JOHNSTON ASSET MANAGEMENT
INTERNATIONAL EQUITY
2017 Second Quarter Report

JOHNSTON ASSET MANAGEMENT
GLOBAL INVESTMENTS

COMPOSITE PERFORMANCE (%) (period ending June 30, 2017)[1,2]

	3 Months	YTD	1 Year	3 Years[3]	5 Years[3]	10 Years[3]	Inception[3,4]
Johnston Intl Equity (gross of fees)	8.65	21.82	27.11	5.62	10.91	5.85	11.09
Johnston Intl Equity (net of fees)[5]	8.50	21.49	26.36	4.95	10.21	5.15	10.50
MSCI EAFE Net Index[6]	6.12	13.81	20.27	1.15	8.68	1.02	5.16
MSCI All Country World ex US Net Index[7]	5.78	14.10	20.45	0.80	7.22	1.13	N/A

[1]Performance is preliminary
[2]Not all accounts are represented in this composite
[3]Annualized returns
[4]Inception date 9/30/1993
[5]Net performance reflects the deduction of advisory fees
[6]Benchmark index
[7]Supplemental Index
Past performance does not guarantee future results

KEY TAKEAWAYS

Equity markets continue to rise, S&P 500 nears 2,500 points.

US retail shifts to online as department stores sales dip.

Europe recovery firmer, chances of "softer" Brexit increase.

Johnston International Equity Composite returns 8.7% for 2Q 2017, beats EAFE by 253 bps and ACWI ex US by 286 bps.

Consumer Discretionary and Financials outperform; Kering S.A. (+32.6%) and Alibaba Group Holding Ltd. (+30.7%) main contributors.

Market Review

News of weakening economic growth and political concerns failed to shake market confidence for long in the second quarter, as both consumers and businesses remained positive about the global outlook. The S&P 500 gained 3% over the period, while MSCI EAFE – one of our key benchmarks – rose over 6% with many individual stocks progressing on strong annual double-digit returns paths.

In the US, investors looked through the disappointing initial first quarter annualized GDP growth figure of 0.7% from the Bureau of Economic Analysis to higher expectations in subsequent quarters. By the end of June, the BEA had revised the Q1 figure up to 1.4%, while the Atlanta Fed's GDP Now tracker was reading 3% at the start of July.

The impact of politics was also short-lived. Although stocks suffered their biggest one-day slide in eight months in May on worries about turmoil in Washington, Wall Street regained its composure within a week. Behind both the figures and the headlines, consumer confidence remained solid and business confidence improved – the Conference Board's CEO confidence measure hit its highest level in 13 years in April.

While economic progress was fair, there was growing evidence of a sea change in consumer consumption patterns. Retail sales sank 0.3% in May as large contributors, notably gasoline and auto sales, declined. More tellingly, the commerce department numbers showed a 1% fall in department store sales and a 0.8% increase in ecommerce sales for the month.

That shift to online is having a huge impact. Credit Suisse estimated that some 8,600 stores could shut in the US this year and that 20-25% of malls could close by 2022. What is bad for bricks-and-mortar retailers is also bad for commercial real estate owners and bad for the construction industry, ultimately putting pressure on jobs and wages across large parts of the economy. It also has the potential to curb new business investment. Company directors want to see hard demand before pushing ahead with capital expenditure plans that could provide fresh impetus for wage growth, inflation and faster economic growth.

The promise of more favorable taxation is another factor influencing business confidence and the growth agenda. Shares have run up on President Trump's promise of lower corporate taxes and reduced red tape, which could in turn unlock higher corporate earnings. The second quarter passed without any solid proposals on reducing corporate tax and if no new program is presented before the end of the year, then the animal spirits that have helped drive lofty valuations may dissipate and stock prices could decline.

Full stock valuations have been the source of strength as well as some caution. In light of the high – although not unreasonable valuations – we have trimmed some of our larger positions to reinvest in growth in smaller companies. We also see positive signs of performance and investor demand becoming broader, with solid returns coming from our consumer discretionary and financials holdings.

In Europe, economic recovery is taking a firmer grip. The 28 EU member states grew 0.5% in the first quarter (or 2% for the year), according to official statistics, a rate that is expected to be sustained despite ongoing uncertainty surrounding Brexit. Those exit negotiations took another twist after the general election called by Prime Minister Theresa May unexpectedly resulted in a minority government and a more uncertain position. On the plus side for businesses, the election result may increase the chance of a softer Brexit, which might yet include membership of the Customs Union and even the European Single Market. On the down side, it raises the risk of fresh elections which could spell more volatility.

