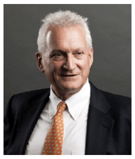
Letter To Our Shareholders

April 30, 2022

Excerpted from the Harding, Loevner Funds, Inc. 2022 Semi-Annual Report and Commentary



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Growth investors have had a difficult time, and as of this writing it isn't over yet. Falling prices spreading to almost every asset class were preceded by poor returns in the most richly priced and fastest-growing stocks with the pain felt most acutely in stocks of profitless fast-growth companies. The savagery of the decline is bringing out the predictable catcalls announcing the death of growth investing. Yet, a mere 18 months ago, we wrote in our annual letter that the rumors of the death of value investing were greatly exaggerated, borrowing Mark Twain's phrase. Since then, the MSCI ACWI Value Index has risen 36%, leading its growth counterpart by nearly 27 percentage points. The ACWI ex-US Value Index's lead is 30 percentage points. Memories are notoriously short in financial markets, but even we are surprised at the alacrity with which the same commentators who cast value into an early grave less than two years ago are now tipping growth investing into the hole just vacated by value investing's entirely predictable resurrection.

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So let us go back to first principles: returns from any investment are related to the price you pay for the security. The security entitles its holder to a string of future cash flows, and its price reflects the collective evaluation of the present value of those future flows appropriately discounted. Discount rates, however, are fickle, rising and falling to reflect shifting risk appetites and opportunity costs in the form of interest rates. Expected cash flows from equities extend far into the future and fluctuate widely, subject to shifting competitive dynamics, government actions, and macroeconomic conditions, not to mention pandemics and wars. Global equity investors recently have faced more than the usual shifts in all of the above categories.

New business models, new technologies, and new entrants are disrupting previously stable competitive contests. Government policies in both developed and developing economies have become less predictable, lurching between light-touch oversight and heavy-handed action, with wholesale regulatory interventions harming investors. A full-scale invasion of one country by its neighbor has triggered dramatic dislocations across commodity markets while simultaneously undermining confidence in global trade resilience as well as in the diversification benefits of cross-border investing.

And now, for the first time in a generation, rising inflation has returned to roil investor assumptions about discount rates, monetary policy, and business resilience. Few investors operating in the early 1970s are still working today to parse the variables from first-hand experience; institutional memories of how to trim the sails for the new weather are hazy. We at Harding Loevner are no different from the rest on that score. Our instinctive response is to focus exclusively on the shifting demands and pressures on each company we invest in, aiming to avoid the most vulnerable business models and identify the most resilient. But, in the short run, it is the changing discount rates that affect our companies' share prices the most, impacted by anticipated policy responses to either inflation or economic weakness. Our performance, across all our strategies in these last six months, is partly a reflection of our studied avoidance of making wholesale portfolio changes based on any forecasts of such macroeconomic variables. Markets, however, have moved, with or without our forecasts, causing us some pain in the short run.

The headwinds against our high-quality growth style of investing have been blowing a stiff breeze since November of 2020, when the first COVID-19 vaccines won approval and investors began to imagine a return to some sort of normal social and economic activity. But those headwinds turned into a gale in the most recent six months as the anticipated reopening met up with labor shortages and supply-chain interruptions, igniting a global inflationary impulse that is inconsistent with financial assets priced for low inflation and low interest rates as far as the eye could see. Central banks, after striving for a decade to break deflationary forces, now face the ugly task of subduing this new inflation using their main tool: interest rates. Higher rates target debt-financed demand and speculative activity, to deflate the equity and real estate markets intentionally even while hoping to minimize harm to employment.

The ensuing storm has assailed the most richly priced stocks relative to those of the least richly priced. Because both high quality and rapid growth had been increasingly prized, and bid up, by investors in the decade since the Great Financial Crisis, our portfolios have suffered, too. Rising interest rates, combined with the rising input costs faced by all companies as commodity and energy inflation seep into wages and rents, make for volatile stock markets and a sobering outlook.

> Through other periods of poor performance we have stuck to our principles and seen our discipline rewarded. In our view, investment returns are about the actions of companies as well as the prices investors pay for the securities. In the long run, the former dominates, even if in the short run prices do.

Without doubt, we have made some missteps that have exacerbated the effect of these headwinds on our performance. We have written elsewhere about the Russian stock market losses inflicted by a united Western revulsion against the Russian invasion of Ukraine. Some of our strategies, leaning into the inflation-resistant, diversifying characteristics of Russian stocks, got caught by the sweeping, shattering sanctions. Also, in each of our strategies we discovered a few holdings whose businesses are proving less resilient than we foresaw to previously unseen competition, or to surging input costs, or more volatile revenue as geopolitical uncertainty persists.

We remain convinced, however, that the preponderance of companies that our analysts have vetted through fundamental understanding of their businesses will shine in the more subdued economic environment that the central bankers so devoutly wish to reach on the other side of their concerted monetary tightening. Through other periods of poor performance we have stuck to our principles and seen our discipline rewarded. In our view, investment returns are about the actions of companies as well as the prices investors pay for the securities. In the long run, the former dominates, even if in the short run prices do. The competitive forces faced by companies, such as the bargaining power they have over suppliers as input cost pressure rises, or that which they have over customers when unavoidable cost increases need to be passed on, will be fruitful avenues for our research. Our attention to the robustness of expected growth should also pay dividends if and when economic growth falters under tight monetary conditions. As we evaluate what is a fair price to pay for those companies, our process should serve us well, as it has over the long course of our history.

We are grateful, as always, for the trust you place in us.

Sincerely,

David R. Loevner, CFA

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Simon Hallett, CFA

Opinions expressed are those of Harding Loevner and are not intended to be forecasts of future events, a guarantee of future results, nor investment advice. Past performance is not a guarantee of future results.