Chinese Equity

Quarterly Report | Year End 2021

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2021 was a turbulent year for Chinese equities, as regulatory policies seeking to reduce income inequality, curb carbon emissions, and lower financial risk in the property sector caught investors by surprise.

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The increasing preference of Chinese consumers, manufacturers, and their government for the consumption of locally produced goods and services forms a critical part of the investment thesis for several of our manufacturing and consumer-oriented holdings.

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As Beijing ambitiously pursues a total transition to electric vehicles by 2035, we are drawn to upstream component suppliers, where the markets are more concentrated and participants benefit from significant economies of scale.

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Composite Performance

Total Return (%) — Periods Ended December 31, 2021[1]

	3 Months	1 Year	Since Inception[2]
HL Chinese Equity (Gross of Fees)	-4.05	-14.59	-14.59
HL Chinese Equity (Net of Fees)	-4.29	-15.42	-15.42
MSCI China All Shares Index[3]	-2.52	-12.80	-12.80

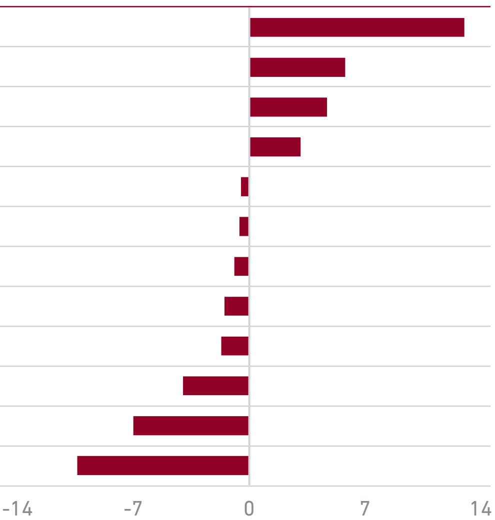
[1]The Composite performance returns shown are preliminary; [2]Inception Date: December 31, 2020; [3]The Benchmark Index gross of withholding taxes.

Please read the above performance in conjunction with the footnotes on the last page of this report. Past performance does not guarantee future results. All performance and data shown are in US dollar terms, unless otherwise noted.

Portfolio Positioning (% Weight)

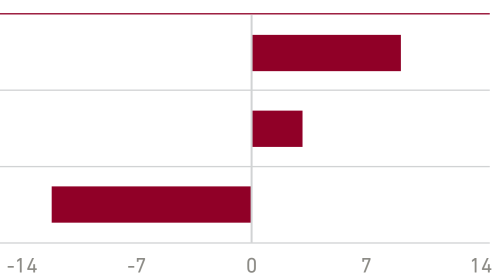
Sector	HL CE	MSCI CAS
Industrials	23.1	10.1
Health Care	13.9	8.1
Info Technology	15.3	10.6
Cash	3.1	–
Cons Discretionary	19.5	20.0
Comm Services	10.7	11.3
Utilities	2.0	2.9
Real Estate	1.5	3.0
Energy	0.0	1.7
Cons Staples	5.9	9.9
Materials	0.0	7.0
Financials	5.0	15.4

Under / Over



Market	HL CE	MSCI CAS
Other Emerging Markets	9.1	–
Cash	3.1	–
Mainland China + Hong Kong	87.8	100.0

Under / Over



Sector and geographic allocations are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. Source: Harding Loevner Chinese Equity Model; MSCI Inc. and S&P. MSCI Inc. and S&P do not make any express or implied warranties or representations and shall have no liability whatsoever with respect to any GICS data contained herein.

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Market Review

The MSCI China All Shares Index fell 2.5% in the fourth quarter, bringing its slide for the year to 12.8% as the policy-induced struggles of the e-commerce and online game industries in previous quarters spread to other areas of the economy. Health Care, Real Estate, and Consumer Discretionary were among the market sectors that suffered the broadest declines, while Information Technology (IT), Consumer Staples, and Industrials posted solid gains.

Overseas listings of Chinese securities became a focal point of concern. As US regulators continued (slowly) to press forward with plans to de-list Chinese companies for which audit transparency is blocked, China itself emerged as a second front in the war over US listings. Chinese regulators revamped their framework governing overseas capital structures and persuaded ride-hailing giant Didi to abandon its new US listing over data security concerns. Meanwhile, the procession of Chinese companies re-listing in Hong Kong or on mainland stock exchanges continued, and the share prices of major US-listed Chinese companies **Alibaba**, **Baidu**, and **NetEase** swooned.

