1    | -2.3         |
| Health Care         | 29.6           | 15.3    | 7.1            | 12.8    | 1.6          |
| Materials           | 10.7           | 2.6     | -0.2           | 15.2    | -1.3         |
| Cash                | 1.5            | 0.3     | 1.0            | 1.0     | 0.0          |

-2.0% -1.0% 0.0% 1.0% 2.0% 3.0%

### Contributors & Detractors

| Fourth Quarter              | Average Weight (%) | Total Effect (%) | Last Twelve Months          | Average Weight (%) | Total Effect (%) |
|-----------------------------|--------------------|------------------|-----------------------------|--------------------|------------------|
| <b>Largest Contributors</b> |                    |                  | <b>Largest Contributors</b> |                    |                  |
| Howmet Aerospace, Inc.      | 4.44               | 0.81             | Howmet Aerospace, Inc.      | 4.06               | 1.34             |
| ASML Holding N.V.           | 3.12               | 0.65             | Vertex Pharmaceuticals Inc. | 3.54               | 1.20             |
| AstraZeneca plc             | 4.06               | 0.62             | AstraZeneca plc             | 3.88               | 1.14             |
| <b>Largest Detractors</b>   |                    |                  | <b>Largest Detractors</b>   |                    |                  |
| Wolfspeed, Inc.             | 2.71               | -1.38            | Stanley Black & Decker Inc. | 2.03               | -1.15            |
| Albemarle Corp.             | 3.89               | -1.03            | Edwards Lifesciences Corp.  | 3.56               | -0.96            |
| Edwards Lifesciences Corp.  | 2.97               | -0.56            | NVIDIA Corp.                | 3.49               | -0.95            |

### Quarterly Initiations

PayPal Holdings, Inc.  
Illumina, Inc.

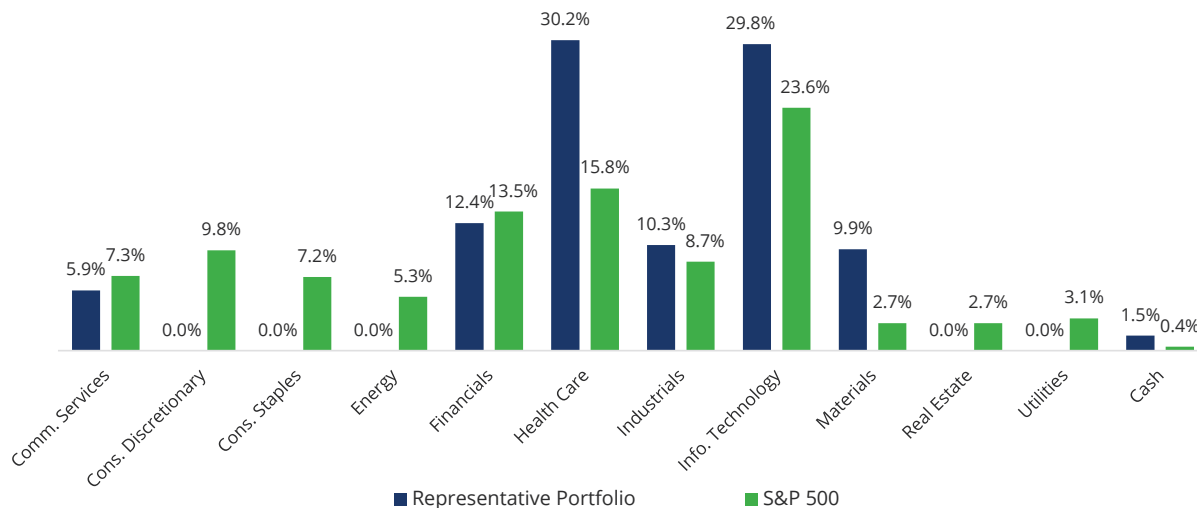
### Quarterly Liquidations

Embecta Corporation

Data for the quarter ending December 31, 2022. Source: FactSet, Hardman Johnston Global Advisors LLC®. **Past performance does not guarantee future results.**  
\*Information for S&P 500 attribution, exposures, and characteristics are derived from the iShares S&P 500 ETF. The data shown is of a representative portfolio for the Hardman Johnston Select 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.

