



## Global Equity

### Performance

The portfolio underperformed its passive and active benchmarks for the quarter, by a small margin.

### Review and Outlook

All major equity markets fell in the quarter, all industry sectors as well.

The roots of the current economic downturn are found in excess capital investment during the boom.

### Portfolio Review

Finding value in companies where changes in competitive position have not been reflected in higher share prices.

### Activity

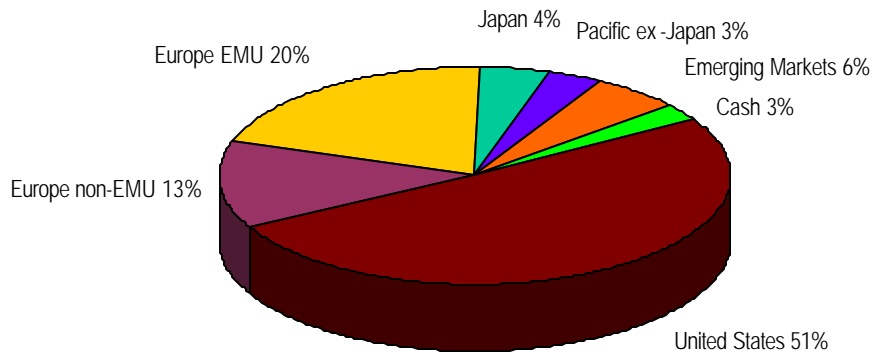
**Bought:** Air Liquide, CVRD, JP Morgan Chase, Schering Plough.

**Sold:** ABB, Air Products, Fannie Mae, Nortel Networks, Schlumberger, Wisconsin Central.

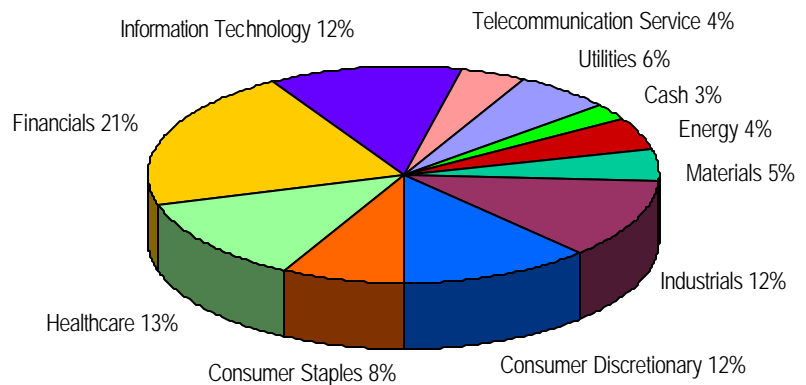
## 2001 First Quarter Report

Portfolio returns were impacted by the slowdown in the US economy and the resultant worsening outlook for corporate profits. Our response has been to sell companies where management challenges do not seem adequately reflected in the share price, and to buy ones where markets have over-reacted.

### Region Distribution



### Sector Distribution



The charts above provide a 'snapshot' of the Model Portfolio at March 31, 2001.

*Weaker US demand is infecting both investor confidence and real economic capacity in Europe and Japan.*

## Executive Summary

The rapidly slowing US economy has worsened the outlook for corporate profits around the globe and, perhaps more importantly in the short run for equity returns, has infected investor psychology as well. Both regional and sector equity benchmarks fell sharply in the first quarter, with a few emerging markets being the only bright spots. The depth and length of the economic downturn reflected in equity prices is up for debate. Our reaction to the environment has been to purchase shares in 'riskier' stocks, where attractive prices imply better prospective returns.

## Performance

The portfolio fell in value by 14.1% in the first quarter of 2001. Its benchmark, the MSCI All Country World Index fell by 12.4%. Again, this quarter, the value component of the benchmark index outperformed the growth component — by nearly 800 basis points.

Markets worldwide declined amidst a worsening outlook for corporate profits, in the face of a rapidly slowing US economy. The main culprit is reduced spending on capital goods, particularly the information technology and telecommunications equipment that have featured so importantly in this great cycle just ended. Any prior thought that sustained European growth or Asian recovery would be the next engine of growth and shield the profits of multinational companies from the effects of mild or short-lived US slowdown has evaporated. Rather, weaker US demand is infecting both investor confidence and real economic activity in Europe and Asia. Japan's economy, the world's second largest, remains mired in deflation and a leadership vacuum, and offers little hope of coming to the rescue.