Back at the start of 2021, the second year of life under COVID-19, China appeared to be containing the human and economic toll of the pandemic. In the first quarter of 2021, its GDP rocketed 18% year-over-year, albeit off the low base of the initial months of the pandemic. Emboldened by the leeway this strong economic environment provided, policymakers turned to tackling a series of long-term priorities they knew would entail sacrificing some growth in the near term, including reducing income inequality, curbing carbon emissions, and lowering financial risk in the property sector. However, China's zero-tolerance COVID-19 policy unexpectedly re-emerged as an economic factor, when sporadic cases provoked additional large-scale lockdowns. As the year ground on, China's experience contrasted with the experience of other major economies, which, when they finally reopened (and stayed open, despite new waves of the virus from the Delta and Omicron variants), saw strong rebounds—as well as sharp rises in inflation, as resurgent consumer demand ran headlong into snarled supply chains. China's consumer price inflation has remained around 2%, even as production costs popped higher from rising raw material costs and from power outages related to coal shortages and tightened emissions standards, with the result that many producers' margins were squeezed.

MSCI China All Shares Index Performance (USD %)

Sector	4Q 2021	Trailing 12 Months
Communication Services	-0.7	-22.5
Consumer Discretionary	-8.8	-32.5
Consumer Staples	6.5	-7.5
Energy	-9.1	36.9
Financials	0.6	-6.9
Health Care	-13.2	-14.7
Industrials	4.7	18.1
Information Technology	4.4	-4.7
Materials	-5.8	20.3
Real Estate	-10.5	-25.7
Utilities	1.8	29.5

Source: FactSet (as of December 31, 2021), MSCI Inc., and S&P.

> The good news for now is that the government's "knock heads together" approach to encouraging indebted developers and their creditors to come to orderly resolutions seems to be keeping troubles in the property sector from metastasizing into a systemic panic.

Policies in place since the start of the year to curb the overheated real estate market finally pushed several real estate developers, including Evergrande, the country's second largest, into default or conservatorship. This further depressed consumer confidence, which, after mounting a modest recovery in September, limped into year end. The good news for now is that the government's "knock heads together" approach to encouraging indebted developers and their creditors to come to orderly resolutions—not to mention the government's ample monetary and fiscal dry powder if they don't—seems to be keeping troubles in the property sector from metastasizing into a systemic panic. At a time when many governments and central banks have begun to tighten monetary policy to rein in consumer prices, the People's Bank of China (PBOC) has started loosening. At their fourth-quarter monetary policy committee meeting, PBOC officials indicated a desire to increase support for small businesses and for innovative and environmentally friendly manufacturers. They matched their rhetoric by cutting banks' reserve requirement by 50 basis points to encourage more lending.

Overall, there are signs that governmental policy will be more pro-growth in 2022, with a focus on advanced technology, high-end manufacturing, and alternative energy, the new infrastructure areas that are now propelling the Chinese economy's growth. After an eventful year, Chinese equity valuation metrics are now back to levels last seen nearly two years ago—suggesting, from a valuation standpoint, a far greater margin of safety than at the start of 2021.

Companies held in the portfolio at the end of the year appear in bold type; only the first reference to a particular holding appears in bold. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of holdings for the past year, please contact Harding Loevner. A complete list of holdings at December 31, 2021 is available on page 9 of this report.

Performance and Attribution

The Chinese Equity Composite fell 4.1% in the fourth quarter, trailing the 2.5% decline for the MSCI China All Shares Index. For the full year, the Composite declined 14.6%, while the Index fell 12.8%.

By sector, our overweight and strong stocks in Industrials contributed the most this quarter. Specialized manufacturers **AirTAC**, **Sanhua Intelligent Controls**, and **Inovance** benefited from the increasing penetration of industrial automation in China and from rapidly growing demand from electric vehicle (EV) manufacturers. Our hardware holdings within IT also helped relative performance. **Silergy** (semiconductors) and **Sunny Optical** (optical components) each continued to gain market share as their research and development efforts led to improved manufacturing capabilities.

