



Harding Loevner LP

- Manages **global shares** for MLC, since 2009
- Managed total assets of US\$15 billion, across the company, as at 30 June 2011
- Managed global funds for 22 years
- Based in New Jersey, USA
- Employs 23 investment professionals

Harding Loevner's investment personnel strive within a distinctive culture of "collaboration without consensus." Team members constantly interact yet each remains individually accountable for the performance of his/her recommendations or decisions and are rewarded accordingly. Good investment decisions require courage.

Why has MLC chosen Harding Loevner?

Harding Loevner has a long history of tax-aware, buy and hold, growth-based investing in global shares for wealthy individuals, family offices and institutions. Their history dates back prior to the establishment of the business when the founders were previously managing the Rockefeller family's money. Harding Loevner's approach focuses exclusively upon high-quality, durable-growth companies. This includes companies with above-average earnings growth prospects, companies that can generate high margins and high returns on assets, maintain strong balance sheets with low-to-moderate leverage, and are skilfully managed.

Harding Loevner's portfolio typically holds around 50-55 stocks and has low expected annual turnover.

Philosophy on investing

Harding Loevner focuses exclusively upon high-quality, durable-growth companies, those that have above-average earnings growth prospects, can generate high margins and returns on assets, maintain strong balance sheets with low-to-moderate leverage, and are skilfully managed. By building portfolios of these companies purchased at fair prices or less, the firm believes that it can provide higher long-term investment returns with lower volatility than managers who place less emphasis upon the quality and/or growth attributes of their holdings.

Investment process

In accordance with this philosophy, Harding Loevner has defined four "quality-growth" criteria that any company must exhibit before it will be considered for investment:

- **Durable Growth:** prospective growth of revenues, earnings and cash flows;
- **Capable Management:** a track record of success, a clearly-articulated business strategy, and a consistent regard for shareholders;



Simon Hallett
Chief Investment Officer





Global Portfolio Managers (left to right)

- Co-Lead Manager Ferrill Roll
- Manager, Alec Walsh,
- Co-Lead Manager Peter Baughan

- **Financial Strength:** free cash flow generation, industry-appropriate balance sheet, and unused borrowing capacity;
- **Competitive Advantage:** high and growing margins that are sustained by durable competitive advantages.

Harding Loevner's research process is built upon the idea that the identification of the best companies worldwide comes from insights gained through the careful study of individual companies and an understanding of the global dynamics of the industries in which they operate. Accordingly, the firm has developed a disciplined four-stage investment process that emphasises fundamental, bottom-up research (both qualitative and quantitative) to identify high-quality, durable-growth companies:

1. Qualification Stage

Analysts initially identify global companies within their respective industrial or regional areas of responsibility that appear to meet the four quality-growth criteria and are thus worthy of further investigation. Sources for new research candidates include the competitors, suppliers, and customers of companies already under coverage, and companies encountered by analysts during onsite visits, investor conferences, trade shows, and other research travel. Analysts also use quantitative screens to identify unfamiliar companies whose historical results suggest they may be qualified with respect to growth and financial strength criteria. This qualification process distils the universe down to approximately 500 companies, which are then subject to further research.

2. Research Stage

Harding Loevner utilises a proprietary company scoring system – the Quality Quotient (“QQ”) system – to evaluate the attractiveness of a company's corporate earnings growth rate, duration and riskiness. The QQ system is a tool for measuring business risks. It serves as a single framework, common across industries and geography that enables the collaboration of the entire investment team in recognising companies that will generate consistently strong operating results over time.

3. Valuation Stage

Among these recognised quality growth companies, Harding Loevner's analysts identify under-priced securities relative to their intrinsic value using models including Cash Flow Return on Investment (CFROI®) calculations). The forecast period is at least five years. They also establish fundamental mileposts for business results of each company under research. Research findings on each company are published for consideration and comment by the entire investment staff, following which the company is rated by the responsible analyst with a buy, hold, or sell recommendation.