All major equity markets fell sharply in the quarter. In the US, the S&P500 fell 12%, while the technology-heavy NASDAQ index fell by 25%. The stodgy Dow Jones Industrial Average, filled with yesteryear's brick-and-mortar winners, fell by only 6%. The performance of the portfolio's large holdings in the US was just behind that of the S&P500.

European markets, in aggregate, fell 15%, in dollar terms. This includes the effect of a 5% slide in the value of the Euro in the quarter. The worst hit European markets were telecom-laden Scandinavian bourses: Stockholm (home of Ericsson) fell by 30%, and Finland (home of portfolio holding **Nokia**) by 43%. The UK market fell slightly less than the rest of Europe,

notwithstanding a dreadful outbreak of cattle disease and the accompanying political fallout. The portfolio's UK holdings, however, performed particularly poorly in the quarter; bad stock selection there hurt the portfolio in spite of its modest weighting — just over 7% of its assets — there.

Asia fared slightly better. The Japanese market's slide (probing fifteen-year lows) was arrested by year-end window dressing and lower interest rates, to end the quarter down only 9% in dollars, mostly attributable to weakness of the yen. The portfolio's Japanese holdings outperformed the market, but as the benchmark holds more Japan, our relative returns suffered.

Emerging markets fared better still. In Latin America, Mexico took comfort in the conspicuously warm relations between its new president and ours, rising 4%. Restricted, and usually uncorrelated, markets also did well. Taiwan, for example, rose by 18%, Korea rose by 3%, while China's 'B share' markets, newly opened to local Chinese investors, soared. The portfolio's representation in emerging markets, of about 6%, was helpful in cushioning the decline, but was not a material factor in performance relative to the passive benchmark.

From an economic sectoral viewpoint, all industries declined, with the worst decline, unsurprisingly, in information technology (-25%). More surprising were muted declines in the traditionally cyclical (but decidedly non-technology-related) sectors of energy, materials and consumer discretionary (carbon, concrete and cars), whose declines were limited to single digits. Superior results from the portfolio's health care stocks were offset by inferior results from its holdings in utilities.

## Review and Outlook

The era of cheap and abundant risk capital, and the unprecedented surge in capital investment that it fueled, is over. The new valuation metrics and new economic paradigms that arose to justify the inflation in stock prices have been discredited. Information technology companies that led the bull market have seen the biggest declines in this now year-old bear market. This boom phase, like others before it, was choked by higher interest rates, which rose last year in Japan and Europe as well as in the United States.

As stock prices fall, and as expectations for global economic activity decline, there is a growing argument that it is 'different this time', or that, at least, this downturn differs from the typical cyclical downturns seen since the 1940s. Put simply, these typical cycles have been characterized by growing demand for goods outstripping the supply; by consequently rising prices; and by a

**The UK market fell slightly less than the rest of Europe; Asia fared slightly better; and emerging markets fared better still.**

**The era of cheap and abundant risk capital is over, choked by higher interest rates.**

***Capital investment, rather than consumption, played the lead role in the recent economic boom.***

***If the present downturn is rooted in an overabundance of productive capacity, it will be U-shaped not V-shaped.***

monetary response to restrain demand through higher interest rates until supply catches up, and the cycle begins again. For certain, this downturn is different in at least one respect. While higher interest rates triggered the decline, it was not a rise in the general price level that prompted monetary tightening. On the contrary, the rate of inflation has been remarkably subdued. One reason for this prolonged period of low inflation is that deregulated trade has enabled goods to flow from where they can be produced cheaply (e.g., developing countries) to where they would otherwise be dear. Another reason *may* be the achievement of a permanently higher rate of productivity growth (i.e., ‘new economy’ miracle) as the fruit of technological innovation and investment. Whatever the explanation, the fact remains that the shortage of supply and consequent inflation that usually results from a prolonged period of demand growth was avoided.

Another important difference is that capital investment, rather than consumption, played the lead role in the recent economic boom. High and rising equity prices and generally easy access to risk capital have led companies to undertake investments on a massive scale — and to continue to invest even as prospective returns on incremental investment trended toward zero. This has not simply been a Western phenomenon. Indeed the first signs of too-cheap capital leading to excessive investment in manufacturing capacity came in 1997, in the form of the pan-Asian financial crisis.