Our Health Care holdings, however, hurt performance. Shares of **WuXi AppTec**, **WuXi Biologics**, and **Tigermed**, organizations that provide outsourced drug development and manufacturing services to pharmaceutical companies, fell after Chinese health regulators tightened the standards for approving new oncology drugs. The new standards, designed to raise the level of innovation in drug development, led to worries that many domestic companies' current pipelines will fail to measure up. In the case of WuXi AppTec and WuXi Biologics, we believe concerns about their long-term growth are unwarranted. Both companies have significant exposure to global as well as domestic clients with strong pipelines that should not be greatly impacted by the raised standards.

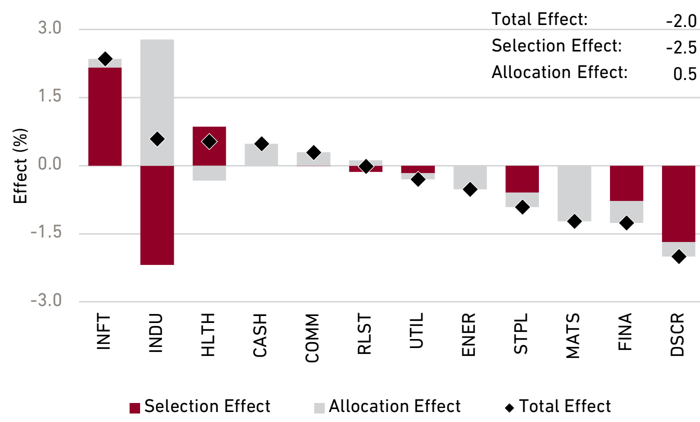
For the entire year, our Health Care investments contributed positively despite the weakness in the fourth quarter. IT was also a strong contributor, with good stock selection bolstered by our overweight. Consumer Discretionary was our biggest detractor. Home furnishing manufacturer Suofeiya and appliance makers **Midea Group** and Gree Electric Appliances fell in concert with the property market, while sportswear company **ANTA Sports** underperformed as inventories grew and the demand outlook sagged along with consumer confidence. New Oriental Education, which we sold in July prior to the relegation of the after-school tutoring industry to not-for-profit status (but not before ominous warnings had started chipping away at its share price), also dragged on full-year returns. Our lack of holdings in Materials and Energy further hurt our relative performance as commodity prices surged throughout the year.

Style headwinds were particularly acute in 2021. The MSCI China Growth Index underperformed the MSCI China Value Index by around 1600 basis points (-29.1% vs. -12.8%). Most of growth's relative shortfall occurred in the second half of the year, following the regulatory moves against what had been among the fastest-growing (and best-performing) industries, such as e-commerce and online games.

Trailing 12 Months Performance Attribution

Sector

Chinese Equity Composite vs. MSCI China All Shares Index



Source: FactSet; Harding Loevner Chinese Equity Composite; MSCI Inc. and S&P. The total effect shown here may differ from the variance of the Composite performance and benchmark performance shown on the first page of this report due to the way in which FactSet calculates performance attribution. This information is supplemental to the Composite GIPS Presentation.

Perspective and Outlook

In our July commentary we wrote of the unfolding transition from "Made in China" to "Created in China," examining how China has come a long way from the days when its comparative advantage was in low-cost manufacturing of rudimentary goods like socks and toys. We observed that, not only have China's manufacturers become more technologically advanced, but a growing number of its companies are pioneering novel business models with global potential, especially in digital realms like short-form video, mobile games, and social commerce. We'd like to discuss another element of our investment thesis on China: "Created in China *for* China"—an increasing preference on the part of Chinese consumers, manufacturers, and their government for the consumption of locally produced goods and services, which are often as good as or close to the quality of imported products but are typically cheaper.

China is on the cusp of becoming the world's largest consumer market. In an era of rising protectionism and the decoupling of global supply chains, the growing inclination of Chinese firms and consumers to "Buy China" (as the government puts it) has become a powerful source of demand growth for its manufacturing and technology leaders. More than that, the trend toward localization is a helpful lens through which to view recent regulatory actions—both as a goal of those actions in itself, and as an integral part of policymakers' plans for achieving other goals, such as increasing data security, decreasing wealth disparities, improving environmental sustainability, and their apparent desire to dilute the corporate economic and social power that has become highly concentrated in China's social media and e-commerce giants.

