

# Harding Loevner Instl Emerg Mkts I HLMEX

A good 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	-20.59	-4.86
2019	25.76	6.52
2018	-18.63	-2.55
2017	35.33	1.16
2016	13.27	4.80

Data through 5-31-20

5-04-20 | by William Samuel Rocco

Harding Loevner Institutional Emerging Markets benefits from a fine family, an attractive and proven process, and a strong management team, supporting a Morningstar Analyst Rating of Silver.

Harding Loevner is a good parent that specializes in international-equity strategies, and it has succeeded with a variety of overseas-stock offerings. Its foreign large-growth fund and world large-stock offering have earned good risk-adjusted returns over the long run, while its frontier-markets fund has posted solid results over time.

This diversified emerging-markets strategy uses the same appealing quality-growth process that those three offerings have employed successfully. Specifically, co-lead manager Scott Crawshaw, co-lead manager Craig Shaw, and their three comanagers 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.

Crawshaw, Shaw, and all three comanagers have strong credentials for managing a diversified emerging-markets strategy, and Harding Loevner has done a good job of hiring and retaining investment talent over the years, so the managers' support team is large, experienced, and talented. Indeed, the five managers have 32 investment professionals to draw on for stock research and feedback, and the group includes the co-lead managers of Silver-rated Harding Loevner International Equity HLMIX and Silver-rated Harding Loevner Global Equity HLMGX (who are skilled Harding Loevner veterans and who always invest significant portions of their funds' assets in emerging-markets stocks).

Finally, although Shaw, Crawshaw, and their comanagers have had 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 a solid long-term record.

### Process Pillar High | William Samuel Rocco 05/04/2020

This process is fairly moderate overall, but it is distinctive enough to give the strategy a fighting chance to outperform, and it has worked well over time at several other Harding Loevner offerings. The strategy earns a Process rating of High.

The strategy employs the same quality-oriented and risk-conscious growth process as all the other Harding Loevner offerings, including Silver-rated Harding Loevner International Equity HLMIX and Silver-rated Harding Loevner Global Equity HLMGX. 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 concentrate further up the market-cap ladder than many peers.

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 fund also tends to have fairly moderate price multiples.

The strategy's process is not conservative in every respect. 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 100 issues and the index includes roughly 1,400 issues.

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 few quality growers from frontier markets and small emerging markets. For example, it owns DP World DPW (a container and marine terminal operator) of the United Arab Emirates as well as Safaricom (a telecom company) and East African Breweries of Kenya. And it owns several banks based in frontier markets or small emerging markets, including BanColombia, Peru's Creditcorp, the Czech Republic's Komerční Banka, Egypt's International Commercial Bank, and Bank of Georgia.

The managers have found quite a few financial-services stocks that meet their quality and other standards in midsize and large emerging markets, including top-15 holdings Sberbank of Russia, Housing Development Finance Company HDFC of India, AIA (a Hong Kong-based insurer), Ping An Insurance of China, and Banco Bradesco of Brazil.

This strategy has a 27.4% stake in the financial-services sector versus 24.1% for the typical diversified emerging-markets offering and 20.9% for the MSCI Emerging Markets Index.

The strategy has zero or relatively limited exposure to basic-materials, real estate, and healthcare stocks. It also has relatively modest stakes in India and Taiwan, as well as a relatively sizable stakes in Hong Kong, Mexico, and Russia.

### Performance Pillar | William Samuel

Rocco 05/04/2020

This strategy has been hurt by several of its financial and other holdings as emerging markets and other stocks have gyrated their way to sizable losses in 2020, and its older share class fell 21.4% for the year to date through April 30, while its average peer and the MSCI Emerging Markets Index dropped 17.7% and 16.6%, respectively. This strategy also posted an oversize loss in 2018.

But this strategy often held up well in downturns earlier in its history thanks to its quality bias, other reserved traits, and its managers' stock selection. For example, its older share class declined 1.9% in 2014's mild sell-off, while its average peer fell 3.0% and the MSCI Emerging Markets Index dropped 2.2%.