The question of whether this present downturn is rooted in an overabundance of productive capacity is important. If it is, then it is liable to be more severe, and harder to turn around than the other cyclical downturns we have seen in the post-war period. Rather, it will be more like those of the late nineteenth century. In the jargon of the moment, it will be U-shaped, not V-shaped.

We do not need to go back to the century before last to see an example of a supply-induced recession. The Japanese economy has been in such a recession since its asset price bubble was pricked (again, by higher interest rates) a decade ago. Japan’s asset inflation in the 1980s was worse than that of the NASDAQ, Neuermarkt, Nouveau Marche, et al in the 1990s because it was all encompassing. In particular, it embraced not only the entire Japanese stock market, but the Japanese (and Hawaiian!) property market as well. There are, however, many disturbing parallels to the late, lamented global bull market in ‘TMT’ stocks. Just as Japanese companies augmented their operating profits with paper profits from ‘zaitech’ — stock market speculation — so have a range of leading multi-national companies, from Intel to Ericsson to Bank of America, derived a large share of their reported profits from their venture investing activities. Lack of accounting transparency is another common

thread: Japanese companies were always opaque, but, in particular, were able to hide the failure of their stock market activities in non-consolidated subsidiaries. In the same spirit, many US and European companies have exploited accounting loopholes to exaggerate their profitability: they have concealed the true costs of their acquisitions by using merger accounting, concealed the costs of scarce talent by not expensing the value of share options necessary to attract and retain it, and concealed the costs of necessary software development expense by capitalizing it under the cover of e-commerce venture investments.

The Japanese economy has languished for the entire decade since its asset bubble burst. A succession of conventional measures, namely massive government spending and unprecedented low interest rates, has failed to rekindle and sustain private investment or consumption. Debt incurred in acquiring now-deflated assets remains on the balance sheet of corporate Japan, presenting an obstacle to productive capital investment. Banks, too, are caught in this logjam, as they have tried to delay and spread over years the recognition of their losses on these loans. The consumer likewise has been maimed by the continuing deflation in share and housing prices. Worried about his job security, and feeling poorer, he lacks the appetite for expensive goods or risky investments. In March, desperate authorities announced their boldest measure yet: the Bank of Japan will henceforth target quantitative growth in the money supply, rather than interest rates, with the explicit goal of provoking price inflation. If consumers feel that goods prices will be higher tomorrow, they are more apt to buy today. We await, with cautious optimism, the results of this experiment.

Is the world going the way of Japan? We don't know, but on balance we don't think so. We do expect that stock market falls will hit consumer confidence, and thus spending. Due to individuals' increased participation in the stock market, stock prices now have a greater effect on consumption demand (the 'wealth effect'). The slowdown has already begun, and inventories of unsold goods are rising. If individuals feel they must forego consumption in order to restore their shrunken retirement savings, the result could be a prolonged period of slow growth.

Three factors should prevent a repeat of the Japanese experience, however. First, the US has the leadership necessary to take corrective action: the Federal Reserve has already cut interest rates much more quickly than did the Japanese authorities in 1990. Second, the excesses in the Japanese bubble were in real estate construction and financing, while today's global excesses are in information processing and telecommunications capacity. Given the rapid

**Lessons from the Japanese 'bubble' of the 1980s, and 'bust' of the 1990s.**

**We don't think the world is going the way of Japan.**

***The damage of any wealth effect in Europe should be much less than in the US.***

***We are adding to investments in riskier stocks, because the market, running scared, is offering prices that imply good returns, even adjusting for the risk.***

obsolescence inherent in technology goods, the overhang should naturally take care of itself over the course of a few years. Third, most of the world's economies are much more flexible than Japan's, with respect to prices, labor and credit. Prices of goods and services should adjust quickly, compensation will fall and labor will move, some businesses will fail and creditors will seize their collateral. Thus will the seeds of the economic recovery be sown.

The damage of any wealth effect in Europe should be much less than in the US. An equity investing culture was only just beginning to take hold in Europe, and the damage done to consumers' balance sheets much less. On the other hand, the European Central Bank appears more reluctant than the Federal Reserve to cut interest rates, perhaps in order to maintain its anti-inflation credentials. We expect the latter to continue to cut rates aggressively in the event of evidence of further slowdown, and we think that European rates must eventually follow.

