

Harding Loevner Instl Emerg Mkts I HLMEX

A strong emerging-markets vehicle for the long haul.

Morningstar's Take HLMEX

Morningstar Rating ★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	High
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio

Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	1.02	-2.09
2020	13.88	-4.02
2019	25.76	6.52
2018	-18.63	-2.55
2017	35.33	1.16

Data through 7-31-21

7-12-21 | by William Samuel Rocco

Harding Loevner Institutional Emerging Markets benefits from a superior process and other strengths, and both of its share classes retain their Morningstar Analyst Rating of Silver.

The quality-growth approach that the team members use at this diversified emerging-markets strategy is sound, attractive, and proven. The team members pay ample attention to price and other risks. They insist that their picks have significant competitive advantages, healthy balance sheets, and other fundamental strengths as well as robust growth rates. They regularly allow their stock selection to lead to atypical sector and country weightings. This approach balances downside protection and upside potential nicely, and it has earned good risk-adjusted returns at Silver-rated Harding Loevner International Equity HLMIX and Bronze-rated Harding Loevner Global Equity HLMGX over time.

The team members have strong credentials and support. Craig Shaw, who became a co-lead manager in 2011 after serving as a comanager for more than four years, has a good resume for running an emerging-markets portfolio, as does Scott Crawshaw, who became a co-lead manager in 2018 after serving as a comanager for four years. Comanager Richard Schmidt had considerable emerging-markets investing experience when he joined Harding Loevner, while comanager Pradipta Chakraborty has more than 25 years of relevant experience and serves as a co-lead manager on Bronze-rated Harding Loevner Frontier Emerging Markets HLFMX. The four managers have a strong set of 37 international-stock specialists to draw upon.

Although the managers have posted mixed results with the family's quality-growth discipline in recent years, they have often earned strong results in the past, and this strategy has earned good risk-adjusted results over time. Indeed, over the past decade—which roughly coincides with Craig Shaw's tenure as a co-lead manager—its older institutional share class has earned a 5.2% annualized return and a 1.2% Morningstar Risk-Adjusted Return, versus 3.8% and 0.3% for its typical rival and 3.7% and negative 0.2% for the index.

Process Pillar High | William Samuel Rocco 04/21/2021

The strategy relies on the same quality-oriented and risk-conscious growth process as all the others in Harding Loevner's all-international roster. Its managers focus on firms that have healthy balance sheets, clear competitive advantages, and other positive attributes, as well as strong growth rates. They pay careful attention to valuations and risk controls, and they focus well up the market-cap ladder. The result is a portfolio that normally has better net margins, returns on assets, and other quality metrics than its typical peer and the index.

The strategy also tends to have reasonably moderate price multiples.

The strategy's process is not reserved in every respect, however. The managers search far and wide for stocks that meet their standards, and they are quite willing to build atypical sector and country weightings. The fund normally owns roughly 75-80 names, while its typical peer owns approximately 90-100 issues and the index includes roughly 1,400 issues.

While this strategy is moderate overall, it is also distinctive enough to give it a solid chance of outperforming. It also has worked well over time at this strategy's siblings, including Silver-rated Harding Loevner International Equity HLMIX (which pays significant attention to emerging-markets stocks).

For all these reasons, this strategy earns a High Process Pillar rating.

The Hong Kong-headquartered insurer AIA and India's Housing Development Finance Company were top-10 holdings as of Dec. 31, and the strategy also owned another 19 financial-services stocks. The strategy had 25.0% of its assets in financial-services stocks overall, in fact, versus 18.1% for the typical member of the diversified emerging-markets Morningstar Category and 18.2% for the MSCI Emerging Market Index (the category benchmark). The strategy also had a larger stake in the industrials sector than its average peer and the index. It had no exposure to the basic materials and real estate sectors, whereas its typical rival and the benchmark have significant exposure to both sectors.

Harding Loevner has a frontier-markets fund, and one of the comanagers here is a co-lead manager of that offering; this strategy continues to hold a number of names from frontier markets and small

emerging markets. For example, in addition to banks in several frontier markets and small emerging markets, it owns CD Projekt (a Polish videogame company), Network International Holdings (a digital-commerce company headquartered in the United Arab Emirates), Safaricom (a telecom company in Kenya), and PT Astra International (an Indonesian conglomerate).

This strategy has larger stakes in Brazil, Hong Kong, Mexico, and Russia than its average peer and the index as well as a smaller position in China.

Performance Pillar | William Samuel Rocco 04/21/2021

This strategy has posted mixed results over the past year. The team stock's selection has been solid, but the strategy's relatively limited exposure to the Chinese market held it back as did some of its small-emerging-markets and frontier-markets names. Thus, its older institutional share class has gained 60.1% for the trailing 12 months ended March 31, which is worse than its average peer's 62.4% return but is better than the MSCI Emerging Markets Index's 58.4% gain.

