



Harding Loevner LP

- Manages global shares for MLC (since 2009)
- Manages total assets of A\$42 billion across the company at 30 June 2014
- Has managed global funds for 25 years
- Based in New Jersey, USA
- Employs 33 investment professionals

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

Why MLC has chosen Harding Loevner LP

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. Former global investment managers for the Rockefeller family established the firm in 1989. Harding Loevner's approach focuses exclusively on high-quality, durable-growth companies. This includes companies with above-average earnings growth prospects that can generate high margins and high returns on assets, maintain strong balance sheets with low-to-moderate leverage and are skillfully managed.

Harding Loevner's portfolio typically holds around 60-70 stocks and has low expected annual turnover.

Philosophy on investing



Simon Hallett
Chief Investment Officer

Harding Loevner focuses exclusively on 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 skillfully managed. By building portfolios of these companies purchased at reasonable prices, 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



Global Portfolio Managers (left to right)

- Manager Christopher Mack
- Co-Lead Manager Ferrill Roll
- Co-Lead Manager Peter Baughan
- Manager Alexander Walsh

In accordance with its 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
- **financial strength:** free cash flow generation, industry-appropriate balance sheet and unused borrowing capacity, and
- **competitive advantage:** high and growing margins that are sustained by durable competitive advantages.

Harding Loevner’s research process is built on 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. Initial qualification

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 therefore 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 distills the universe down to approximately 500 companies, which are then subject to further research.

2. Fundamental research

Harding Loevner utilises a proprietary company scoring system – the Quality Assessment (“QA”) system – to evaluate the attractiveness of a company’s corporate earnings growth rate, duration and riskiness. The QA 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. Security valuation

For companies recognised as 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, after which the company is rated by the responsible analyst with a buy, hold, or sell recommendation.

4. Portfolio construction

The portfolio managers select from 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 28 years of experience, with over 16 years at Harding Loevner.

Name	Title	Experience (years)	Firm tenure (years)
Simon Hallett, CFA	Chief Investment Officer	36	24
Peter Baughan, CFA*	Portfolio Manager (Global Equity, Co-Lead/ International Equity), Analyst (Professional Services, Cons Discretionary)	31	17
Ferrill Roll, CFA*	Portfolio Manager (Global Equity, Co-Lead/ International Equity, Co-Lead), Analyst (Financials)	35	18
Alexander Walsh, CFA	Portfolio Manager (International Equity, Co-Lead/ Global Equity), Analyst (Health Care, Materials)	36	20
Christopher Mack, CFA	Portfolio Manager (Global Equity), Analyst (Information Technology)	10	10
Bryan Lloyd, CFA	Portfolio Manager (International Equity), Analyst (Financials)	18	3
Andrew West, CFA	Manager of Research, Portfolio Manager (International Equity), Analyst (Cons Discretionary, Industrials, Materials)	23	8
G. Rusty Johnson, CFA	Portfolio Manager (Emerging Markets, Co-Lead/ Frontier Emerging Markets, Co-Lead), Analyst (Emerging Markets)	29	20
Craig Shaw, CFA	Portfolio Manager (Emerging Markets, Co-Lead), Analyst (Energy)	24	13
Richard Schmidt, CFA	Portfolio Manager (Emerging Markets/Frontier Emerging Markets), Analyst (Cons Staples, Diversified Financials)	28	3
Scott Crawshaw	Portfolio Manager (Emerging Markets)	19	0
Pradipta Chakraborty	Portfolio Manager (Frontier Emerging Markets), Analyst (Frontier Emerging Markets)	16	6
Babatunde Ojo, CFA	Portfolio Manager (Frontier Emerging Markets), Analyst (Frontier Emerging Markets)	11	2
Josephine Lewis	Portfolio Manager (International Small Companies, Co-Lead), Analyst (International Small Companies)	17	9
Jafar Rizvi, CFA	Portfolio Manager (International Small Companies, Co-Lead), Analyst (Telecom Services, International Small Companies)	24	6
Margaret Kalvar, CFA	Analyst (Cons Discretionary, Cons Staples)	34	10
Yoko Sakai, CFA	Analyst (Japanese Equities)	25	9
Moon Surana, CFA	Analyst (Financials)	10	5

Name	Title	Experience (years)	Firm tenure (years)
Tim Kubarych, CFA	Analyst (Special Projects)	4	4
Jingyi Li	Analyst (Capital Goods, Utilities, Chinese Equities)	16	4
Patrick Todd, CFA	Analyst (Health Care)	9	2
Anix Vyas, CFA	Analyst (Materials, Industrials)	12	1
Lakshman Venkitaraman, CFA	Analyst (Information Technology)	7	1
Sergei Pliutsinski	Analyst (Cons Discretionary, Cons Staples)	10	1
Sean Contant	Research Associate	3	3
Shali Zhu	Research Associate	2	2
Thomas Yeung	Research Associate	6	1
Michelle Lee	Research Associate	0	0
Alexandra Small	Research Associate	0	0
Sean O'Connell	Manager, Trading	13	9
Jonathon Mortenson	Senior Trader	20	2
Vikram Gowda	Trader	10	3

* Co-Lead Global Equity Portfolio Managers for the MLC portfolio.

Investment idea

Allergan is a specialty pharmaceutical company that focuses on medicines for the eye and neuromodulators for both cosmetic and therapeutic use. Company management has a history of creating value for shareholders by focusing on niche markets, and the high cash pay mix makes Allergan less sensitive to reimbursement pressures from government payors. In our view, Allergan's robust product portfolio should continue to deliver high single digit top-line growth, mid-teens EPS growth and mid-teens cash flow return on investment.

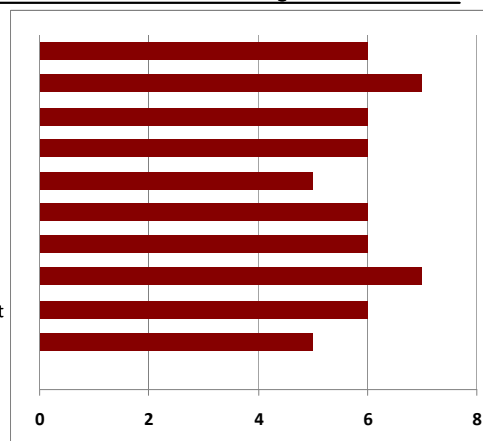
The company meets our criteria for the following reasons:

- **competitive advantage:** higher barriers to entry due to biologic-heavy portfolios, patents expiring after 2020, focus on niche therapy areas
- **growth:** aging population in developed markets drives growth in Botox and ophthalmologic products, increasing wealth in emerging markets drives use of other aesthetic products
- **financial strength:** low leverage, and
- **management:** ability to create leading franchise positions through niche focus.



Harding Loevner QQ Framework Scoring

Threat of New Entrants
 Threat of Substitution
 Bargaining Power of Buyers
 Bargaining Power of Suppliers
 Intensity of Rivalry
 Growth Persistence & Variability
 Strength of FCF
 Balance Sheet Strength
 Foresight & Change Management
 Corporate Governance



Total Score = 60

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