## **Portfolio Review**

We research companies by sector on a global basis, and choose companies for inclusion in the portfolio accordingly. Changes to the portfolio last year, based on individual purchase and sale decisions, resulted in a significant reduction in holdings of information technology companies, as well as of companies domiciled in Japan and Southeast Asia. The proceeds were directed towards more health care companies, and more companies within the US. This quarter, because the market has offered us opportunities in terms of price, we have begun to reverse a number of those wagers against the benchmark, which were taken on to reduce absolute (rather than relative) risk in the overall portfolio. In effect, we are adding to investments in riskier stocks, because the market, running scared, is offering prices that imply good prospective returns even after adjusting for the risk. For instance, we have bought back, at a quarter of the price, the partial positions in **Hewlett-Packard** and **Oracle** that had been sold last spring and summer — thus reducing our underweight position in information technology relative to the benchmark.

One area where the market has offered assets to US investors at lower and lower prices is within the European Monetary Union; that is, assets priced in Euros. The Euro has declined steadily since its birth at the end of 1998, from \$1.17 to around \$0.88 currently (just above its low at \$0.83). In part, this occurred because European investors were anxious to participate in the heady returns being offered on US investments in recent years. While we deny any ability to forecast currency movements, we do observe that depreciated currencies make well-managed companies more competitive in global markets,

which ultimately leads to faster growth and higher returns in their economies. So everything else being the same, we would at today's price rather own Euro assets than Dollar assets. Just such a straightforward 'everything-else-the-same' comparison was available within our research universe: the industrial gas producer **L'Air Liquide**, which is a direct global competitor of **Air Products**, owned in the portfolio until recently. The former's shares are usually priced more expensively than the latter, but the combination of the foreign exchange 'discount', and a disenchantment with Air Products' management handling of the BOC acquisition attempt prompted us to swap our holding in the US company for the French one. Other, less clear-cut, comparisons that have been similarly resolved in favor of the European choice mean that our exposure to companies domiciled in EMU countries is now a quarter greater than that of the benchmark index, while our holding of US-based companies has fallen closer to the benchmark.

Elsewhere, we have found very good value in companies where changes in competitive position are yet to be reflected in higher stock prices. For example, we have long been skeptical about the growth prospects for extractive resource companies. Selling prices are cyclical, and long-term demand is growing at less than global GDP (as the developed world needs more services, and fewer goods). Meanwhile the fixed costs of operating mines mean that earnings are highly volatile. That said, we have been long-term holders of shares in **Rio Tinto**, the world's biggest mining company and its best financed. We have been pleased to see how it has continued to consolidate the industry by acquiring its weaker competitors. That consolidation has now reached the stage, in certain commodities, where, for the first time in decades, the bargaining position of the commodity producer exceeds that of the buyer. In the iron ore industry, three companies now dominate global production: Rio Tinto, Australia's BHP (formerly Broken Hill Proprietary), and the world's largest producer, **Companhia Vale do Rio Doce** ('CVRD'), a Brazilian company that has the longest-lived ore reserves. CVRD's market capitalization is low, at under \$5 billion, because its stock is cheap, not because it is a small company — it happens, for example, also to be the largest owner of railroads in Brazil! We bought it.

**We have found very good value in companies where changes in competitive position are yet to be reflected in higher share prices.**

***New stock picks include companies in the industrial gas, global pharmaceutical, iron ore, and financial services industries.***

## **Activity**

Four new holdings were purchased in the quarter:

**L’Air Liquide**, mentioned above, is the world’s largest industrial gas company. The group is especially strong in the less cyclical, and more technologically demanding, ‘on-site’ business segment, and has a large degree of its revenues accounted for by long-term contracts with its customers. Its heavy investments in recent years, combined with a stronger focus on shareholder returns, including a share buyback, will drive earnings growth forward in the period ahead.

**Schering-Plough** is a global pharmaceutical company with a focus on allergy/respiratory, anti-infective, cardiovascular and oncology drugs. The company's new products will reduce its dependence on Claritin, the blockbuster antihistamine whose patent will expire in December 2002. An approvable letter from the FDA has been granted to Clarinex, Schering's next generation antihistamine. The sharp decline in the shares after issues surfaced with the FDA regarding manufacturing processes provided an opportunity to buy shares at a price that we do not believe reflects the earnings power of the company.