After several decades in which greater openness and interconnectedness led to China's emergence on the global stage, the last few years have seen the pendulum swing in the opposite direction. Since 2016, coinciding with the beginning of the Trump administration, China has experienced rising tension with the US and other nations over trade, access to advanced technology, and its geo-political ambitions. In 2019, President Xi Jinping began to emphasize the concept of "dual circulation," whereby China aims to expand domestic consumption as an outlet for expanded local production and as a way to backfill areas of domestic production formerly reliant on overseas suppliers, all while remaining open to international trade and investment. The pandemic was an inflection point. Under the relative isolation engendered by China's "zero-COVID" policy, the desire for self-reliance and turning inward gathered pace. Surveys show that Chinese consumers increasingly favor local brands over foreign ones. Many Chinese job hunters would now rather work for a successful Chinese company than a multinational, and Chinese firms often prefer locally developed talent to internationally educated citizens.

Chinese policymakers see the upgrading of local brands and industries as critical to achieving their broad social and political goals. However, they also need to ensure the private sector remains vital and continues to innovate and flourish so long-term economic growth is sustained—a challenge that tripped up other large emerging economies, like Brazil and India, when they pursued a path of "import substitution" in the post-war period.

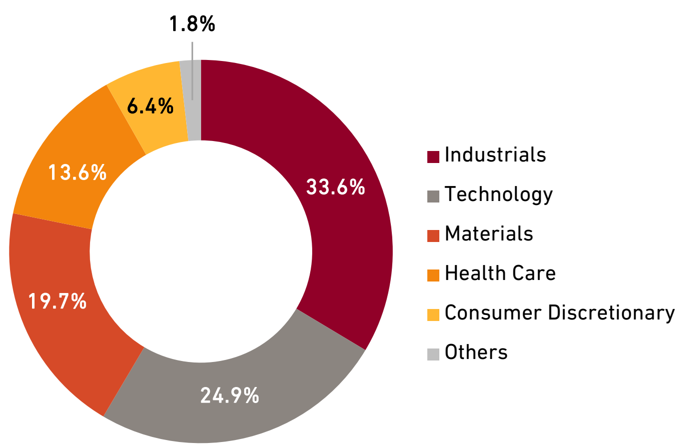
To that end, in June 2021, six Chinese ministries jointly issued guidelines aiming to develop 10,000 "little giants"—small- and mid-sized enterprises with differentiated core technologies, strong innovative capacity, and the potential for high global market share in their niches. An apt historical analogy to this aspect of the localization trend might be Germany's "hidden champions," a term that first appeared in a German scientific management journal in 1990 describing the small- and mid-sized leaders in specialized global markets that are the country's economic backbone even today.[1] Based on Chinese government reports and our own research, close to 5,000 enterprises are in line for government subsidies and favorable financing under the little giants program. Notably, 340 of these firms are listed on the A-share market and thus accessible to foreign investors, representing a combined market cap of RMB 3.35 trillion (US$520 billion), about 4% of the A-share market's total.

> The closest analogy to the "little giants" might be Germany's "hidden champions," a term that first appeared in a German scientific management journal in 1990 describing the small- and mid-sized leaders in specialized global markets that are the country's economic backbone even today.

The government's support for the little giants dovetails with President Xi's self-sufficiency agenda. Although China is a large manufacturing country, core parts of its production chains—including semiconductors, software, and key equipment—still rely on imports. The industry breakdown of the little giants (see chart, lower left) offers a good snapshot of the areas of the economy where the government sees deficiencies and that are likely to receive additional support and funding. For fundamental investors like us, understanding the details of the localization campaign is key to identifying companies that are best positioned to capture a greater share of the potential future demand growth for locally developed and manufactured Chinese goods and services.