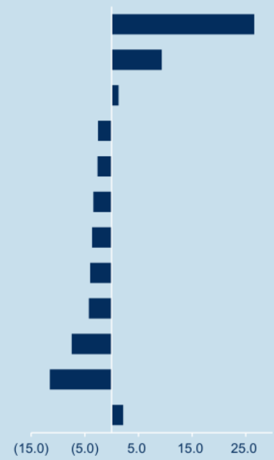
Performance Attribution

International equity markets continued their strong performance during the second quarter, led by Europe and the Emerging Markets, which were up over 8% and 6% respectively. The Johnston International Equity Composite returned 8.7% over the period, outperforming MSCI's EAFE index, which was up 6.1%, as well as the MSCI ACWI ex US index, which returned 5.8%. For the first six months of 2017, the International Equity Composite had a strong return of 21.8%, again outpacing EAFE, which returned 13.8%, and the ACWI ex US, which was up 14.1%. Stock selection is the primary driver of the excellent results we have been able to achieve on clients' behalf over the quarter and year to date.

Sector weights are determined by where we find opportunity on a fundamental basis. From a sector perspective, Consumer Discretionary holdings had the largest positive impact on returns in the portfolio. **Kering S.A.** (+32.6%) was the biggest contributor to results in the second quarter and has returned nearly 54% for the year. The company continues to deliver excellent sales and earnings growth on the back of a revitalized Gucci brand, led by Alessandro Michele designed merchandise, as well as strong results from Yves Saint Laurent, and the turnaround in the Puma division. **Alibaba Group Holding Ltd.** (+30.7%) was the next biggest contributor to sector results and also one of the best stocks in the portfolio*. The shares enjoyed a 13% one-day bounce after the company lifted this year's annual revenue growth forecast to 45-49%, well ahead of market expectations, at its investor day in June. Alibaba benefits from the increasing number of active online buyers in China and across region, who are also spending more, allowing for more merchandise to be bought through one of its online channels. Moreover, the company has expanded into finance, payment servicing and cloud services, which give it significant additional revenue opportunities.

SECTOR EXPOSURE (%)*

Sector	JAM Intl	EAFE	(Under)/Over the Benchmark
Info Technology	32.6	6.0	
Health Care	20.2	10.8	
Cons. Discretionary	13.5	12.2	
Industrials	12.0	14.5	
Energy	2.1	4.7	
Utilities	0.0	3.4	
Real Estate	0.0	3.6	
Materials	3.5	7.5	
Telecom. Services	0.0	4.3	
Financials	14.0	21.5	
Consumer Staples	0.0	11.5	
Cash	2.2	0.0	



*International Equity Representative Portfolio

Financials was the next best sector as **AIA Group Ltd.** (+17.3%) and **HDFC Bank Ltd.** (+16.3%) continued to rally. AIA is gaining share as new business revenues grow and drive earnings and cash generation higher. The company declared its best quarterly value of new business result since 2010, with a 54% increase in this key measure to $884m. In addition, insurance penetration remains low in China and other core AIA markets across Asia, meaning the company has ample opportunity for the future. Meanwhile, HDFC Bank is benefiting from investments into its digital platform, as well as its retail and small-to-medium business focus. The company has significantly lowered costs through investments in technology while increasing the ways customers can access its banking services. The company has also gained market share from the shift of many small to mid-sized customers to local banks as a result of the closure of informal channels following India's demonetization in the fourth quarter of 2016.

On the negative side, Health Care and Consumer Staples detracted most from results. Health Care was impacted primarily by **Shire plc** (-5.6%). The shares are reflecting an overly pessimistic scenario for slower growth in its hemophilia and ADHD franchises. We believe the valuation is exceptionally low and the ophthalmic, ADHD, internal medicine and orphan drug franchises, along with synergies from the Baxalta acquisition, should enable company earnings to grow better than 10% through 2020. **Allergan plc** (+2.1%) was the second biggest sector detractor but only modestly impacted results. The company generates more than 40% of revenues and nearly 50% of profits from its aesthetic/cosmetic drug franchise, which is not reliant on reimbursement from insurance and is growing at a mid- to high-teens rate. While the company still has exposure to reimbursement, this segment is diminishing, which should start to be reflected in a higher valuation given its superior earnings growth. Consumer Staples was also a detractor exclusively due to our lack of exposure to a sector that performed well over the quarter. Valuations for many Consumer Staples stocks have been very high and growth in many cases has been lackluster, which is why we have not had any investments in the space recently.