4. Portfolio Construction Stage

The portfolio managers select from among the analyst-rated stocks to construct a model portfolio for the Global Equity Strategy. The MLC portfolio follows this model. New holdings typically enter the portfolio by pushing out existing holdings based on their relative attractiveness, and their prospective contribution to the overall portfolio's risk/return profile. Turnover is low with holding periods averaging three to five years. Active risk is controlled through deliberate diversification across geographies and industries, and monitored by means of a global multi-factor risk model. The goal is to generate research insights into a portfolio of high-quality, long-duration growth companies that will provide superior long-term, risk-adjusted returns.



Investment people

Headed up by CIO Simon Hallett, CFA, the investment team at Harding Loevner is deep and experienced. The Global Equity portfolio management team averages 30 years experience, with over 14 years at Harding Loevner.

Name	Title	Experience (Yrs)	Firm Tenure (Yrs)
David Loevner	CEO	32	22
Simon Hallett	CIO	32	21
Peter Baughan*	Co-Lead PM & Consumer Analyst	28	14
Ferrill Roll*	Co-Lead PM & Financials Analyst	31	15
Alexander Walsh	PM & Health Care & Mining Analyst	32	17
Pradipta Chakraborty	Analyst – Frontier Emerging Markets	17	4
Robert Cresci	Analyst – Int'l Small Companies	26	5
Don Elefson	Analyst – Frontier Emerging Markets	28	4
Rusty Johnson	Analyst – Emerging Markets	26	17
Margaret Kalvar	Analyst – Emerging Markets	31	7
Josephine Lewis	Analyst – Int'l Small Companies	11	6
Christopher Mack	Analyst – Info Technology, Telecom Services	7	7
Jafar Rivzi	Analyst – Info Technology, Telecom Services	21	4
Yoko Sakai	Analyst – Japan	22	6
Craig Shaw	Analyst – Energy, Materials, Capital Goods	21	10
Andrew West	Analyst – Autos, Transport, Emerging Markets	19	5
Thomas Larsen	Manager of Research	21	5
Elizabeth Fisher	Manager, Trading Systems	11	13
Sean O'Connell	Manager, Trading Execution	8	6
Moon Surana	Research Associate	2	2
Dong Zheng	Analyst – Construction, Gas Utilities	3	3
Tim Kurbarych	Research Associate	1	1
Jingyi Li	Analyst – Capital Goods, China	13	1

* Lead Global Equity Portfolio Managers for the MLC Portfolio in Bold.



Stock story

EMC, based in the United States, is a leading provider of data storage solutions for networked IT systems. The company's "appliances" bundle both hardware and software to provide the backbone for essential databases and enterprise resource planning (ERP) systems, as well as for Internet-based applications, including those abstracted into the term "cloud computing." EMC differentiates its storage hardware with a portfolio of innovative software that allows its customers to better manage and analyze data in a more efficient and secure manner. The company enables customers to automate storage through storage tiering and data de-duplication software, while its encryption security software allows for secure access of stored data. EMC's Greenplum appliance allows customers to quickly analyze extremely large data sets. Additionally, through VMWare (80% owned), the company enables customers to run multiple applications securely and reliably on a single server ("virtualization"), thereby allowing computing power to be used more efficiently. VMWare's virtualization software platform, vSphere, is a key building block for cloud computing. EMC's solid record of execution and profitability, combined with its exposure to the faster growing areas of virtualization, data de-duplication, and cloud storage make this a high-quality business with attractive long-term growth prospects.

Growth: Demand for networked storage solutions will grow with the need to manage the current and projected exponential growth in data. EMC's portfolio of networked storage solutions ranging from low-end consumer devices to high-end enterprise systems leave it well positioned to benefit from this opportunity.

Competitive Advantage: Innovative, robust, yet user-friendly software for managing data storage and access throughout its lifecycle, in an environment of rapid growth and thus benign competitive pressures.

Management: Strong record of execution and foresight. EMC has acquired several small software companies to enhance its solutions, and extend its core strengths.

Financial Strength: Net cash balance sheet and strong free cash flow generation allow the company to take advantage of reinvestment opportunities to fuel growth and protect its competitive advantage.

This stock may no longer be included in Harding Loevner's portfolio as their view may have changed since this document was prepared.

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