To be able to rely on domestic sources of supply, a manufacturer must have access to breadth and depth. Breadth provides a complete domestic supply chain while depth ensures healthy competition among suppliers that stimulates innovation, cost efficiency, and price competitiveness. One area where China has already made tremendous strides on both vectors—and, not coincidentally, has grabbed increasing global market share—is EV manufacturing. Sanhua Intelligent Controls, the global leader in thermal controls, is a participant in the EV industry's success. Sanhua started in the 1980s as a low-cost maker of specialty pumps and valves for home appliances. Over time, management realized these components had profitable applications in cars, especially EVs, which require precise and efficient temperature management. The company was also influenced by the government's early emphasis on the domestic promotion of EVs, including sales credits issued through automakers to the consumer, and "dual" manufacturing credits in which automakers not only received incentive payments if they achieved their EV quotas but were fined if they *didn't*. Starting about ten years ago, Sanhua repurposed a significant portion of its manufacturing capacity toward producing components for domestic branded EV manufacturers such as BYD, NIO, and XPeng. In 2017, Sanhua

Little Giants Industry Distribution



Source: Wind Economic Database.

[1]Of the Fortune 500 companies, 27 are German. However, German firms comprise 48% of global small market cap. leaders.

became the first Chinese company to win an industry innovation benchmark, the *Automotive News* PACE Award, for one of its core products: an expansion valve that depressurizes and cools refrigerant. Sanhua improved this component by adding an electrical control that allows more precise temperature adjustments than legacy valves.

Like almost all companies in China, Sanhua halted production in January 2020 during the country's first wave of COVID-19, but reopened within weeks. As one of only a few producers of thermal management parts globally, it was able to win more orders from another growing company: Tesla. Less than two years later, Tesla is Sanhua's largest customer and Sanhua is Tesla's exclusive supplier of core thermal management parts. Sanhua also has a position in the supply chain of almost every major EV producer, including Volkswagen, Daimler, Volvo, and General Motors. From its past as the type of company now identified as a "little giant," Sanhua has become the dominant global supplier in its niche.

The national trend of embracing domestic brands that are more reflective of traditional Chinese culture has, in fact, become a movement. Called *guochao*, or "national trend," it captures the desire of affluent millennials to connect with their history and to shape their own culture rather than simply receiving Western tastes.

As the Sanhua-Tesla relationship illustrates, global decoupling rhetoric of the past few years has been largely political posturing. Based on trade data, global reliance on the Chinese supply chain has *increased* as Chinese companies like Sanhua provided reliable manufacturing capacity when suppliers in other countries were shuttered. Chinese exports rose to a record US$326 billion in November 2021, a more than 20% increase over pre-pandemic levels.

Anta x the Forbidden City, Winter Olympics Special Edition

Source: ANTA Sports.

Software for secure supply chain management is another area where China's emphasis on local production can benefit one of our holdings. **Yonyou** is the largest enterprise- resource planning systems provider in China, helping to improve manufacturers' operational efficiencies and reduce costs. In recent years, as trade wars, the pandemic, and the rise in cyberattacks intensified Chinese industrial companies' concerns about supply-chain security, they have gradually shifted away from global enterprise-software providers such as Oracle to domestic alternatives like Yonyou. In addition, government policies have encouraged enterprises to digitalize as a means of improving manufacturing efficiency, which has increased demand for the company's offerings.

Governmental policy isn't the sole impetus for the trend toward "Created in China for China." Younger Chinese consumers have come of age when the quality of Chinese products has vastly improved. They are willing to consider paying a premium for locally made products. ANTA Sports, which manufactures sports apparel and shoes under the Fila brand as well as its own label, has become a leader in designs inspired by Chinese culture. In some cases, these showcase products command higher prices than high-end models from Nike and Adidas.

The national trend of embracing domestic brands that are more reflective of traditional Chinese culture has, in fact, become a movement. Called *guochao*, or "national trend," it captures the desire of affluent millennials to connect with their history and to shape their own culture rather than simply receiving Western tastes. The term first caught fire on social media before the pandemic. It has since been amplified by the government's Buy China campaign, suggesting the sentiment could stick around for a while.

Portfolio Highlights

Our experience of investing in China for the last 25 years has taught us that periods of severe market volatility, such as the one we are going through now, also unveil good long-term investment opportunities. We have stayed disciplined in our investment process and, as the Chinese market continued to correct over the last six months, we have taken the opportunity to make some portfolio adjustments. As described further below, we have added to companies that will likely benefit from trends such as increased localization and longer-term government priorities, such as vehicle electrification. We have funded these purchases by trimming or selling some positions where a combination of increasing competition and adverse regulatory trends due to misalignment with current government priorities have led us to lower our earnings-growth expectations for the companies.