Regional weights are also determined through our bottom-up investment process. From a regional perspective, holdings in the Emerging Markets, Pacific ex Japan and Japan had a positive overall effect on performance. The UK detracted from results while Europe was generally flat.

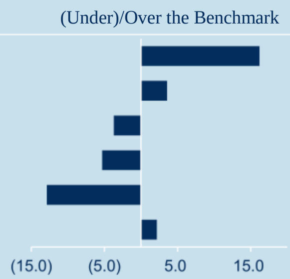
All of the Emerging Markets holdings performed well and had a material positive impact on the portfolio. In addition to the strong returns delivered by Alibaba and HDFC, **Tencent Holdings Ltd.** (+25.0%) also had an exceptional quarter. Over 900 million people, largely in China, use the communication/social/commerce platform numerous times a day and usage continues to expand. Furthermore, the company dominates mobile gaming with the world's top grossing game, Honor of Kings, and is one of the two dominant mobile payments platforms. In Pacific ex Japan results were driven largely by AIA.

Finally in Japan, **Keyence Corp.** (+9.8%) and **Nidec Corp.** (+7.7%) led to the region's outperformance in our portfolio. Keyence continues to put up stellar results, thanks to its leading position in industrial automation, while Nidec has a leading position in the small precision motor space used in auto, appliances, robotics and drones. On the negative side, the UK was impacted by Shire – our sole holding in the country.

Overall, stock selection was the main driver of portfolio outperformance during the second quarter.

GEOGRAPHIC EXPOSURE (%)*

Region	JAM Intl	EAFE
Emerging Markets	16.2	0.0
Pacific ex Japan	15.6	12.0
Japan	19.7	23.5
Europe & ME	41.5	46.9
United Kingdom	4.8	17.7
Cash	2.2	0.0



*International Equity Representative Portfolio

Market Outlook

The global economic recovery is now largely in sync and we expect it to remain so in the second half of 2017, with the US leading other developed economies. The end of deleveraging in those markets, combined with rising private sector demand and increasing global capex are positive factors that will continue to underpin steady growth.

Core inflation should remain in check as weaker energy prices offset tightness in labor markets. This means that central banks have no reason to deviate from the path of prolonged monetary policy adjustment. Bond yields are likely to drift only slightly higher as the US Federal Reserve tightens gradually. Meanwhile, the dollar should trade sideways over coming quarters as a result of increasingly stable interest rate differentials between US assets and those of other developed economies.

The political environment in Europe has improved and should remain more benign in the second half. The French presidential and legislative elections resulted in a strong mandate for pro-EU, with the election of the reform-minded President Emmanuel Macron. At the same time, British elections produced a weaker position for Prime Minister Theresa May, casting doubt on support for her “hard Brexit” approach. Angela Merkel’s CDU party has a solid lead in polls ahead of German elections in the third quarter, while the populist AfD party has lost ground. Although polls have been wrong in the recent past, the threat of serious political upset is receding in Europe for now. We expect global volatility to remain low in the near term, a reflection of the “Goldilocks” – not too hot, not too cold – economic environment and reduced political risk.

Although a degree of volatility did return to the commodities market in the second quarter as the oil price fluctuated, further falls in energy prices are likely to be limited by inventory drawdowns over coming months. We also expect metals prices to stabilize.

Equities valuations, particularly for companies in the US and developed markets, are full and we expect earnings growth to be the main driver for further share price appreciation. But although equities are not cheap, fixed income is a less attractive alternative for investors and cash returns should remain close to zero for an extended period of time. We believe this broader context will continue to support valuations. Nevertheless, we continue to recommend and follow an active approach. We trim positions in the most fully-valued stocks to reinvest where we see better growth potential at lower multiples, and we invest in long term company fundamentals and growth prospects through the cycle.