The aforementioned **CVRD**. In addition to iron ore pellets, used to produce high-quality steel, CVRD also produces other minerals, such as aluminum and copper, and operates on a commercial basis an extensive national network of railroads and ports that it originally developed to serve its own transportation requirements. Despite making large capital investments, CVRD maintains a modest level of balance sheet leverage and is enjoying rising free cash flow as it cuts operating costs and enhances returns through focusing on its core competencies.

**JP Morgan Chase**. After the merger with JPMorgan, Chase is now the largest US bank, and one of the last remaining global, wholesale, money center banks in the US. It is the lowest-cost provider of a wide range of commercial financial services, including global custody, corporate trust, and foreign exchange services. Meanwhile, it has built successful franchises in a number of investment banking areas, particularly asset management, high-yield debt and derivatives across all asset classes. With the addition of Robert Fleming, also acquired last year, this firm has a very broad and deep international presence, which should be a powerful earnings driver in future.

We increased our existing positions in **Asatsu, Dassault Systemes, Deutsche Bank, Hewlett-Packard, Nokia, Oracle** and **Quintiles**.

We sold our holdings in:

**ABB**. We lost confidence in this heavy equipment and engineering company's ability to deliver on the rapid growth expectations discounted by its share price. A management reorganization has increased the risk of execution difficulties, and this risk is exacerbated by a worsening external environment.

**Air Products**, which we sold in order to switch into Air Liquide, as discussed.

**Fannie Mae**, which was sold in order to fund the purchase of JPMorganChase, which it had outperformed substantially over the past year. Political pressures are resurfacing for Fannie in the form of Richard Baker, Congressman from Louisiana and a constant critic. Baker has won the chairmanship of the new, more powerful, House subcommittee that combines oversight of banking, insurance and securities. He has 'a very aggressive agenda' for his committee, and describes as his first order of business new legislation for regulating Fannie, and its twin, Freddie Mac.

**Schlumberger**, whose decision to acquire Sema, an Anglo-French computer software and consulting firm, does not make sense, in our opinion. Sema is not a leader in its businesses, and they do not seem to fit well with Schlumberger's existing non-oilfield businesses.

**Wisconsin Central**, whose agreement to be bought by Canadian National Railways in a cash deal caused its stock to meet our price target.

**Nortel Networks**. There is a large over supply of telecommunications network infrastructure in the US and, to a lesser extent, overseas. Nortel's earnings prospects will remain poor until this oversupply is worked down, and its customers, the network operators, have successfully adjusted to lower margin, data-centric business models.

We reduced holdings in **Colgate-Palmolive, Hutchison Whampoa, and Pfizer**.