China is the largest producer and purchaser of passenger automobiles in the world, with 21 million cars produced and 20 million cars sold in 2021, accounting for 30% of global supply and demand. Yet, only 17% of the adult population owns a car, compared to more than 40% in neighboring South Korea and over 90% in the US. Rising incomes are pushing the overall car ownership rate higher—while government incentives for EV purchase and the availability of sleek new EV models are shortening the replacement cycle and pulling forward first-time buyers. The Chinese government has targeted the complete replacement of internal combustion engine cars with EVs by 2035. EVs recently represented nearly 20% of all new cars sold in China, four years ahead of the timeline to meet that ambitious policy goal.

But investing in the EV super cycle is difficult. The industry is highly fragmented and very competitive. Despite the industry's strong revenue growth outlook, we haven't yet found attractive investment candidates among EV makers, as none are yet profitable and they don't otherwise meet our business quality criteria. However, as in the case of Sanhua, we *are* drawn to component suppliers upstream, where the markets are more concentrated and participants benefit from significant economies of scale and strong competitive positions in their niches. Beyond Sanhua, these include Inovance, which makes inverters both for EVs and for the robots that make the EVs; **Fuyao Glass**, which supplies windows and panoramic sunroofs; and **Haitian International**, which supplies the high-precision injection molding machines used in different parts of the EV manufacturing process.

> As the Chinese market continued to correct over the last six months, we have taken the opportunity to make some portfolio adjustments, including establishing a new position this quarter in CATL, the world's biggest, most technologically diverse—and most profitable—EV battery manufacturer.

This quarter we also established a new position in **CATL**, the world's biggest, most technologically diverse—and most profitable—EV battery manufacturer. CATL dominates China's EV battery market with over 50% market share, supplying most large domestic EV makers as well as Tesla. CATL is the largest battery supplier for Tesla's Shanghai Gigafactory, which now produces nearly as many cars as its original flagship facility in Fremont, California. CATL is also a significant player outside China, with nearly a quarter of its revenues generated overseas—a proportion that is set to grow with the scheduled opening of a major new facility in Germany this year.

Batteries are the highest value components in EVs, accounting for roughly half the total cost of making each vehicle. Product quality is crucial to the safety of EVs, which further enhances the bargaining power of proven battery manufacturers like CATL. That is not to say the structure of the EV battery industry is immutable. The technology is still in its early stages; dozens of research centers around the world are working on improvements to safety and energy density for the next generation batteries. There are also efforts by vehicle makers like Tesla to backward-integrate into batteries. We think CATL can defend its competitive position with its innovation focus and financial clout. And, even if serious competitors emerge eventually, the consequences for CATL will likely be blunted by the volume of new EV manufacturing capacity coming online over the next decade.

With the addition of CATL, the portfolio's absolute and relative weights in Industrials increased over the quarter. Conversely, we have shaved exposure to Consumer Discretionary, where we see regulatory pressures and weak consumer demand heightening competitive intensity for Alibaba, NetEase, and our other large online businesses.

Another change in the portfolio this quarter involved the sale of Gree, China's leading air conditioner manufacturer. We became concerned about Gree after it announced in August it was acquiring Yinlong, a small, lossmaking EV company in which Gree's chairwoman owned an 18% stake. We do not see any synergies or other competitive benefit from the acquisition. We also saw evidence of poor governance in the structure of Gree's new stock incentive plan, with its low performance hurdles and an outsized allocation to the same chairwoman. Though we shared our concerns on these issues with management, proposals relating to both the acquisition and the incentive plan passed at the general meeting. Subsequently, we sold our position, and the covering analyst has removed the stock from our qualified universe.

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Chinese Equity Holdings (as of December 31, 2021)