The tamer aspects of the process have slowed this strategy in other rallies, such as the surge that occurred in the last 9.5 months of 2009. But it outperformed in other rallies, such as in 2019, when its older institutional share class gained 25.8% versus 19.3% for its typical rival and 18.4% for the index. This strategy has held up well in some downturns because of its quality bias as well as its reserved traits. For example, its older institutional share class declined 1.9% in 2014's mild sell-off, while its average peer fell 3.0% and the index dropped 2.2%.

This adds up nicely. Over the past decade--roughly coinciding with Craig Shaw's tenure as a co-lead manager--its older institutional share class has earned a 5.2% annualized return and a 1.2% Morningstar Risk-Adjusted Return, versus 3.8% and 0.3% for its typical rival and 3.7% and negative 0.2% for the index. This strategy's 15-year total and risk-adjusted returns are modestly better than those of its typical peer and the index.

People Pillar Above Average | William Samuel Rocco 04/21/2021

Craig Shaw joined this strategy as a comanager in 2006 and became a co-lead manager in 2011. He has worked on it since joining Harding Loevner in 2001 and has 30 years of relevant experience. Scott Crawshaw joined this strategy as a comanager in 2014 and became a co-lead manager in 2018. He joined the firm in 2014 and has 25 years of investment experience. Both Shaw and Crawshaw had ample emerging-markets experience when they joined the firm.

Richard Schmidt has been a comanager on this strategy for 9.25 years, has worked at Harding Loevner since 2011, and has 35 years of investment experience. Pradipta Chakraborty, who also serves as the co-lead manager of Bronze-rated Harding Loevner Frontier Emerging Markets HLFMX, has been a comanager on this strategy since 2015. He joined Harding Loevner in 2008 and has 27 years of relevant experience. Both Schmidt and Chakraborty had ample emerging-markets experience when they joined the firm.

The four managers have 37 international-stock specialists to draw on for support, and this group is quite strong overall. (All Harding Loevner strategies use the same quality-growth strategy as this one, and the three others besides this one that have Morningstar Analyst Ratings are Morningstar Medalists with Above Average People ratings.)

For all these reasons, this strategy earns an Above Average People rating.

Parent Pillar Above Average | William Samuel Rocco 07/12/2021

Harding Loevner's commitment to its international-equity roots, devotion to its growth process, and strong investment team lead to a Parent rating of Above Average.

The firm was founded by global-investing experts in 1989. It opened one foreign large-growth fund, one world-stock fund, and one diversified emerging-markets fund in the 1990s. It expanded

its lineup in a measured manner in the 2000s while continuing to focus exclusively on international-equity strategies. For example, it opened a China-region fund in 2020 after years of investing in China stocks in its other funds and seeing steady increases in that opportunity set. The firm has 10 funds, and all of them use the same sound, quality-growth process.

Harding Loevner, which is majority-owned by AMG and had \$84 billion in assets as of March 2021, has done a great job of hiring, integrating, and retaining talented investment professionals over time. The firm has 41 investment professionals; the team has a strong culture; and the managers and analysts are quite seasoned and skilled overall. (All four Harding Loevner funds with Morningstar Analyst Ratings have Above Average People ratings.) There have been very few departures from the team in recent years, and the firm's practice of having two co-lead managers on all its funds--plus multiple comanagers on its large offerings--eases retirements and other manager transitions.

Price Pillar | William Samuel Rocco 04/21/2021

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

Average annual returns (%)¹ (as of 06/30/21)

	Inception	Q2	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
HLMEX (Institutional)	10/17/05	5.11	6.91	43.18	9.19	11.59	5.75	7.83
HLEZX (Institutional Class Z)	03/05/14	5.10	6.94	43.32	9.34	11.78	-	7.39
Benchmark	-	5.05	7.45	40.90	11.27	13.03	4.28	7.66 ²

Expense Ratios (gross/net): Institutional 1.27% / 1.17%, Institutional Class Z 1.19% / 1.11%

Top ten holdings (%)³

Holding	% of Net Assets
Samsung Electronics	5.09
TSMC	5.04
Alibaba	4.33
Tencent	4.26
EPAM Systems	3.74
LG Household & Health Care	2.61
AIA Group	2.53
Novatek	2.32
Tata Consultancy Services	2.31
Sberbank	2.22
TOTAL %	34.45

¹ Returns for periods less than one year are not annualized.

² Since the inception of the Portfolio's Institutional Class I shares on October 17, 2005.

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Disclosure

Investors should carefully consider the fund's investment objectives, risks, charges, and expenses before investing. For this and other information, please call 800.835.3879 or download a free prospectus. Read it carefully before investing or sending money.

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The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. Please go to [msci.com](https://www.msci.com) for most current list of countries represented by the index. Unlike the Fund, indices are unmanaged, are not available for investment and do not incur expenses.

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The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

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