The tamer aspects of the process have often slowed this strategy in go-go rallies, such as the surge that occurred over the last 9.5 months of 2009. But it prospered in several other rallies. It gained 25.8% in 2019, for example, versus 19.2% for its typical rival and 18.4% for the index.

All this adds up to solid long-term total and risk-adjusted returns. During the 10-year period through April 30, 2020, its older share class earned a 2.5% annualized return and a negative 1.5% Morningstar Risk-Adjusted Return, versus 1.6% and negative 2.3% for its typical rival and 1.5% and negative 2.4% for the index.

### People Pillar Above Average | William Samuel

Rocco 05/04/2020

The overall strength of its team earns this fund an Above Average People rating.

Craig Shaw joined this fund as a comanager in late 2006 and became a co-lead manager in mid-2011. He has worked on this fund's older clone since he joined the firm in 2001 and has 30 years of relevant experience. Scott Crawshaw joined as a comanager in mid-2014 and became a co-lead manager in mid-2018. He joined the firm in 2014 and has 24 years of investment experience.

Rusty Johnson, who was the lead manager or a co-lead manager on the older clone from its 1998 inception through mid-2018, now serves as a comanager. He has been at Harding Loevner since 1994 and has more than 30 years of investment experience. Richard Schmidt has been a comanager here for 8.25 years, has worked at Harding Loevner since 2011, and has more than 30 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 fund since 2015. He joined Harding Loevner in 2008 and has 26 years of relevant experience.

The five managers are supported by the 32 other investment professionals at Harding Loevner, including the other co-lead manager of Harding Loevner Frontier Emerging Markets as well as the managers of Silver-rated Harding Loevner International Equity HLMIX and Silver-rated Harding Loevner Global Equity HLMGX.

### Parent Pillar Above Average | William Samuel

Rocco 07/24/2019

Harding Loevner, which is majority-owned by AMG, is a well-established and -staffed firm that specializes in international-equity funds. Daniel Harding and David Loevner ran global accounts before they founded the company in 1989, and co-CIO Simon Hallett and co-CIO and portfolio manager Ferrill Roll had ample foreign investing experience when they joined the firm in the early 1990s.

The firm launched five international-stock funds for U.S. investors between 1994 and 2008 before opening three more during the past few years. (It also has several international-equity separately managed accounts for U.S. investors and UCITs for overseas investors.) All use the same quality-

growth strategy. That approach is sound and risk-conscious, and it has earned strong risk-adjusted results overall. Harding Loevner, which has roughly \$70 billion in assets, has done an excellent job of hiring and retaining investment professionals as it has grown and aged. Indeed, there are 38 individuals on its investment team, and the team has an attractive mix of very seasoned veterans who have been with the firm for decades, experienced investors who have been with the company for many years, and more-recent arrivals who have between a few months and a couple of decades of experience.

Harding Loevner has so-so fees. But manager ownership is solid, and it treats its fundholders well, so it merits a Positive Parent rating.

### Price Pillar | William Samuel Rocco 05/04/2020

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 (%)<sup>1</sup> (as of 03/31/20)**

	Inception	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incpt
HLMEX (Institutional)	10/17/05	-27.64	-27.64	-20.55	-3.55	-0.62	1.77	4.70
HLEZX (Institutional Class Z)	03/05/14	-27.61	-27.61	-20.43	-3.38	-0.44	-	0.00
Benchmark	-	-23.60	-23.60	-17.69	-1.62	-0.37	0.68	4.60 <sup>2</sup>

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

**Top ten holdings (%)<sup>3</sup>**

Holding	% of Net Assets
TSMC	5.70
Samsung Electronics	5.60
Tencent	5.42
Alibaba	5.15
AIA Group	3.09
EPAM Systems	2.58
LG Household & Health Care	2.57
Lukoil	2.34
HDFC Corp	2.29
Sberbank	2.14
TOTAL %	36.88

<sup>1</sup> Returns for periods less than one year are not annualized.

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

<sup>3</sup> Mention of a specific security should not be considered a recommendation to buy or a solicitation to sell that security. Holdings are subject to change.

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## Disclosure

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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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