Communication Services	Market	End Wt. (%)
Baidu (Internet products and services)	Mainland China	1.9
NetEase (Gaming and internet services)	Mainland China	3.1
Tencent (Internet and IT services)	Mainland China	5.7
Consumer Discretionary		
Alibaba (E-commerce retailer)	Mainland China	3.2
ANTA Sports (Athletic footwear and apparel retailer)	Mainland China	2.0
China Tourism Group Duty Free (Duty free services)	Mainland China	4.0
Fuyao Glass (Automotive glass manufacturer)	Mainland China	1.4
JD.com (E-commerce retailer)	Mainland China	2.6
Midea Group (Consumer appliances manufacturer)	Mainland China	2.7
Shenzhou International (Textile manufacturer)	Mainland China	2.4
Trip.com Group (Online travel services)	Mainland China	1.1
Consumer Staples		
Foshan Haitian (Condiments manufacturer)	Mainland China	1.5
Wuliangye Yibin (Alcoholic beverages manufacturer)	Mainland China	2.8
Yili (Dairy products manufacturer)	Mainland China	1.7
Energy		
No Holdings		
Financials		
AIA Group (Insurance provider)	Hong Kong	3.0
Hong Kong Exchanges (Clearing house and exchange)	Hong Kong	1.3
Ping An Insurance (Insurance provider)	Mainland China	0.7
Health Care		
CSPC Pharmaceutical Group (Pharma manufacturer)	Mainland China	1.7
Jiangsu Hengrui Medicine (Pharma manufacturer)	Mainland China	1.6
Tigermed (Clinical development services)	Mainland China	2.5

Health Care	Market	End Wt. (%)
WuXi AppTec (Biopharma manufacturer)	Mainland China	3.7
WuXi Biologics (Biopharma manufacturer)	Mainland China	4.4
Industrials		
AirTAC (Pneumatic-equipment manufacturer)	Taiwan	4.6
CATL (Battery systems manufacturer)	Mainland China	1.3
Haitian International (Injection-molding machines mfr.)	Mainland China	2.2
Inovance (Industrial controls manufacturer)	Mainland China	2.1
Meyer Optoelectronic (Optical machine manufacturer)	Mainland China	1.3
Sanhua Intelligent Controls (HVAC&R parts mfr.)	Mainland China	3.0
SF Holding (Delivery services)	Mainland China	3.0
Shanghai International Airport (Airport operator)	Mainland China	1.4
Techtronic Industries (Power tools manufacturer)	Hong Kong	4.3
Information Technology		
Sangfor (IT security services)	Mainland China	1.9
Silergy (Electronics chips manufacturer)	Taiwan	4.6
Sunny Optical (Optical components manufacturer)	Mainland China	4.3
TravelSky (Aviation IT services)	Mainland China	2.3
Yonyou (Enterprise software developer)	Mainland China	2.1
Materials		
No Holdings		
Real Estate		
Country Garden Services (Residential property mgr.)	Mainland China	1.5
Utilities		
ENN Energy (Gas pipeline operator)	Mainland China	2.0
Cash		3.1

Model Portfolio holdings are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. The portfolio is actively managed therefore holdings shown may not be current. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable. To request a complete list of portfolio holdings for the past year contact Harding Loevner.

4Q21 Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Silergy	INFT	3.5	–	0.83
AirTAC	INDU	3.3	–	0.69
Sunny Optical	INFT	3.7	<0.1	0.69
NetEase	COMM	2.9	0.9	0.39
Sanhua Intelligent Controls	INDU	2.6	0.1	0.37

Last 12 Mos. Contributors to Relative Return (%)

Largest Contributors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Silergy	INFT	2.6	–	2.12
Techtronic Industries	INDU	3.7	–	1.44
Sunny Optical	INFT	3.3	0.4	0.84
Pinduoduo*	DSCR	0.0	1.1	0.84
AirTAC	INDU	3.4	–	0.74

4Q21 Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
WuXi Biologics	HLTH	5.3	1.2	-1.08
WuXi AppTec	HLTH	4.3	0.6	-0.75
Tigermed	HLTH	2.9	0.1	-0.69
China Tourism Group Duty Free	DSCR	4.3	0.5	-0.47
Kweichow Moutai*	STPL	0.0	2.5	-0.39

Last 12 Mos. Detractors from Relative Return (%)

Largest Detractors	Sector	Avg. Weight HL CE	Avg. Weight MSCI CAS	Effect
Alibaba	DSCR	9.2	8.3	-1.15
Tencent	COMM	6.8	8.9	-1.07
Autohome	COMM	1.3	0.1	-0.95
New Oriental	DSCR	0.8	0.3	-0.84
Suofeiya	DSCR	1.3	<0.1	-0.67

*Company was not held in the portfolio; its absence had an impact on the portfolio's return relative to the Index.