SECOND QUARTER

	Average Weight (%)	Contribution To Return (%)
Largest Contributors (%)		
Kering S.A.	5.24	1.61
Tencent Holdings Ltd.	5.49	1.27
Alibaba Group Holding Ltd.	3.76	1.05
Largest Detractors (%)		
Shire plc	4.33	-0.33
ASML Holding NV	4.85	-0.04
Total S.A.	2.29	-0.02

LAST TWELVE MONTHS

	Average Weight (%)	Contribution To Return (%)
Largest Contributors (%)		
Kering S.A	4.97	4.29
Tencent Holdings Ltd.	5.57	2.90
Broadcom Ltd.	5.36	2.75
Largest Detractors (%)		
Kao Corp.	1.97	-1.41
Novo Nordisk	0.73	-1.00
Shire plc	4.54	-0.61

Holdings are reflective of positions in a representative portfolio in the Johnston International Equity strategy. Past performance does not guarantee future results. Contribution to performance and the methodology to calculate is available upon request. A full list of securities held in the representative portfolio as of June 30, 2017 is included later in this presentation.

PURCHASES– SECOND QUARTER

Safran S.A.

LIQUIDATIONS – SECOND QUARTER

The holdings identified represent all new positions and liquidations in the Johnson International Equity strategy. They do not represent partial reductions, additions to existing positions or cash flows for individual clients. A full list of all securities purchased and sold for the period June 30, 2017 is available upon request.

PORTFOLIO CHARACTERISTICS

	JAM Intl	MSCI EAFE Net Index
Weighted Average Market Cap ($B)	88.4	59.2
Median Market Cap ($B)	46.4	10.3
Growth Fundamentals		
EPS Growth: 3 to 5 year forecast (%)[1]	15.2	9.5
EPS Growth: 5 year trailing (%)[1]	17.2	5.6
Value Fundamentals		
P/E Ratio: 12 months – forward[2]	20.9	16.7
P/E Ratio: 12 months – trailing[2]	24.5	18.5
Dividend Yield (%)[3]	1.3	3.1
Price/Book[2]	3.0	1.7
Quality Fundamentals		
Return on Equity: 5 Year (%)[1]	16.2	11.7
Return on Investment Capital: 5 Year (%)[1]	12.1	8.3
Other		
Number of Stock Holdings	25	927
Beta: 3 year portfolio[4]	0.88	1.00

[1]Interquartile weighted mean, [2]Weighted harmonic mean, [3]Weighted mean, [4]MPT beta

Past performance does not guarantee future results.

PORTFOLIO HOLDINGS (period ending June 30, 2017)

Sector/Company	Country	Weight (%)	Industry
Consumer Discretionary			
Alibaba Group Holding Ltd.	China	5.3	Internet & Direct Marketing Retail
Kering S.A.	France	5.2	Textiles, Apparel & Luxury Goods
Mobileye N.V.	Netherlands	0.8	Auto Components
Sands China Ltd.	Hong Kong	2.2	Hotels, Restaurants & Leisure
Energy			
Total S.A.	France	2.1	Oil, Gas & Consumable Fuels
Financials			
AIA Group Ltd.	Hong Kong	5.0	Insurance
HDFC Bank Ltd.	India	5.1	Commercial Banks
ORIX Corp.	Japan	3.9	Diversified Financial Services
Health Care			
Allergan plc	Ireland	5.2	Pharmaceuticals
Bayer AG	Germany	5.1	Pharmaceuticals
Qiagen N.V.	Netherlands	2.8	Life Sciences Tools & Services
Roche Holdings AG	Switzerland	2.3	Pharmaceuticals
Shire plc	United Kingdom	4.8	Pharmaceuticals
Industrials			
Atlas Copco AB	Sweden	2.6	Machinery
Nidec Corp.	Japan	5.4	Electrical Equipment
Prysmian S.p.A.	Italy	2.4	Electrical Equipment
Safran S.A.	France	1.7	Aerospace & Defense
Information Technology			
Alps Electric Co., Ltd.	Japan	5.0	Electronic Equipment, Instruments & Components
ASML Holding N.V.	Netherlands	4.6	Semiconductors & Semiconductor Equipment
Broadcom Ltd.	Singapore	4.9	Semiconductors & Semiconductor Equipment
Infineon Technologies AG	Germany	5.1	Semiconductors & Semiconductor Equipment
Keyence Corp.	Japan	5.6	Electronic Equipment, Instruments & Components
NXP Semiconductors N.V.	Netherlands	1.7	Semiconductors & Semiconductor Equipment
Tencent Holdings Ltd.	China	5.8	Internet Software & Services
Materials			
James Hardie Industries	Australia	3.5	Construction Materials
Cash			
Cash & Equivalents		2.2	

Johnston Asset Management generally uses Global Industry Classification Standard to determine sector classification. Johnston may reclassify a company into a more suitable sector if it believes that the GICS classification for a specific company does not accurately classify the company from our perspective.