**Price reasons, as well as management execution risks, caused us to sell several long-term holdings.**

## Global Equity Holdings as of March 31, 2001

Company	Country	Weight (%)	Sector	Description
Baxter International	US	4.0	Health Care	Medical products supplier
Wrigley, Wm.	US	3.6	Consumer Staples	World's largest chewing gum maker
Enron Corp	US	3.1	Utilities	Integrated natural gas & electric company
Suez Lyonnaise	FRA	2.9	Utilities	Multi-utilities company
Tyco Intl	US	2.8	Industrials	Industrial products manufacturer & supplier
American Int'l Group	US	2.7	Financials	Insurance holding company
BellSouth	US	2.6	Telecommunication Services	Telecommunication services provider
Allied Capital	US	2.6	Financials	Financial institution providing small business loans
Royal Dutch Pet ADR	NETH	2.5	Energy	Global integrated oil company
Investor	SWED	2.4	Financials	Industrial holding company
Rio Tinto Ltd.	UK	2.3	Materials	Diversified mining company
Wells Fargo	US	2.1	Financials	Commercial bank
Schering-Plough	US	2.1	Health Care	Pharmaceutical & consumer product manufacturer
Exxon Mobil Corp	US	2.1	Energy	Global oil company
IBM	US	2.1	Information Technology	Integrated information technology company
Viacom	US	2.0	Consumer Discretionary	Diversified media company
CGIP	FRA	2.0	Industrials	Investment holding company
WPP Group	UK	1.9	Consumer Discretionary	Advertising & marketing services company
Bristol-Myers Squibb	US	1.9	Health Care	Pharmaceutical & specialty products manufacturer
Nestlé Reg ADR	SWITZ	1.9	Consumer Staples	World's largest food company
JP Morgan Chase	US	1.9	Financials	Large money center bank
Deutsche Bank	GER	1.9	Financials	Universal bank
Hewlett-Packard	US	1.8	Information Technology	Computing, measurement, & communications device maker
Automatic Data Proc	US	1.8	Industrials	Business services outsourcing company
Hutchison Whampoa	HK	1.8	Financials	Ports, telecom, & property conglomerate
Honeywell Intl	US	1.6	Industrials	Industrial & engineering conglomerate
Sony Corp. ADR	JAP	1.6	Consumer Discretionary	Global entertainment media corporation
Berkshire Hathaway	US	1.6	Financials	Auto insurer & general reinsurer
Air Liquide	FRA	1.5	Materials	Industrial gas company
Quintiles	US	1.5	Health Care	Outsourcing partner for healthcare companies
Oracle	US	1.4	Information Technology	Database management software firm
Embraer	BRAZ	1.4	Industrials	Regional jet aircraft maker
Colgate-Palmolive	US	1.3	Consumer Staples	Consumer products company
Atlantis Japan	JAP	1.3	Financials	Closed-end fund of small Japanese companies
Nokia	FINL	1.3	Information Technology	Mobile telephone & equipment maker
SmartForce ADR	IRE	1.3	Information Technology	Computer software training firm
AXA	FRA	1.2	Financials	Insurance company & asset manager
Dassault Systemes	FRA	1.2	Information Technology	CAD/CAM software designer
Wal-Mart de Mexico	MEX	1.2	Consumer Discretionary	Consumer goods & food retailer
Wolters Kluwer	NETH	1.2	Consumer Discretionary	Legal, tax, medical & business news publisher
Rentokil Initial	UK	1.2	Industrials	Global business services provider
Intel	US	1.1	Information Technology	Global semiconductor manufacturer
Vodafone Group	UK	1.1	Telecommunication Services	Cellular, paging, mobile & pocket radio, & network services provider
Elan	IRE	1.1	Health Care	Drug research & development company
Luxottica	ITA	1.1	Health Care	Low cost producer of eyeglass frames
ISS Int'l Service	DEN	1.1	Industrials	Cleaning services company
Pfizer	US	1.1	Health Care	Pharmaceutical, veterinary & chemical company
CVRD	BRAZ	1.0	Materials	Iron ore exporter & private railway operator
Carrefour	FRA	1.0	Consumer Discretionary	Food retailer & hypermart operator
Asatsu	JAP	1.0	Consumer Discretionary	Advertising company
Pearson	UK	1.0	Consumer Discretionary	Print & broadcast media company
Amdocs	US	0.9	Information Technology	Telecom customer & billing solutions provider
Taiwan Semiconductor	TAIW	0.8	Information Technology	Dedicated IC foundry
DBS Group	SING	0.8	Financials	Singapore's largest bank
Eastman Kodak	US	0.8	Consumer Discretionary	Imaging products & services group
Grupo Televisa GDR	MEX	0.7	Consumer Discretionary	Spanish language media company
Li & Fung	HK	0.7	Consumer Discretionary	Trading & logistics company
China Mobile	CHINA	0.7	Telecommunication Services	Cellular telephone operator
Mizuho Holdings	JAP	0.7	Financials	Japan's largest bank