Portfolio Characteristics

Quality & Growth	HL CE	MSCI CAS
Profit Margin[1] (%)	17.2	15.2
Return on Assets[1] (%)	11.0	7.1
Return on Equity[1] (%)	19.9	15.2
Debt/Equity Ratio[1] (%)	24.7	41.4
Std. Dev. of 5 Year ROE[1] (%)	3.1	2.6
Sales Growth[1,2] (%)	18.6	19.0
Earnings Growth[1,2] (%)	19.5	16.9
Cash Flow Growth[1,2] (%)	24.3	23.7
Dividend Growth[1,2] (%)	24.0	17.2

Risk & Valuation	HL CE	MSCI CAS
Price/Earnings[3]	31.8	13.8
Price/Cash Flow[3]	25.7	12.3
Price/Book[3]	4.9	2.6
Dividend Yield[4] (%)	0.9	1.7
Size		
Wtd. Median Mkt. Cap. (US $B)	40.5	36.7
Wtd. Avg. Mkt. Cap. (US $B)	86.8	116.0

[1]Weighted median; [2]Trailing three years, annualized; [3]Weighted harmonic mean; [4]Weighted mean. Source: FactSet (Run Date: January 4, 2022, based on the latest available data in FactSet on this date.); Harding Loevner Chinese Equity Model, based on the underlying holdings; MSCI Inc.

Completed Portfolio Transactions

Positions Established	Market	Sector
CATL	Mainland China	INDU

Positions Sold	Market	Sector
Gree Electric Appliances	Mainland China	DSCR

The portfolio is actively managed therefore holdings identified above do not represent all of the securities held in the portfolio and holdings may not be current. It should not be assumed that investment in the securities identified has been or will be profitable. The following information is available upon request: (1) information describing the methodology of the contribution data in the tables above; and (2) a list showing the weight and relative contribution of all holdings during the quarter. Past performance does not guarantee future results. In the tables above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall relative performance over the period. Contributors and detractors exclude cash and securities in the Composite not held in the Model Portfolio. Quarterly data is not annualized. Portfolio contributors and detractors and characteristics are supplemental information only and complement the fully compliant Chinese Equity Composite GIPS Presentation. Portfolio holdings should not be considered recommendations to buy or sell any security.

Chinese Equity Composite Performance (as of December 31, 2021)

	HL Chinese Equity Gross (%)	HL Chinese Equity Net (%)	MSCI China All Shares Index[1] (%)	HL Chinese Equity 3-yr. Std. Deviation[2] (%)	MSCI China All Shares Index 3-yr. Std. Deviation[2] (%)	Internal Dispersion[3] (%)	No. of Accounts	Composite Assets ($M)	Firm Assets ($M)
2021[4]	-14.59	-15.42	-12.80	+	+	N.M.[5]	1	4	75,084

[1]Benchmark Index; [2]Variability of the composite, gross of fees, and the index returns over the preceding 36-month period, annualized; [3]Asset-weighted standard deviation (gross of fees); [4]The 2021 performance returns and assets shown are preliminary; [5]N.M.-Information is not statistically significant due to an insufficient number of portfolios in the Composite for the entire year; +Less than 36 months of return data.

The Chinese Equity Composite contains fully discretionary, fee-paying accounts investing in equity and equity-equivalent securities of companies domiciled predominately in China and Hong Kong and cash reserves and is measured against the MSCI China All Shares USD Total Return Index (Gross) for comparison purposes. Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI China All Shares Index is a free float-adjusted market capitalization index that is designed to measure large and mid-cap China share classes listed in Hong Kong, Shanghai, Shenzhen, and outside of China. You cannot invest directly in this Index.

Harding Loevner LP claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Harding Loevner has been independently verified for the period November 1, 1989 through September 30, 2021. The verification report is available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Harding Loevner LP is an investment adviser registered with the Securities and Exchange Commission. Harding Loevner is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), an investment holding company with stakes in a diverse group of boutique firms. A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented gross of foreign withholding taxes on dividends, interest income and capital gains. Additional information is available upon request. Past performance does not guarantee future results. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Net returns are calculated using actual fees. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate Chinese Equity accounts is 1.15% annually of the market value up to $20 million; 0.80% of amounts from $20 million to $100 million; 0.75% of amounts from $100 million to $200 million; 0.55% of amounts over $200 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The Chinese Equity Composite was created on December 31, 2020 and the performance inception date is January 1, 2021.

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