## Exposures & Characteristics\*

### Exposure by Sector



| Portfolio Characteristics                             | Representative Portfolio |                | S&P 500 |                |
|---|--------------------------|----------------|---------|----------------|
|   | 4Q 2022                  | 5 Year Average | 4Q 2022 | 5 Year Average |
| <b>Capitalization</b>                                 |                          |                |         |                |
| Weighted Average Market Cap (\$B)                     | 330.9                    | 303.0          | 418.0   | 387.6          |
| Median Market Cap (\$B)                               | 77.9                     | 81.1           | 29.6    | 25.9           |
| <b>Growth Fundamentals</b>                            |                          |                |         |                |
| EPS Growth: 3 to 5 Year Forecast (%) <sup>1</sup>     | 12.2                     | 14.0           | 10.8    | 11.8           |
| Revenue Growth: 3 to 5 Year Forecast (%) <sup>1</sup> | 8.4                      | 9.6            | 6.4     | 7.4            |
| <b>Value Fundamentals</b>                             |                          |                |         |                |
| P/E Ratio: 12 Months - Forward <sup>1</sup>           | 20.5                     | 23.6           | 20.3    | 21.9           |
| P/E Ratio: 12 Months - Trailing <sup>1</sup>          | 23.3                     | 27.4           | 20.9    | 24.1           |
| PEG Ratio: 12 Months - Forward <sup>1</sup>           | 1.7                      | 1.8            | 2.0     | 2.1            |
| <b>Quality Fundamentals</b>                           |                          |                |         |                |
| Return on Equity: 5 Year (%) <sup>1</sup>             | 39.1                     | 21.8           | 45.4    | 22.2           |
| Return on Invested Capital: 5 Year (%) <sup>1</sup>   | 21.3                     | 15.0           | 23.7    | 14.8           |
| Long-Term Debt / Equity (%)                           | 85.6                     | 71.8           | 98.0    | 88.4           |
| <b>Other</b>  |                          |                |         |                |
| Number of Positions                                   | 32                       | 31             | 501     | 505            |
| Beta: 3 year portfolio <sup>2</sup>                   | 1.0                      | 1.0            | 1.0     | 1.0            |
| Turnover: 12 Months - Trailing (%) <sup>3</sup>       | 5.5                      | 8.5            | --      | --             |

<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.** \*Information for S&P 500 attribution, exposures, and characteristics are derived from the iShares S&P 500 ETF. Source: FactSet, Hardman Johnston Global Advisors LLC®. The data shown is of a representative portfolio for the Hardman Johnston Select 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 Select 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  | 3.6        | Interactive Media & Services                   |
| Comcast Corp.                   | United States  | 2.3        | Media  |
| <b>Financials</b>               |                |            |  |
| HDFC Bank Ltd.                  | India          | 3.3        | Banks  |
| Marsh & McLennan Cos. Inc.      | United States  | 4.3        | Insurance                                      |
| Mastercard Inc.                 | United States  | 4.8        | Consumer Finance                               |
| <b>Health Care</b>              |                |            |  |
| AstraZeneca plc                 | United Kingdom | 4.4        | Pharmaceuticals                                |
| Becton, Dickinson & Co.         | United States  | 3.8        | Health Care Equipment & Supplies               |
| Dentsply Sirona, Inc.           | United States  | 1.9        | Health Care Equipment & Supplies               |
| Edwards Lifesciences Corp.      | United States  | 2.9        | Health Care Equipment & Supplies               |
| Illumina, Inc.                  | United States  | 1.4        | Life Sciences Tools & Services                 |
| IQVIA Holdings Inc.             | United States  | 3.7        | Life Sciences Tools & Services                 |
| Johnson & Johnson               | United States  | 3.4        | Pharmaceuticals                                |
| Medtronic plc                   | United States  | 1.8        | Health Care Equipment & Supplies               |
| UnitedHealth Group Inc.         | United States  | 3.4        | Health Care Providers & Services               |
| Vertex Pharmaceuticals Inc.     | United States  | 3.6        | Biotechnology                                  |
| <b>Industrials</b>              |                |            |  |
| Howmet Aerospace, Inc.          | United States  | 4.8        | Aerospace & Defense                            |
| Leidos Holdings Inc.            | United States  | 1.8        | Professional Services                          |
| Stanley Black & Decker Inc.     | United States  | 1.4        | Machinery                                      |
| Vertiv Holdings Co.             | United States  | 2.3        | Electrical Equipment                           |
| <b>Information Technology</b>   |                |            |  |
| Adobe Inc.                      | United States  | 2.8        | Software                                       |
| Advanced Energy Industries      | United States  | 1.5        | Electronic Equipment, Instruments & Components |
| Apple Inc.                      | United States  | 4.8        | Technology Hardware, Storage & Peripherals     |
| ASML Holding N.V.               | Netherlands    | 3.3        | Semiconductors & Semiconductor Equipment       |
| Automatic Data Processing, Inc. | United States  | 4.6        | IT Services                                    |
| Microsoft Corp.                 | United States  | 4.2        | Software                                       |
| NVIDIA Corp.                    | United States  | 2.9        | Semiconductors & Semiconductor Equipment       |
| PayPal Holdings, Inc.           | United States  | 1.2        | IT Services                                    |
| Universal Display Corp.         | United States  | 2.4        | Semiconductors & Semiconductor Equipment       |
| Wolfspeed, Inc.                 | United States  | 2.1        | Semiconductors & Semiconductor Equipment       |
| <b>Materials</b>                |                |            |  |
| Albemarle Corp.                 | United States  | 3.2        | Chemicals                                      |
| Corteva, Inc.                   | United States  | 3.0        | Chemicals                                      |
| FMC Corp.                       | United States  | 3.7        | Chemicals                                      |
| <b>Cash &amp; Equivalents</b>   |                |            |  |
| Cash                            |                | 1.5        |  |

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

Data as of December 31, 2022. Source: FactSet, Hardman Johnston Global Advisors LLC®. The data shown is of a representative portfolio for the Hardman Johnston Select 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 Select Equity strategy. Future investments may or may not be profitable.