# Global Equity Composite Performance

As of March 31, 2001

	Annualized Returns for Trailing Periods (%)					Volatility**					
	1 Year	3 Years	5 Years	10 Years	Since Inception*	Since Inception*					
<b>Global Equity (gross of fees)</b>	<b>-17.6</b>	<b>3.7</b>	<b>8.4</b>	<b>11.6</b>	<b>12.4</b>	<b>13.3</b>					
<b>Global Equity (net of fees)</b>	<b>-17.9</b>	<b>3.2</b>	<b>7.8</b>	<b>10.8</b>	<b>11.5</b>	<b>13.2</b>					
<i>MSCI All Country World Index***</i>	-25.6	0.9	7.8	9.4	7.7	14.2					
<i>MSCI World Index</i>	-24.9	1.3	8.6	9.9	8.1	14.2					
	* Inception Date: 11/30/89 ** Annual Standard Deviation (%) *** Benchmark Index										
	Calendar Year Returns (%)										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
<b>Global Equity (gross of fees)</b>	<b>-14.1</b>	<b>1.3</b>	<b>38.9</b>	<b>2.3</b>	<b>11.0</b>	<b>17.3</b>	<b>19.0</b>	<b>0.0</b>	<b>24.3</b>	<b>8.9</b>	<b>29.4</b>
<b>Global Equity (net of fees)</b>	<b>-14.1</b>	<b>0.9</b>	<b>38.2</b>	<b>1.6</b>	<b>10.1</b>	<b>16.3</b>	<b>18.0</b>	<b>-0.9</b>	<b>23.2</b>	<b>8.1</b>	<b>28.3</b>
<i>MSCI All Country World Index***</i>	-12.4	-13.9	27.3	21.7	14.7	13.1	18.2	5.4	25.5	-4.3	19.5
<i>MSCI World Index</i>	-12.9	-12.9	25.3	24.8	16.2	14.0	21.3	5.6	23.1	-4.7	18.7
	Composite Information										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Total market value of accounts (\$M)	\$92.4	\$107.5	\$95.7	\$179.4	\$251.3	\$188.1	\$146.8	\$112.5	\$80.2	\$63.3	\$41.8
% of total firm assets	7.6%	7.7%	6.7%	13.1%	16.5%	15.1%	23.4%	30.5%	31.8%	39.3%	29.3%
Number of accounts	5	5	†	11	15	13	13	17	16	14	12
Dispersion: asset-weighted standard deviation	NA	†	†	0.5%	0.6%	0.2%	0.6%	0.4%	1.1%	0.7%	†

† Fewer than five accounts

Portfolio Characteristics	
Weighted Average Market Cap (\$ million)	\$57,970
Price/Earning (2001 forecasted)	18.9x
Price/Earning (2000 historical)	22.0x
Price/Cash Flow	13.4x
Growth Rate	14.0%
Price/Book	3.6x
Yield	1.5%
Return on Equity	16.8%
Number of Holdings	59
% annual turnover (5 year average)	30%

Ten Largest Holdings	% Portfolio
Baxter Intl (United States)	4.0%
Wrigley (United States)	3.6%
Enron Corp (United States)	3.1%
Suez Lyonnaise (France)	2.9%
Tyco Int'l (United States)	2.8%
American Intl Group (United States)	2.7%
BellSouth (United States)	2.6%
Allied Capital (United States)	2.6%
Royal Dutch (Netherlands)	2.5%
Investor (Sweden)	2.4%

Harding, Loevner Management, L.P. ('Harding Loevner') has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management Research ('AIMR-PPS™'). AIMR has not been involved with the preparation or review of this report. Harding Loevner is compliant with AIMR-PPS since 10/31/89. Compliance has been verified at Level II, one quarter in arrears, by Ashland Accounting LLP.

#### NOTES:

- Harding, Loevner Management, L.P. is an independent registered investment adviser.
- Composite includes all US\$ based, fee-paying global equity accounts under discretionary management, including accounts no longer in existence. Accounts are included from the first full month following the date on which the account is deemed to be fully invested. No subsector or segment of a larger portfolio is included.
- Returns shown are time-weighted total returns in US\$, and reflect reinvestment of dividends and interest. Returns include the effect of foreign currency exchange rates. Returns are weighted by account size in the composite.
- All cash equivalents, bonds and/or convertible securities used in place of equities are included in return calculations.
- Composite returns (gross and net) are presented after reduction due to brokerage commissions but before reduction due to custodial fees and foreign withholding taxes. Net of fees composite returns are presented after reduction due to actual management fees paid. Management fees are described in our Form ADV Part II.
- Returns of all indices are presented before foreign withholding taxes, and do not reflect commissions or fees that would be incurred by an investor in the index portfolios. Additional information regarding the benchmark, including the percentage of the composite invested in countries not included in the benchmark, is available upon request.
- Annual standard deviations of returns (volatility) are estimated from monthly returns using a continuous return model to derive annual periodic standard deviation.
- A complete list and description of the firm's composites is available upon request.
- Past performance is not indicative of future results.